

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(mark one)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 28, 1996

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 1-11406

THERMO FIBERTEK INC.

(Exact name of Registrant as specified in its charter)

Delaware 52-1762325
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

81 Wyman Street 02254-9046
Waltham, Massachusetts (Zip Code)
(Address of principal executive offices)
Registrant's telephone number, including area code: (617) 622-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
----- Common Stock, \$.01 par value	----- American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to the filing requirements for at least the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference into Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by nonaffiliates of the Registrant as of January 24, 1997, was approximately \$100,854,000.

As of January 24, 1996, the Registrant had 61,138,880 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the year ended December 28, 1996, are incorporated by reference into Parts I and II.

Portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 2, 1997, are incorporated by reference into Part III.

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PART I

Item 1. Business

(a) General Development of Business

Thermo Fibertek Inc. (the Company or the Registrant) designs and manufactures processing machinery and accessories for the paper and paper-recycling industries. The Company's principal products include custom-engineered systems and equipment for the preparation of wastepaper for conversion into recycled paper, accessory equipment and related consumables important to the efficient operation of papermaking machines, and water-management systems essential for draining, purifying, and recycling process water.

The Company's predecessors have been in operation for more than 80

years, and the Company has a large, stable customer base that includes most papermakers worldwide. The Company seeks to expand its business through the introduction of new products and technologies to these customers. The Company currently manufactures its products in several countries in Europe and North America, and licenses certain of its products for manufacture in South America and the Pacific Rim.

In February 1996, Thermo Fibergen Inc. (Thermo Fibergen) was incorporated as a wholly owned subsidiary of the Company. In connection with the capitalization of Thermo Fibergen, the Company transferred to Thermo Fibergen a license to use certain technology and its business relating to the development of equipment and systems to recover materials from papermaking sludge generated by plants that produce virgin and recycled pulp and paper, together with \$12,500,000 in cash, in exchange for 10,000,000 shares of Thermo Fibergen's common stock.

In July 1996, GranTek Inc. (GranTek) a wholly owned subsidiary of Thermo Fibergen, acquired substantially all of the assets, subject to certain liabilities, of Granulation Technology, Inc. (Granulation Technology) and Biodac, a division of Edward Lowe Industries, Inc., for approximately \$12.1 million in cash. GranTek employs patented technology to produce absorbing granules from papermaking sludge. These granules, marketed under the trade name BIODAC(R), are currently used as a carrier to deliver agricultural chemicals for professional turf, home lawn and garden, and mosquito control applications.

In September 1996, Thermo Fibergen sold 4,715,000 units, each unit consisting of one share of Thermo Fibergen common stock and one redemption right, in an initial public offering at \$12.75 per unit for net proceeds of approximately \$55.8 million. The common stock and redemption rights began trading separately on December 13, 1996. Holders of a redemption right have the option to require Thermo Fibergen to redeem in September 2000 and 2001, one share of Thermo Fibergen common stock at \$12.75 per share. The redemption rights carry terms that generally provide for their expiration if the closing price of Thermo Fibergen's common stock exceeds \$19 1/8 for 20 of any 30 consecutive trading days prior to September 2001. The redemption rights are guaranteed, on a subordinated basis, by Thermo Electron. The Company has agreed to reimburse Thermo Electron in the event Thermo Electron is

required to make a payment under the guarantee. Following the initial public offering, the Company owned 68% of Thermo Fibergen's outstanding common stock.

On February 26, 1997, the Company entered into a letter of intent to acquire the assets, subject to certain liabilities, of the stock-preparation business of The Black Clawson Company (Black Clawson) for approximately \$110 million in cash. Black Clawson is a leading supplier of recycling equipment used in processing fiber for the manufacture of "brown paper" such as that used for corrugated boxes. The transaction is subject to several conditions, including completion by the Company of its due diligence investigation; negotiation of a definitive agreement; regulatory approvals, including antitrust clearances; and approval by the Board of Directors of the Company, Thermo Electron, and Black Clawson. If this transaction is consummated, the Company intends to borrow a portion of the purchase price from Thermo Electron.

At December 28, 1996, Thermo Electron owned 51,520,895 shares, or 84%, of the Company's outstanding common stock. Thermo Electron is a world leader in environmental monitoring and analysis instruments, biomedical products such as heart-assist devices and mammography systems, papermaking and paper-recycling equipment, biomass electric power generation, and other specialized products and technologies. Thermo Electron also provides a range of services related to environmental quality.

Thermo Electron intends, for the foreseeable future, to maintain at least 80% ownership of the Company so that it may continue to file consolidated U.S. federal income tax returns with the Company. This may require the purchase by Thermo Electron of additional shares of the Company's common stock from time to time as the number of outstanding shares of the Company increases. These and any other purchases may be made either in the open market, directly from the Company, or pursuant to conversion of the subordinated convertible note issued by the Company to Thermo Electron. During 1996*, Thermo Electron purchased 2,383,350 shares of the Company's common stock in the open market at a total cost of \$29,082,000. See Notes 5 and 8 to Consolidated Financial Statements in the Company's 1996 Annual Report to Shareholders for a description of outstanding stock options and the convertible note issued by the Company.

Forward-looking Statements

Forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, are made throughout this Annual Report on Form 10-K. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the results of the Company to differ materially from those indicated by such forward-looking statements, including those detailed under the caption "Forward-looking

* References to 1996, 1995, and 1994 herein are for the fiscal years ended December 28, 1996, December 30, 1995, and December 31, 1994, respectively.

Statements" in the Registrant's 1996 Annual Report to Shareholders incorporated herein by reference.

(b) Financial Information About Industry Segments

The Company is engaged in one business segment: the design and manufacture of equipment, accessory products, and water-management systems for the paper and paper-recycling industries.

(c) Description of Business

(i) Principal Products and Services

Recycling

The Company develops, designs, and manufactures custom-engineered systems that remove debris, impurities, and ink from wastepaper, and processes it into a fiber mix used to produce either white or brown grades of recycled paper. The Company offers more than 20 products related to all aspects of the recycling process. Some of the systems include:

Pulping and Trash Removal Systems, including specialized high- and low-consistency pulpers that blend wastepaper with water and certain chemicals to form pulp without contaminant breakdown, thus increasing the efficiency of debris removal; and poires (scavengers) that remove large debris.

Cleaning and Screening Systems, including high-density screens and cleaners to remove metals and sand from the pulp mixture, fine screens to filter microscopic particles of glue and plastic from the pulp mixture, and the patented Gyroclean(R) system to remove "stickies" and the lightest plastics from the pulp.

De-inking Systems, including the newly patented MacCell that uses the latest generation of Autoclean injectors to produce small air bubbles in the bottom of the pulp slurry. The ink bonds to the air bubbles and rises to the surface, where it is removed through a unique propellant system. The efficiency of this unit and the reduced floor space required for equivalent ink removal make the MacCell one of the Company's most important products within a de-inking system.

Reject-handling and Water-treatment Systems, including gravity type strainers and in-line filtration (developed by the Company's AES Engineered Systems (AES) division), as well as compactors and sand separators designed to recapture "good" fiber rejected with debris in the primary process line.

The Company's GranTek subsidiary employs patented technology to produce absorbing granules from papermaking sludge. These granules, marketed under the trade name BIODAC, are currently used as a carrier to deliver agricultural chemicals for professional turf, home lawn and garden, and mosquito control applications.

Revenues from the Company's paper-recycling business were \$56.2 million, \$77.0 million, and \$50.7 million in 1996, 1995, and 1994, respectively.

Accessories

The Company designs, develops, and manufactures a wide range of accessories that continuously clean the rolls of a papermaking machine, remove the sheet (web) from the roll, automatically cut the web during sheet breaks, and remove curl from the sheet. These functions are critical for paper manufacturers because it helps them avoid potential catastrophic damage to the papermaking equipment while reducing expensive machine downtime and improving paper quality. Accessories include:

Doctors and related equipment, that shed the sheet from the roll during sheet breaks and start-ups and keep rolls clean by removing stock accumulations, water rings, fuzz, pitch, and filler buildup.

Profiling Systems, that help ensure a uniform gloss on the web and control moisture and curl within the sheet.

Revenues from the Company's accessories business were \$82.2 million, \$73.9 million, and \$60.4 million in 1996, 1995, and 1994, respectively.

Water-management

The Company designs, develops, and manufactures equipment used to drain water from the pulp's slurry, form the sheet web, and reuse the process water. These systems include:

Formation Tables, consisting of free-draining elements and vacuum augmented elements to control the amount of water removed from the pulp slurry to form the paper web.

Showers and Felt-conditioning Systems, used to clean and condition the fabrics and felts which in turn are used to transport the paper web through various stages of the papermaking machine.

Water-filtration Systems, consisting of pressure, gravity, and vacuum assisted filters and strainers used to remove extraneous contaminants from the process water before reuse and to recover reusable fiber for recycle back into the pulp slurry.

Revenues from the Company's water-management business were \$40.0 million, \$40.8 million, and \$32.2 million in 1996, 1995, and 1994, respectively.

Other

The Company also manufactures and markets dryers and pollution-control equipment for the printing, papermaking, and converting industries. The Company's dryers transfer heat efficiently from the dryer to the paper web resulting in significant energy savings and improved paper and printing quality. The Company's thermal incinerators reduce

volatile organic compounds (VOCs) that are produced when solvents contained in the printed or coated material evaporate.

(ii) and (xi) New Products; Research and Development

The Company believes that it has a reputation as a technological innovator in the market niches it serves, although rapid technological obsolescence is not characteristic of the Company's business. The Company, which maintains active programs for the development of new products using both new and existing technologies, has technology centers in Europe and the U.S. dedicated to specific research projects and markets.

For recycling equipment, the Company maintains a stock-preparation pilot laboratory adjacent to the manufacturing facility at its E. & M. Lamort, S.A. (Lamort) subsidiary that contains all equipment necessary to replicate a commercial stock-preparation system. A customer's wastepaper can be tested to determine the exact system configuration that would be recommended for its future facility. The testing laboratory is also used to evaluate prototype equipment, enabling research teams to quickly and thoroughly evaluate new designs. In addition, the Company works closely with its customers in the development of products, typically field testing new products on the customers' papermaking machines. In the U.S., one facility houses an operation for continued development of accessory products, while another includes development of new water-management products. GranTek's processing center in Green Bay, Wisconsin, contains a pilot plant that has been used to develop many of the processes employed in GranTek's main facility.

The Company seeks to develop a broad range of equipment for all facets of the markets it serves. Over the next several years the Company expects to focus its research and development efforts on the advancement of paper-recycling equipment to further improve the quality of recycled paper. In 1996, the Company accelerated expenditures at its Thermo Fibergen subsidiary to develop technology to recover materials from papermaking sludge generated by plants that produce virgin and recycled pulp and paper.

Research and development expenses for the Company were \$5.5 million, \$4.1 million, and \$3.8 million in 1996, 1995, and 1994, respectively.

(iii) Raw Materials

Raw materials, components, and supplies purchased by the Company are either available from a number of different suppliers or from alternative sources that could be developed without a material adverse effect on the Company's business. To date, the Company has experienced no difficulties in obtaining these materials.

(iv) Patents, Licenses, and Trademarks

The Company protects its intellectual property rights by applying for and obtaining patents when appropriate. The Company also relies on technical know-how, trade secrets, and trademarks to maintain its

competitive position. The Company has numerous U.S. and foreign patents, expiring on various dates ranging from 1997 to 2014.

Third parties have certain rights in two of the Company's patents that were jointly developed with such parties. The initial development of the Company's Gyroclean equipment was provided by Centre Technique du Papier (CTP), to which the Company provided further design refinement and applications expertise. The Company currently holds an exclusive long-term, worldwide license for a patent on technology that CTP developed. The Company and CTP have joint ownership of a second patent on technology that was jointly developed.

The Company maintains a worldwide network of licensees and cross-licensees of products with other companies servicing the pulp, papermaking, converting, and paper-recycling industries. The Company holds an exclusive worldwide license for its de-inking cells under an agreement that extends until 2007. The Company also has license arrangements with several companies with regard to its dryers, pollution-control equipment, and accessory equipment. The Company's Thermo Fibergen subsidiary has granted two companies nonexclusive licenses under two of its patents to sell cellulose-based granules produced at an existing site for sale in the oil-and-grease absorption and cat-box filler markets.

The Company's 95%-owned Fiberprep subsidiary was granted a license in 1988 from Aikawa Iron Works Co., Ltd. (Aikawa) to manufacture and sell stock-preparation equipment for brown paper in the U.S. and Canada. Aikawa owns 5% of Fiberprep's common stock. The Company granted to Fiberprep a similar license for stock-preparation equipment for white paper. The licenses with Fiberprep automatically renew every two years unless canceled upon six months' notice by Fiberprep or the respective licensors.

(v) Seasonal Influences

There are no significant seasonal influences on the Company's sales of products and services.

(vi) Working Capital Requirements

There are no special inventory requirements or credit terms extended to customers that would have a material adverse effect on the Company's working capital.

(vii) Dependency on a Single Customer

No single customer accounted for more than 10% of the Company's revenues in any of the past three years.

(viii) Backlog

The Company's backlog of firm orders as of December 28, 1996, and December 30, 1995, was \$37.1 million and \$50.8 million, respectively. The Company anticipates that substantially all of the backlog at December 28, 1996, will be shipped or completed in 1997.

(ix) Government Contracts

Not applicable.

(x) Competition

The Company faces significant competition in each of its principal markets. The Company competes principally on the basis of quality, service, technical expertise, product innovation, and price. The Company believes that the reputation it has established over more than 80 years for quality products and in-depth process knowledge provides it with a competitive advantage. In addition, a significant portion of the Company's business is generated from its existing customer base. To maintain this base, the Company has emphasized service and a problem-solving relationship with its customers.

The Company is a leading supplier of recycling equipment for the preparation of wastepaper to be used in the production of recycled paper. There are several major competitors that supply various pieces of equipment for this process. The Company's principal competitors on a worldwide basis are Voith Sulzer Papiertechnik, Black Clawson, Beloit Corporation, Ahlstrom Machine Company, Kvaerner Pulping Technologies, Sunds Defibrator Inc., Maschinenfabrik Andwitz AG, and Celleco AB. Various competitors tend to specialize in niche market segments such as white paper or brown paper. The Company competes in the recycling-equipment marketplace primarily on the basis of systems knowledge, product innovation, and price.

The Company is a leading supplier of specialty accessory equipment for papermaking machines. Because of the high capital costs of papermaking machines and the role of the Company's accessories in maintaining the efficiency of these machines, the Company generally competes in this market on the basis of service, technical expertise, and performance.

The Company is a leading supplier of water-management systems. Various competitors exist in the formation table, conditioning and cleaning systems, and filtration systems markets. JWI Group/Johnson Foils is a major supplier of formation tables while a variety of smaller companies compete within the cleaning and conditioning and filtration markets. In each of these areas, process knowledge, application experience, product quality, service, and price are key factors.

(xii) Environmental Protection Regulations

The Company believes that compliance by the Company with federal, state, and local environmental regulations will not have a material adverse effect on its capital expenditures, earnings, or competitive position.

(xiii) Number of Employees

As of December 28, 1996, the Company employed approximately 1,100 people. Approximately 68 employees at the Company's Kaukauna, Wisconsin, operation are represented by a labor union collective bargaining

agreement expiring May 31, 1998. Approximately 32 employees at the Company's Pointe Claire, Quebec, Canada, operation are represented by a labor union collective bargaining agreement expiring August 31, 1999. Approximately 38 employees at the Company's Guadalajara, Mexico, operation are represented by a labor union under an annual collective bargaining agreement. In addition, employees of the Company's subsidiaries in France and England are represented by trade unions. The Company has had no work stoppages and considers its relations with employees and unions to be good.

(d) Financial Information About Exports by Domestic Operations and About Foreign Operations

Financial information about foreign operations is summarized in Note 12 to Consolidated Financial Statements in the Registrant's 1996 Annual Report to Shareholders and is incorporated herein by reference. The Company's export operations currently are insignificant.

(e) Executive Officers of the Registrant

Name	Age	Present Title (Year First Became Executive Officer)
William A. Rainville	55	President and Chief Executive Officer (1991)
John N. Hatsopoulos*	62	Vice President and Chief Financial Officer (1991)
Jan-Eric Bergstedt	61	Vice President (1996)
Edwin D. Healy	59	Vice President; President, Fiberprep, Inc. (1994)
Bruno Lamort de Gail	62	Vice President (1991)
Thomas M. O'Brien	45	Vice President, Finance (1994)
Edward J. Sindoni	52	Vice President; President, Thermo Web Systems, Inc. (1994)
Paul F. Kelleher	54	Chief Accounting Officer (1991)

* John N. Hatsopoulos and Dr. George N. Hatsopoulos, a director of the Company, are brothers.

Each executive officer serves until his successor is chosen or appointed by the Board of Directors and qualified or until earlier resignation, death, or removal. All executive officers except Messrs. Bergstedt, Healy, O'Brien, and Sindoni have held comparable positions for at least five years with the Company or with its parent company, Thermo Electron. Mr. Bergstedt has been a Vice President of the Company since November 1993 and was designated an executive officer in 1996. Prior to joining the Company, Mr. Bergstedt was Group Vice President, Pulp and Paper, at Andritz Sprout-Bauer, Inc., a supplier of equipment to the pulp and paper industry, from January 1991 to December 1992. Mr. Healy has been a Vice President of the Company since November 1991, President of Fiberprep since May 1988, and was designated an executive officer of the Company in 1994. Mr. O'Brien has been Vice President, Finance of the Company since November 1991 and was designated an executive officer in 1994. Mr. Sindoni has been a Vice President of the Company since November 1991, President of the Company's Thermo Web

Systems, Inc. subsidiary since January 1993, was Senior Vice President of Thermo Web Systems Inc. from 1987 to January 1993, and was designated an executive officer in 1994. Messrs. Hatsopoulos and Kelleher are full-time employees of Thermo Electron, but devote such time to the affairs of the Company as the Company's needs reasonably require.

Item 2. Properties

The Company owns approximately 925,000 square feet and leases approximately 219,000 square feet of manufacturing, engineering, and office space worldwide under leases expiring at various dates ranging from 1997 to 2001. The majority of the Company's engineering and manufacturing space is located in Auburn, Massachusetts; Queensbury, New York; Kaukauna, Wisconsin; Green Bay, Wisconsin; Pointe Claire, Quebec, Canada; Vitry-le-Francois, France; and Bury, England. The Company also has smaller facilities in the United States, England, Germany, Sweden, and Italy. The Company believes that its facilities are in good condition and are suitable and adequate for its present operations and that suitable space is readily available if any of such leases are not extended.

Item 3. Legal Proceedings

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Information concerning the market and market price for the Registrant's Common Stock, \$.01 par value, and dividend policy is included under the sections labeled "Common Stock Market Information" and "Dividend Policy" in the Registrant's 1996 Annual Report to Shareholders and is incorporated herein by reference.

Item 6. Selected Financial Data

The information required under this item is included under the sections labeled "Selected Financial Information" and "Dividend Policy" in the Registrant's 1996 Annual Report to Shareholders and is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required under this item is included under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrant's 1996 Annual Report to Shareholders and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The Registrant's Consolidated Financial Statements as of December 28, 1996, and Supplementary Data are included in the Registrant's 1996 Annual Report to Shareholders and are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information concerning directors required under this item is incorporated herein by reference from the material contained under the caption "Election of Directors" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year. The information concerning delinquent filers pursuant to Item 405 of Regulation S-K is incorporated herein by reference from the material contained under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year.

Item 11. Executive Compensation

The information required under this item is incorporated herein by reference from the material contained under the caption "Executive Compensation" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required under this item is incorporated herein by reference from the material contained under the caption "Stock Ownership" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year.

Item 13. Certain Relationships and Related Transactions

The information required under this item is incorporated herein by reference from the material contained under the caption "Relationship with Affiliates" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a),(d) Financial Statements and Schedules

- (1) The consolidated financial statements set forth in the list below are filed as part of this Report.
- (2) The consolidated financial statement schedule set forth in the list below is filed as part of this Report.
- (3) Exhibits filed herewith or incorporated herein by reference are set forth in Item 14(c) below.

List of Financial Statements and Schedules Referenced in this Item 14

Information incorporated by reference from Exhibit 13 filed herewith:

Consolidated Statement of Income
Consolidated Balance Sheet
Consolidated Statement of Cash Flows
Consolidated Statement of Shareholders' Investment
Notes to Consolidated Financial Statements
Report of Independent Public Accountants

Financial Statement Schedules filed herewith:

Schedule II: Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or not required, or because the required information is shown either in the financial statements or in the notes thereto.

(b) Reports on Form 8-K

During the Company's quarter ended December 28, 1996, the Company was not required to file, and did not file, any Current Report on Form 8-K.

(c) Exhibits

See Exhibit Index on the page immediately preceding exhibits.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 12, 1997

THERMO FIBERTEK INC.

By: William A. Rainville

William A. Rainville
President and Chief Executive
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, as of March 12, 1997.

Signature	Title
By: William A. Rainville ----- William A. Rainville	President, Chief Executive Officer, and Director
By: John N. Hatsopoulos ----- John N. Hatsopoulos	Vice President, Chief Financial Officer, and Director
By: Paul F. Kelleher ----- Paul F. Kelleher	Chief Accounting Officer
By: Walter J. Bornhorst ----- Walter J. Bornhorst	Director
By: George N. Hatsopoulos ----- George N. Hatsopoulos	Director
By: Donald E. Noble ----- Donald E. Noble	Chairman of the Board and Director

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Report of Independent Public Accountants

To the Shareholders and Board of Directors of Thermo Fibertek Inc.:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements included in Thermo Fibertek Inc.'s Annual Report to Shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 3, 1997 (except with respect to the matter discussed in Note 14 as to which the date is February 26, 1997). Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in Item 14 on page 13 is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the consolidated financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

Arthur Andersen LLP

Boston, Massachusetts
February 3, 1997

THERMO FIBERTEK INC.
VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

	Balance at Beginning of Year	Provision Charged to Expense	Accounts Recovered	Accounts Written Off	Other(a)	Balance at End of Year
	-----	-----	-----	-----	-----	-----
Year Ended December 28, 1996						
Allowance for Doubtful Accounts	\$2,552	\$ (450)	\$ 74	\$ (202)	\$ (26)	\$1,948
Year Ended December 30, 1995						
Allowance for Doubtful Accounts	\$2,097	\$ 440	\$ -	\$ (110)	\$ 125	\$2,552
Year Ended December 31, 1994						
Allowance for Doubtful Accounts	\$1,641	\$ 508	\$ -	\$ (163)	\$ 111	\$2,097

- (a) In 1996, represents translation adjustment, net of \$30 allowance of business acquired during the year as described in Note 3 to Consolidated Financial Statements in the Registrant's 1996 Annual Report to Shareholders, and represents translation adjustment in 1995 and 1994.

Exhibit Number	Description of Exhibit
2.1	Share Redemption Agreement, dated as of December 22, 1994, by and among the Registrant, Fiberprep, and Aikawa Iron Works Co., Ltd. (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K relating to events occurring on January 2, 1995 [File No 1-11406] and incorporated herein by reference).
3.1	Certificate of Incorporation, as amended, of the Registrant (filed as Exhibit 3(i) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 2, 1994 [File No. 1-11406] and incorporated herein by reference).
3.2	By-Laws of the Registrant (filed as Exhibit 3(b) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
4.1	Note Purchase Agreement dated as of February 22, 1994, between the Registrant and Thermo Electron (filed as Exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 1994 [File No. 1-11406] and incorporated herein by reference).
4.2	\$15,000,000 principal amount Subordinated Convertible Note due 1997 from the Registrant to Thermo Electron (filed as Exhibit 4.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 1994 [File No. 1-11406] and incorporated herein by reference).
4.3	\$5,000,000 promissory note dated September 14, 1993, from the Registrant to Thermo Electron (filed as Exhibit 2(c) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 1993 [File No. 1-11406] and incorporated herein by reference).
4.4	\$10,400,000 promissory note dated January 5, 1995, from Fiberprep, Inc. to Thermo Electron (filed as Exhibit 2.2 to the Registrant's Current Report on Form 8-K relating to events occurring on January 2, 1995 [File No. 1-11406] and incorporated herein by reference).
10.1	Exchange Agreement dated as of December 28, 1991, between Thermo Electron and the Registrant (filed as Exhibit 10(a) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).

Exhibit Number	Description of Exhibit
10.2	Amended and Restated Corporate Services Agreement dated January 3, 1993, between Thermo Electron and the Registrant (filed as Exhibit 10(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 2, 1993 [File No. 1-11406] and incorporated herein by reference).
10.3	Thermo Electron Corporate Charter, as amended and restated effective January 3, 1993 (filed as Exhibit 10(e) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 2, 1993 [File No. 1-11406] and incorporated herein by reference).
10.4	Thermo Web Systems, Inc. (formerly Thermo Electron Web Systems, Inc.) Retirement Plan, as amended (filed as Exhibit 10(g) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.5	Noncompetition Agreement dated May 30, 1990, between Thermo Electron and Bruno Lamort de Gail (filed as Exhibit 10(h) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.6	Lamort Retirement Plan (filed as Exhibit 10(i) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.7	Lamort Retirement Plan for Key Employees (filed as Exhibit 10(j) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.8	Severance Agreement dated January 8, 1988, between Thermo Electron and William A. Rainville (filed as Exhibit 10(p) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.9	Employment Agreement dated as of May 30, 1990, between the Registrant and Bruno Lamort de Gail (filed as Exhibit 10(q) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.10	Form of Indemnification Agreement for officers and directors (filed as Exhibit 10(s) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).

Exhibit Number	Description of Exhibit
10.11	Tax Allocation Agreement dated as of December 28, 1991, between the Registrant and Thermo Electron (filed as Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 1994 [File No. 1-11406] and incorporated herein by reference).
10.12	Amended and Restated Master Repurchase Agreement dated as of December 28, 1996.
10.13	Assignment Agreement dated as of December 22, 1994, between Thermo Electron and TE Great Lakes, Inc. (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 [File No. 1-11406] and incorporated herein by reference).
10.14	Management Services Agreement dated as of December 22, 1994, between TE Great Lakes, Inc. and Fiberprep (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 [File No. 1-11406] and incorporated herein by reference).
10.15	Equipment Supply Agreement dated as of December 22, 1994, between TE Great Lakes, Inc. and Fiberprep, Inc. (filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 [File No. 1-11406] and incorporated herein by reference).
10.16-10.18	Reserved.
10.19	Incentive Stock Option Plan of the Registrant (filed as Exhibit 10(k) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.20	Nonqualified Stock Option Plan of the Registrant (filed as Exhibit 10(l) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.21	Equity Incentive Plan of the Registrant (filed as Attachment A to the Proxy Statement dated May 3, 1994, of the Registrant [File No. 1-11406] and incorporated herein by reference).
10.22	Deferred Compensation Plan for Directors of the Registrant (filed as Exhibit 10(m) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).

Exhibit Number	Description of Exhibit
10.23	Directors' Stock Option Plan of the Registrant (filed as Exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 [File No. 1-11406] and incorporated herein by reference).
10.24	Thermo Fibergen Inc. Equity Incentive Plan (filed as Exhibit 10.11 to Thermo Fibergen Inc.'s Registration Statement on Form S-1 [Registration No. 333-07585] and incorporated herein by reference).
10.25	Thermo Fibertek - Thermo Fibergen Nonqualified Stock Option Plan. In addition to the stock-based compensation plans of the Registrant, the executive officers of the Registrant may be granted awards under stock-based compensation plans of Thermo Electron for services rendered to the Registrant or to such affiliated corporations. Such plans were filed as Exhibits 10.21 through 10.44 to the Annual Report on Form 10-K of Thermo Electron for the year ended December 30, 1995 [File No. 1-8002] and as Exhibit 10.19 to the Annual Report on Form 10-K of Trex Medical Corporation for the fiscal year ended September 28, 1996 [File No. 1-11827] and are incorporated herein by reference.
10.26	Restated Stock Holding Assistance Plan and Form of Promissory Note.
11	Statement re: Computation of Earnings per Share.
13	Annual Report to Shareholders for the year ended December 28, 1996 (only those portions incorporated herein by reference).
21	Subsidiaries of the Registrant.
23	Consent of Arthur Andersen LLP.
27	Financial Data Schedule.

AMENDED AND RESTATED MASTER REPURCHASE AGREEMENT

The Master Repurchase Agreement dated as of January 1, 1994 between Thermo Electron Corporation, a Delaware corporation ("Seller"), and Thermo Fibertek Inc., a Delaware corporation (the "Buyer"), is hereby amended and restated in its entirety as follows on and as of December 28, 1996.

1. Applicability

From time to time Buyer and Seller may enter into transactions in which Seller agrees to transfer to Buyer certain securities and/or financial instruments ("Securities") against the transfer of funds by Buyer, with a simultaneous agreement by Buyer to transfer to Seller such Securities on demand, against the transfer of funds by Seller. Each such transaction shall be referred to herein as a "Transaction" and shall be governed by this Agreement, unless otherwise agreed in writing.

2. Definitions

(a) "Act of Insolvency", with respect to either party (i) the commencement by such party as debtor of any case or proceeding under any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar law, or such party seeking the appointment of a receiver, trustee, custodian or similar official for such party or any substantial part of its property; or (ii) the commencement of any such case or proceeding against such party, or another seeking such an appointment, which (A) is consented to or not timely contested by such party, (B) results in the entry of an order for relief, such an appointment or the entry of an order having a similar effect, or (C) is not dismissed within 15 days; or (iii) the making by a party of a general assignment for the benefit of creditors; or (iv) the admission in writing by a party of such party's inability to pay such party's debts as they become due;

(b) "Additional Purchased Securities", Securities provided by Seller to Buyer pursuant to Paragraph 4(a) hereof;

(c) "Income", with respect to any Security at any time, any principal thereof then payable and all interest, dividends or other distributions thereon;

(d) "Market Value", with respect to any Securities as of any date, the price for such Securities on such date obtained from a generally recognized source agreed to by the parties or the most recent closing bid quotation from such a source, plus accrued Income to the extent not included therein (other than any Income transferred to Seller pursuant to Paragraph 6 hereof) as of such date (unless contrary to market practice for such Securities);

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(e) "Other Buyers", third parties that have entered into an agreement with Seller that is substantially similar to this Agreement;

(f) "Pricing Rate", a rate equal to the Commercial Paper Composite rate for 90-day maturities provided by Merrill Lynch, Pierce, Fenner & Smith Incorporated (or, if such rate is not available, a substantially equivalent rate agreed to by Buyer and Seller) plus 25 basis points, which rate shall be adjusted on the first business day of each fiscal quarter and shall be in effect for the entirety such fiscal quarter;

(g) "Purchase Price", the price at which Purchased Securities are transferred by Seller to Buyer;

(h) "Purchased Securities", the Securities transferred by Seller to Buyer in a Transaction hereunder, and any Securities substituted therefor in accordance with Paragraph 9 hereof. The term "Purchased Securities" with respect to any Transaction at any time also shall include Additional Purchase Securities transferred pursuant to Paragraph 4(a) and shall exclude Securities returned pursuant to Paragraph 4(b);

(i) "Repurchase Collateral Account", a book account

maintained by Seller containing, among other Securities, the Purchased Securities; and

(j) "Repurchase Price", for any Purchased Security, an amount equal to the Purchase Price paid by Buyer to Seller for such Purchased Security.

3. Transactions

(a) A Transaction may be initiated by Buyer upon the transfer of the Purchase Price to Seller's account. Upon such transfer, Seller shall transfer to Buyer Purchased Securities having a Market Value equal to 103% of the Purchase Price.

(b) Purchased Securities shall be held in custody for Buyer by Seller in the Repurchase Collateral Account. Seller shall indicate on its books for such account Buyer's ownership of the Purchased Securities. Upon reasonable request from Buyer, Seller shall provide Buyer with a complete list of Purchased Securities owned by Buyer.

(c) Upon demand by Buyer or Seller, Seller shall repurchase from Buyer, and Buyer shall sell to Seller, for the Repurchase Price all or any part of the Purchased Securities then owned by Buyer.

4. Margin Maintenance

(a) If at any time the aggregate Market Value of all Purchased Securities then owned by Buyer is less than 103% of the aggregate Repurchase Price for such Purchased Securities, then Seller shall transfer to Buyer additional Securities ("Additional Purchased Securities"), so that the aggregate Market Value of such Purchased Securities, including any such Additional Purchased Securities, will thereupon equal or exceed 103% of such aggregate Repurchase Price.

(b) If at any time the aggregate Market Value of all Purchased Securities then owned by Buyer exceeds 103% of the aggregate Repurchase Price for such Purchased Securities, then Seller may transfer Purchased Securities to Seller, so that the aggregate Market Value of such Purchased Securities will thereupon not exceed 103% of such aggregate Repurchase Price.

5. Interest Payments

If during any fiscal month Buyer owned Purchased Securities, then on the first day of the next following fiscal month Seller shall pay to Buyer an amount equal to the sum of the aggregate Repurchase Prices of the Purchased Securities owned by Buyer at the close of each day during the preceding fiscal month divided by the number of days in such month and the product multiplied by the Pricing Rate times the number of days in such month divided by 360.

6. Income Payments and Voting Rights

Where a particular Transaction's term extends over an Income payment date on the Purchased Securities subject to that Transaction, Buyer shall, on the date such Income is payable, transfer to Seller an amount equal to such Income payment or payments with respect to any Purchased Securities subject to such Transaction. Seller shall retain all voting rights with respect to Purchased Securities sold to Buyer under this Agreement.

7. Security Interest

Although the parties intend that all Transactions hereunder be sales and purchases and not loans, in the event any such Transactions are deemed to be loans, Seller shall be deemed to have pledged to Buyer as security for the performance by Seller of its obligations under each such Transaction and this Agreement, and shall be deemed to have granted to Buyer a security interest in, all of the Purchased Securities with respect to all Transactions hereunder and all proceeds thereof.

8. Payment and Transfer

Unless otherwise mutually agreed, all transfers of funds hereunder shall be in immediately available funds. As used herein with respect to Securities, "transfer" is intended to have the same meaning as when used in Section 8-313 of the Massachusetts Uniform Commercial Code or, where applicable, in any federal regulation governing transfers of the Securities.

9. Substitution

Buyer hereby grants Seller the authority to manage, in Seller's sole discretion, the Purchased Securities held in custody for Buyer by Seller in the Repurchase Collateral Account. Buyer expressly agrees that Seller may (i) substitute other Securities for any Purchased Securities and (ii) commingle Purchased Securities with other Securities held in the Repurchase Collateral Account. Substitutions shall be made by transfer to Buyer of such other Securities and transfer to Seller of the Purchased Securities for which substitution is being made. After substitution, the substituted Securities shall be deemed to be Purchased Securities. Securities which are substituted for Purchased Securities shall have a Market Value at the time of substitution equal to or greater than the Market Value of the Purchase Securities for which such Securities were substituted.

10. Representations

Each of Buyer and Seller represents and warrants to the other that (i) it is duly authorized to execute and deliver this Agreement, to enter into the Transactions contemplated hereunder and to perform its obligations hereunder and has taken all necessary action to authorize such execution, delivery and performance, (ii) the person signing this Agreement on its behalf is duly authorized to do so on its behalf, (iii) it has obtained all authorizations of any governmental body required in connection with this Agreement and the Transactions hereunder and such authorizations are in full force and effect and (iv) the execution, delivery and performance of this Agreement and the Transactions hereunder will not violate any law, ordinance, charter, by-law or rule applicable to it or any agreement by which it is bound or by which any of its assets are affected. On the date for any Transaction Buyer and Seller shall each be deemed to repeat all the foregoing representations made by it.

11. Events of Default

In the event that (i) Seller fails to repurchase or Buyer fails to transfer Purchased Securities upon demand for repurchase from either Buyer or Seller, (ii) Seller or Buyer fails, after one business day's notice, to comply with Paragraph 4 hereof, (iii) Buyer fails to make payment to Seller pursuant to Paragraph 6 hereof, (iv) Seller fails to comply with Paragraph 5 hereof, (v) an Act of Insolvency occurs with respect to Seller or Buyer,

(vi) any representation made by Seller or Buyer shall have been incorrect or untrue in any material respect when made or repeated or deemed to have been made or repeated, or (vii) Seller or Buyer shall admit to the other its inability to, or its intention not to, perform any of its obligations hereunder (each an "Event of Default"):

(a) At the option of the nondefaulting party, exercised by written notice to the defaulting party (which option shall be deemed to have been exercised, even if no notice is given, immediately upon the occurrence of any Act of Insolvency), Seller shall become obligated to repurchase, and Buyer shall become obligated to sell, all Purchased Securities then owned by Buyer for the Repurchase Price of such Purchased Securities.

(b) If Seller is the defaulting party and Buyer exercises or is deemed to have exercised the option referred to in subparagraph (a) of this Paragraph, (i) the Seller's obligations hereunder to repurchase all Purchased Securities in such Transactions shall thereupon become immediately due and payable, (ii) all Income paid after such exercise or deemed exercise shall be retained by Buyer and applied to the aggregate unpaid Repurchase Prices owed by Seller, and (iii) Seller shall immediately deliver to Buyer any Purchased Securities subject to such Transactions then in Seller's possession.

(c) In all Transactions in which Buyer is the defaulting party, upon tender by Seller of payment of the aggregate Repurchase Prices for all such Transactions, Buyer's right, title and interest in all Purchased Securities subject to such Transactions shall be deemed transferred to Seller, and Buyer shall deliver all such Purchased Securities to Seller.

(d) After one business day's notice to the defaulting party (which notice need not be given if an Act of Insolvency shall have occurred, and which may be the notice given under subparagraph (a) of this Paragraph or the notice referred to in clause (ii) of the first sentence of this Paragraph), the nondefaulting party may:

(i) as to Transactions in which Seller is the defaulting party, (A) immediately sell, in a recognized market at such price or prices as Buyer may reasonably deem satisfactory, any or all Purchased Securities subject to such Transactions and apply the proceeds thereof to the aggregate unpaid Repurchase Prices and any other amounts owing by Seller hereunder or (B) in its sole discretion elect, in lieu of selling all or a portion of such Purchased Securities, to give Seller credit for such Purchased Securities in an amount equal to the price therefor on such date, obtained from a generally recognized source or the most recent closing bid quotation from such a source, against the aggregate unpaid Repurchase Prices and any other amounts owing by Seller hereunder; and

(ii) as to Transactions in which Buyer is the defaulting party, (A) purchase securities ("Replacement Securities") of the same class and amount as any Purchased Securities that are not delivered by Buyer to Seller as required hereunder or (B) in its sole discretion elect, in lieu of purchasing Replacement Securities, to be deemed to have purchased Replacement Securities at the price therefor on such date, obtained from a generally recognized source or the most recent closing bid quotation from such a source.

(e) As to Transactions in which Buyer is the defaulting party, Buyer shall be liable to Seller (i) with respect to Purchased Securities (other than Additional Purchased Securities), for any excess of the price paid (or deemed paid) by Seller for Replacement Securities therefor over the Repurchase Price for such Purchased Securities and (ii) with respect to Additional Purchased Securities, for the price paid (or deemed paid) by Seller for the Replacement Securities therefor.

(g) The defaulting party shall be liable to the nondefaulting party for the amount of all reasonable legal or other expenses incurred by the nondefaulting party in connection with or as a consequence of an Event of Default.

(h) The nondefaulting party shall have, in addition to its rights hereunder, any rights otherwise available to it under any other agreement or applicable law.

12. Single Agreement

Buyer and Seller acknowledge that, and have entered hereinto and will enter into each Transaction hereunder in consideration of and in reliance upon the fact that, all Transactions hereunder constitute a single business and contractual relationship and have been made in consideration of each other. Accordingly, each of Buyer and Seller agrees (i) to perform all of its obligations in respect of each Transaction hereunder, and that a default in the performance of any such obligations shall constitute a default by it in respect of all Transactions hereunder, (ii) that each of them shall be entitled to set off claims and apply property held by them in respect of any Transaction against obligations owing to them in respect of any other Transactions hereunder and (iii) that payments, deliveries and other transfers made by either of them in respect of any Transaction shall be deemed to have been made in consideration of payments, deliveries and other transfers in respect of any other Transactions hereunder, and the obligations to make any such payments, deliveries and other transfers may be applied against each other and netted.

13. Entire Agreement; Severability

This Agreement shall supersede any existing agreements between the parties containing general terms and conditions for repurchase transactions. Each provision and agreement and agreement herein shall be treated as separate and independent from any other provision or agreement herein and shall be enforceable notwithstanding the unenforceability of any such other provision or agreement.

14. Non-assignability; Termination

The rights and obligations of the parties under this Agreement and under any Transactions shall not be assigned by either party without the prior written consent of the other party. Subject to the foregoing, this Agreement and any Transactions shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns. This Agreement may be canceled by either party upon giving written notice to the other, except that this Agreement shall, notwithstanding such notice, remain applicable to any Transactions then outstanding.

15. Governing Law

This Agreement shall be governed by the laws of the Commonwealth of Massachusetts without giving effect to the conflict of law principles thereof.

16. No Waivers, Etc.

No express or implied waiver of any Event of Default by either party shall constitute a waiver of any other Event of Default and no exercise of any remedy hereunder by any party shall constitute a waiver of its right to exercise any other remedy hereunder. No modification or waiver of any provision of this Agreement and no consent by any party to a departure herefrom shall be effective unless and until such shall be in writing and duly executed by both of the parties hereto.

17. Intent

(a) The parties recognize that each Transaction is a "repurchase agreement" as that term is defined in Section 101 of Title 11 of the United States Code, as amended (except insofar as the type of Securities subject to such Transaction or the term of such Transaction would render such definition inapplicable), and a "securities contract" as that term is defined in Section 741 of Title 11 of the United States Code, as amended.

(b) It is understood that either party's right to liquidate Securities delivered to it in connection with Transactions hereunder or to exercise any other remedies pursuant to Paragraph 11 hereof, is a contractual right to liquidate such Transaction

as described in Sections 555 and 559 of Title 11 of the United States Code, as amended.

IN WITNESS WHEREOF, the parties have executed this Agreement as of December 28, 1996.

THERMO ELECTRON CORPORATION

THERMO FIBERTEK INC.

By: Jonathan W. Painter

By: William A. Rainville

Name: Jonathan W. Painter

Name: William A. Rainville

Title: Treasurer

Title: President

THERMO FIBERTEK INC.

THERMO FIBERGEN NONQUALIFIED STOCK OPTION PLAN

1. Purpose

This Nonqualified Stock Option Plan (the "Plan") is intended to encourage ownership of Common Stock, \$0.01 par value (the "Common Stock"), of Thermo Fibergen Inc. ("Subsidiary"), a subsidiary of Thermo Fibertek Inc. (the "Company"), by persons selected by the Board of Directors (or a committee thereof) in its sole discretion, including directors, executive officers, key employees and consultants of the Company and its subsidiaries, and to provide additional incentive for them to promote the success of the business of the Company and Subsidiary. The Plan is intended to be a nonstatutory stock option plan.

2. Effective Date of the Plan

The Plan shall become effective when adopted by the Board of Directors of the Company.

3. Stock Subject to Plan

At no time shall the number of shares of the Common Stock then outstanding which are attributable to the exercise of options granted under the Plan plus the number of shares then issuable upon the exercise of outstanding options granted under the Plan exceed 200,000 shares, subject however, to the provisions of paragraph 11 of the Plan. Shares to be issued upon the exercise of options granted under the Plan shall be shares of Subsidiary beneficially owned by the Company. If any option expires or terminates for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for options thereafter to be granted.

4. Administration

The Plan shall be administered by a committee (the "Committee") composed of the members of the Board of Directors of the Company, no member of which shall act upon any matter exclusively affecting any option granted or to be granted to himself or herself under the Plan. Subject to the provisions of the Plan, the Committee shall have complete authority, in its discretion, to make the following determinations with respect to each option to be granted by the Company: (a) the person to receive the option (the "Optionee"); (b) the time of granting the option; (c) the number of shares subject thereto; (d) the option price; (e) the option period; and (f) the terms of the option and form of option agreement (which need not be identical, but which shall conform to the applicable terms and conditions of the Plan and contain such other provisions as the Board of Directors deems advisable and not inconsistent with the Plan). In making such

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determinations, the Committee may take into account the nature of the services rendered by the Optionees, their present and potential contributions to the success of the Company and/or one or more of its subsidiaries, and such other factors as the Committee in its discretion shall deem relevant. Subject to the provisions of the Plan, the Committee shall also have complete authority to interpret the Plan, to prescribe, amend, and rescind rules and regulations relating to it, to determine the terms and provisions of the respective option agreements (which need not be identical), and to make all other determinations necessary or advisable for the administration of the Plan. The Committee's determinations on the matters referred to in this paragraph 4 shall be conclusive.

5. Eligibility

An option may be granted to any person selected by the Committee in its sole discretion.

6. Time of Granting Options

The granting of an option shall take place at the time specified by the Committee. Only if expressly so provided by the Committee shall the granting of an option be regarded as taking

place at the time when a written option agreement shall have been duly executed and delivered by or on behalf of the Company and the Optionee to whom such option shall be granted. The agreement shall provide, among other things, that it does not confer upon an Optionee any right to continue in the employ of the Company and/or one or more of its subsidiaries or to continue as a director or consultant of the Company, and that it does not interfere in any way with the right of the Company or any such subsidiary to terminate the employment of the Optionee at any time if the Optionee is an employee, to remove the Optionee as a director of the Company if the Optionee is a director, or to terminate the services of the Optionee if the Optionee is a consultant.

7. Option Period

An option may become exercisable immediately or in such installments, cumulative or noncumulative, as the Committee may determine.

8. Exercise of Option

An option may be exercised in accordance with its terms by written notice of intent to exercise the option, specifying the number of shares of stock with respect to which the option is then being exercised. The notice shall be accompanied by payment in the form of cash or shares of Subsidiary Common Stock (the "Tendered Shares") with a then current market value equal to the option price of the shares to be purchased; provided, however, that such Tendered Shares shall have been acquired by the

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Optionee more than six months prior to the date of exercise, unless such requirement is waived in writing by the Company. Against such payment the Company shall deliver or cause to be delivered to the Optionee a certificate for the number of shares then being purchased, registered in the name of the Optionee or other person exercising the option. If any law or applicable regulation of the Securities and Exchange Commission or other body having jurisdiction in the premises shall require the Company, Subsidiary or the Optionee to take any action in connection with shares being purchased upon exercise of the option, exercise of the option and delivery of the certificate or certificates for such shares shall be postponed until completion of the necessary action, which shall be taken at the Company's expense.

9. Transferability

Options shall not be transferable, otherwise than by will or the laws of descent and distribution, except as may be authorized by the Committee, in its sole discretion. The Committee may, in its discretion, determine the extent to which options granted to an Optionee shall be transferable, and such provisions permitting transfer shall be set forth in the written option agreement executed and delivered by or on behalf of the Company and the Optionee.

10. Vesting, Restrictions and Termination of Options

The Committee, in its sole discretion, may determine the manner in which options shall vest, the rights of the Company to repurchase the shares issued upon the exercise of any option and the manner in which such rights shall lapse, and the terms upon which any option granted shall terminate. The Board of Directors shall have the right to accelerate the date of exercise of any installment or to accelerate the lapse of the Company's repurchase rights. All of such terms shall be specified in a written option agreement executed and delivered by or on behalf of the Company and the Optionee to whom such option shall be granted.

11. Adjustment of Number of Shares

Each stock option agreement shall provide that in the event of any stock dividend payable in the Common Stock or any split-up or contraction in the number of shares of the Common Stock occurring after the date of the agreement and prior to the exercise in full of the option, the number of shares for which the option may thereafter be exercised shall be proportionately adjusted and the price to be paid for each share subject to the option shall be proportionately adjusted. Each such agreement shall also provide that in case of any reclassification or change of outstanding shares of the Common Stock or in case of any consolidation or merger of Subsidiary with or into another company or in case of any sale or conveyance to another company

or entity of the property of Subsidiary as a whole or substantially as a whole, the Optionee shall, upon exercise of the option, be entitled to receive shares of stock or other securities in its place equivalent in kind and value to those shares which he would have received if he had exercised the option in full immediately prior to such reclassification, change, consolidation, merger, sale or conveyance and had continued to hold the shares subject to the option (together with all other shares, stock and securities thereafter issued in respect thereof) to the time of the exercise of the option; provided, that if any recapitalization is to be effected through an increase in the par value of the Common Stock without an increase in the number of authorized shares and such new par value will exceed the option price under such agreement, the Company shall notify the Optionee of such proposed recapitalization, and the Optionee shall then have the right, exercisable at any time prior to such recapitalization becoming effective, to purchase all of the shares subject to the option which he has not theretofore purchased (anything in such agreement to the contrary notwithstanding), but if the Optionee fails to exercise such right before such recapitalization becomes effective, the option price under such agreement shall be appropriately adjusted. Each such agreement shall further provide that upon dissolution or liquidation of Subsidiary, the option shall terminate, but the Optionee (if at the time an employee or director of the Company and/or any one or more of its subsidiaries) shall have the right, immediately prior to such dissolution or liquidation, to exercise the option to the full extent not theretofore exercised; that no adjustment provided for above shall apply to any share with respect to which the option has been exercised prior to the effective date of such adjustment; and that no fraction of a share or fractional shares shall be purchasable or deliverable under such agreement, but in the event any adjustment thereunder of the number of shares covered by the option shall cause such number to include a fraction of a share, such fraction shall be adjusted to the nearest smaller whole number of shares. In the event of changes in the outstanding Common Stock by reason of any stock dividend, split-up, contraction, reclassification, or change of outstanding shares of the Common Stock of the nature contemplated by this paragraph 11, the number of shares of Common Stock available for the purpose of the Plan as stated in paragraph 3 hereof shall be correspondingly adjusted by the Committee.

12. Limitation of Rights in Option Stock

The Optionees shall have no rights as stockholders in respect of shares as to which their options shall not have been exercised, certificates issued and delivered and payment as herein provided made in full, and shall have no rights with respect to such shares not expressly conferred by this Plan.

13. Stock Reserved

The Company shall at all times during the term of the options reserve and keep available such number of shares of the Common Stock as will be sufficient to satisfy the requirements of this Plan and shall pay all other fees and expenses necessarily incurred by the Company in connection therewith.

14. Securities Laws Restrictions

Each Optionee exercising an option, at the request of the Company, will be required to give a representation in form satisfactory to counsel for the Company that he will not transfer, sell or otherwise dispose of the shares received upon exercise of the option at any time purchased by him, upon exercise of any portion of the option, in a manner which would violate the Securities Act of 1933, as amended, and the regulations of the Securities and Exchange Commission thereunder and the Company may, if required or at its discretion, make a notation on any certificates issued upon exercise of options to the effect that such certificate may not be transferred except after receipt by the Company of an opinion of counsel satisfactory to it to the effect that such transfer will not violate such Act and such regulations.

15. Tax Withholding

The Company shall have the right to deduct from payments of any kind otherwise due to an Optionee any federal, state or local taxes of any kind required by law to be withheld with respect to any shares issued upon exercise of options under the Plan (the "withholding requirements"). The Committee will have the right to require that the Optionee or other appropriate person remit to the Company an amount sufficient to satisfy the withholding requirements, or make other arrangements satisfactory to the Committee with regard to such requirements, prior to the delivery of any Common Stock pursuant to exercise of an option. If and to the extent that such withholding is required, the Committee may permit the Optionee or such other person to elect at such time and in such manner as the Committee provides to have the Company hold back from the shares to be delivered, or to deliver to the Company, Common Stock having a value calculated to satisfy the withholding requirements.

16. Termination and Amendment of Plan

The Board of Directors may at any time, and from time to time, modify or amend the Plan in any respect.

Notwithstanding any other provisions hereof, the Plan shall terminate on December 31, 2006 and no options shall be granted hereunder thereafter.

THERMO FIBERTEK INC.

RESTATED STOCK HOLDING ASSISTANCE PLAN

SECTION 1. Purpose.

The purpose of this Plan is to benefit Thermo Fibertek Inc. (the "Company") and its stockholders by encouraging Key Employees to acquire and maintain share ownership in the Company, by increasing such employees' proprietary interest in promoting the growth and performance of the Company and its subsidiaries and by providing for the implementation of the Stock Holding Policy.

SECTION 2. Definitions.

The following terms, when used in the Plan, shall have the meanings set forth below:

Committee: The Human Resources Committee of the Board of Directors of the Company as appointed from time to time.

Common Stock: The common stock of the Company and any successor thereto.

Company: Thermo Fibertek Inc., a Delaware corporation.

Stock Holding Policy: The Stock Holding Policy of the Company, as adopted by the Committee and as in effect from time to time.

Key Employee: Any employee of the Company or any of its subsidiaries, including any officer or member of the Board of Directors who is also an employee, as designated by the Committee, and who, in the judgment of the Committee, will be in a position to contribute significantly to the attainment of the Company's strategic goals and long-term growth and prosperity.

Loans: Loans extended to Key Employees by the Company pursuant to this Plan.

Plan: The Thermo Fibertek Inc. Stock Holding Assistance Plan, as amended from time to time.

SECTION 3. Administration.

The Plan and the Stock Holding Policy shall be administered by the Committee, which shall have authority to interpret the Plan and the Stock Holding Policy and, subject to their provisions, to prescribe, amend and rescind any rules and regulations and to make all other determinations necessary or desirable for the administration thereof. The Committee's interpretations and decisions with regard to the Plan and the

Stock Holding Policy and such rules and regulations as may be established thereunder shall be final and conclusive. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or the Stock Holding Policy, or in any Loan in the manner and to the extent the Committee deems desirable to carry it into effect. No member of the Committee shall be liable for any action or omission in connection with the Plan or the Stock Holding Policy that is made in good faith.

SECTION 4. Loans and Loan Limits.

The Committee has determined that the provision of Loans from time to time to Key Employees in such amounts as to cause such Key Employees to comply with the Stock Holding Policy is, in the judgment of the Committee, reasonably expected to benefit the Company and authorizes the Company to extend Loans from time to time to Key Employees in such amounts as may be requested by such Key Employees in order to comply with the Stock Holding Policy. Such Loans may be used solely for the purpose of acquiring Common Stock (other than upon the exercise of stock options or under employee stock purchase plans) in open market transactions or from the Company.

Each Loan shall be full recourse and evidenced by a non-interest bearing promissory note substantially in the form attached hereto as Exhibit A (the "Note") and maturing in accordance with the provisions of Section 6 hereof, and containing such other terms and conditions, which are not inconsistent with the provisions of the Plan and the Stock Holding Policy, as the Committee shall determine in its sole and absolute discretion.

SECTION 5. Federal Income Tax Treatment of Loans.

For federal income tax purposes, interest on Loans shall be imputed on any interest free Loan extended under the Plan. A Key Employee shall be deemed to have paid the imputed interest to the Company and the Company shall be deemed to have paid said imputed interest back to the Key Employee as additional compensation. The deemed interest payment shall be taxable to the Company as income, and may be deductible to the Key Employee to the extent allowable under the rules relating to investment interest. The deemed compensation payment to the Key Employee shall be taxable to the employee and deductible to the Company, but shall also be subject to employment taxes such as FICA and FUTA.

SECTION 6. Maturity of Loans.

Each Loan to a Key Employee hereunder shall be due and payable on demand by the Company. If no such demand is made, then each Loan shall mature and the principal thereof shall become due and payable in five equal annual installments from the payment of annual cash incentive compensation (referred to as

bonus) to the Key Employee by the Company, beginning with the first such bonus payment to occur after the date of the Note evidencing the Loan, and on each of the next four bonus payment dates, provided that the Committee may, in its sole and absolute discretion, authorize such other maturity and repayment schedule as the Committee may determine. Each Loan shall also become immediately due and payable in full, without demand, upon the occurrence of any of the events set forth in the Note; provided that the Committee may, in its sole and absolute discretion, authorize an extension of the time for repayment of a Loan upon such terms and conditions as the Committee may determine.

SECTION 7. Amendment and Termination of the Plan.

The Committee may from time to time alter or amend the Plan or the Stock Holding Policy in any respect, or terminate the Plan or the Stock Holding Policy at any time. No such amendment or termination, however, shall alter or otherwise affect the terms and conditions of any Loan then outstanding to Key Employee without such Key Employee's written consent, except as otherwise provided herein or in the promissory note evidencing such Loan.

SECTION 8. Miscellaneous Provisions.

(a) No employee or other person shall have any claim or right to receive a Loan under the Plan, and no employee shall have any right to be retained in the employ of the Company due to his or her participation in the Plan.

(b) No Loan shall be made hereunder unless counsel for the Company shall be satisfied that such Loan will be in compliance with applicable federal, state and local laws.

(c) The expenses of the Plan shall be borne by the Company.

(d) The Plan shall be unfunded, and the Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the making of any Loan under the Plan.

(e) Except as otherwise provided in Section 7 hereof, by accepting any Loan under the Plan, each Key Employee shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under the Plan or the Stock Holding Policy by the Company, the Board of Directors of the Company or the Committee.

(f) The appropriate officers of the Company shall cause to be filed any reports, returns or other information regarding Loans hereunder, as may be required by any applicable statute, rule or regulation.

SECTION 9. Effective Date.

The Plan and the Stock Holding Policy shall become effective upon approval and adoption by the Committee.

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EXHIBIT A TO STOCK HOLDING ASSISTANCE PLAN

THERMO FIBERTEK INC.

Promissory Note

\$ _____

Dated: _____

For value received, _____, an individual whose residence is located at _____ (the "Employee"), hereby promises to pay to Thermo Fibertek Inc. (the "Company"), or assigns, ON DEMAND, but in any case on or before [insert date which is the fifth anniversary of date of issuance] (the "Maturity Date"), the principal sum of [loan amount in words] (\$ _____), or such part thereof as then remains unpaid, without interest. Principal shall be payable in lawful money of the United States of America, in immediately available funds, at the principal office of the Company or at such other place as the Company may designate from time to time in writing to the Employee.

Unless the Company has already made a demand for payment in full of this Note, the Employee agrees to repay the Company an amount equal to 20% of the initial principal amount of the Note from the payment of annual cash incentive compensation (referred to as bonus) to the Employee by the Company, beginning with the first such bonus payment to occur after the date of this Note, and on each of the next four bonus payment dates. Any amount remaining unpaid under this Note, if no demand has been made by the Company, shall be due and payable on the Maturity Date.

This Note may be prepaid at any time or from time to time, in whole or in part, without any premium or penalty. The Employee acknowledges and agrees that the Company has advanced to the Employee the principal amount of this Note pursuant to the Company's Stock Holding Assistance Plan, and that all terms and conditions of such Plan are incorporated herein by reference.

The unpaid principal amount of this Note shall be and become immediately due and payable without notice or demand, at the option of the Company, upon the occurrence of any of the following events:

- (a) the termination of the Employee's employment with the Company, with or without cause, for any reason or for no reason;
- (b) the death or disability of the Employee;

(c) the failure of the Employee to pay his or her debts as they become due, the insolvency of the Employee, the filing by or against the Employee of any petition under the United States Bankruptcy Code (or the filing of any similar petition under the insolvency law of any jurisdiction), or the making by the Employee of an assignment or trust mortgage for the benefit of creditors or the appointment of a receiver, custodian or similar agent with respect to, or the taking by any such person of possession of, any property of the Employee; or

(d) the issuance of any writ of attachment, by trustee process or otherwise, or any restraining order or injunction not removed, repealed or dismissed within thirty (30) days of issuance, against or affecting the person or property of the Employee or any liability or obligation of the Employee to the Company.

In case any payment herein provided for shall not be paid when due, the Employee further promises to pay all costs of collection, including all reasonable attorneys' fees.

No delay or omission on the part of the Company in exercising any right hereunder shall operate as a waiver of such right or of any other right of the Company, nor shall any delay, omission or waiver on any one occasion be deemed a bar to or waiver of the same or any other right on any future occasion. The Employee hereby waives presentment, demand, notice of prepayment, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note. The undersigned hereby assents to any indulgence and any extension of time for payment of any indebtedness evidenced hereby granted or permitted by the Company.

This Note has been made pursuant to the Company's Stock Holding Assistance Plan and shall be governed by and construed in accordance with, such Plan and the laws of the State of Delaware and shall have the effect of a sealed instrument.

Employee Name: _____

Witness

THERMO FIBERTEK INC.

Computation Of Earnings Per Share

	Year Ended		
	Dec. 28, 1996	Dec. 30, 1995	Dec. 31, 1994
Computation of Fully Diluted Earnings per Share:			
Income:			
Net income	\$19,894,000	\$20,249,000	\$10,894,000
Add: Convertible debt interest, net of tax	315,000	315,000	271,000
Income applicable to common stock assuming full dilution (a)	\$20,209,000	\$20,564,000	\$11,165,000
Shares:			
Weighted average shares outstanding	61,040,179	60,784,640	60,393,818
Add: Shares issuable from assumed conversion of subordinated convertible obligations	1,888,113	1,888,113	1,619,121
Shares issuable from assumed exercise of options (as determined by the application of the treasury stock method)	1,414,480	1,590,708	1,011,399
Weighted average shares outstanding, as adjusted (b)	64,342,772	64,263,461	63,024,338
Fully Diluted Earnings per Share (a) / (b)	\$.31	\$.32	\$.18

THERMO FIBERTEK INC.
Consolidated Financial Statements
1996

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Thermo Fibertek Inc. 1996 Financial Statements

Consolidated Statement of Income

(In thousands except per share amounts)	1996	1995	1994
Revenues (includes \$1,876 and \$14,737 from related party in 1996 and 1995; Notes 9 and 12)	\$192,209	\$206,743	\$162,625
Costs and Operating Expenses:			
Cost of revenues (includes \$639 and \$8,797 for related party revenues in 1996 and 1995; Note 9)	109,537	123,094	96,581
Selling, general, and administrative expenses (Note 9)	47,093	48,659	43,316
Research and development expenses	5,460	4,061	3,812
	162,090	175,814	143,709
Operating Income	30,119	30,929	18,916
Interest Income	3,568	3,497	1,952
Interest Expense	(123)	(188)	(229)
Interest Expense, Related Party (Note 8)	(540)	(1,178)	(708)
Income Before Provision for Income Taxes and Minority Interest	33,024	33,060	19,931
Provision for Income Taxes (Note 7)	12,684	12,578	7,570
Minority Interest Expense	446	233	1,467
Net Income	\$ 19,894	\$ 20,249	\$ 10,894
Earnings per Share:			
Primary	\$.33	\$.33	\$.18
Fully diluted	\$.31	\$.32	\$.18
Weighted Average Shares:			
Primary	61,040	60,785	60,394
Fully diluted	64,343	64,263	63,024

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

(In thousands)	1996	1995

Assets		
Current Assets:		
Cash and cash equivalents	\$109,805	\$ 57,028
Available-for-sale investments, at quoted market value (amortized cost of \$2,781 in 1995; Note 2)	-	2,784
Accounts receivable, less allowances of \$1,948 and \$2,552	38,115	43,085
Unbilled contract costs and fees	1,236	1,921
Inventories	24,467	27,102
Prepaid income taxes (Note 7)	7,220	9,069
Other current assets	1,582	1,287
	-----	-----
	182,425	142,276
	-----	-----
Property, Plant, and Equipment, at Cost, Net	26,540	21,209
	-----	-----
Other Assets (Note 4)	8,720	1,298
	-----	-----
Cost in Excess of Net Assets of Acquired Companies (Notes 3 and 7)	39,547	34,888
	-----	-----
	\$257,232	\$199,671
	=====	=====

Consolidated Balance Sheet (continued)

(In thousands except share amounts)	1996	1995

Liabilities and Shareholders' Investment		
Current Liabilities:		
Accounts payable	\$ 16,805	\$ 20,747
Accrued payroll and employee benefits	10,989	11,115
Billings in excess of contract costs and fees	2,540	3,018
Accrued warranty costs	7,752	9,759
Accrued income taxes (includes \$1,340 and \$1,521 due to parent company)	2,414	4,430
Other accrued expenses	8,707	11,466
Due to parent company and affiliated companies (Note 8)	17,609	10,859
	-----	-----
	66,816	71,394
	-----	-----
Deferred Income Taxes and Other Deferred Items (Note 7)	3,168	3,031
	-----	-----
Long-term Obligations (including \$15,000 due to parent company in 1995; Note 8)	34	15,041
	-----	-----
Minority Interest (Note 3)	277	574
	-----	-----
Commitments and Contingency (Note 10)		
Common Stock of Subsidiary Subject to Redemption (\$60,116 redemption value; Note 1)	56,087	-
	-----	-----
Shareholders' Investment (Notes 5 and 6):		
Common stock, \$.01 par value, 75,000,000 shares authorized; 61,154,930 and 40,623,919 shares issued	612	406
Capital in excess of par value	65,951	65,222
Retained earnings	66,181	46,287
Treasury stock at cost, 23,550 and 33,223 shares	(360)	(446)
Cumulative translation adjustment	(1,534)	(1,840)
Net unrealized gain on available-for-sale investments (Note 2)	-	2
	-----	-----
	130,850	109,631
	-----	-----
	\$257,232	\$199,671
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(In thousands)	1996	1995	1994
Operating Activities:			
Net income	\$ 19,894	\$ 20,249	\$ 10,894
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,983	4,760	4,240
Provision for losses on accounts receivable	(450)	440	508
Minority interest expense	446	233	1,467
Deferred income tax expense (benefit)	2,017	(1,876)	(406)
Other noncash items	(316)	(111)	(29)
Changes in current accounts, excluding the effects of acquisitions:			
Accounts receivable	5,724	(8,052)	(3,800)
Inventories and unbilled contract costs and fees	3,139	(3,113)	(2,440)
Other current assets	1,468	398	(995)
Accounts payable	(3,436)	3,731	418
Other current liabilities	(6,417)	1,718	8,098
Net cash provided by operating activities	27,052	18,377	17,955
Investing Activities:			
Acquisitions, net of cash acquired (Note 3)	(12,066)	(12,783)	-
(Issuance) repayment of notes receivable (Note 4)	(6,000)	150	240
Purchases of available-for-sale investments	-	-	(4,250)
Proceeds from sale and maturities of available-for-sale investments	2,750	4,700	1,330
Purchases of property, plant, and equipment	(3,936)	(3,493)	(3,126)
Other	(150)	440	503
Net cash used in investing activities	(19,402)	(10,986)	(5,303)
Financing Activities:			
Net proceeds from issuance of Company and subsidiary common stock (Note 1)	55,923	235	442
Issuance (repayment) of short-term obligations (Note 8)	(10,400)	10,400	(5,000)
Repayment of long-term obligations	-	(385)	(203)
Net cash provided by (used in) financing activities	\$ 45,523	\$ 10,250	\$ (4,761)

Consolidated Statement of Cash Flows (continued)

(In thousands)	1996	1995	1994
Exchange Rate Effect on Cash	\$ (396)	\$ 2,137	\$ 1,763
Increase in Cash and Cash Equivalents	52,777	19,778	9,654
Cash and Cash Equivalents at Beginning of Year	57,028	37,250	27,596
Cash and Cash Equivalents at End of Year	<u>\$109,805</u>	<u>\$ 57,028</u>	<u>\$ 37,250</u>
Cash Paid For:			
Interest	\$ 662	\$ 1,391	\$ 947
Income taxes	\$ 12,625	\$ 14,760	\$ 5,472
Noncash Activities:			
Retirement of subordinated convertible note	\$ -	\$ -	\$(15,000)
Issuance of subordinated convertible note	\$ -	\$ -	\$ 15,000
Issuance of Company common stock in connection with the redemption of Fiberprep stock (Note 3)	\$ -	\$ 1,428	\$ -
Fair value of assets of acquired company	\$ 12,480	\$ -	\$ -
Cash paid for acquired company	(12,070)	-	-
Liabilities assumed of acquired company	<u>\$ 410</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Shareholders' Investment

(In thousands)	1996	1995	1994

Common Stock, \$.01 Par Value			
Balance at beginning of year	\$ 406	\$ 269	\$ 268
Issuance of stock under employees' and directors' stock plans	2	1	1
Effect of three-for-two stock splits	204	135	-
Issuance of Company common stock for redemption of Fiberprep stock (Note 3)	-	1	-
	-----	-----	-----
Balance at end of year	612	406	269
	-----	-----	-----
Capital in Excess of Par Value			
Balance at beginning of year	65,222	62,954	62,072
Issuance of stock under employees' and directors' stock plans	54	680	441
Effect of three-for-two stock splits	(204)	(135)	-
Issuance of Company common stock for redemption of Fiberprep stock (Note 3)	-	1,427	-
Tax benefit related to employees' and directors' stock plans	781	296	428
Effect of majority-owned subsidiary's equity transactions	98	-	13
	-----	-----	-----
Balance at end of year	65,951	65,222	62,954
	-----	-----	-----
Retained Earnings			
Balance at beginning of year	46,287	26,038	15,144
Net income	19,894	20,249	10,894
	-----	-----	-----
Balance at end of year	66,181	46,287	26,038
	-----	-----	-----
Treasury Stock			
Balance at beginning of year	(446)	-	-
Activity under employees' and directors' stock plans	86	(446)	-
	-----	-----	-----
Balance at end of year	(360)	(446)	-
	-----	-----	-----
Cumulative Translation Adjustment			
Balance at beginning of year	(1,840)	(4,539)	(6,731)
Translation adjustment	306	2,699	2,192
	-----	-----	-----
Balance at end of year	\$ (1,534)	\$ (1,840)	\$ (4,539)
	-----	-----	-----

Consolidated Statement of Shareholders' Investment (continued)

(In thousands)	1996	1995	1994

Net Unrealized Gain (Loss) on Available- for-sale Investments			
Balance at beginning of year	\$ 2	\$ (26)	\$ -
Change in net unrealized gain (loss) on available-for-sale investments (Note 2)	(2)	28	(42)
Effect of change in accounting principle (Note 2)	-	-	16
	-----	-----	-----
Balance at end of year	-	2	(26)
	-----	-----	-----
Total Shareholders' Investment	\$130,850	\$109,631	\$ 84,696
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Thermo Fibertek Inc. (the Company) designs and manufactures processing machinery and accessories for the paper and paper-recycling industries. The Company's principal products include custom-engineered systems and equipment for the preparation of wastepaper for conversion into recycled paper, accessory equipment and related consumables important to the efficient operation of papermaking machines, and water-management systems essential for draining, purifying, and recycling process water.

Relationship with Thermo Electron Corporation

The Company was incorporated in November 1991 as a wholly owned subsidiary of Thermo Electron Corporation (Thermo Electron). As of December 28, 1996, Thermo Electron owned 51,520,895 shares of the Company's common stock, representing 84% of such stock outstanding.

Principles of Consolidation

The accompanying financial statements include the accounts of the Company, its wholly owned subsidiaries, its 68%-owned public subsidiary Thermo Fibergen Inc. (Thermo Fibergen), and its 95%-owned Fiberprep, Inc. (Fiberprep) subsidiary (Note 3). All significant intercompany accounts and transactions have been eliminated.

Fiscal Year

The Company has adopted a fiscal year ending the Saturday nearest December 31. References to 1996, 1995, and 1994 are for the fiscal years ended December 28, 1996, December 30, 1995, and December 31, 1994, respectively. The Company's E. & M. Lamort, S.A. (Lamort) subsidiary, based in France, has a fiscal year ending on the Saturday nearest November 30 to allow sufficient time for the Company to receive Lamort's financial statements.

Revenue Recognition

The Company recognizes revenues upon shipment of its products. The Company provides a reserve for its estimate of warranty costs at the time of shipment. Revenues and profits on large contracts are recognized using the percentage-of-completion method. Revenues recorded under the percentage-of-completion method were \$31,066,000 in 1996, \$51,741,000 in 1995, and \$42,122,000 in 1994. The percentage of completion is determined by relating the actual costs incurred to date to management's estimate of total costs to be incurred on each contract. If a loss is indicated on any contract in process, a provision is made currently for the entire loss. The Company's contracts generally provide for billing of customers upon the attainment of certain milestones specified in each contract. Revenues earned on contracts in process in excess of billings are classified as unbilled contract costs and fees, and amounts billed in excess of revenues are classified as billings in excess of contract costs and fees in the accompanying balance sheet. There are no significant amounts included in the accompanying balance sheet that are not expected to be recovered from existing contracts at current contract values, or that are not expected to be collected within one year, including amounts that are billed but not paid under retainage provisions.

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies
(continued)

Stock-based Compensation Plans

The Company applies Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock-based compensation plans (Note 5). Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds, including tax benefits realized, are credited to equity.

Income Taxes

The Company and Thermo Electron have a tax allocation agreement under which the Company and its subsidiaries, exclusive of its foreign operations, its Fiberprep subsidiary, and, beginning in 1996, its Thermo Fibergen subsidiary, are included in the consolidated federal and certain state income tax returns filed by Thermo Electron. The agreement provides that in years in which these entities have taxable income, the Company will pay to Thermo Electron amounts comparable to the taxes it would have paid if the Company had filed separate tax returns. If Thermo Electron's equity ownership of the Company were to drop below 80%, the Company would be required to file its own federal income tax returns.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," the Company recognizes deferred income taxes based on the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities calculated using enacted tax rates in effect for the year in which the differences are expected to be reflected in the tax return.

Earnings per Share

Primary earnings per share have been computed based on the weighted average number of shares outstanding during the year. Because the effect of the assumed exercise of the Company's stock options would be immaterial, they have been excluded from the primary earnings per share calculation. Fully diluted earnings per share have been computed assuming conversion of the Company's subordinated convertible note and elimination of the related interest expense, where dilutive, as well as the exercise of stock options and their related income tax effects.

Stock Split

All share and per share information, except as noted below, has been restated to reflect three-for-two stock splits, effected in the form of 50% stock dividends, which were distributed in June 1996 and September 1995. Share information in the accompanying 1995 balance sheet has not been restated for the stock split distributed in June 1996.

Cash and Cash Equivalents

As of December 28, 1996, \$75,566,000 of the Company's cash equivalents were invested in a repurchase agreement with Thermo Electron. Under this agreement, the Company in effect lends excess cash to Thermo Electron, which Thermo Electron collateralizes with investments principally consisting of U.S. government agency securities, corporate notes, commercial paper, money market funds, and other marketable

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies
(continued)

securities, in the amount of at least 103% of such obligation. The Company's funds subject to the repurchase agreement are readily convertible into cash by the Company. The repurchase agreement earns a rate based on the 90-day Commercial Paper Composite Rate plus 25 basis points, set at the beginning of each quarter. As of year-end 1996 and 1995, the Company's cash equivalents also include money market fund investments of the Company's foreign subsidiaries, which have original maturities of three months or less. Cash equivalents are carried at cost, which approximates market value.

Inventories

Inventories are stated at the lower of cost (on a first-in, first-out or weighted average basis) or market value and include materials, labor, and manufacturing overhead. The components of inventories are as follows:

(In thousands)	1996	1995
Raw materials and supplies	\$13,778	\$14,283
Work in process	4,180	7,577
Finished goods	6,509	5,242
	-----	-----
	\$24,467	\$27,102
	=====	=====

Property, Plant, and Equipment

The costs of additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. The Company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the property as follows: buildings, 15 to 50 years; machinery and equipment, 2 to 15 years; and leasehold improvements, the shorter of the term of the lease or the life of the asset. Property, plant, and equipment consists of the following:

(In thousands)	1996	1995
Land and buildings	\$22,293	\$18,891
Machinery, equipment, and leasehold improvements	35,576	31,085
	-----	-----
	57,869	49,976
Less: Accumulated depreciation and amortization	31,329	28,767
	-----	-----
	\$26,540	\$21,209
	=====	=====

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies
(continued)

Other Assets

Other assets in the accompanying balance sheet includes the cost of patents acquired in 1996 that are amortized using the straight-line method over an estimated useful life of 12 years. These assets were \$958,000, net of accumulated amortization of \$42,000, at year-end 1996.

Cost in Excess of Net Assets of Acquired Companies

The excess of cost over the fair value of net assets of acquired companies is amortized using the straight-line method over periods ranging between 20 to 40 years. Accumulated amortization was \$3,521,000 and \$2,523,000 at year-end 1996 and 1995, respectively. The Company assesses the future useful life of this asset whenever events or changes in circumstances indicate that the current useful life has diminished. The Company considers the future undiscounted cash flows of the acquired companies in assessing the recoverability of this asset. If impairment has occurred, any excess of carrying value over fair value is recorded as a loss.

Common Stock of Subsidiary Subject to Redemption

In September 1996 Thermo Fibergen sold 4,715,000 units, each unit consisting of one share of Thermo Fibergen common stock and one redemption right, in an initial public offering at \$12.75 per unit for net proceeds of \$55,781,000. The common stock and redemption rights began trading separately on December 13, 1996. Holders of a redemption right have the option to require Thermo Fibergen to redeem, in September 2000 and 2001, one share of Thermo Fibergen common stock at \$12.75 per share. The redemption rights carry terms that generally provide for their expiration if the closing price of Thermo Fibergen's common stock exceeds \$19 1/8 for 20 of any 30 consecutive trading days prior to September 2001. The difference between the redemption value and the original carrying amount of common stock of subsidiary subject to redemption is accreted over the period ending September 2000, which corresponds with the first redemption period. The accretion is charged to minority interest expense in the accompanying statement of income. The redemption rights are guaranteed, on a subordinated basis, by Thermo Electron. The Company has agreed to reimburse Thermo Electron in the event Thermo Electron is required to make a payment under the guarantee.

Foreign Currency

All assets and liabilities of the Company's foreign subsidiaries are translated at year-end exchange rates, and revenues and expenses are translated at average exchange rates for the year, in accordance with SFAS No. 52, "Foreign Currency Translation." Resulting translation adjustments are reflected as a separate component of shareholders' investment titled "Cumulative translation adjustment." Foreign currency transaction gains and losses are included in the accompanying statement of income and are not material for the three years presented.

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies
(continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Presentation

Certain amounts in 1995 and 1994 have been reclassified to conform to the presentation in the 1996 financial statements.

2. Available-for-sale Investments

Effective January 2, 1994, the Company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." In accordance with SFAS No. 115, the Company's debt and marketable equity securities are considered available-for-sale investments in the accompanying balance sheet and are carried at market value, with the difference between cost and market value, net of related tax effects, recorded currently as a component of shareholders' investment titled "Net unrealized gain (loss) on available-for-sale investments." Effect of change in accounting principle in the accompanying 1994 statement of shareholders' investment represents the unrealized gain, net of related tax effects, pertaining to available-for-sale investments held by the Company on January 2, 1994.

Available-for-sale investments in the accompanying 1995 balance sheet represents investments in corporate bonds. The difference between the market value and the cost basis of available-for-sale investments at December 30, 1995, was \$3,000, which represents gross unrealized gains on those investments.

3. Acquisitions

In July 1996, Thermo Fibergen acquired substantially all of the assets, subject to certain liabilities, of Granulation Technology, Inc. (Granulation Technology) and Biodac, a division of Edward Lowe Industries, Inc., for \$12,070,000 in cash. The acquisition has been accounted for using the purchase method of accounting, and the combined results of operations of Granulation Technology and Biodac have been included in the accompanying financial statements from the date of acquisition. The cost of the acquisition exceeded the estimated fair value of the acquired net assets by \$4,862,000, which is being amortized over 20 years. Allocation of the purchase price for the acquisition was based on the estimated fair value of net assets acquired and is subject to adjustment upon finalization of the purchase price allocation. Pro forma data is not presented since the acquisition of Granulation Technology and Biodac was not material to the Company's results of operations.

Notes to Consolidated Financial Statements

3. Acquisitions (continued)

In January 1995, the Company increased its ownership of Fiberprep from 51% to 95% through a redemption by Fiberprep of a portion of its stock owned by Aikawa Iron Works Co., Ltd. (Aikawa) for a total purchase price equal to (a) \$12,783,000 in cash, which included a royalty payment of \$845,000, (b) a ten-year 1% royalty on sales of certain Aikawa products, and (c) the issuance of 225,000 shares of the Company's common stock. The acquisition has been accounted for using the purchase method of accounting. The cost of the acquisition exceeded the estimated fair value of the incremental net assets by \$7,516,000, which is being amortized over 40 years. The accompanying statement of income includes royalty expense in connection with this agreement of \$66,000 and \$258,000 in 1996 and 1995, respectively.

Based on unaudited data, if the acquisition of the additional 44% ownership in Fiberprep had occurred at the beginning of 1994, net income and earnings per share on a pro forma basis for 1994 would have been \$11,468,000 and \$.19, respectively. The pro forma results are not necessarily indicative of future operations or the actual results that would have occurred had the redemption by Fiberprep been made at the beginning of 1994.

4. Note Receivable

In connection with a proposed engineering, procurement, and construction project, the Company loaned \$6.0 million to Tree-Free Fiber Company, LLC (Tree-Free) during 1996. The \$6.0 million note to the Company is secured by a first priority security interest in the membership (equity) interests of the equity owners of Tree-Free, as well as certain other assets of Tree-Free. This project has been indefinitely delayed due to the current weakness in pulp prices and, therefore, the Company expects the project will not proceed in the near future. Tree-Free was unable to repay the note upon its original maturity and the Company consented to several payment extensions. On March 10, 1997, the Company formally notified Tree-Free that Tree-Free was in default of its obligations, and demanded payment in full within seven days. If Tree-Free is unable to cure the default within seven days, or to make other arrangements acceptable to the Company, the Company intends to exercise its rights under its security agreement to cause all of such membership interests to be transferred to the Company. In such event, the Company expects that it will operate an existing tissue mill owned by Tree-Free, with the intent of either selling the mill or membership interests at one or more public or private sales as soon as practicable thereafter. Although no assurance can be given as to either the timing of any such sale or the amount of the proceeds that may be received therefrom, the Company believes that the fair value of its security exceeds the carrying amount of the note from Tree-Free.

Notes to Consolidated Financial Statements

5. Employee Benefit Plans

Stock-based Compensation Plans

Stock Option Plans

The Company has stock-based compensation plans for its key employees, directors, and others. Two of these plans, adopted in 1991, permit the grant of nonqualified and incentive stock options. A third plan, adopted in 1994, permits the grant of a variety of stock and stock-based awards as determined by the human resources committee of the Company's Board of Directors (the Board Committee), including restricted stock, stock options, stock bonus shares, or performance-based shares. To date, only nonqualified stock options have been awarded under this plan. The option recipients and the terms of options granted under these plans are determined by the Board Committee. Generally, options granted to date are exercisable immediately, but are subject to certain transfer restrictions and the right of the Company to repurchase shares issued upon exercise of the options at the exercise price, upon certain events. The restrictions and repurchase rights generally lapse ratably over a five to ten year period, depending on the term of the option, which may range from five to twelve years. In addition, under certain options, shares acquired upon exercise are restricted from resale until retirement or other events. Nonqualified options may be granted at any price determined by the Board Committee, although incentive stock options must be granted at not less than the fair market value of the Company's stock on the date of grant. To date, all options have been granted at fair market value. The Company also has a directors' stock option plan, adopted in 1991, that provides for the grant of stock options to outside directors pursuant to a formula approved by the Company's shareholders. Options awarded under this plan are exercisable six months after the date of grant and generally expire three or seven years after the date of grant. In addition to the Company's stock-based compensation plans, certain officers and key employees may also participate in the stock-based compensation plans of Thermo Electron.

Employee Stock Purchase Program

Substantially all of the Company's full-time U.S. employees are eligible to participate in an employee stock purchase program sponsored by the Company and Thermo Electron. Under this program, shares of the Company's and Thermo Electron's common stock can be purchased at the end of a 12-month period at 95% of the fair market value at the beginning of the period, and the shares purchased are subject to a six-month resale restriction. Prior to November 1, 1995, the applicable shares of common stock could be purchased at 85% of the fair market value at the beginning of the period, and the shares purchased were subject to a one-year resale restriction. Shares are purchased through payroll deductions of up to 10% of each participating employee's gross wages. During 1996, 1995, and 1994, the Company issued 30,830 shares, 38,981 shares, and 67,602 shares, respectively, of its common stock under this program.

Notes to Consolidated Financial Statements

5. Employee Benefit Plans (continued)

Pro Forma Stock-based Compensation Expense

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation," which sets forth a fair-value based method of recognizing stock-based compensation expense. As permitted by SFAS No. 123, the Company has elected to continue to apply APB No. 25 to account for its stock-based compensation plans. Had compensation cost for awards granted in 1996 and 1995 under the Company's stock-based compensation plans been determined based on the fair value at the grant dates consistent with the method set forth under SFAS No. 123, the effect on the Company's net income and earnings per share would have been as follows:

(In thousands except per share amounts)	1996	1995
Net income:		
As reported	\$19,894	\$20,249
Pro forma	19,454	20,118
Primary earnings per share:		
As reported	.33	.33
Pro forma	.32	.33
Fully diluted earnings per share:		
As reported	.31	.32
Pro forma	.31	.32

Because the method prescribed by SFAS No. 123 has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation expense may not be representative of the amount to be expected in future years. Pro forma compensation expense for options granted is reflected over the vesting period; therefore, future pro forma compensation expense may be greater as additional options are granted.

The fair value of each option grant was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1996	1995
Volatility	26%	26%
Risk-free interest rate	5.9%	5.9%
Expected life of options	4.7 years	4.6 years

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions including expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Notes to Consolidated Financial Statements

5. Employee Benefit Plans (continued)

Stock Option Activity

A summary of the Company's stock option activity is as follows:

(Shares in thousands)	1996		1995		1994	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Range of Option Prices per Share
Options outstanding, beginning of year	3,783	\$ 4.52	3,782	\$ 3.91	3,804	\$ 3.00-6.88
Granted	102	11.80	315	10.70	6	6.88
Exercised	(282)	3.25	(236)	3.08	(27)	3.00
Forfeited	(33)	6.15	(78)	4.53	(1)	6.15
Options outstanding, end of year	3,570	\$ 4.81	3,783	\$ 4.52	3,782	\$ 3.00-6.88
Options exercisable	3,570	\$ 4.81	3,783	\$ 4.52	3,780	\$ 3.00-6.88
Options available for grant	2,410		2,478		2,715	
Weighted average fair value per share of options granted during year		\$ 3.89		\$ 3.60		

A summary of the status of the Company's stock options at December 28, 1996, is as follows:

Range of Exercise Prices	Options Outstanding and Exercisable		
	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
(Shares in thousands)			
\$ 3.00 - \$ 5.83	2,160	3.2 years	\$ 3.00
5.84 - 8.66	993	7.8 years	6.16
8.67 - 11.49	387	6.0 years	10.71
11.50 - 14.32	30	11.2 years	14.32
\$ 3.00 - \$14.32	3,570	4.9 years	\$ 4.81

Notes to Consolidated Financial Statements

5. Employee Benefit Plans (continued)

401(k) Savings Plan

Two of the Company's domestic subsidiaries participate in Thermo Electron's 401(k) savings plan. Contributions to the plan are made by both the employee and the Company. Company contributions are based upon the level of employee contributions. For this plan, the Company contributed and charged to expense \$449,000, \$449,000, and \$382,000 in 1996, 1995, and 1994, respectively.

Profit-sharing Plans

One of the Company's domestic subsidiaries has adopted a profit-sharing plan under which the Company annually contributes 10% of the subsidiary's profit-sharing net income, which equals net income before profit-sharing expense. All contributions are immediately vested. In addition, one of the Company's foreign subsidiaries maintains a state-mandated profit-sharing plan and a voluntary profit-sharing plan, which the Company has agreed with its trade unions to maintain. Under the state-mandated plan, the Company contributes 0-13% of the subsidiary's net profit after taxes reduced by 5% of its shareholders' investment. Contributions become fully vested after five years. The voluntary plan provides for the subsidiary to contribute 8-10% of profit after taxes in excess of 5% of its revenues. Contributions become fully vested in May of the following year. For these plans, the Company contributed and charged to expense \$1,263,000, \$1,215,000, and \$1,189,000 in 1996, 1995, and 1994, respectively.

6. Common Stock

At December 28, 1996, the Company had reserved 8,630,224 unissued shares of its common stock for possible issuance under stock-based compensation plans and for issuance upon possible conversion of the Company's subordinated convertible note.

7. Income Taxes

The components of income before provision for income taxes and minority interest in the accompanying statement of income are as follows:

(In thousands)	1996	1995	1994
Domestic	\$17,515	\$20,472	\$13,831
Foreign	15,509	12,588	6,100
	-----	-----	-----
	\$33,024	\$33,060	\$19,931
	=====	=====	=====

Notes to Consolidated Financial Statements

7. Income Taxes (continued)

The components of the provision for income taxes in the accompanying statement of income are as follows:

(In thousands)	1996	1995	1994

Currently payable:			
Federal	\$ 5,672	\$ 7,915	\$ 4,590
Foreign	3,382	4,776	2,205
State	1,613	1,763	1,181
	-----	-----	-----
	10,667	14,454	7,976
	-----	-----	-----
Deferred (prepaid), net:			
Federal	142	(1,312)	(435)
Foreign	1,813	(286)	95
State	62	(278)	(66)
	-----	-----	-----
	2,017	(1,876)	(406)
	-----	-----	-----
	\$12,684	\$12,578	\$ 7,570
	=====	=====	=====

The Company receives a tax deduction upon exercise of nonqualified stock options by employees for the difference between the exercise price and the market price of the Company's common stock on the date of exercise. The provision for income taxes that is currently payable does not reflect \$781,000, \$296,000, and \$428,000 of tax benefits from exercises of stock options that have been allocated to capital in excess of par value in 1996, 1995, and 1994, respectively.

The deferred provision for income taxes in 1995 does not reflect \$2,409,000 of tax benefits used to reduce cost in excess of net assets of acquired companies.

The provision for income taxes in the accompanying statement of income differs from the provision calculated by applying the statutory federal income tax rate of 35% in 1996 and 1995 and 34% in 1994 to income before provision for income taxes and minority interest due to the following:

(In thousands)	1996	1995	1994

Provision for income taxes at statutory rate	\$11,558	\$11,571	\$ 6,777
Increases (decreases) resulting from:			
State income taxes, net of federal tax	1,089	965	736
Dividend from foreign subsidiary, net of tax credits	-	709	-
Foreign tax rate and tax regulation differential	(233)	(434)	95
Nondeductible expenses	150	147	192
Other	120	(380)	(230)
	-----	-----	-----
	\$12,684	\$12,578	\$ 7,570
	=====	=====	=====

Notes to Consolidated Financial Statements

7. Income Taxes (continued)

Prepaid income taxes and deferred income taxes in the accompanying balance sheet consist of the following:

(In thousands)	1996	1995
Prepaid income taxes:		
Reserves and accruals	\$5,087	\$5,402
Inventory basis difference	1,263	2,835
Accrued compensation	602	408
Allowance for doubtful accounts	268	250
Other, net	-	174
	-----	-----
	\$7,220	\$9,069
	=====	=====
Deferred income taxes, net:		
Amortization of intangible assets	\$ 496	\$ 494
Depreciation	184	304
Foreign taxes	633	347
	-----	-----
	\$1,313	\$1,145
	=====	=====

The Company has not recognized a deferred tax liability for the difference between the book basis and the tax basis of its investment in the stock of its domestic subsidiaries (such difference relates primarily to unremitted earnings by subsidiaries) because it does not expect this basis difference to become subject to tax at the parent level. The Company believes it can implement certain tax strategies to recover its investment in its domestic subsidiaries tax free.

A provision has not been made for U.S. or additional foreign taxes on \$50.2 million of undistributed earnings of foreign subsidiaries that could be subject to tax if remitted to the U.S. because the Company currently plans to keep these amounts permanently reinvested overseas. The Company believes that any additional U.S. tax liability due upon remittance of such earnings would be immaterial due to available U.S. foreign tax credits.

8. Short- and Long-term Obligations

In 1991, the Company issued to Thermo Electron a \$15.0 million principal amount 5% subordinated note due 2001, payable on demand upon 30 days' notice by Thermo Electron any time after January 15, 1994. In February 1994, the Company refinanced this note into a \$15.0 million principal amount 3.5% subordinated convertible note due August 1, 1997. The note is held by Thermo Electron and is convertible into shares of the Company's common stock at a conversion price of \$7.94 per share. This note is included in "Due to parent company and affiliated companies" in the accompanying 1996 balance sheet.

Notes to Consolidated Financial Statements

8. Short- and Long-term Obligations (continued)

In January 1995, in connection with a partial redemption of Fiberprep stock (Note 3), Fiberprep issued to Thermo Electron a \$10.4 million promissory note due January 1996, bearing interest at the Commercial Paper Composite Rate plus 25 basis points, which was repaid in 1996. This note is included in "Due to parent company and affiliated companies" in the accompanying 1995 balance sheet. The interest rate was 6.01% at year-end 1995.

In September 1993, the Company borrowed \$5.0 million from Thermo Electron pursuant to a promissory note due September 13, 1994, bearing interest at the Commercial Paper Composite Rate plus 25 basis points, which was repaid in September 1994.

See Note 11 for fair value information pertaining to the Company's long-term obligations.

9. Related Party Transactions

Corporate Services Agreement

The Company and Thermo Electron have a corporate services agreement under which Thermo Electron's corporate staff provides certain administrative services, including certain legal advice and services, risk management, certain employee benefit administration, tax advice and preparation of tax returns, centralized cash management, and certain financial and other services, for which the Company pays Thermo Electron annually an amount equal to 1.0% of the Company's revenues. The Company paid an annual fee equal to 1.20% and 1.25% of the Company's revenues in 1995 and 1994, respectively. The annual fee is reviewed and adjusted annually by mutual agreement of the parties. For these services, the Company was charged \$1,922,000, \$2,481,000, and \$2,033,000 in 1996, 1995, and 1994, respectively. The corporate services agreement is renewed annually but can be terminated upon 30 days' prior notice by the Company or upon the Company's withdrawal from the Thermo Electron Corporate Charter (the Thermo Electron Corporate Charter defines the relationship among Thermo Electron and its majority-owned subsidiaries). Management believes that the service fee charged by Thermo Electron is reasonable and that such fees are representative of the expenses the Company would have incurred on a stand-alone basis. For additional items such as employee benefit plans, insurance coverage, and other identifiable costs, Thermo Electron charges the Company based upon costs attributable to the Company.

Recycling Equipment Subcontract

In December 1994, Thermo Electron subcontracted with Fiberprep to supply equipment and services to Thermo Electron, in its role as general contractor on a turnkey contract with a customer for an office wastepaper de-inking facility. During 1996 and 1995, the Company recorded revenues of \$1,876,000 and \$14,737,000, respectively, and cost of revenues of \$639,000 and \$8,797,000, respectively, under this two-year subcontract. No revenues were recorded under this subcontract during 1994.

Notes to Consolidated Financial Statements

9. Related Party Transactions (continued)

Repurchase Agreement

The Company invests excess cash in a repurchase agreement with Thermo Electron as discussed in Note 1.

Short- and Long-term Obligations

See Note 8 for obligations of the Company held by Thermo Electron.

10. Commitments and Contingency

Operating Leases

The Company occupies office and operating facilities under various operating leases. The accompanying statement of income includes expenses from operating leases of \$1,252,000, \$1,167,000, and \$1,407,000 in 1996, 1995, and 1994, respectively. The future minimum payments due under noncancellable operating leases as of December 28, 1996, are \$1,113,000 in 1997; \$929,000 in 1998; \$468,000 in 1999; \$159,000 in 2000; \$87,000 in 2001; and \$95,000 in 2002 and thereafter. Total future minimum lease payments are \$2,851,000.

Contingency

Fiberprep was a supplier of de-inking equipment to the general contractor for a pulp mill (unrelated to the subcontract from Thermo Electron discussed in Note 9). The general contractor has received notices from the mill owner alleging failure to perform and claiming liquidated damages. Although the general contractor is challenging the mill owner's claims, if the general contractor is found liable, the Company has been informed that the general contractor will seek 50% of its damages from the Company. The Company's limit of liability for any contractual disputes arising from its contract totals \$6.0 million. While it is reasonably possible that resolution of this matter could have a material effect on the Company's results of operations for a particular quarter, in the opinion of management the Company's reserves for such matters are adequate and such result is not likely to occur.

11. Fair Value of Financial Instruments

The Company's financial instruments consist mainly of cash and cash equivalents, available-for-sale investments, accounts receivable, accounts payable, due to parent company and affiliated companies, long-term obligations, and forward exchange contracts. The carrying amount of these financial instruments, with the exception of available-for-sale investments, the subordinated convertible note, other long-term obligations, and forward exchange contracts, approximate fair value due to their short-term nature.

Available-for-sale investments are carried at fair value in the accompanying 1995 balance sheet. The fair values were determined based on quoted market prices. See Note 2 for fair value information pertaining to these financial instruments.

Notes to Consolidated Financial Statements

11. Fair Value of Financial Instruments (continued)

The Company enters into forward exchange contracts to hedge certain firm purchase and sale commitments denominated in currencies other than its subsidiaries' local currencies, principally U.S. dollars, British pounds sterling, French francs, and Japanese yen. The purpose of the Company's foreign currency hedging activities is to protect the Company's local currency cash flows related to these commitments from fluctuations in foreign exchange rates. The amounts of such forward exchange contracts at year-end 1996 and 1995 were \$2,378,000 and \$12,274,000, respectively.

The carrying amount and fair value of the Company's convertible obligation, other long-term obligations, and off-balance-sheet financial instruments are as follows:

(In thousands)	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Convertible obligation	\$15,000	\$17,400	\$15,000	\$28,485
Other long-term obligations	34	34	41	41
	-----	-----	-----	-----
	\$15,034	\$17,434	\$15,041	\$28,526
	=====	=====	=====	=====
Off-balance-sheet financial instruments:				
Forward exchange contracts payable (receivable)		\$ 32		\$ (325)

The fair value of debt obligations was determined based on quoted market prices and on borrowing rates available to the Company at the respective year-ends. The fair value of the convertible obligation exceeds the carrying amount primarily due to the market price of the Company's common stock exceeding the conversion price of the convertible obligation.

The fair value of forward exchange contracts is the estimated amount that the Company would receive or pay upon termination of the contract, taking into account the change in foreign exchange rates.

12. Geographical Information

The Company is engaged in one business segment: the design and manufacture of processing machinery for paper-recycling, accessories, and water-management systems for the paper and paper-recycling industries. Revenues from the paper-recycling business were \$56,171,000, \$76,981,000, and \$50,698,000 in 1996, 1995, and 1994, respectively. Revenues from the accessories business were \$82,173,000, \$73,934,000, and \$60,448,000 in 1996, 1995, and 1994, respectively. Revenues from the water-management business were \$39,950,000, \$40,835,000, and \$32,170,000 in 1996, 1995, and 1994, respectively.

Notes to Consolidated Financial Statements

12. Geographical Information (continued)

The following table shows data for the Company by geographic area.

(In thousands)	1996	1995	1994

Revenues:			
United States	\$102,118	\$121,932	\$ 96,434
France	59,941	59,126	42,272
United Kingdom	14,644	14,930	15,739
Other	24,070	21,883	16,624
Transfers among geographic areas (a)	(8,564)	(11,128)	(8,444)
	-----	-----	-----
	\$192,209	\$206,743	\$162,625
	=====	=====	=====
Income before provision for income taxes and minority interest:			
United States	\$ 16,053	\$ 21,716	\$ 14,945
France	6,598	5,671	3,487
United Kingdom	3,081	1,732	64
Other	4,764	3,734	1,610
Corporate and eliminations (b)	(377)	(1,924)	(1,190)
	-----	-----	-----
Total operating income	30,119	30,929	18,916
Interest income, net	2,905	2,131	1,015
	-----	-----	-----
	\$ 33,024	\$ 33,060	\$ 19,931
	=====	=====	=====
Identifiable assets:			
United States (c)	\$131,540	\$ 81,609	\$ 66,593
France	57,643	56,538	50,843
United Kingdom	24,496	20,868	21,474
Other	18,999	16,686	13,194
Corporate and eliminations (d)	24,554	23,970	10,285
	-----	-----	-----
	\$257,232	\$199,671	\$162,389
	=====	=====	=====

(a) Transfers among geographic areas are accounted for at prices that are representative of transactions with unaffiliated parties.

(b) Primarily general and administrative expenses.

(c) Reflects the net proceeds from Thermo Fibertek's September 1996 initial public offering.

(d) Primarily cash, cash equivalents, and available-for-sale investments.

Notes to Consolidated Financial Statements

13. Unaudited Quarterly Information

(In thousands except per share amounts)

1996	First	Second	Third	Fourth
Revenues	\$48,980	\$48,595	\$46,124	\$48,510
Gross profit	20,788	20,491	19,951	21,442
Net income	5,206	4,876	4,213	5,599
Earnings per share:				
Primary	.09	.08	.07	.09
Fully diluted	.08	.08	.07	.09
1995	First	Second	Third	Fourth
Revenues	\$43,736	\$49,588	\$56,227	\$57,192
Gross profit	17,787	19,968	22,268	23,626
Net income	3,583	4,628	5,992	6,046
Earnings per share:				
Primary	.06	.08	.10	.10
Fully diluted	.06	.07	.09	.10

14. Subsequent Event

On February 26, 1997, the Company entered into a letter of intent to acquire the assets, subject to certain liabilities, of the stock-preparation business of The Black Clawson Company (Black Clawson) for approximately \$110 million in cash. Black Clawson is a leading supplier of recycling equipment used in processing fiber for the manufacture of "brown paper" such as that used for corrugated boxes. The transaction is subject to several conditions, including completion by the Company of its due diligence investigation; negotiation of a definitive agreement; regulatory approvals, including antitrust clearances; and approval by the Board of Directors of the Company, Thermo Electron, and Black Clawson. If this transaction is consummated, the Company intends to borrow a portion of the purchase price from Thermo Electron.

Report of Independent Public Accountants

To the Shareholders and Board of Directors of Thermo Fibertek Inc.:

We have audited the accompanying consolidated balance sheet of Thermo Fibertek Inc. (a Delaware corporation and 84%-owned subsidiary of Thermo Electron Corporation) and subsidiaries as of December 28, 1996, and December 30, 1995, and the related consolidated statements of income, shareholders' investment, and cash flows for each of the three years in the period ended December 28, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thermo Fibertek Inc. and subsidiaries as of December 28, 1996, and December 30, 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 28, 1996, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Boston, Massachusetts
February 3, 1997 (except with
respect to the matter discussed
in Note 14 as to which the date
is February 26, 1997)

Management's Discussion and Analysis of Financial Condition
and Results of Operations

Forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, are made throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the results of the Company to differ materially from those indicated by such forward-looking statements, including those detailed immediately after this Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Forward-looking Statements."

Overview

The Company designs and manufactures processing machinery, accessories, and water-management systems for the paper and paper-recycling industries. The Company's principal products include custom-engineered systems and equipment for the preparation of wastepaper for conversion into recycled paper, accessory equipment and related consumables important to the efficient operation of papermaking machines, and water-management systems essential for draining, purifying, and recycling process water. The Company's Thermo Fibergen Inc. (Thermo Fibergen) subsidiary's principal business consists of conducting research and development to commercialize equipment and systems to recover materials from papermaking sludge generated by plants that produce virgin and recycled pulp and paper. Thermo Fibergen's GranTek Inc. (GranTek) subsidiary employs patented technology to convert the papermaking sludge into granules that are currently used as carriers for agricultural chemicals.

The Company's products are primarily sold to the paper industry. Generally, the financial condition of the paper industry corresponds both to changes in the general economy, as well as a number of other factors, including paper and pulp production capacity. The paper industry entered a severe down cycle in early 1996 and has not recovered. This cyclical downturn adversely affected the Company's business during the second half of 1996. No assurance can be given that the financial condition of the paper industry will recover in the near future.

During 1996, approximately 47% of the Company's revenues originated outside the United States, primarily in Europe. Although the Company seeks to charge its customers in the same currency as its operating costs, the Company's financial performance and competitive position can be affected by currency exchange rate fluctuations affecting the relationship between the U.S. dollar and foreign currencies. The Company reduces its exposure to currency fluctuations through the use of forward contracts.

Management's Discussion and Analysis of Financial Condition
and Results of Operations

Results of Operations

1996 Compared With 1995

Revenues decreased 7% to \$192.2 million in 1996 from \$206.7 million in 1995. Revenues earned by the Company's Fiberprep subsidiary under a subcontract from Thermo Electron Corporation (Thermo Electron) to supply equipment and services for an office wastepaper de-inking facility decreased \$12.9 million because this subcontract was substantially completed in the first quarter of 1996. Revenues from the Company's recycling business decreased \$7.5 million, excluding the effect of the subcontract from Thermo Electron, due to a decrease in demand resulting from a severe drop in de-inked pulp prices, offset in part by \$2.2 million of revenues from the Company's GranTek subsidiary, which acquired Granulation Technology Inc. (Granulation Technology) and Biodac, a division of Edward Lowe Industries, Inc., in July 1996. Revenues from the Company's accessories business increased \$8.8 million due principally to an increase in demand. The unfavorable effects of currency translation due to a stronger U.S. dollar decreased revenues by \$1.7 million in 1996.

The gross profit margin increased to 43% in 1996 from 40% in 1995. Margins improved at the Company's Lamort subsidiary primarily due to a change in product mix, and at the Company's water-management business principally due to an increase in direct mill sales. Additionally, margins improved at the Company's Fiberprep Inc. (Fiberprep) subsidiary primarily due to the effect of a \$0.7 million payment received under the subcontract from Thermo Electron, which represents the Company's share of certain cost savings on the project.

Selling, general, and administrative expenses as a percentage of revenues increased to 25% in 1996 from 24% in 1995, primarily due to a decrease in revenues.

Research and development expenses increased to \$5.5 million in 1996 from \$4.1 million in 1995, primarily due to Thermo Fibergen's continued development of technology to recover materials from papermaking sludge generated by plants that produce virgin and recycled pulp and paper. The Company expects Thermo Fibergen to continue to increase research and development expenses during the next fiscal year.

Fiberprep was a supplier of de-inking equipment to the general contractor for a pulp mill (unrelated to the office wastepaper de-inking facility described above). The general contractor has received notices from the mill owner alleging failure to perform and claiming liquidated damages. Although the general contractor is challenging the mill owner's claims, if the general contractor is found liable, the Company has been informed that the general contractor will seek 50% of its damages from the Company. The Company's limit of liability for any contractual disputes arising from its contract totals \$6.0 million. While it is reasonably possible that resolution of this matter could have a material effect on the Company's results of operations for a particular quarter, in the opinion of management the Company's reserves for such matters are adequate and such result is not likely to occur.

Management's Discussion and Analysis of Financial Condition
and Results of Operations

1996 Compared With 1995 (continued)

Interest income increased to \$3.6 million in 1996 from \$3.5 million in 1995, primarily due to higher average invested balances resulting from the net proceeds from Thermo Fibergen's initial public offering in September 1996, offset in part by lower prevailing interest rates. The Company anticipates an increase in interest income in 1997 from the invested net proceeds from Thermo Fibergen's initial public offering. Interest expense decreased to \$0.7 million in 1996 from \$1.4 million in 1995, primarily due to the January 1996 repayment of a \$10.4 million promissory note to Thermo Electron.

Minority interest expense increased to \$446,000 in 1996 from \$233,000 in 1995, primarily due to accretion of Thermo Fibergen's common stock subject to redemption.

The effective tax rate was 38% in 1996 and 1995. These rates exceed the statutory federal income tax rate primarily due to the impact of state income taxes, and in 1995 the tax effect on a dividend from a foreign subsidiary, offset in part by the effect of lower foreign tax rates.

In connection with a proposed engineering, procurement, and construction project, the Company made a secured loan of \$6.0 million to Tree-Free Fiber Company, LLC (Tree-Free) during 1996. This project has been indefinitely delayed due to the current weakness in pulp prices, and Tree-Free was unable to repay the note upon maturity. On March 10, 1997, the Company formally notified Tree-Free that Tree-Free is in default of its payment obligations. If Tree-Free is unable to cure the default within seven days, or to make other arrangements acceptable to the Company, the Company intends to foreclose upon the assets securing the note (Note 4).

1995 Compared With 1994

Revenues increased 27% to \$206.7 million in 1995 from \$162.6 million in 1994. Revenues from the Company's paper-recycling equipment business increased \$22.3 million primarily due to the inclusion of \$14.7 million in revenues earned by Fiberprep under the subcontract from Thermo Electron. In addition, paper-recycling equipment revenues increased due to higher demand at the Company's subsidiary in France. Revenues from the Company's accessories and water-management businesses increased \$12.5 million and \$10.0 million, respectively, due principally to an increase in demand. The favorable effects of currency translation, due to a weaker U.S. dollar, increased revenues by \$2.7 million.

The gross profit margin remained relatively unchanged at 40% in 1995, compared with 41% in 1994. A decrease in margins at Fiberprep due to the establishment of warranty reserves for certain large de-inking projects was largely offset by an increase in margins at the Company's North American accessories business.

Selling, general, and administrative expenses as a percentage of revenues decreased to 24% in 1995 from 27% in 1994, primarily due to an increase in revenues. Research and development expenses remained relatively unchanged at \$4.1 million in 1995, compared with \$3.8 million in 1994.

Interest income increased to \$3.5 million in 1995 from \$2.0 million in 1994 due to higher average invested balances and, to a lesser extent,

Management's Discussion and Analysis of Financial Condition
and Results of Operations

1995 Compared With 1994 (continued)

higher prevailing interest rates. Interest expense increased to \$1.4 million in 1995 from \$0.9 million in 1994, primarily due to the issuance of a \$10.4 million promissory note to Thermo Electron in connection with a partial redemption of Fiberprep stock in January 1995 (Notes 3 and 8), offset in part by the repayment in September 1994 of a \$5.0 million promissory note to Thermo Electron (Note 8).

Minority interest expense decreased to \$233,000 in 1995 from \$1.5 million in 1994 due to the partial redemption of Fiberprep stock in January 1995, which increased the Company's ownership of Fiberprep from 51% to 95%, offset in part by higher profits at Fiberprep in 1995.

The effective tax rate was 38% in 1995 and 1994. These rates exceed the statutory federal income tax rate primarily due to the impact of state income taxes and in 1995 the tax effect on a dividend from a foreign subsidiary, offset in part by the effect of lower foreign tax rates.

Liquidity and Capital Resources

Consolidated working capital was \$115.6 million at December 28, 1996, compared with \$70.9 million at December 30, 1995. Included in working capital are cash, cash equivalents, and available-for-sale investments of \$109.8 million at December 28, 1996, compared with \$59.8 million at December 30, 1995. Of the \$109.8 million balance at December 28, 1996, \$58.4 million was held by Thermo Fibergen and \$2.2 million was held by Fiberprep, with the remainder being held by the Company and its wholly owned subsidiaries. At December 28, 1996, \$21.0 million of the Company's cash and cash equivalents were held by its Lamort subsidiary. Repatriation of this cash into the United States would be subject to a 5% withholding tax in France and could also be subject to a United States tax.

During 1996, \$27.1 million of cash was provided by operating activities. Cash provided by the Company's operating results was increased by a \$5.7 million reduction in accounts receivable and a \$3.1 million reduction in inventories and unbilled contract costs and fees. These sources of cash were more than offset by the effect of a reduction in accounts payable and other current liabilities. The decrease in accounts receivable resulted primarily from cash collections and the completion of the office wastepaper de-inking facility subcontract with Thermo Electron, which also resulted in a reduction in inventories and unbilled contract costs and fees. The decrease in other current liabilities was primarily due to a warranty claim payment and a decrease in accrued income taxes.

During 1996, the Company's primary investing activities, excluding the sale and maturities of available-for-sale investments, included an acquisition, the issuance of a note receivable, and capital expenditures. In July, Thermo Fibergen acquired substantially all of the assets, subject to certain liabilities, of Granulation Technology and Biodac for \$12.1 million in cash (Note 3). During 1996, the Company loaned \$6.0 million to Tree-Free (Note 4) and expended \$3.9 million for purchases of property, plant, and equipment.

Management's Discussion and Analysis of Financial Condition
and Results of Operations

Liquidity and Capital Resources (continued)

The Company's financing activities provided \$45.5 million of cash in 1996. In September 1996 Thermo Fibergen sold units, each unit consisting of one share of Thermo Fibergen common stock and one redemption right, in an initial public offering for net proceeds of \$55.8 million (Note 1). The common stock and redemption rights began trading separately on December 13, 1996. Holders of a redemption right have the option to require Thermo Fibergen to redeem, in September 2000 and 2001, one share of Thermo Fibergen common stock at \$12.75 per share. The rights are guaranteed, on a subordinated basis, by Thermo Electron. The Company has agreed to reimburse Thermo Electron in the event Thermo Electron is required to make a payment under the guarantee. In January 1996, the Company repaid a \$10.4 million promissory note to Thermo Electron (Note 8).

On February 26, 1997, the Company entered into a letter of intent to acquire the assets, subject to certain liabilities, of the stock-preparation business of The Black Clawson Company for approximately \$110 million in cash (Note 14). If this transaction is consummated, the Company intends to borrow a portion of the purchase price from Thermo Electron. In 1997, the Company plans to make expenditures for property, plant, and equipment of approximately \$14 million, including \$10 million at Thermo Fibergen primarily for construction of one or more fiber-recovery plants. Construction of fiber-recovery plants is dependent upon Thermo Fibergen entering into long-term contracts with paper mills, under which Thermo Fibergen will charge fees to accept the mills' pulp sludge. Thermo Fibergen does not currently have such agreements in place nor is there any assurance that Thermo Fibergen will be able to obtain such contracts. The Company believes that its existing resources are sufficient to meet the capital requirements of its existing operations for the foreseeable future.

Forward-looking Statements

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company wishes to caution readers that the following important factors, among others, in some cases have affected, and in the future could affect, the Company's actual results and could cause its actual results in 1997 and beyond to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

Dependence on Paper Industry and Pulp and Paper Prices. The Company's products are primarily sold to the paper industry. Generally, the financial condition of the paper industry corresponds both to changes in the general economy, as well as a number of other factors, including paper and pulp production capacity. The paper industry entered a severe down cycle in early 1996 and has not recovered. This cyclical downturn adversely affected the Company's business during the second half of 1996. No assurance can be given that the financial condition of the paper industry will recover in the near future.

Risks Associated with International Operations. During 1996, approximately 47% of the Company's revenues originated outside of the United States, particularly in Europe. International revenues are subject to a number of risks, including the following: agreements may be difficult to enforce and receivables difficult to collect through a foreign country's legal system; foreign customers may have longer payment cycles; foreign countries may impose additional withholding taxes or otherwise tax the Company's foreign income, impose tariffs, or adopt other restrictions on foreign trade; U.S. export licenses may be difficult to obtain; and the protection of intellectual property in foreign countries may be more difficult to enforce. In addition, although the Company seeks to charge its customers in the same currency as its operating costs, fluctuations in currency exchange rates may affect product demand and adversely affect the profitability in U.S. dollars of products provided by the Company in foreign markets where payment for the Company's products and services is made in the local currency. There can be no assurance that any of these factors will not have a material adverse impact on the Company's business and results of operations.

Competition. The Company encounters and expects to continue to encounter significant competition in each of its principal markets. The Company believes that the principal competitive factors affecting the markets for its products include quality, service, technical expertise, and product innovation. The Company's competitors include a number of large multinational corporations. Competition could increase if new companies enter the market or if existing competitors expand their product lines or intensify efforts within existing product lines. There can be no assurance that the Company's current products, products under development, or ability to develop new technologies will be sufficient to enable it to compete effectively.

Dependence on Patents and Proprietary Rights. The Company places considerable importance on obtaining patent and trade secret protection for significant new technologies, products, and processes because of the length of time and expense associated with bringing new products through the development process and to the marketplace. The Company's success depends in part on its ability to develop patentable products and obtain and enforce patent protection for its products both in the United States and in other countries. The Company owns numerous U.S. and foreign

Forward-looking Statements

patents, and intends to file additional applications as appropriate for patents covering its products. No assurance can be given that patents will issue from any pending or future patent applications owned by or licensed to the Company, or that the claims allowed under any issued patents will be sufficiently broad to protect the Company's technology. No assurance can be given that any issued patents owned by or licensed to the Company will not be challenged, invalidated, or circumvented, or that the rights thereunder will provide competitive advantages to the Company. The Company could incur substantial costs in defending itself in suits brought against it or in suits in which the Company may assert its patent rights against others. If the outcome of any such litigation is unfavorable to the Company, the Company's business and results of operations could be materially adversely affected.

In addition, there can be no assurance that third parties will not assert claims against the Company that the Company infringes the intellectual property rights of such parties. The Company could incur substantial costs and diversion of management resources with respect to the defense of any such claims, which could have a material adverse effect on the Company's business, financial condition, and results of operations. Furthermore, parties making such claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief, which could effectively block the Company's ability to make, use, sell, distribute, or market its products and services in the U.S. or abroad. In the event that a claim relating to intellectual property is asserted against the Company, the Company may seek licenses to such intellectual property. There can be no assurance, however, that such licenses could be obtained on commercially reasonable terms, if at all. The failure to obtain the necessary licenses or other rights could preclude the sale, manufacture, or distribution of the Company's products and, therefore, could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company relies on trade secrets and proprietary know-how which it seeks to protect, in part, by confidentiality agreements with its collaborators, employees, and consultants. There can be no assurance that these agreements will not be breached, that the Company would have adequate remedies for any breach, or that the Company's trade secrets will not otherwise become known or be independently developed by competitors.

Selected Financial Information

(In thousands except
per share amounts)

	1996(a)	1995(b)	1994	1993(c)	1992
Statement of Income					
Data:					
Revenues	\$192,209	\$206,743	\$162,625	\$137,088	\$125,577
Net income	19,894	20,249	10,894	7,442	7,702
Earnings per share:					
Primary	.33	.33	.18	.12	.15
Fully diluted	.31	.32	.18	.12	.15
Balance Sheet Data:					
Working capital	\$115,609	\$ 70,882	\$ 54,879	\$ 37,442	\$ 57,162
Total assets	257,232	199,671	162,389	142,608	131,525
Long-term obligations	34	15,041	15,406	15,806	16,220
Common stock of subsidiary subject to redemption	56,087	-	-	-	-
Shareholders' investment	130,850	109,631	84,696	70,753	66,460

- (a) Reflects the July 1996 acquisition of Granulation Technology and Biodac, the net proceeds from Thermo Fibergen's September 1996 initial public offering, and the repayment of a \$10.4 million promissory note to Thermo Electron.
- (b) Reflects the January 1995 redemption of a portion of Fiberprep's stock and the issuance of a \$10.4 million promissory note to Thermo Electron.
- (c) Reflects the June 1993 acquisition of AES and the issuance of a \$5.0 million promissory note to Thermo Electron.

Common Stock Market Information

The following table shows the market range for the Company's common stock based on reported sales prices on the American Stock Exchange (symbol TFT) for 1996 and 1995. Prices have been restated to reflect three-for-two stock splits, effected in the form of 50% stock dividends, which were distributed in June 1996 and September 1995.

Quarter	1996		1995	
	High	Low	High	Low
First	\$16	\$14	\$ 7 5/6	\$ 6 5/6
Second	20	14 7/12	9 1/18	7 1/2
Third	18 7/8	12 1/8	11 2/3	8 2/3
Fourth	13 1/4	9	15 1/6	10 5/12

As of January 24, 1997, the Company had 977 holders of record of its common stock. This does not include holdings in street or nominee names. The closing market price on the American Stock Exchange for the Company's common stock on January 24, 1997, was \$10 5/8 per share.

Units, common stock, and redemption rights of Thermo Fibergen Inc., the Company's majority-owned public subsidiary, are traded on the American Stock Exchange (symbols TFG-U, TFG, and TFG-R).

Stock Transfer Agent

American Stock Transfer & Trust Company is the stock transfer agent and maintains shareholder activity records. The agent will respond to questions on issuance of stock certificates, change of ownership, lost stock certificates, and change of address. For these and similar matters, please direct inquiries to:

American Stock Transfer & Trust Company
 Shareholder Services Department
 40 Wall Street, 46th Floor
 New York, New York 10005
 (718) 921-8200

Shareholder Services

Shareholders of Thermo Fibertek Inc. who desire information about the Company are invited to contact John N. Hatsopoulos, Chief Financial Officer, Thermo Fibertek Inc., 81 Wyman Street, P.O. Box 9046, Waltham, Massachusetts 02254-9046, (617) 622-1111. A mailing list is maintained to enable shareholders whose stock is held in street name, and other interested individuals, to receive quarterly reports, annual reports, and press releases as quickly as possible. Beginning in 1997, quarterly distribution will be limited to the second quarter report only. All quarterly reports and press releases are available through the Internet from Thermo Electron's home page on the World Wide Web (<http://www.thermo.com/subsid/tft.html>).

Dividend Policy

The Company has never paid cash dividends and does not expect to pay cash dividends in the foreseeable future because its policy has been to use earnings to finance expansion and growth. Payment of dividends will rest within the discretion of the Board of Directors and will depend upon, among other factors, the Company's earnings, capital requirements, and financial condition.

Form 10-K Report

A copy of the Annual Report on Form 10-K for the fiscal year ended December 28, 1996, as filed with the Securities and Exchange Commission, may be obtained at no charge by writing to John N. Hatsopoulos, Chief Financial Officer, Thermo Fibertek Inc., 81 Wyman Street, P.O. Box 9046, Waltham, Massachusetts 02254-9046.

Annual Meeting

The annual meeting of shareholders will be held on Monday, June 2, 1997, at 8:00 a.m. at the Hyatt Regency Hotel, Hilton Head, South Carolina.

THERMO FIBERTEK INC.

Subsidiaries of the Registrant

At February 28, 1997, the Registrant owned the following companies:

Name -----	State or Jurisdiction of Incorporation -----	Registrant's % of Ownership -----
AES Equipos y Sistemas S.A. de C.V.	Mexico	100
Enviroprint Inc.	Delaware	100
Fibertek Construction Company, Inc.	Maine	100
Thermo AES Canada Inc.	Canada	100
Thermo Web Systems, Inc.	Massachusetts	100
Fiberprep, Inc.	Delaware	95
(31.05% of which shares are owned directly by E. & M. Lamort, S.A.)		
Fiberprep Securities Corporation	Delaware	100
Thermo Wisconsin, Inc.	Wisconsin	100
Thermo Fibergen Inc.	Delaware	68
GranTek Inc.	Wisconsin	100
Thermo Fibertek U.K. Limited	United Kingdom	100
Vickers Holdings Limited	United Kingdom	100
Vickers Limited	United Kingdom	100
Paperliners Limited	New Zealand	100
Vickers Projects Limited	United Kingdom	100
Winterburn Limited	United Kingdom	100
TMO Lamort Holdings Inc.	Delaware	100
E. & M. Lamort, S.A.	France	100
Lamort Equipamentos Industriais LTDA	Brazil	60
Lamort GmbH	Germany	100
Lamort Iberia S.A.	Spain	100
Lamort Italia S.R.L.	Italy	100
Lamort Paper Services Ltd.	United Kingdom	100
Nordiska Lamort Lodding A.B.	Sweden	100

Consent of Independent Public Accountants

As independent public accountants, we hereby consent to the incorporation by reference of our reports dated February 3, 1997 (except with respect to the matter discussed in Note 14 as to which the date is February 26, 1997), included in or incorporated by reference into Thermo Fibertek Inc.'s Annual Report on Form 10-K for the year ended December 28, 1996, into the Company's previously filed Registration Statements as follows: Registration Statement No. 33-58884 on Form S-3, Registration Statement No. 33-67190 on Form S-8, Registration Statement No. 33-67192 on Form S-8, Registration Statement No. 33-67194 on Form S-8, Registration Statement No. 33-67196 on Form S-8, Registration Statement No. 33-83718 on Form S-8, and Registration Statement No. 33-80751 on Form S-8.

Arthur Andersen LLP

Boston, Massachusetts
March 12, 1997

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THERMO FIBERTEK INC.'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 28, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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YEAR	DEC-28-1996	DEC-28-1996
		109,805
		0
	40,063	
	1,948	
	24,467	
	182,425	57,869
	31,329	
	257,232	
66,816		34
	0	
		0
		612
257,232		130,238
		192,209
	192,209	
		109,537
	109,537	
	5,460	
	(450)	
	663	
	32,578	
	12,684	
19,894		
	0	
	0	
		0
	19,894	
	.33	
	.31	