

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 April 4, 1998.
- ☐ 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 incorporation or organization)	(I.R.S. Employer 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: (781) 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 May 1, 1998
-----	-----
Common Stock, \$.01 par value	61,706,983

PAGE

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

THERMO FIBERTEK INC.

Consolidated Balance Sheet
(Unaudited)

Assets

(In thousands)	April 4, 1998	January 3, 1998
-----	-----	-----
Current Assets:		
Cash and cash equivalents (includes \$66,037 and \$62,550 under repurchase agreement with affiliated company)	\$120,451	\$111,648

Available-for-sale investments, at quoted market value (amortized cost of \$29,454 and \$36,273)	29,478	36,319
Accounts receivable, less allowances of \$2,314 and \$2,565	46,799	53,408
Unbilled contract costs and fees	4,166	4,422
Inventories:		
Raw materials and supplies	15,420	14,609
Work in process	7,713	6,426
Finished goods	11,399	10,925
Prepaid and refundable income taxes (includes \$940 due from parent company in fiscal 1997)	7,165	7,457
Other current assets	1,633	2,256
	-----	-----
	244,224	247,470
	-----	-----
Property, Plant, and Equipment, at Cost	61,763	61,059
Less: Accumulated depreciation and amortization	33,328	32,723
	-----	-----
	28,435	28,336
	-----	-----
Other Assets	14,201	14,437
	-----	-----
Cost in Excess of Net Assets of Acquired Companies	127,887	128,695
	-----	-----
	\$414,747	\$418,938
	=====	=====

2PAGE

THERMO FIBERTEK INC.

Consolidated Balance Sheet (continued)
(Unaudited)

Liabilities and Shareholders' Investment

(In thousands except share amounts)	April 4, 1998	January 3, 1998
-----	-----	-----
Current Liabilities:		
Accounts payable	\$ 23,120	\$ 25,755
Accrued payroll and employee benefits	8,608	10,588
Billings in excess of contract costs and fees	5,218	5,548
Accrued warranty costs	8,550	8,620
Accrued income taxes (includes \$737 due from parent company in fiscal 1998)	1,193	-
Other accrued expenses	14,786	18,512
Due to parent company and affiliated companies	1,107	1,451
	-----	-----
	62,582	70,474
	-----	-----
Deferred Income Taxes and Other Deferred Items	4,287	4,267
	-----	-----
Subordinated Convertible Debentures	153,000	153,000
	-----	-----
Minority Interest	252	290
	-----	-----
Common Stock of Subsidiary Subject to Redemption (\$54,762 redemption value)	53,059	52,812

Shareholders' Investment:

Common stock, \$.01 par value, 150,000,000 shares authorized; 63,358,087 and 63,331,887 shares issued	634	633
Capital in excess of par value	80,321	81,865
Retained earnings	86,858	82,607
Treasury stock at cost, 1,682,287 and 1,820,709 shares	(18,120)	(19,494)
Accumulated other comprehensive items (Note 3)	(8,126)	(7,516)
	141,567	138,095
	\$414,747	\$418,938

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

3PAGE

THERMO FIBERTEK INC.

Consolidated Statement of Income
(Unaudited)

	Three Months Ended	
	April 4, 1998	March 29, 1997
(In thousands except per share amounts)		
Revenues	\$62,330	\$44,667
Costs and Operating Expenses:		
Cost of revenues	37,052	25,536
Selling, general, and administrative expenses	16,244	12,975
Research and development expenses	1,867	1,276
	55,163	39,787
Operating Income	7,167	4,880
Interest Income	1,982	1,437
Interest Expense (includes \$131 to related party in fiscal 1997)	(1,861)	(156)
Income Before Provision for Income Taxes and Minority Interest	7,288	6,161
Provision for Income Taxes	2,834	2,317
Minority Interest Expense	203	384
Net Income	\$ 4,251	\$ 3,460
Earnings per Share (Note 2):		
Basic	\$.07	\$.06
Diluted	\$.07	\$.05
Weighted Average Shares (Note 2):		
Basic	61,562	61,140
Diluted	62,641	64,189

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

4PAGE

THERMO FIBERTEK INC.

Consolidated Statement of Cash Flows
(Unaudited)

(In thousands)	Three Months Ended	
	April 4, 1998	March 29, 1997
Operating Activities:		
Net income	\$ 4,251	\$ 3,460
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,236	1,403
Provision for losses on accounts receivable	55	15
Minority interest expense	203	384
Other noncash items	8	-
Changes in current accounts:		
Accounts receivable	6,291	5,249
Inventories and unbilled contract costs and fees	(2,576)	(4,778)
Prepaid income taxes and other current assets	866	1,045
Accounts payable	(2,962)	(111)
Other current liabilities	(4,752)	(1,578)
Net cash provided by operating activities	3,620	5,089
Investing Activities:		
Purchases of available-for-sale investments	(2,500)	-
Proceeds from sale and maturities of available-for-sale investments	9,311	-
Purchases of property, plant, and equipment	(1,359)	(908)
Issuance of note receivable	-	(3,000)
Other	81	(21)
Net cash provided by (used in) investing activities	5,533	(3,929)
Financing Activities:		
Other	(169)	4
Net cash provided by (used in) financing activities	\$ (169)	\$ 4

5PAGE

THERMO FIBERTEK INC.

Consolidated Statement of Cash Flows (continued)
(Unaudited)

Three Months Ended

(In thousands)	-----	
	April 4, 1998	March 29, 1997

Exchange Rate Effect on Cash	\$ (181)	\$ (2,272)

Increase (Decrease) in Cash and Cash Equivalents	8,803	(1,108)
Cash and Cash Equivalents at Beginning of Period	111,648	109,805

Cash and Cash Equivalents at End of Period	\$120,451	\$108,697
=====		

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

6PAGE

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 April 4, 1998, and the results of operations and cash flows for the three-month periods ended April 4, 1998, and March 29, 1997. Interim results are not necessarily indicative of results for a full year.

The consolidated balance sheet presented as of January 3, 1998, 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 January 3, 1998, filed with the Securities and Exchange Commission.

2. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

Three Months Ended

	April 4, 1998	March 29, 1997
(In thousands except per share amounts)		
Basic		
Net income	\$ 4,251	\$ 3,460
Weighted average shares	61,562	61,140
Basic earnings per share	\$.07	\$.06
Diluted		
Net income	\$ 4,251	\$ 3,460
Effect of:		
Convertible obligations	-	79
Majority-owned subsidiary's dilutive securities	(9)	(27)
Income available to common shareholders, as adjusted	\$ 4,242	\$ 3,512
Weighted average shares	61,562	61,140
Effect of:		
Convertible obligations	-	1,888
Stock options	1,079	1,161
Weighted average shares, as adjusted	62,641	64,189
Diluted earnings per share	\$.07	\$.05

7PAGE

THERMO FIBERTEK INC.

2. Earnings per Share (continued)

The computation of diluted earnings per share excludes the effect of assuming the exercise of certain outstanding stock options because the effect would be antidilutive. As of April 4, 1998, there were 48,000 of such options outstanding, with exercise prices ranging from \$12.58 to \$14.32 per share.

In addition, the computation of diluted earnings per share for 1998 excludes the effect of assuming the conversion of the Company's \$153.0 million principal amount of 4 1/2% subordinated convertible debentures, convertible at \$12.10 per share, because the effect would be antidilutive.

3. Comprehensive Income

During the first quarter of 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." This pronouncement sets forth requirements for disclosure of the Company's comprehensive income and accumulated other comprehensive items. In general, comprehensive income combines net income and "other comprehensive items" which represent certain amounts that are reported as components of shareholders' investment in the accompanying balance sheet, including foreign currency translation adjustments and unrealized net of tax gains and losses on available-for-sale investments. During the first quarter of 1998 and 1997, the Company had comprehensive income of \$3,645,000 and a comprehensive loss of \$1,070,000, respectively.

Item 2 - 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 under the heading "Forward-looking Statements" in Exhibit 13 to the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 1998, filed with the Securities and Exchange Commission.

8PAGE

THERMO FIBERTEK INC.

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 Black Clawson subsidiary, acquired May 1997, is a leading supplier of recycling equipment used in processing fiber for the manufacture of "brown paper," such as that used in the manufacture of corrugated boxes. The Company's Thermo Fibergen Inc. subsidiary is developing and commercializing technology to recover valuable materials from papermaking sludge generated by plants that produce virgin and recycled pulp and paper. In December 1997, Thermo Fibergen entered into a ten-year contract with a paper mill to provide fiber-recovery and water-clarification services to the paper mill, and an engineering, procurement, and construction contract for the construction of the facility to provide such services. Construction of the fiber-recovery and water-clarification facility began during the first quarter of 1998. Through its GranTek Inc. subsidiary, Thermo Fibergen employs patented technology to produce absorbing granules from papermaking sludge.

The Company's manufacturing facilities are principally located in the U.S. and France. The manufacturing facility in France is located at the Company's E. & M. Lamort, S.A. subsidiary, which primarily manufactures recycling equipment and accessories.

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 and to a number of other factors, including paper and pulp production capacity. The paper industry entered a severe downcycle in early 1996 and has not recovered. This cyclical downturn, which began adversely affecting the Company's business during the second half of 1996, continues to have an adverse effect on the Company's business. The timing of the recovery of the financial condition of the paper industry cannot be predicted.

In 1997, approximately 37% of the Company's sales originated outside the U.S., principally in Europe, and approximately 13% of the Company's revenues were exports from the U.S. During 1997, the Company had exports from the Company's U.S. and foreign operations to Asia of approximately 6% of total revenues, a substantial portion of which represents sales from Thermo Black Clawson, acquired May 1997. Exports to Asia in 1997 were primarily to China, Japan, and South Korea. Asia is experiencing a severe economic crisis, which has been characterized by sharply reduced

economic activity and liquidity, highly volatile foreign-currency-exchange and interest rates, and unstable stock markets. The Company's sales to Asia, other than to China, have been adversely affected by the unstable economic conditions in that region. To date, the Company's business in China has not been adversely affected by the Asian crisis.

9PAGE

THERMO FIBERTEK INC.

Results of Operations

First Quarter 1998 Compared With First Quarter 1997

Revenues increased to \$62.3 million in the first quarter of 1998 from \$44.7 million in the first quarter of 1997, primarily due to the inclusion of \$17.4 million in revenues from Thermo Black Clawson, acquired May 1997. Additional revenue improvement over the prior year was principally from an increase in demand at the Company's accessories business. These improvements were offset in part by a \$2.3 million decrease in revenues from the Company's recycling business, principally due to a continuing decrease in demand resulting from a severe drop in de-linked pulp prices in the summer of 1996. The unfavorable effects of currency translation due to a stronger U.S. dollar decreased 1998 revenues by \$1.5 million.

The gross profit margin decreased to 41% in the first quarter of 1998 from 43% in the first quarter of 1997, primarily due to the inclusion of lower-margin revenues at Thermo Black Clawson.

Selling, general, and administrative expenses as a percentage of revenues decreased to 26% in the first quarter of 1998 from 29% in the first quarter of 1997, primarily due to lower expenses as a percentage of revenues at Thermo Black Clawson.

Research and development expenses increased to \$1.9 million in the first quarter of 1998 from \$1.3 million in the first quarter of 1997, primarily due to the inclusion of \$0.5 million in expenses at Thermo Black Clawson.

Interest income increased to \$2.0 million in the first quarter of 1998 from \$1.4 million in the first quarter of 1997, primarily due to an increase in average invested balances resulting from the remaining net proceeds from the July 1997 sale of \$153.0 million principal amount of 4 1/2% subordinated convertible debentures, of which \$103.4 million was used to finance the acquisition of Thermo Black Clawson.

Interest expense increased to \$1.9 million in the first quarter of 1998 from \$0.2 million in the first quarter of 1997 as a result of the July 1997 issuance of subordinated convertible debentures.

The effective tax rate was 39% in the first quarter of 1998 and 38% in the first quarter of 1997. These rates exceeded the statutory federal income tax rate primarily due to the impact of state income taxes, offset in part in 1997 by the effect of lower foreign tax rates.

Minority interest expense primarily represents accretion of Thermo Fibergen's common stock subject to redemption.

10PAGE

THERMO FIBERTEK INC.

Liquidity and Capital Resources

Consolidated working capital was \$181.6 million at April 4, 1998,

compared with \$177.0 million at January 3, 1998. Included in working capital are cash, cash equivalents, and available-for-sale investments of \$149.9 million at April 4, 1998, compared with \$148.0 million at January 3, 1998. Of the \$149.9 million balance at April 4, 1998, \$57.6 million was held by Thermo Fibergen, \$6.5 million was held by Fiberprep, and the remainder was held by the Company and its wholly owned subsidiaries. At April 4, 1998, \$30.2 million of the Company's cash and cash equivalents was held by its foreign subsidiaries. Repatriation of this cash into the U.S. would be subject to foreign withholding taxes and could also be subject to a U.S. tax.

During the first quarter of 1998, \$3.6 million of cash was provided by operating activities. A decrease in accounts receivable provided \$6.3 million of cash, primarily as a result of a decline in revenues in the first quarter of 1998, as compared to the fourth quarter of 1997. The Company used \$4.8 million of cash to reduce other current liabilities, primarily for interest and bonus payments and a decrease in commissions payable, which resulted from the decline in revenues from the fourth quarter of 1997.

During the first quarter of 1998, the Company's primary investing activity, excluding available-for-sale investments activity, was the purchase of property, plant, and equipment for \$1.4 million. During the first quarter of 1998, the Company's financing activities used \$0.2 million in cash.

Thermo Fibergen's common stock is subject to redemption in September 2000 or 2001, the redemption value of which is \$54.8 million.

At April 4, 1998, the Company had \$57.7 million of undistributed foreign earnings. The Company does not intend to repatriate undistributed foreign earnings into the U.S., and does not expect that this will have a material adverse effect on the Company's current liquidity.

During the remainder of 1998, the Company plans to make expenditures for property, plant, and equipment of approximately \$9 million, which includes expenditures at Thermo Fibergen for the completion of the construction of a fiber-recovery and water-clarification facility which began in the first quarter of 1998. In addition, Thermo Fibergen may make additional capital expenditures for the construction of additional fiber-recovery facilities. Construction of fiber-recovery facilities is dependent upon Thermo Fibergen entering into long-term contracts with paper mills, under which Thermo Fibergen will charge fees to accept the mills' papermaking sludge. Thermo Fibergen currently has only one such agreement in place and there is no assurance that Thermo Fibergen will be able to obtain such additional contracts. The Company believes that its existing resources are sufficient to meet the capital requirements of its existing operations for the foreseeable future.

11PAGE

THERMO FIBERTEK INC.

PART II - OTHER INFORMATION

Item 6 - Exhibits

See Exhibit Index on the page immediately preceding exhibits.

12PAGE

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 8th day of May 1998.

THERMO FIBERTEK INC.

Paul F. Kelleher

Paul F. Kelleher
Chief Accounting Officer

John N. Hatsopoulos

John N. Hatsopoulos
Chief Financial Officer
and Senior Vice President

13PAGE

THERMO FIBERTEK INC.

EXHIBIT INDEX

Exhibit
Number

Description of Exhibit

27

Financial Data Schedule.

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THERMO
FIBERTEK INC.'S QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED APRIL 4, 1998
AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINACIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<PERIOD-TYPE>	3-MOS	
<FISCAL-YEAR-END>		JAN-02-1999
<PERIOD-END>		APR-04-1998
<CASH>		120,451
<SECURITIES>		29,478
<RECEIVABLES>		49,113
<ALLOWANCES>		2,314
<INVENTORY>		34,532
<CURRENT-ASSETS>		244,224
<PP&E>		61,763
<DEPRECIATION>		33,328
<TOTAL-ASSETS>		414,747
<CURRENT-LIABILITIES>		62,582
<BONDS>		153,000
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		634
<OTHER-SE>		140,933
<TOTAL-LIABILITY-AND-EQUITY>		414,747
<SALES>		62,330
<TOTAL-REVENUES>		62,330
<CGS>		37,052
<TOTAL-COSTS>		37,052
<OTHER-EXPENSES>		1,867
<LOSS-PROVISION>		55
<INTEREST-EXPENSE>		1,861
<INCOME-PRETAX>		7,288
<INCOME-TAX>		2,834
<INCOME-CONTINUING>		4,251
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		4,251
<EPS-PRIMARY>		.07
<EPS-DILUTED>		.07