SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(mark one)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarter Ended March 31, 2001

[ ] 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.)

245 Winter Street Waltham, Massachusetts	02451
(Address of principal executive offices)	(Zip Code)

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 and (2) has been subject to such filing requirements for the past 90 days. Yes [X] 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 April 27, 2001
Common Stock, $.01 par value	61,386,544

PART I - Financial Information

Item 1 - Financial Statements

THERMO FIBERTEK INC.

Consolidated Balance Sheet
(Unaudited)

Assets

(In thousands)	March 31, 2001	December 30, 2000
Current Assets:		
Cash and cash equivalents	$133,594	$ 62,461
Advance to affiliate	3,814	5,704
Available-for-sale investments, at quoted market value (amortized cost of $19,076 and $86,104)	19,083	86,137
Accounts receivable, less allowances of $3,473 and $2,182	42,479	43,866
Unbilled contract costs and fees	7,028	8,029
Inventories:		
Raw materials and supplies	14,404	13,218
Work in process	7,137	4,825
Finished goods (includes $2,936 and $3,765 at customer locations)	14,716	15,034
Deferred tax asset	9,324	8,879
Other current assets	5,312	3,625
	256,891	251,778

Property, Plant, and Equipment, at Cost	69,527	67,646
Less: Accumulated depreciation and amortization	40,599	38,064
	28,928	29,582
Other Assets (Note 5)	12,467	13,755
Goodwill	118,271	119,100
	$416,557	$414,215

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THERMO FIBERTEK INC.

Consolidated Balance Sheet (continued)
(Unaudited)

Liabilities and Shareholders' Investment

(In thousands except share amounts)	March 31, 2001	December 30, 2000
Current Liabilities:		
Current maturities of long-term obligations	$ 562	$ 562
Accounts payable	25,395	21,921
Accrued income taxes	6,493	4,986
Accrued payroll and employee benefits	6,393	7,727
Accrued warranty costs	4,894	5,666
Deferred revenue	3,544	3,600
Customer deposits	2,461	3,476
Other accrued expenses	11,244	12,433
Common stock of subsidiary subject to redemption (at redemption value)	17,026	17,026
Due to parent company and affiliated companies	990	1,284
	79,002	78,681
Deferred Income Taxes and Other Deferred Items	8,092	8,042
Long-term Obligations:		
Subordinated convertible debentures	153,000	153,000
Notes payable	1,469	1,650
	154,469	154,650
Minority Interest (Note 5)	302	2,209
Shareholders' Investment:		
Common stock, $.01 par value, 150,000,000 shares authorized; 63,662,276 shares issued	637	637
Capital in excess of par value	76,738	76,721
Retained earnings	136,651	133,522
Treasury stock at cost, 2,275,732 shares	(20,758)	(20,758)
Deferred compensation	(28)	(36)
Accumulated other comprehensive items (Notes 2 and 6)	(18,548)	(19,453)
	174,692	170,633
	$416,557	$414,215

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 March 31, 2001	Three Months Ended April 1, 2000
Revenues	$58,900	$57,922
Costs and Operating Expenses:		
Cost of revenues	36,196	34,607
Selling, general, and administrative expenses	15,856	15,831
Research and development expenses	1,792	1,863
	53,844	52,301
Operating Income	5,056	5,621
Interest Income	2,141	2,503
Interest Expense	(1,873)	(1,890)
Income Before Provision for Income Taxes, Minority Interest, and Cumulative Effect of Change in Accounting Principle	5,324	6,234
Provision for Income Taxes	2,219	2,525
Minority Interest (Income) Expense (Note 5)	(24)	149
Income Before Cumulative Effect of Change in Accounting Principle	3,129	3,560
Cumulative Effect of Change in Accounting Principle (net of income taxes of $580)	-	(870)
Net Income	$ 3,129	$ 2,690
Basic and Diluted Earnings per Share Before Cumulative Effect of Change in Accounting Principle	$ .05	$ .06
Basic and Diluted Earnings per Share (Note 3)	$ .05	$ .04
Weighted Average Shares (Note 3):		
Basic	61,387	61,244
Diluted	61,448	61,597

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)	Three Months Ended March 31, 2001	Three Months Ended April 1, 2000
Operating Activities:		
Net income	$ 3,129	$ 2,690
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Cumulative effect of change in accounting principle	-	870
Depreciation and amortization	2,381	2,400
Provision for losses on accounts receivable	1,295	126
Minority interest (income) expense (Note 5)	(24)	149
Other noncash items	(1)	51
Changes in current accounts, excluding the effects of acquisitions and dispositions:		
Accounts receivable	304	7,594
Inventories and unbilled contract costs and fees	(2,228)	(2,798)
Prepaid income taxes and other current assets	(1,991)	(589)
Accounts payable	2,848	1,187
Other current liabilities	(3,602)	(12,060)
Net cash provided by (used in) operating activities	2,111	(380)
Investing Activities:		
Acquisitions, net of cash acquired	-	(2,998)
Acquisition of capital equipment and technology	-	(1,200)
Advances to affiliate, net	1,890	(5,668)
Proceeds from maturities of available-for-sale investments	67,028	10,244
Purchases of property, plant, and equipment	(1,178)	(1,369)
Payment received on note for sale of property	600	-
Other, net	(334)	(42)
Net cash provided by (used in) investing activities	68,006	(1,033)
Financing Activities:		
Net proceeds from issuance of Company and subsidiary common stock	20	207
Repayments of long-term obligations	(182)	-
Net cash provided by (used in) financing activities	(162)	207
Exchange Rate Effect on Cash	1,178	(462)
Increase (Decrease) in Cash and Cash Equivalents	71,133	(1,668)
Cash and Cash Equivalents at Beginning of Period	62,461	39,254
Cash and Cash Equivalents at End of Period	$133,594	$ 37,586

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THERMO FIBERTEK INC.

Consolidated Statement of Cash Flows (continued)
(Unaudited)

(In thousands)	Three Months Ended March 31, 2001	Three Months Ended April 1, 2000
Noncash Activities:		
Fair value of assets of acquired companies	$ -	$ 5,285
Cash paid for acquired companies	-	(3,411)
Note payable for acquired companies	-	(795)
Liabilities assumed of acquired companies	$ -	$ 1,079
Amounts forgiven in exchange for the 49% minority interest in NEXT Fiber Products (Note 5)	$ 2,053	$ -

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

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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 March 31, 2001, and the results of operations and cash flows for the three-month periods ended March 31, 2001, and April 1, 2000. Interim results are not necessarily indicative of results for a full year.

Historical financial results have been restated to reflect the adoption of Securities and Exchange Commission Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" effective as of January 2, 2000. The consolidated balance sheet presented as of December 30, 2000, 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, 2000, filed with the Securities and Exchange Commission.

2. Comprehensive Income

Comprehensive income combines net income and "other comprehensive items" that represent certain amounts that are reported as components of shareholders' investment in the accompanying balance sheet, including foreign currency translation adjustments, unrealized net of tax gains and losses on available-for-sale investments, and deferred gains and losses on foreign currency contracts (Note 6). During the first quarter of 2001 and 2000, the Company had comprehensive income of $4,034,000 and $1,644,000, respectively.

3. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

(In thousands except per share amounts)	Three Months Ended March 31, 2001	Three Months Ended April 1, 2000
Basic		
Income Before Cumulative Effect of Change in Accounting Principle	$ 3,129	$ 3,560
Cumulative Effect of Change in Accounting Principle (net of income taxes of $580)	-	(870)
Net Income	$ 3,129	$ 2,690
Weighted Average Shares	61,387	61,244
Basic Earnings per Share:		
Income Before Cumulative Effect of Change in Accounting Principle	$ .05	$ .06
Change in Accounting Principle	-	(.02)
	$ .05	$ .04

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3. Earnings per Share (continued)

(In thousands except per share amounts)	Three Months Ended March 31, 2001	Three Months Ended April 1, 2000
Diluted		
Income Before Cumulative Effect of Change in Accounting Principle	$ 3,129	$ 3,560
Cumulative Effect of Change in Accounting Principle (net of income taxes of $580)	-	(870)
Net Income	$ 3,129	$ 2,690
Effect of Majority-owned Subsidiary's Dilutive Securities	-	(4)
Income Available to Common Shareholders, as Adjusted	$ 3,129	$ 2,686
Weighted Average Shares	61,387	61,244
Effect of Stock Options	61	353
Weighted Average Shares, as Adjusted	61,448	61,597
Diluted Earnings per Share:		
Income Before Cumulative Effect of Change in Accounting Principle	$ .05	$ .06
Change in Accounting Principle	-	(.02)
	$ .05	$ .04

Options to purchase 2,152,000 and 889,000 shares of common stock for the first quarter of 2001 and 2000, respectively, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price for the common stock and their effect would be antidilutive.

In addition, the computation of diluted earnings per share for each period excludes the effect of assuming the conversion of the Company's $153,000,000 principal amount of 4 1/2% subordinated convertible debentures, convertible at $12.10 per share, because the effect would be antidilutive.

4. Business Segment Information

(In thousands)	Three Months Ended March 31, 2001	Three Months Ended April 1, 2000
Revenues:		
Pulp and Papermaking Equipment and Systems	$55,987	$55,197
Water- and Fiber-recovery Services and Products (a)	2,913	2,733
Intersegment sales elimination (b)	-	(8)
	$58,900	$57,922

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4. Business Segment Information (continued)

(In thousands)	Three Months Ended March 31, 2001	Three Months Ended April 1, 2000
Income Before Provision for Income Taxes, Minority Interest, and Cumulative Effect of Change in Accounting Principle:		
Pulp and Papermaking Equipment and Systems	$ 6,979	$ 6,885
Water- and Fiber-recovery Services and Products (a)	(983)	(303)
Corporate (c)	(940)	(961)
Total Operating Income	5,056	5,621
Interest Income, Net	268	613
	$ 5,324	$ 6,234

(a) Reflects the sale of the Company's fiber-recovery and water-clarification services plant in September 2000.
(b) Intersegment sales are accounted for at prices that are representative of transactions with unaffiliated parties.
(c) Primarily general and administrative expenses.

5. Acquisition of Composites Venture Minority Interest

In January 2001, the Company's Thermo Fibergen subsidiary acquired the outstanding 49% equity interest in NEXT Fiber Products, Inc. from the minority investors (the seller). Next Fiber Products was a joint venture formed in 1999 to develop, produce, and market fiber-based composite products primarily for the building industry. In exchange for the 49% minority interest, Thermo Fibergen agreed to forgive $2,053,000 due from the seller, which related to the seller's investment in NEXT Fiber Products. The excess of assigned fair value of net assets acquired from the buyout over the acquisition costs resulted in a reduction in the intangible asset recorded at the time of Thermo Fibergen's initial investment in NEXT Fiber Products.

6. Recent Accounting Pronouncement

Effective in the first quarter of 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended, requires that all derivatives, including forward currency exchange contracts, be recognized on the balance sheet at fair value. Derivatives that are not hedges must be recorded at fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged item through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The Company records in earnings immediately the extent to which a hedge is not effective in achieving offsetting changes in fair value. Adoption of SFAS No. 133 in the first quarter of 2001 did not have a material effect on the Company's financial position and results of operations.

Forward currency exchange contracts are used primarily by the Company to hedge certain operational ("cash-flow" hedges) and balance sheet ("fair value" hedges) exposures resulting from changes in currency exchange rates. Such exposures primarily result from portions of the Company's operations and assets that are denominated in currencies other than the functional currencies of the businesses conducting the operations or holding the assets. The Company enters into these currency exchange contracts to hedge anticipated product sales and recorded accounts receivable made in the normal course of business, and accordingly, the hedges are not speculative in nature. The Company does not hold or transact in financial instruments for purposes other than risk management.

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6. Recent Accounting Pronouncement (continued)

The Company records its currency exchange contracts at fair value in its consolidated balance sheet as other current assets or other accrued expenses and, for cash flow hedges, the related gains or losses on these contracts are deferred as a component of other comprehensive items. These deferred gains and losses are recognized in income in the period in which the underlying anticipated transaction occurs. Unrealized gains and losses resulting from the impact of currency exchange rate movements on fair value hedges are recognized in earnings in the period in which the exchange rates change and offset the currency gains and losses on the underlying exposure being hedged.

7. Proposed Spin Off

On January 31, 2000, Thermo Electron announced that, as part of a major reorganization plan, it plans to spin off its equity interest in the Company as a dividend to Thermo Electron shareholders. In February 2001, Thermo Electron received a favorable ruling from the Internal Revenue Service regarding the spin off. The IRS required that, subject to certain conditions, the Company raise additional equity capital in a public offering within one year of the spin off. The Company plans to issue equity in the range of 10 to 20 percent of its outstanding shares to support its current business plan, which includes the repayment of debt, acquisitions, strategic partnerships, and investment in additional capacity for its composites business. Thermo Electron has stated that it expects to complete the spin off in the summer of 2001. The spin off will require Thermo Electron Board of Director actions and other customary conditions. Following the spin off, Thermo Electron will continue to guarantee, in each case on a subordinated basis, the Company's $153,000,000 principal amount of 4 1/2% subordinated convertible debentures due 2004 and Thermo Fibergen's remaining obligation under its redemption rights. Also in connection with the spin off, the Company expects to agree with Thermo Electron to certain restrictions regarding the Company's use of cash and incurrence of debt while such debentures and guarantee remain outstanding. In addition, subject to shareholder approval, the Company plans to change its name to Kadant Inc. and effect a five-for-one reverse stock split of its common stock prior to the spin off.

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 December 30, 2000, filed with the Securities and Exchange Commission.

Overview

Industry Background

The Company operates in two segments: Pulp and Papermaking Equipment and Systems and Water- and Fiber-recovery Services and Products.

The Company's products are primarily sold to the paper industry. The paper industry has been in a severe down cycle since 1996 with falling pulp and paper prices and decreased capital spending. As a consequence, the industry has gone through a major consolidation. As paper companies continue to consolidate, they frequently reduce capacity. This trend, along with the paper companies' actions to quickly reduce operating rates and restrict capital spending programs when they perceive weakness in their markets, has affected the Company's business. The Company expects

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Overview (continued)

that there will continue to be a significant amount of downtime in the paper industry in 2001. This, coupled with the strong U.S. dollar and high energy costs, will continue to produce a weak market environment that will soften demand for the Company's products in the near term. The Company's results for 2001 will be affected by the ongoing weak market conditions in the paper industry. As such, the Company is adjusting its guidance for the second half of 2001 in light of both the continued weak market conditions in the paper industry and lower revenues in its Water- and Fiber-recovery Services and Products segment (see discussion below). For the full year 2001, the Company expects consolidated revenues of $230 - $240 million, with earnings per diluted share of $0.20 - $0.23. In the longer term, the Company expects the consolidation in the paper industry and improved capacity management will be favorable both to the paper companies and their suppliers. Both these developments will improve the overall financial health of the Company's customers. The Company believes that this will eventually result in stronger markets for the Company's products and systems.

In the Water- and Fiber-recovery Services and Products segment, the Company expects its growth will primarily come from its recently introduced fiber-based composite products, which consists of soundwall systems, decking, privacy fencing, roofing, and siding. The market for soundwall and privacy fencing products in North America is approximately $2 billion. The market for decking products in North America is approximately $2.5 billion and is estimated to be growing at 8 percent per year. The market for roofing tiles in North America is approximately $4 billion. Composite building products were introduced into the decking market within the last 10 years and currently only represent approximately 5 percent of that market. The Company estimates that composite lumber products currently represent less than 1 percent of the total soundwall, privacy fencing, and roofing markets.
The Company believes that the market for composite building products will grow as customer awareness of the advantages of these products increases their acceptance as an alternative to traditional wood products.

Pulp and Papermaking Equipment and Systems Segment

The Company's Pulp and Papermaking Equipment and Systems (Papermaking Equipment) segment designs and manufactures stock-preparation equipment, paper machine accessories, and water-management systems for the paper and paper recycling industries. Principal products manufactured by this segment 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 for paper sheet and web formation. In 2000, this segment acquired the assets of Gauld Equipment Manufacturing Company, Inc., a manufacturer of stock-preparation equipment, and Cyclotech AB-Stockholm, a Swedish manufacturer of stock-preparation equipment.

Water- and Fiber-recovery Services and Products Segment

The Water- and Fiber-recovery Services and Products segment consists of the Company's Thermo Fibergen subsidiary. Through its GranTek subsidiary, Thermo Fibergen employs patented technology to produce biodegradable absorbing granules from papermaking byproducts. These granules are used as agricultural carriers, oil and grease absorbents, and cat box fillers. Through Thermo Fibergen's NEXT Fiber Products Inc. subsidiary, formed in October 1999, Thermo Fibergen develops, produces, and markets fiber-based composite products primarily for the building industry, used for applications such as soundwalls, decking, privacy fencing, roofing and siding. In January 2001, the Company acquired the 49% minority interest in NEXT Fiber Products (Note 5). The Company constructed a composites manufacturing facility in Green Bay, Wisconsin, and began limited production there in 2000. The Company is currently working to expand the facility and expects to have the capacity to support up to $20 million in annual revenues by the fourth quarter of 2001. The Company expects its composites business to earn revenues of $4 - $6 million in 2001, including $0.4 - $0.7 million in the second quarter of 2001, increasing to $1.5 - $2.0 million in the fourth quarter of 2001. The Company does not expect to generate operating profits from the composites business until 2002. Prior to September 2000, this segment owned and operated a plant that provided water-

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Overview (continued)

clarification and fiber-recovery services to a host mill on a long-term contract basis. The plant, which Thermo Fibergen began operating in July 1998, cleaned and recycled water and long fiber for reuse in the papermaking process. Thermo Fibergen sold this plant to the host mill in September 2000. The Company intends to continue operating in this line of business and is pursuing other fiber-recovery projects.

Manufacturing Facilities

The Company's manufacturing facilities are principally located in North America and France. The manufacturing facility in France is located at the Company's E. & M. Lamort, S.A. subsidiary, which manufactures stock-preparation equipment, accessories, and water-management systems.

International Sales

During 2000, approximately 49% of the Company's sales were to customers outside the United States, principally in Europe. The Company generally seeks to charge its customers in the same currency as its operating costs. However, 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 currency exchange contracts (Note 6). The Company may enter into forward currency exchange contracts to hedge certain firm purchase and sale commitments denominated in currencies other than its subsidiaries' functional currencies. These contracts principally hedge transactions denominated in U.S. dollars, French francs, and Canadian dollars.

Results of Operations

First Quarter 2001 Compared With First Quarter 2000
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Revenues

Revenues increased to $58.9 million in the first quarter of 2001 from $57.9 million in the first quarter of 2000. The unfavorable effects of currency translation due to the strengthening in value of the U.S. dollar relative to other currencies in countries in which the Company operates decreased revenues at the Papermaking Equipment segment by $2.0 million in the first quarter of 2001. Excluding the results of acquisitions and the effect of currency translation, revenues in the Company's Papermaking Equipment segment increased $2.1 million, or 4%. Revenues from that segment's stock-preparation equipment product line increased $3.3 million primarily as a result of an increase in sales in Europe. The Company expects relatively little growth in 2001 in North America due to weak demand, while Europe is expected to be somewhat stronger. The Company expects to see stronger demand for its products and systems in developing markets, such as China. Revenues from the Papermaking Equipment segment's accessories product line decreased $1.5 million primarily as a result of a decrease in demand in North America due to adverse market conditions. Revenues from the Papermaking Equipment segment's water management product line increased $0.4 million due to increased demand in Europe, offset in part by a decrease in demand in North America due to adverse market conditions. The Water- and Fiber-recovery Services and Products segment revenues increased $0.2 million, primarily due to $0.9 million of sales from its recently introduced composite products. This increase was largely offset by decreased demand for cellulose-based products from one of that segment's largest customers, offset in part by a net increase in demand from other customers, as well as a $0.4 million decrease in revenues as a result of the sale of the fiber-recovery and water-clarification services plant in September 2000.

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First Quarter 2001 Compared With First Quarter 2000 (continued)

Gross Profit Margin

The gross profit margin decreased to 39% in the first quarter of 2001 from 40% in the first quarter of 2000. The gross profit margin decreased at the Water- and Fiber-recovery Services and Products segment, primarily due to an increase of approximately $0.5 million in the cost of natural gas at GranTek in the first quarter of 2001 and, to a lesser extent, low gross profit margins as a result of startup efforts at its new fiber-based composites business. The gross profit margin was relatively unchanged at 40% at the Papermaking Equipment segment in 2001 compared with 2000.

Other Operating Expenses

Selling, general, and administrative expenses as a percentage of revenues remained unchanged at 27% in the first quarters of 2001 and 2000.

Research and development expenses decreased slightly to $1.8 million in the first quarter of 2001, compared with $1.9 million in the first quarter of 2000, or 3% of revenues in both periods. The Company expects to increase its research and development expenses as it develops new products at its fiber-based composites business.

Interest Income and Expense

Interest income decreased to $2.1 million in the first quarter of 2001 from $2.5 million in the first quarter of 2000, due to lower average invested balances and lower prevailing interest rates. The Company expects interest income to decrease in 2001 as a result of lower cash balances due to the September 2000 redemption and the anticipated September 2001 redemption of Thermo Fibergen's common stock, as well as lower prevailing interest rates. Interest expense was unchanged at $1.9 million in the first quarters of 2001 and 2000.

Income Taxes

The effective tax rate was 42% in the first quarter of 2001, compared with 41% in the first quarter of 2000. The effective tax rates exceeded the statutory federal income tax rate primarily due to the impact of state income taxes and nondeductible expenses.

Minority Interest

Minority interest income in the first quarter of 2001 primarily represents the minority investor's share of losses in the Company's majority-owned subsidiaries. Minority interest expense in the first quarter of 2000 primarily represents accretion of Thermo Fibergen's common stock subject to redemption, offset in part by the minority investor's share of losses in Thermo Fibergen's NEXT Fiber Products subsidiary.

Contingency

Sequa Corporation has made a claim in arbitration against the Company for $3.5 million for alleged breach of the contract pursuant to which Sequa purchased the stock of the Company's subsidiary, Thermo Wisconsin Inc. in February 1999. The Company has denied the charges and is defending the matter vigorously. In the opinion of management, the ultimate resolution of this matter will not materially affect the Company's financial statements.

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Liquidity and Capital Resources

Consolidated working capital was $177.9 million at March 31, 2001, compared with $173.1 million at December 30, 2000. Included in working capital are cash, cash equivalents, and available-for-sale investments of $152.7 million at March 31, 2001, compared with $148.6 million at December 30, 2000. In addition, the Company had $3.8 million and $5.7 million invested in an advance to affiliate as of March 31, 2001 and December 30, 2000, respectively. Of the total cash, cash equivalents, and available-for-sale investments at March 31, 2001, $12.3 million and $7.3 million was held by the Company's majority-owned Thermo Fibergen and Thermo Fiberprep subsidiaries, respectively, and the remainder was held by the Company and its wholly owned subsidiaries. At March 31, 2001, $44.8 million of the Company's cash and cash equivalents was held by its foreign subsidiaries.

During the first three months of 2001, $2.1 million of cash was provided by operating activities. Inventories and unbilled contract costs and fees used cash of $2.2 million, including $3.5 million related to an increase in inventories, primarily in the stock-preparation product line, offset in part by $1.2 million related to a decrease in unbilled contract costs and fees, primarily in the stock-preparation product line due to the timing of billings. An increase in accounts payable provided $2.8 million of cash primarily in the stock-preparation product line due to the timing of payments. In addition, a decrease in other current liabilities used $3.6 million of cash, consisting primarily of a $1.7 million paid for interest accrued at year-end, a $1.3 million net decrease in accrued payroll and employee benefits, and a $0.5 million decrease in billings in excess of costs and fees related to the timing of billings on long-term contracts.

During the first three months of 2001, the Company's investing activities, excluding available-for-sale investments and advance to affiliate activity, used $0.9 million of cash. The Company purchased property, plant, and equipment for $1.2 million, including $0.8 million at Thermo Fibergen. In addition, the Company received cash of $0.6 million from a note receivable related to Thermo Fibergen's September 2000 sale of its fiber-recovery and water-clarification systems plant.

During the first three months of 2001, the Company's financing activities used $0.2 million of cash primarily to fund the repayment of a long-term obligation.

During the month of September 2000, the initial redemption period, holders of Thermo Fibergen's common stock and common stock redemption rights surrendered 2,713,951 shares of Thermo Fibergen's common stock at a redemption price of $12.75 per share, for a total $34.6 million. Thermo Fibergen used available working capital to fund the payment and retired these shares immediately following the redemption. Holders of a redemption right have the option to require Thermo Fibergen to redeem one share of Thermo Fibergen's common stock at a redemption price of $12.75 per share in September 2001, the next and final redemption period. A redemption right may only be exercised if the holder owns a share of Thermo Fibergen's common stock at the same time. As of March 31, 2001, there were 2,001,049 redemption rights outstanding and 1,087,299 shares of Thermo Fibergen's common stock held by persons other than the Company. In addition, the Company and/or Thermo Fibergen may acquire additional shares of Thermo Fibergen's common stock in the open market. To the extent the number of rights exceeds the number of shares of Thermo Fibergen's common stock held by persons other than the Company, the maximum redemption value that Thermo Fibergen would be required to pay is an amount equal to the redemption price of $12.75 per share times the total number of shares of Thermo Fibergen's common stock outstanding held by persons other than the Company at the time of the redemption. At March 31, 2001, the Company expects this amount will not exceed $17.0 million. The redemption rights are guaranteed, on a subordinated basis, by Thermo Electron, but the Company is required to reimburse Thermo Electron if Thermo Electron makes any payment under the guarantee. In addition, the Company has agreed to lend Thermo Fibergen up to $15 million on commercially reasonable terms for the September 2001 redemption obligation and for working capital needs.

At March 31, 2001, the Company had $74.4 million of undistributed foreign earnings that could be subject to tax if remitted to the U.S. 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.

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Liquidity and Capital Resources (continued)

During the remainder of 2001, the Company plans to make expenditures for property, plant, and equipment of approximately $6.7 million. Included in this amount is $3.3 million for Thermo Fibergen, which intends to make capital expenditures to develop and expand its fiber-based composites business. This business will continue to require a significant amount of capital investment as the business grows. The Company believes that its existing resources are sufficient to meet the capital requirements of its existing operations for the foreseeable future.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk from changes in interest rates, equity prices, and foreign currency exchange rates has not changed materially from its exposure at year-end 2000.

PART II - OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

See Exhibit Index on the page immediately preceding exhibits.

(b) Reports on Form 8-K

None.

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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 11th day of May 2001.

THERMO FIBERTEK INC.

/s/ Theo Melas-Kyriazi

Theo Melas-Kyriazi
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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THERMO FIBERTEK INC.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10	Amendment No. 1 to Agreement of Loan dated as of May 7, 2001, between the Company and Thermo Fibergen Inc.

Exhibit 10

[Letterhead of Thermo Fibertek Inc.]

May 7, 2001

Thermo Fibergen Inc.
8 Alfred Circle
Bedford, Massachusetts 01730
Attn: Dr. Yiannis A. Monovoukas,
President and Chief Executive Officer

Re: Amendment No. 1 to Agreement of Loan

Ladies and Gentlemen:

Reference is hereby made to that certain Agreement of Loan dated as of February 12, 2001 ("Agreement of Loan") by and between Thermo Fibertek Inc., a Delaware corporation ("Thermo Fibertek"), and Thermo Fibergen Inc., a Delaware corporation and publicly-traded subsidiary of Thermo Fibertek Inc. ("Thermo Fibergen"), pursuant to which Thermo Fibertek agreed, under certain circumstances, to make a loan to Thermo Fibergen of up to FIVE MILLION DOLLARS ($5,000,000) in original principal amount bearing interest at a commercially reasonable rate. Capitalized terms used herein without definition shall have the meaning ascribed to such terms in the Agreement of Loan.

WHEREAS, Thermo Fibergen and Thermo Fibertek desire to amend the Agreement of Loan to increase the amount of the loan that Thermo Fibertek is willing to agree to make to Thermo Fibergen to satisfy the Final Redemption obligation and other working capital needs of Thermo Fibergen from FIVE MILLION DOLLARS ($5,000,000) to FIFTEEN MILLION DOLLARS ($15,000,000).

NOW, THEREFORE, the parties hereto (the "Parties") hereby agree that the reference to (a) "$5,000,000" in the reference line of the Agreement of Loan shall be deleted and replaced with "$15,000,000" and (b) "FIVE MILLION DOLLARS ($5,000,000)" in the first sentence of the body of the Agreement of Loan shall be deleted and replaced with "FIFTEEN MILLION DOLLARS ($15,000,000)".

[Remainder of Page Intentionally Left Blank]

Please indicate your acceptance of the foregoing by signing and returning to the undersigned an original counterpart of this letter.

Very truly yours,

THERMO FIBERTEK INC.

By: ________________________________
Name: Thomas M. O'Brien
Title: Executive Vice President

Accepted, acknowledged and agreed by the undersigned as of the date first above written:

THERMO FIBERGEN INC.

By: ________________________________
Name: Yiannis A. Monovoukas
Title: President