

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(mark one)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarter Ended June 29, 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, P.O. Box 9046 02254-9046
Waltham, Massachusetts (Zip Code)
(Address of principal executive offices)

Registrant's telephone number, including area code: (617) 622-1000

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 (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Class	Outstanding at July 26, 1996
Common Stock, \$.01 par value	61,082,271

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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

THERMO FIBERTEK INC.

Consolidated Balance Sheet
(Unaudited)

Assets

(In thousands)	June 29, 1996	December 30, 1995
Current Assets:		
Cash and cash equivalents	\$ 51,702	\$ 57,028
Available-for-sale investments, at quoted		

market value (amortized cost of \$2,781 in 1995)	-	2,784
Accounts receivable, less allowances of \$1,953 and \$2,552	34,443	43,085
Unbilled contract costs and fees	1,979	1,921
Inventories:		
Raw materials and supplies	14,608	14,283
Work in process	5,455	7,577
Finished goods	6,325	5,242
Prepaid income taxes	8,442	9,069
Other current assets	1,557	1,287
	-----	-----
	124,511	142,276
	-----	-----
Property, Plant and Equipment, at Cost	49,068	49,976
Less: Accumulated depreciation and amortization	28,890	28,767
	-----	-----
	20,178	21,209
	-----	-----
Other Assets (Note 2)	7,203	1,298
	-----	-----
Cost in Excess of Net Assets of Acquired Companies	34,106	34,888
	-----	-----
	\$185,998	\$199,671
	=====	=====

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THERMO FIBERTEK INC.

Consolidated Balance Sheet (continued)
(Unaudited)

Liabilities and Shareholders' Investment

(In thousands except share amounts)	June 29, 1996	December 30, 1995
	-----	-----
Current Liabilities:		
Accounts payable	\$ 17,946	\$ 20,747
Accrued payroll and employee benefits	9,098	11,115
Billings in excess of contract costs and fees	2,629	3,018
Customer deposits	1,454	1,598
Accrued warranty costs	6,767	9,759
Accrued income taxes (includes \$1,291 and \$1,521 due to related party)	3,186	4,430
Other accrued expenses	8,223	9,868
Due to parent company	772	10,859
	-----	-----
	50,075	71,394
	-----	-----
Deferred Income Taxes and Other Deferred Items	3,173	3,031
	-----	-----
Long-term Obligations (includes \$15,000 due to related party)	15,036	15,041
	-----	-----
Minority Interest	263	574
	-----	-----
Shareholders' Investment (Note 3):		
Common stock, \$.01 par value, 75,000,000 shares authorized; 61,124,101 and 40,623,919 shares issued	611	406

Capital in excess of par value	65,082	65,222
Retained earnings	56,369	46,287
Treasury stock at cost, 47,473 and 33,223 shares	(720)	(446)
Cumulative translation adjustment	(3,891)	(1,840)
Net unrealized gain on available-for-sale investments	-	2
	-----	-----
	117,451	109,631
	-----	-----
	\$185,998	\$199,671
	=====	=====

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

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THERMO FIBERTEK INC.

Consolidated Statement of Income
(Unaudited)

(In thousands except per share amounts)	Three Months Ended	
	June 29, 1996	July 1, 1995
-----	-----	-----
Revenues (includes \$355 and \$7,030 from related party)	\$48,595	\$49,588
	-----	-----
Costs and Operating Expenses:		
Cost of revenues (includes \$240 and \$4,362 for related party revenues)	28,104	29,620
Selling, general and administrative expenses	11,623	12,054
Research and development expenses	1,552	945
	-----	-----
	41,279	42,619
	-----	-----
Royalty Income	224	157
	-----	-----
Operating Income	7,540	7,126
Interest Income	637	896
Interest Expense (includes \$131 and \$300 to related party)	(158)	(359)
	-----	-----
Income Before Provision for Income Taxes and Minority Interest Expense	8,019	7,663
Provision for Income Taxes	3,120	2,958
Minority Interest Expense	23	77
	-----	-----
Net Income	\$ 4,876	\$ 4,628
	=====	=====
Earnings per Share:		
Primary	\$.08	\$.08
	=====	=====
Fully diluted	\$.08	\$.07
	=====	=====
Weighted Average Shares:		
Primary	61,026	60,746
	=====	=====
Fully diluted	64,460	63,815
	=====	=====

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

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THERMO FIBERTEK INC.

Consolidated Statement of Income
(Unaudited)

(In thousands except per share amounts)	Six Months Ended	
	June 29, 1996	July 1, 1995
Revenues (includes \$674 and \$7,569 from related party)	\$97,575	\$93,324
Costs and Operating Expenses:		
Cost of revenues (includes \$453 and \$4,634 for related party revenues)	56,296	55,569
Selling, general and administrative expenses	23,364	23,656
Research and development expenses	2,825	1,825
	82,485	81,050
Royalty Income	498	388
Operating Income	15,588	12,662
Interest Income	1,372	1,633
Interest Expense (includes \$262 and \$595 to related party)	(330)	(707)
Income Before Provision for Income Taxes and Minority Interest Expense	16,630	13,588
Provision for Income Taxes	6,519	5,249
Minority Interest Expense	29	128
Net Income	\$10,082	\$ 8,211
Earnings per Share:		
Primary	\$.17	\$.14
Fully diluted	\$.16	\$.13
Weighted Average Shares:		
Primary	60,980	60,726
Fully diluted	64,415	63,794

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

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THERMO FIBERTEK INC.

Consolidated Statement of Cash Flows
(Unaudited)

(In thousands)	Six Months Ended	
	June 29, 1996	July 1, 1995
Operating Activities:		
Net income	\$ 10,082	\$ 8,211
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,169	2,323
Provision for losses on accounts receivable	(539)	595
Minority interest expense	29	128
Increase (decrease) in deferred income taxes	216	(27)
Changes in current accounts:		
Accounts receivable	8,135	3,188
Inventories and unbilled contract costs and fees	(151)	(5,647)
Prepaid income taxes and other current		

assets	209	(200)
Accounts payable	(1,898)	6,574
Other current liabilities	(8,604)	(4,686)
Other	(318)	(33)
	-----	-----
Net cash provided by operating activities	9,330	10,426
	-----	-----
Investing Activities:		
Redemption of Fiberprep stock	-	(12,783)
Proceeds from sale and maturities of available-for-sale investments	2,750	2,700
Purchases of property, plant and equipment	(1,351)	(1,293)
Other (Note 2)	(5,317)	(45)
	-----	-----
Net cash used in investing activities	(3,918)	(11,421)
	-----	-----
Financing Activities:		
Net proceeds from issuance of Company common stock	825	632
Issuance (repayment) of short-term obligation to parent company	(10,400)	10,400
Repayment of long-term obligations	(2)	(383)
	-----	-----
Net cash provided by (used in) financing activities	\$ (9,577)	\$ 10,649
	-----	-----

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THERMO FIBERTEK INC.

Consolidated Statement of Cash Flows (continued)
(Unaudited)

(In thousands)	Six Months Ended	
	June 29, 1996	July 1, 1995
	-----	-----
Exchange Rate Effect on Cash	\$ (1,161)	\$ 1,711
	-----	-----
Increase (Decrease) in Cash and Cash Equivalents	(5,326)	11,365
Cash and Cash Equivalents at Beginning of Period	57,028	37,250
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 51,702	\$ 48,615
	=====	=====
Noncash Activities:		
Issuance of Company common stock in connection with the redemption of Fiberprep stock	\$ -	\$ 1,428

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

THERMO FIBERTEK INC.

Notes to Consolidated Financial Statements

1. General

The interim consolidated financial statements presented have been prepared by Thermo Fibertek Inc. (the Company) without audit and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the financial position at June 29, 1996, the results of operations for the three- and six-month periods ended June 29, 1996 and July 1, 1995, and the cash flows for the six-month periods ended June 29, 1996 and July 1, 1995. Interim results are not necessarily indicative of results for a full year.

The consolidated balance sheet presented as of December 30, 1995, has been derived from the consolidated financial statements that have been audited by the Company's independent public accountants. The consolidated financial statements and notes are presented as permitted by Form 10-Q, and do not contain certain information included in the annual financial statements and notes of the Company. The consolidated financial statements and notes included herein should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 1995, filed with the Securities and Exchange Commission.

2. Long-term Contract

In April 1996 the Company entered into an agreement with Tree Free Fiber (Tree Free) to supply \$50.5 million in engineering, procurement, and construction services for a new paper-recycling facility, contingent upon Tree Free receiving permits and securing approximately \$80.0 million in financing. Pursuant to this agreement, the Company has loaned \$6.0 million to Tree Free which, contingent upon Tree Free receiving the aforementioned financing, will be treated as subordinated debt payable over a three-year period. The \$6.0 million note to the Company is secured by property and equipment owned by Tree Free.

3. Stock Split

In May 1996, the Company declared a three-for-two stock split in the form of a 50% stock dividend, payable on June 26, 1996, to shareholders of record as of June 12, 1996. All share and per share information, except for share information in the accompanying 1995 balance sheet, has been restated to reflect the stock split.

4. Subsequent Event

In July 1996, the Company's wholly owned subsidiary, Thermo Fibergen Inc., acquired substantially all of the assets, subject to certain liabilities, of Granulation Technology, Inc. and Biodac, a division of Edward Lowe Industries, Inc. for approximately \$12.0 million in cash, subject to a post-closing adjustment.

THERMO FIBERTEK INC.

4. Subsequent Event (continued)

The Company will account for the acquisition using the purchase method of accounting. The cost of the acquisition exceeded the estimated fair value of the acquired net assets by approximately \$3.3 million, which will be amortized over 20 years. The allocation of the purchase price will be based on the fair value of net assets acquired. Pro forma data is not presented since the acquisition was not material to the Company's results of operations and financial position.

Description of Business

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, and accessory equipment and related consumables important to the efficient operation of papermaking machines. Prior to its acquisition of Granulation Technology Inc. (GranTech) and Biodac, a division of Edward Lowe Industries, Inc., the Company's Thermo Fibergen Inc. (Thermo Fibergen) subsidiary was in the development stage and its principal business consisted of conducting research and development to develop and commercialize equipment and systems to recover valuable materials from pulp residue generated by plants that produce recycled pulp and paper. The Company has significant foreign operations, particularly in Europe, and therefore, 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.

Results of Operations

Second Quarter 1996 Compared With Second Quarter 1995

Revenues decreased 2% to \$48.6 million in the second quarter of 1996 from \$49.6 million in the second quarter of 1995, primarily due to a decrease of \$6.7 million in revenues earned by the Company's Fiberprep subsidiary under a subcontract for Thermo Electron Corporation (Thermo Electron) to supply equipment and services for an office wastepaper de-inking facility. This subcontract was substantially completed prior to the second quarter of 1996. Revenues from the Company's North American and Lamort subsidiary's accessories businesses increased \$3.7 million and \$1.1 million, respectively, due principally to an increase in demand. Revenues from the Company's recycling business increased \$1.5 million, excluding the effect of the previously described subcontract in 1995. The unfavorable effects of currency translation due to a stronger U.S. dollar decreased revenues by \$1.0 million.

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Second Quarter 1996 Compared With Second Quarter 1995 (continued)

The gross profit margin increased to 42% in the second quarter of 1996 from 40% in the second quarter of 1995. Margin improvement at the Company's European subsidiaries and at the Company's North American accessories business was offset in part by a decrease in margins at the Company's Fiberprep subsidiary, which primarily resulted from a warranty provision recorded in 1996 for a de-inking project.

Selling, general and administrative expenses as a percentage of revenues was unchanged at 24% in the second quarter of 1996 as compared to the second quarter of 1995. Research and development expenses increased to \$1.6 million in the second quarter of 1996 from \$945,000 in the second quarter of 1995, largely due to continued development of technology to recover valuable materials from pulp residue generated by plants that produce recycled pulp and paper, and also due to increased new product development in the Company's water-management business.

Interest income decreased to \$637,000 in the second quarter of 1996 from \$896,000 in the second quarter of 1995, due to lower prevailing interest rates. Interest expense decreased to \$158,000 in the second quarter of 1996 from \$359,000 in the second quarter of 1995, due primarily to the January 1996 repayment of a \$10.4 million promissory note to Thermo Electron.

The effective tax rate was 39% in the second quarter of 1996 and 1995. The effective tax rate exceeds the statutory federal income tax rate due primarily to state income taxes, offset in part by the effect of lower foreign tax rates.

First Six Months 1996 Compared With First Six Months 1995

Revenues increased 5% to \$97.6 million in the first six months of 1996 from \$93.3 million in the first six months of 1995. Revenues from the Company's North American and Lamort subsidiary's accessories businesses increased \$6.0 million and \$2.9 million, respectively, due principally to an increase in demand. Revenues from the Company's recycling business increased \$1.4 million, excluding the effect of a decrease in recycling revenues of \$6.9 million relating to the subcontract for Thermo Electron discussed in the results of operations for the second quarter. The unfavorable effects of currency translation due to a stronger U.S. dollar decreased revenues by \$333,000.

The gross profit margin increased to 42% in the first six months of 1996 from 40% in the first six months of 1995. Margin improvement at the Company's European subsidiaries and at the Company's North American accessories business was offset in part by a decrease in margins at the Company's Fiberprep subsidiary, which primarily resulted from warranty provisions recorded in 1996 for two de-inking projects.

Selling, general and administrative expenses as a percentage of revenues decreased to 24% in the first six months of 1996 from 25% in the first six months of 1995, due primarily to an increase in revenues.

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THERMO FIBERTEK INC.

First Six Months 1996 Compared With First Six Months 1995 (continued)

Research and development expenses increased to \$2.8 million in the first six months of 1996 from \$1.8 million in the first six months of 1995 for the reasons discussed in the results of operations for the second quarter.

Interest income decreased to \$1.4 million in the first six months of 1996 from \$1.6 million in the first six months of 1995, due to lower prevailing interest rates. Interest expense decreased to \$330,000 in the first six months of 1996 from \$707,000 in the first six months of 1995, due primarily to the January 1996 repayment of a \$10.4 million promissory note to Thermo Electron.

The effective tax rate was 39% in the first six months of 1996 and 1995. The effective tax rate exceeds the statutory federal income tax rate due primarily to state income taxes, offset in part by the effect of lower foreign tax rates.

Liquidity and Capital Resources

Consolidated working capital was \$74.4 million at June 29, 1996, compared with \$70.9 million at December 30, 1995. Included in working capital are cash, cash equivalents, and available-for-sale investments of \$51.7 million at June 29, 1996, compared with \$59.8 million at December 30, 1995. Of the \$51.7 million balance at June 29, 1996, \$1.7 million was held by Fiberprep, with the remainder being held by the Company and its wholly owned subsidiaries. During the first six months of 1996, \$9.3 million of cash was provided by operating activities. Cash provided by a decrease in accounts receivable was offset by the effect of a reduction in accounts payable and other current liabilities. The decrease in accounts receivable resulted primarily from cash collections at the Company's Lamort subsidiary. The decrease in other current liabilities was partially due to a payment which was made for a warranty claim. During the first six months of 1996 the Company loaned \$6.0 million to Tree Free Fiber (Note 2) and repaid a \$10.4 million promissory note to Thermo Electron.

At June 29, 1996, \$19.9 million of the Company's cash and cash equivalents were held by its Lamort subsidiary. Repatriation of this cash into the United States is subject to a 5% withholding tax in France and could also be subject to a United States tax.

In July 1996, the Company's wholly owned subsidiary, Thermo Fibergen, acquired substantially all of the assets, subject to certain liabilities, of GranTech and Biodac for approximately \$12.0 million in cash, subject to a post-closing adjustment.

In July 1996, Thermo Fibergen filed a registration statement under the Securities Act of 1933 with the Securities and Exchange Commission relating to a proposed initial public offering of 3,100,000 units at an estimated

initial public offering price of \$12.75 per unit. Each unit consists of one share of Thermo Fibergen common stock and one redemption right which entitles the holder to sell one share of Thermo Fibergen common stock back

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THERMO FIBERTEK INC.

Liquidity and Capital Resources (continued)

to Thermo Fibergen during specified periods in the future. The rights will be guaranteed, on a subordinated basis, by Thermo Electron. The Company has agreed to indemnify Thermo Electron for any payments Thermo Electron may be required to make.

During the first six months of 1996, the Company expended \$1.4 million for purchases of property, plant and equipment. In the remainder of 1996, the Company plans to make capital expenditures of approximately \$4.3 million. The Company believes that its existing resources are sufficient to meet the capital requirements of its existing operations for the foreseeable future.

PART II - OTHER INFORMATION

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

On May 21, 1996, at the Annual Meeting of Shareholders, the shareholders reelected six incumbent directors to a one-year term expiring in 1997. The directors reelected at the meeting were: Dr. Walter J. Bornhorst, Dr. George N. Hatsopoulos, John N. Hatsopoulos, Donald E. Noble, William A. Rainville, and Paul E. Tsongas. Dr. Bornhorst, Mr. Rainville, and Mr. Tsongas each received 37,773,493 shares voted in favor of his election and 30,272 shares voted against; Dr. G. Hatsopoulos received 37,722,393 shares voted in favor of his election and 81,372 shares voted against; Mr. J. Hatsopoulos received 37,772,693 shares voted in favor of his election and 31,072 shares voted against; and Mr. Noble received 37,773,043 shares voted in favor of his election and 30,722 shares voted against. No abstentions or broker non-votes were recorded on the election of directors.

Item 6 - Exhibits

See Exhibit Index on the page immediately preceding exhibits.

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THERMO FIBERTEK INC.

SIGNATURES

Pursuant to the requirements 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 as of the 2nd day of August 1996.

THERMO FIBERTEK INC.

Paul F. Kelleher

Paul F. Kelleher
Chief Accounting Officer

John N. Hatsopoulos

John N. Hatsopoulos
Chief Financial Officer

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THERMO FIBERTEK INC.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit	Page

10.1	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).	
11	Statement re: Computation of earnings per share.	
27	Financial Data Schedule.	

THERMO FIBERTEK INC.

Computation of Earnings per Share

	Three Months Ended	
	June 29, 1996	July 1, 1995

Computation of Fully Diluted Earnings per Share:		
Income:		
Net income	\$ 4,876,000	\$ 4,628,000
Add: Convertible debt interest, net of tax	79,000	79,000
	-----	-----
Income applicable to common stock assuming full dilution (a)	\$ 4,955,000	\$ 4,707,000
	-----	-----
Shares:		
Weighted average shares outstanding	61,025,586	60,746,348
Add: Shares issuable from assumed conversion of subordinated convertible obligation	1,888,113	1,888,113
Shares issuable from assumed exercise of options (as determined by the application of the treasury stock method)	1,546,548	1,180,280
	-----	-----
Weighted average shares outstanding, as adjusted (b)	64,460,247	63,814,741
	-----	-----
Fully Diluted Earnings per Share (a) / (b)	\$.08	\$.07
	=====	=====

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THERMO FIBERTEK INC.

Computation of Earnings per Share
(continued)

	Six Months Ended	
	June 29, 1996	July 1, 1995

Computation of Fully Diluted Earnings per Share:		
Income:		
Net income	\$10,082,000	\$ 8,211,000
Add: Convertible debt interest, net of tax	158,000	158,000
	-----	-----
Income applicable to common stock assuming full dilution (a)	\$10,240,000	\$ 8,369,000
	-----	-----
Shares:		
Weighted average shares outstanding	60,980,052	60,725,570
Add: Shares issuable from assumed conversion of subordinated convertible obligation	1,888,113	1,888,113

Shares issuable from assumed exercise of options (as determined by the application of the treasury stock method)	1,546,548	1,180,280
	-----	-----
Weighted average shares outstanding, as adjusted (b)	64,414,713	63,793,963
	-----	-----
Fully Diluted Earnings per Share (a) / (b)	\$.16	\$.13
	=====	=====

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THERMO
FIBERTEK INC.'S QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 29,
1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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