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 July 3, 1999

[ ] 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 (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 [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 July 30, 1999
Common Stock, $.01 par value	61,171,293

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

THERMO FIBERTEK INC.

Consolidated Balance Sheet
(Unaudited)

Assets

(In thousands)	July 3, 1999	January 2, 1999
Current Assets:		
Cash and cash equivalents (includes $74,447 under repurchase agreement with parent company in fiscal 1998)	$ 41,219	$115,472
Advance to affiliate (Note 8)	84,870	-
Available-for-sale investments, at quoted market value (amortized cost of $46,034 and $48,210)	45,987	48,206
Accounts receivable, less allowances of $2,039 and $2,231	42,531	50,281
Unbilled contract costs and fees	4,514	2,968
Inventories:		
Raw materials and supplies	12,277	14,848
Work in process	4,561	5,341
Finished goods	10,709	10,435
Prepaid income taxes	6,819	6,806
Other current assets	894	1,935
	254,381	256,292

Property, Plant, and Equipment, at Cost	65,528	68,661
Less: Accumulated depreciation and amortization	35,588	36,925
	29,940	31,736
Other Assets (Note 7)	16,310	12,309
Cost in Excess of Net Assets of Acquired Companies (Note 5)	123,479	126,763
	$424,110	$427,100

THERMO FIBERTEK INC.
Consolidated Balance Sheet (continued)
(Unaudited)

Liabilities and Shareholders' Investment

(In thousands except share amounts)	July 3, 1999	January 2, 1999
Current Liabilities:		
Notes payable and current maturities of long-term obligation (Note 5)	$ 563	$ -
Accounts payable	17,137	21,548
Accrued payroll and employee benefits	6,952	10,273
Billings in excess of contract costs and fees	2,009	5,846
Accrued warranty costs	4,979	5,830
Customer deposits	2,713	3,154
Accrued income taxes	6,666	2,810
Accrued interest	3,155	3,136
Other accrued expenses (Notes 5 and 6)	10,703	8,970
Due to parent company and affiliated companies	1,200	1,279
	56,077	62,846
Deferred Income Taxes and Other Deferred Items	6,319	6,202
Long-term Obligations:		
Subordinated convertible debentures	153,000	153,000
Note payable (Note 5)	1,350	-
	154,350	153,000
Minority Interest	300	303
Common Stock of Subsidiary Subject to Redemption ($51,311 and $54,762 redemption value)	50,178	53,801
Shareholders' Investment:		
Common stock, $.01 par value, 150,000,000 shares authorized; 63,515,987 and 63,379,337 shares issued	635	634
Capital in excess of par value	77,157	78,731
Retained earnings	111,841	100,602
Treasury stock at cost, 2,345,758 and 2,238,830 shares	(21,435)	(21,286)
Deferred compensation	(81)	-
Accumulated other comprehensive items (Note 2)	(11,231)	(7,733)
	156,886	150,948
	$424,110	$427,100

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

THERMO FIBERTEK INC.

Consolidated Statement of Income
(Unaudited)

(In thousands except per share amounts)	Three Months Ended July 3, 1999	July 4, 1998
Revenues	$53,549	$63,583
Costs and Operating Expenses:		
Cost of revenues	31,485	37,464
Selling, general, and administrative expenses	15,154	15,472
Research and development expenses	1,842	1,757
	48,481	54,693
Operating Income	5,068	8,890
Interest Income	2,041	2,102
Interest Expense	(1,845)	(1,847)
Income Before Provision for Income Taxes and Minority Interest	5,264	9,145
Provision for Income Taxes	2,008	3,552
Minority Interest Expense	245	265
Net Income	$ 3,011	$5,328
Earnings per Share (Note 3):		
Basic	$ .05	$ .09
Diluted	$ .05	$ .08
Weighted Average Shares (Note 3):		
Basic	61,168	61,805
Diluted	61,555	75,281

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

THERMO FIBERTEK INC.

Consolidated Statement of Income
(Unaudited)

(In thousands except per share amounts)	Six Months Ended July 3, 1999	Six Months Ended July 4, 1998
Revenues	$113,772	$125,913
Costs and Operating Expenses:		
Cost of revenues	68,272	74,516
Selling, general, and administrative expenses	30,651	31,716
Research and development expenses	3,660	3,624
Gain on sale of business (Note 5)	(11,099)	-
Restructuring and nonrecurring costs (Note 6)	3,383	-
	94,867	109,856
Operating Income	18,905	16,057
Interest Income	4,007	4,084
Interest Expense	(3,695)	(3,708)
Income Before Provision for Income Taxes and Minority Interest	19,217	16,433
Provision for Income Taxes	7,493	6,386
Minority Interest Expense	485	468
Net Income	$ 11,239	$ 9,579
Earnings per Share (Note 3):		
Basic	$ .18	$ .16
Diluted	$ .18	$ .15
Weighted Average Shares (Note 3):		
Basic	61,185	61,683
Diluted	74,237	62,638

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

THERMO FIBERTEK INC.

Consolidated Statement of Cash Flows
(Unaudited)

(In thousands)	Six Months Ended July 3, 1999	July 4, 1998
Operating Activities:		
Net income	$ 11,239	$ 9,579
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,710	4,447
Provision for losses on accounts receivable	5	59
Minority interest expense	485	468
Gain on sale of business (Note 5)	(11,099)	-
Noncash restructuring and nonrecurring costs (Note 6)	470	-
Other noncash items	17	207
Changes in current accounts, excluding the effects of acquisition:		
Accounts receivable	3,619	5,497
Inventories and unbilled contract costs and fees	(944)	(630)
Prepaid income taxes and other current assets	663	1,239
Accounts payable	(2,949)	(3,823)
Other current liabilities	(445)	(299)
Net cash provided by operating activities	5,771	16,744
Investing Activities:		
Acquisition, net of cash acquired (Note 5)	(2,447)	-
Proceeds from sale of business, net of cash divested (Note 5)	13,537	-
Refund of acquisition purchase price (Note 5)	377	-
Advances to affiliate, net (Note 8)	(84,870)	-
Purchases of available-for-sale investments	(56,325)	(23,150)
Proceeds from sale and maturities of available-for-sale investments	57,827	23,311
Purchases of property, plant, and equipment	(1,878)	(4,534)
Advances under notes receivable	-	(2,910)
Other	243	174
Net cash used in investing activities	(73,536)	(7,109)
Financing Activities:		
Purchases of Company and subsidiary common stock	(4,109)	-
Purchases of subsidiary common stock from Thermo Electron	(2,227)	-
Net proceeds from issuance of Company common stock	417	272
Net cash provided by (used in) financing activities	$ (5,919)	$ 272

THERMO FIBERTEK INC.

Consolidated Statement of Cash Flows (continued)
(Unaudited)

(In thousands)	Six Months Ended July 3, 1999	July 4, 1998
Exchange Rate Effect on Cash	$ (569)	$ (462)
Increase (Decrease) in Cash and Cash Equivalents	(74,253)	9,445
Cash and Cash Equivalents at Beginning of Period	115,472	111,648
Cash and Cash Equivalents at End of Period	$ 41,219	$121,093
Noncash Activities (Note 5):		
Fair value of assets of acquired company	$ 4,700	$ -
Cash paid for acquired company	(2,500)	-
Note payable for acquired company	(1,730)	-
Liabilities assumed of acquired company	$ 470	$ -

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

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 July 3, 1999, the results of operations for the three- and six-month periods ended July 3, 1999, and July 4, 1998, and the cash flows for the six-month periods ended July 3, 1999, and July 4, 1998. Interim results are not necessarily indicative of results for a full year.

The consolidated balance sheet presented as of January 2, 1999, 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 2, 1999, filed with the Securities and Exchange Commission.

2. Comprehensive Income

Comprehensive income combines net income and "other comprehensive items," which represents 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 second quarter of 1999 and 1998, the Company had comprehensive income of $1,095,000 and $5,209,000, respectively. During the first six months of 1999 and 1998, the Company had comprehensive income of $7,748,000 and $8,854,000, respectively.

3. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

(In thousands except per share amounts)	Three Months Ended July 3, 1999	Three Months Ended July 4, 1998	Six Months Ended July 3, 1999	Six Months Ended July 4, 1998
Basic				
Net Income	$3,011	$ 5,328	$11,239	$ 9,579
Weighted Average Shares	61,168	61,805	61,185	61,683
Basic Earnings per Share	$ .05	$ .09	$ .18	$ .16

3. Earnings per Share (continued)

(In thousands except per share amounts)	Three Months Ended July 3, 1999	Three Months Ended July 4, 1998	Six Months Ended July 3, 1999	Six Months Ended July 4, 1998
Diluted				
Net Income	$3,011	$ 5,328	$11,239	$ 9,579
Effect of:				
Convertible obligations	-	1,033	2,066	-
Majority-owned subsidiary's dilutive securities	(15)	-	(40)	(9)
Income Available to Common Shareholders, as Adjusted	$2,996	$ 6,361	$13,265	$ 9,570
Weighted Average Shares	61,168	61,805	61,185	61,683
Effect of:				
Convertible obligations	-	12,645	12,645	-
Stock options	387	831	407	955
Weighted Average Shares, as Adjusted	61,555	75,281	74,237	62,638
Diluted Earnings per Share	$ .05	$ .08	$ .18	$ .15

The computation of diluted earnings per share for all periods excludes the effect of assuming the exercise of certain outstanding stock options because the effect would be antidilutive. As of July 3, 1999, there were 894,000 of such options outstanding, with exercise prices ranging from $7.46 to $14.32 per share.

In addition, the computation of diluted earnings per share for the three months ended July 3, 1999, and the six months ended July 4, 1998, 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 July 3, 1999	Three Months Ended July 4, 1998	Six Months Ended July 3, 1999	Six Months Ended July 4, 1998
Revenues:				
Pulp and Papermaking Equipment and Systems	$ 51,296	$ 56,791	$107,694	$112,172
Dryers and Pollution-control Equipment (a)	-	5,818	1,802	11,836
Water- and Fiber-recovery Services and Products	2,253	1,317	4,327	2,660
Intersegment sales elimination (b)	-	(343)	(51)	(755)
	$ 53,549	$ 63,583	$113,772	$125,913

4. Business Segment Information (continued)

(In thousands)	Three Months Ended July 3, 1999	Three Months Ended July 4, 1998	Six Months Ended July 3, 1999	Six Months Ended July 4, 1998
Income Before Provision for Income Taxes and Minority Interest:				
Pulp and Papermaking Equipment and Systems (c)	$ 6,558	$ 9,790	$10,515	$ 17,891
Dryers and Pollution-control Equipment (d)	-	862	11,554	1,667
Water- and Fiber-recovery Services and Products	(189)	(783)	(408)	(1,440)
Corporate (e)	(1,301)	(979)	(2,756)	(2,061)
Total operating income	5,068	8,890	18,905	16,057
Interest income, net	196	255	312	376
	$ 5,264	$ 9,145	$19,217	$ 16,433

(a) The Company sold this segment in February 1999 (Note 5).
(b) Intersegment sales are accounted for at prices that are representative of transactions with unaffiliated parties.
(c) Includes $3,383,000 of restructuring and nonrecurring costs in the first six months of 1999 (Note 6).
(d) Includes $11,099,000 gain on sale of business in the first six months of 1999 (Note 5).
(e) Primarily general and administrative expenses.

5. Acquisitions and Dispositions

In May 1999, the Company acquired the outstanding stock of Arcline Products, a manufacturer of shower oscillation systems, for $2,500,000 in cash and $2,000,000 payable in equal annual installments over five years, subject to a post-closing adjustment. The liability has been recorded at its net present value of $1,730,000 in the accompanying balance sheet. To date, no information has been gathered that would cause the Company to believe that the post-closing adjustment will be material.

This acquisition has been accounted for using the purchase method of accounting and its results have been included in the Company's results from the date of acquisition. The cost of this acquisition approximated the estimated fair value of the acquired net assets. Allocation of the purchase price for this acquisition was based on an estimate of the fair value of the net assets acquired and is subject to adjustment upon finalization of the purchase price allocation. The Company has gathered no information that indicates the final allocation will differ materially from the preliminary estimates. Pro forma results have not been presented, as the results of the acquired business were not material to the Company's results of operations.

In February 1999, the Company sold its Thermo Wisconsin, Inc. subsidiary for $13,576,000 in cash, resulting in a pretax gain of $11,099,000. In the third quarter of 1999, a post-closing adjustment resulted in a nominal increase in the sales price. Thermo Wisconsin, a manufacturer and marketer of dryers and pollution-control equipment, had unaudited revenues to external customers and net income in 1998 of $18,877,000 and $1,547,000, respectively.

During the first quarter of 1999, the Company received $377,000 for a post-closing purchase price adjustment related to the 1998 acquisition of Goslin Birmingham. The Company recorded this amount as a reduction of cost in excess of net assets of acquired companies.

5. Acquisitions and Dispositions (continued)

The Company has undertaken restructuring activities at certain acquired businesses. The Company's restructuring activities, which were accounted for in accordance with Emerging Issues Task Force Pronouncement (EITF) 95-3, primarily have included reductions in staffing levels and acquired overmarket leases, for which the Company established reserves as part of the cost of acquisitions. In accordance with EITF 95-3, the Company finalizes its restructuring plans no later than one year from the respective dates of the acquisitions. A summary of the changes in accrued acquisition expenses, which represent ongoing payments for severance and are included in other accrued expenses in the accompanying balance sheet, follows:

(In thousands)	Total
Balance at January 2, 1999	$149
Usage	(59)
Balance at July 3, 1999	$ 90

6. Restructuring and Nonrecurring Costs

During the first quarter of 1999, the Company recorded restructuring and nonrecurring costs of $3,383,000. Restructuring costs of $2,257,000, which were accounted for in accordance with EITF 94-3, include severance costs of $1,283,000 for 24 employees across all functions at the Company's E. & M. Lamort, S.A. subsidiary, 5 of whom were terminated as of July 3, 1999, and $974,000 to terminate distributor agreements. As of August 4, 1999, 15 additional employees had been terminated. Nonrecurring charges of $1,126,000 include $526,000 for the expected settlement of a legal dispute; $470,000 for asset write-downs, consisting of $270,000 for impairment of a building held for disposal, which was sold in July 1999, and $200,000 for impairment of a note receivable; and $130,000 for facility-closure costs. A summary of the changes in accrued restructuring costs, which are included in other accrued expenses in the accompanying balance sheet, follows:

(In thousands)	Severance	Other	Total
Balance at January 2, 1999	$ -	$ 34	$ 34
Provision charged to expense	1,283	974	2,257
Usage	(140)	(34)	(174)
Currency translation	(117)	(88)	(205)
Balance at July 3, 1999	$1,026	$ 886	$1,912

7. Note Receivable

During 1996, the Company loaned $6,000,000 to Tree-Free Fiber Company, LLC in connection with a proposed engineering, procurement, and construction project. This project was delayed due to weakness in pulp prices, and will not proceed as a result of Tree-Free's insolvency. Tree-Free was unable to repay the note upon its original maturity. The note is secured by pari-passu liens on a tissue mill in Maine and related assets. In December 1997, the Superior Court of Maine appointed a receiver to preserve and protect the collateral for the loans made by the Company and other lenders to Tree-Free. In May 1998, the Company purchased an assignment of Tree-Free's secured indebtedness to the other pari-passu lender for $2,910,000. In June 1998, the Company conducted a foreclosure sale of the tissue mill, at which it was the successful bidder, and executed a purchase and sale agreement. In October 1998, the stock of a mill located in Mexico, which had also secured the note, was sold and the proceeds of $1,250,000 were paid to the Company and recorded as a reduction of the carrying value of the note. During the second quarter of 1999,

7. Note Receivable (continued)

the Company entered into a nonbinding letter of intent to assign its right under the purchase and sale agreement to purchase certain assets of Tree-Free. The proposed purchase price, net of amounts owed by Tree-Free to a lender with liens on certain assets that are senior to the pari-passu liens, approximates the carrying amount of the note, net of established reserves. The proposed transaction is subject to numerous conditions, including the obtainment of state regulatory approvals, including permits; completion of environmental due diligence by the buyer; the execution of a definitive assignment and assumption agreement; and approval by the Company's and the buyer's Boards of Directors.

8. Cash Management Arrangement

Effective June 1, 1999, the Company and Thermo Electron Corporation commenced use of a new domestic cash management arrangement. Under the new arrangement, amounts advanced to Thermo Electron by the Company for domestic cash management purposes bear interest at the 30-day Dealer Commercial Paper Rate plus 50 basis points, set at the beginning of each month. Thermo Electron is contractually required to maintain cash, cash equivalents, and/or immediately available bank lines of credit equal to at least 50% of all funds invested under this cash management arrangement by all Thermo Electron subsidiaries other than wholly owned subsidiaries. The Company has the contractual right to withdraw its funds invested in the cash management arrangement upon 30 days' prior notice. Amounts invested in this arrangement are included in "advance to affiliate" in the accompanying balance sheet.

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 2, 1999, filed with the Securities and Exchange Commission.

Overview

The Company operates in three segments: Pulp and Papermaking Equipment and Systems, Dryers and Pollution-control Equipment, and Water- and Fiber-recovery Services and Products. The Company's Pulp and Papermaking Equipment and Systems (Papermaking Equipment) segment designs and manufactures stock-preparation equipment, 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. In May 1999, this segment acquired the outstanding stock of Arcline Products, a manufacturer of shower and doctor oscillation systems (Note 5).

The Dryers and Pollution-control Equipment segment, which consisted of the Company's Thermo Wisconsin, Inc. subsidiary, manufactures and markets dryers and pollution-control equipment for the printing, papermaking, and converting industries. In February 1999, the Company sold its Thermo Wisconsin subsidiary for $13.6 million in cash. Thermo Wisconsin's unaudited revenues to external customers and net income for fiscal 1998 were $18.9 million and $1.5 million, respectively.

Overview (continued)

The Water- and Fiber-recovery Services and Products segment, which consists of the Company's Thermo Fibergen subsidiary, designs, builds, owns, and operates plants to help pulp and paper mill customers close the loop in their water and solids systems on a long-term contract basis. The plants clean and recycle water and long fiber for reuse in the papermaking process. In July 1998, the Company completed construction of, and began operating, its first plant. In addition, through its GranTek subsidiary, Thermo Fibergen employs patented technology to produce absorbing granules from papermaking byproducts. These granules are used as agricultural carriers, oil- and grease-absorbents, and cat box fillers.

The Company's manufacturing facilities are principally located in the United States 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.

During 1998, approximately 48% 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 contracts. The Company may enter into forward contracts to hedge certain firm purchase and sale commitments denominated in currencies other than its subsidiaries' local currencies. These contracts principally hedge transactions denominated in U.S. dollars, French francs, British pounds sterling, and Canadian dollars. 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. Because the Company's forward contracts are entered into as hedges against existing foreign currency exposures, there generally is no effect on the income statement since gains or losses on the customer contract offset gains or losses on the forward contract.

The Company's sales to customers in Asia were approximately 5% of the Company's total sales in 1998, a substantial portion of which were sales to China. Asia, excluding China, 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 have been adversely affected by the unstable economic conditions in that region.

The Company's products are primarily sold to the paper industry. Generally, the financial condition of the paper industry corresponds 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. In addition, the unstable economic conditions in Asia, and weakened currencies in that region, have resulted in increased low-cost imports of pulp and paper in North America and Europe, resulting in reduced pricing. These factors have also resulted in a decline in paper and pulp exports from North America and Europe to Asia. The timing of the recovery of the financial condition of the paper industry cannot be predicted.

Results of Operations

Second Quarter 1999 Compared With Second Quarter 1998

Excluding the results of Thermo Wisconsin, which was sold in February 1999, revenues decreased to $53.5 million in the second quarter of 1999 from $57.9 million in the second quarter of 1998. Thermo Wisconsin's revenues to external customers were $5.7 million in the second quarter of 1998. Revenues at the Company's Papermaking Equipment segment decreased $5.5 million, primarily due to lower revenues from the stock-preparation equipment

product line in Europe and North America and the accessories product line in North America, due to lower demand. The Water- and Fiber-recovery Services segment revenues increased $0.9 million due to sales of its recently introduced cat box filler product, increased demand for cellulose-based products, and the inclusion of $0.3 million of revenues from its fiber-recovery and water-clarification facility, which began operations in July 1998. The unfavorable effects of currency translation due to the strengthening in value of the U.S. dollar relative to foreign currencies in countries in which the Company operates decreased revenues by $0.4 million in the second quarter of 1999.

The gross profit margin was unchanged at 41% in the second quarter of 1999 and 1998. An increase in gross profit margin resulting from the absence of lower-margin sales following the sale of Thermo Wisconsin was offset by lower gross margins at the Papermaking Equipment segment, primarily due to competitive pricing pressures at the Company's Lamort subsidiary and a greater percentage of sales under low-margin contracts at the Company's Lamort and AES subsidiaries.

Selling, general, and administrative expenses as a percentage of revenues increased to 28% in the second quarter of 1999 from 24% in the second quarter of 1998. The increase was primarily at the Papermaking Equipment segment, due to decreased revenues and the inclusion of results from Goslin Birmingham, which was acquired in July 1998. The increase in selling, general, and administrative expenses as a percentage of revenues also resulted from the sale of Thermo Wisconsin, for which such costs represented 13% of its revenues in the 1998 period. These increases were offset in part by the impact of increased revenues at the Water- and Fiber-recovery Services segment.

Research and development expenses were unchanged at $1.8 million in the second quarter of 1999 and 1998.

Interest income and expense were relatively unchanged in the second quarter of 1999 and 1998.

The effective tax rate was 38% in the second quarter of 1999, compared with 39% in the second quarter of 1998. The effective tax rates exceeded the statutory federal income tax rate primarily due to the impact of state income taxes.

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

During 1996, the Company loaned $6.0 million to Tree-Free Fiber Company, LLC in connection with a proposed engineering, procurement, and construction project. This project was delayed due to weakness in pulp prices, and will not proceed as a result of Tree-Free's recent insolvency. Tree-Free was unable to repay the note upon its original maturity. The note is secured by pari-passu liens on a tissue mill in Maine and related assets. In December 1997, the Superior Court of Maine appointed a receiver to preserve and protect the collateral for the loans made by the Company and other lenders to Tree-Free. In May 1998, the Company purchased an assignment of Tree-Free's secured indebtedness to the other pari-passu lender for $2.9 million. In June 1998, the Company conducted a foreclosure sale of the tissue mill, at which it was the successful bidder, and executed a purchase and sale agreement. In October 1998, the stock of a mill located in Mexico, which had also secured the note, was sold and the proceeds of $1.3 million were paid to the Company and recorded as a reduction of the carrying value of the note. During the second quarter of 1999, the Company entered into a nonbinding letter of intent to assign its right under the purchase and sale agreement to purchase certain assets of Tree-Free. The proposed purchase price, net of amounts owed by Tree-Free to a lender with liens on certain assets that are senior to the pari-passu liens, approximates the carrying amount of the note, net of established reserves. The proposed transaction is subject to numerous conditions, including the obtainment of state regulatory approvals, including permits; completion of environmental due diligence by the buyer; the execution of a definitive assignment and assumption agreement; and approval by the Company's and the buyer's Boards of Directors. There can be no assurance that the proposed transaction will occur.

First Six Months 1999 Compared With First Six Months 1998

Excluding the results of Thermo Wisconsin, revenues decreased to $112.0 million in the first six months of 1999 from $114.4 million in the first six months of 1998. Thermo Wisconsin's revenues to external customers were $1.8 million and $11.5 million in the first six months of 1999 and 1998, respectively. Increased revenues at the Papermaking Equipment segment's water-management product line in North America were more than offset by decreases in revenues from the stock-preparation equipment and accessories product lines in North America. The Water- and Fiber-recovery Services segment revenues increased $1.7 million due to increased demand for cellulose-based products, sales of its recently introduced cat box filler product, and the inclusion of $0.7 million of revenues from its fiber-recovery and water-clarification facility, which began operations in July 1998. The favorable effects of currency translation due to the weakening in value of the U.S. dollar relative to foreign currencies in countries in which the Company operates increased revenues by $0.1 million in the first six months of 1999.

The gross profit margin decreased to 40% in the first six months of 1999 from 41% in the first six months of 1998. The gross profit margin at the Papermaking Equipment segment decreased, primarily as a result of competitive pricing pressures at the Company's Lamort subsidiary.

Selling, general, and administrative expenses as a percentage of revenues increased to 27% in the first six months of 1999 from 25% in the first six months of 1998, primarily due to the decline in revenues and the effect of the sale of Thermo Wisconsin, for which such costs represented 13% of its revenues in the 1998 period.

Research and development expenses were relatively unchanged at $3.7 million and $3.6 million in the first six months of 1999 and 1998, respectively.

During the first quarter of 1999, the Company sold its Thermo Wisconsin subsidiary for $13.6 million in cash, subject to a post-closing adjustment, resulting in a pretax gain of $11.1 million (Note 5).

Restructuring and nonrecurring costs of $3.4 million in the first six months of 1999 represents severance, termination of distributor agreements, the expected settlement of a legal dispute, write-downs for impairment of assets, and facility-closure costs (Note 6). The Company expects to pay the remaining balance of accrued restructuring costs of $1.9 million primarily during 1999.

Interest income and expense were relatively unchanged in the first six months of 1999 and 1998.

The effective tax rate was unchanged at 39% in the first six months of 1999 and 1998. The effective tax rate exceeded the statutory federal income tax rate primarily due to the impact of state income taxes.

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

Liquidity and Capital Resources

Consolidated working capital was $198.3 million at July 3, 1999, compared with $193.4 million at January 2, 1999. Included in working capital are cash, cash equivalents, and available-for-sale investments of $87.2 million at July 3, 1999, compared with $163.7 million at January 2, 1999. In addition, as of July 3, 1999, the Company had $84.9 million invested in an advance to affiliate. Prior to the use of a new domestic cash management arrangement between the Company and Thermo Electron Corporation (Note 8), which became effective June 1, 1999, amounts invested with Thermo Electron were included in cash and cash equivalents. Of the total cash, cash equivalents, and available-for-sale investments, $46.1 million was held by Thermo Fibergen and the remainder was held by the Company and its wholly owned subsidiaries. Of the total advance to affiliate, $5.3 million was advanced by Thermo

Liquidity and Capital Resources (continued)

Fibergen, $7.0 million was advanced by the Company's Thermo Fiberprep subsidiary, and the balance was advanced by the Company and its wholly owned subsidiaries. At July 3, 1999, $40.1 million of the Company's cash and cash equivalents was held by its foreign subsidiaries. Repatriation of this cash into the United States would be subject to foreign withholding taxes and could also be subject to a U.S.
tax.

During the first six months of 1999, $5.8 million of cash was provided by operating activities. A decrease in accounts receivable, which was primarily related to the decline in sales at the Company's Lamort subsidiary, provided $3.6 million of cash. The Company used $2.9 million of cash to reduce accounts payable, primarily at Lamort. The Company expects to pay the remaining balance of accrued restructuring costs of $1.9 million primarily during 1999.

During the first six months of 1999, the Company's investing activities, excluding available-for-sale investments and advance to affiliate activity (Note 8), provided $9.8 million of cash. The Company received proceeds of $13.5 million from the sale of Thermo Wisconsin and used $2.5 million to purchase the assets of Arcline (Note 5). In addition, the Company purchased property, plant, and equipment for $1.9 million and received $0.4 related to the acquisition of Goslin Birmingham (Note 5).

During the first six months of 1999, the Company's financing activities used $5.9 million of cash. The Company used $2.5 million to purchase Company common stock and Thermo Fibergen used $1.6 million to purchase its common stock in open market transactions. In addition, Thermo Fibergen used $2.2 million to purchase its common stock at fair market value from Thermo Electron. These purchases were made pursuant to authorizations by the Company's and Thermo Fibergen's Boards of Directors. As of July 3, 1999, the Company had a remaining authorization to purchase $8.3 million of Company common stock, outstanding convertible debentures, or Thermo Fibergen common stock in open market or negotiated transactions through January 2000 and Thermo Fibergen had a remaining authorization to purchase $3.4 million of its common stock in open market or negotiated transactions through March 2000. Any such purchases are funded from working capital.

Thermo Fibergen's common stock is subject to redemption in September 2000 or September 2001, the redemption value of which is $51.3 million.

At July 3, 1999, the Company had $65.1 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.

During the remainder of 1999, the Company plans to make expenditures for property, plant, and equipment of approximately $1.5 million. In addition, Thermo Fibergen may make capital expenditures for the construction of additional fiber-recovery and water-clarification facilities. Construction of such facilities is dependent upon Thermo Fibergen entering into long-term contracts with pulp and paper mills, under which Thermo Fibergen will charge fees to process the mills' papermaking byproducts. 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.

Year 2000

The following information constitutes a "Year 2000 Readiness Disclosure" under the Year 2000 Information and Readiness Disclosure Act. The Company continues to assess the potential impact of the year 2000 date recognition issue on the Company's internal business systems, products, and operations. The Company's year 2000 initiatives include (i) testing and upgrading significant information technology systems and facilities; (ii) evaluating the compliance status of the Company's current products and certain discontinued products; (iii) assessing the year 2000 readiness of its key suppliers and vendors; and (iv) developing contingency plans.

Year 2000 (continued)

The Company's State of Readiness

The Company has implemented a compliance program to ensure that its critical information technology systems and non-information technology systems will be ready for the year 2000. The first phase of the program, testing and evaluating the Company's critical information technology systems and non-information technology systems for year 2000 compliance, has largely been completed. During phase one, the Company tested and evaluated its significant computer systems, software applications, and related equipment for year 2000 compliance. The Company also evaluated the potential year 2000 impact on its critical non-information technology systems, which efforts included testing the year 2000 readiness of its manufacturing, utility, and telecommunications systems at its critical facilities. The Company is currently in phase two of its program, during which any material noncompliant information technology systems or non-information technology systems that were identified during phase one are prioritized and remediated. Based on its evaluations, the Company does not believe that any material upgrades are necessary to make its critical non-information technology systems year 2000 compliant. The Company is currently upgrading or replacing its material noncompliant information technology systems, and this process was approximately 80% complete as of July 3, 1999. The Company expects that its material information technology systems and critical non-information technology systems will be year 2000 compliant by November 1999.

The Company has also tested and evaluated the year 2000 readiness of the material products that it currently manufactures and sells. The Company believes that all of such material products are either year 2000 compliant or not date sensitive. Certain of the Company's older products, which it no longer manufactures or sells, may not be year 2000 compliant.

The Company is in the process of identifying and assessing the year 2000 readiness of key suppliers and vendors that are believed to be significant to the Company's business operations. As part of this effort, the Company has developed and is distributing questionnaires relating to year 2000 compliance to its significant suppliers and vendors. To date, no significant supplier or vendor has indicated that it believes its business operations will be materially disrupted by the year 2000 issue. The Company has started to follow up with significant suppliers and vendors that have not responded to the Company's questionnaires. The Company has completed the majority of its assessment of third-party risk and expects to complete its assessment by the end of September 1999.

Contingency Plan

The Company is developing contingency plans that will allow its primary business operations to continue despite disruptions due to year 2000 problems. These plans may include identifying and securing other suppliers, increasing inventories, and modifying production facilities and schedules. As the Company continues to evaluate the year 2000 readiness of its business systems, facilities, and significant suppliers and vendors, it will modify and adjust its contingency plans as may be required. The Company expects to complete its contingency plans by November 1999.

Estimated Costs to Address the Company's Year 2000 Issues

To date, costs incurred in connection with the year 2000 issue have not been material. The Company does not expect total year 2000 remediation costs to be material, but there can be no assurance that the Company will not encounter unexpected costs or delays in achieving year 2000 compliance. Year 2000 costs are funded from working capital. All internal costs and related external costs, other than capital additions, related to year 2000 remediation have been and will continue to be expensed as incurred. The Company does not track internal costs incurred for its year 2000 compliance project. Such costs are principally the related payroll costs for its information systems group.

Year 2000 (continued)

Reasonably Likely Worst Case Scenario

At this point in time, the Company is not able to determine the most reasonably likely worst case scenario to result from the year 2000 issue. One possible worst case scenario would be that certain of the Company's material suppliers or vendors experience business disruptions due to the year 2000 issue and would be unable to provide materials and services to the Company on time. The Company's operations could be delayed or temporarily shut down, and it could be unable to meet its obligations to customers in a timely fashion. The Company's business, operations, and financial condition could be adversely affected in amounts that cannot be reasonably estimated at this time. If the Company believes that any of its key suppliers or vendors may not be year 2000 ready, it will seek to identify and secure other suppliers or vendors as part of its contingency plan.

Risks of the Company's Year 2000 Issues

While the Company is attempting to minimize any negative consequences arising from the year 2000 issue, there can be no assurance that year 2000 problems will not have a material adverse impact on the Company's business, operations, or financial condition. While the Company expects that upgrades to its internal business systems will be completed in a timely fashion, there can be no assurance that the Company will not encounter unexpected costs or delays. Certain of the Company's older products, which it no longer manufactures or sells, may not be year 2000 compliant, which may expose the Company to claims. As discussed above, if any of the Company's material suppliers or vendors experience business disruptions due to year 2000 issues, the Company might also be materially adversely affected. If any countries in which the Company operates experience significant year 2000 disruption, the Company could also be materially adversely impacted. There is expected to be a significant amount of litigation relating to the year 2000 issue and there can be no assurance that the Company will not incur material costs in defending or bringing lawsuits. In addition, if any year 2000 issues are identified, there can be no assurance that the Company will be able to retain qualified personnel to remedy such issues. Any unexpected costs or delays arising from the year 2000 issue could have a material adverse impact on the Company's business, operations, and financial condition in amounts that cannot be reasonably estimated at this time.

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 1998.

PART II - OTHER INFORMATION

Item 4 - Submission of Matters of a Vote of Securities

On May 27, 1999, at the Annual Meeting of Shareholders, the shareholders reelected six incumbent directors to a one-year term expiring in 2000. The directors elected at the meeting were: Dr. Walter J. Bornhorst, Dr. George N. Hatsopoulos, Mr. John N. Hatsopoulos, Mr. Francis L. McKone, Mr. Donald E. Noble, and Mr. William A. Rainville. Dr. Bornhorst received 60,530,467 shares voted in favor of his election and 49,573 shares voted against; Dr. G. Hatsopoulos received 60,529,227 shares voted in favor of his election and 50,813 shares voted against; Mr. J. Hatsopoulos received 60,529,050 shares voted in favor of his election and 50,990 shares voted against; Mr. McKone received 60,530,242 shares voted in favor of his election and 49,798 shares voted against; and Mr. Noble received 60,529,455 shares voted in favor of his election and 50,585 shares voted against. Mr. Rainville received 60,529,440 shares voted in favor of his election and 50,600 shares voted against. No abstentions or broker nonvotes were recorded on the election of directors.

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.

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 5th day of August 1999.

THERMO FIBERTEK INC.

/s/ Paul F. Kelleher
Paul F. Kelleher
Chief Accounting Officer

/s/ Theo Melas-Kyriazi
Theo Melas-Kyriazi
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10.1	Master Cash Management, Guarantee Reimbursement, and Loan Agreement dated as of June 1, 1999, between the Registrant and Thermo Electron Corporation.
10.2	Master Cash Management, Guarantee Reimbursement, and Loan Agreement dated as of June 1, 1999, between Thermo Fibergen Inc. and Thermo Electron Corporation (filed as Exhibit 10.1 to Thermo Fibergen Inc.'s Quarterly Report on Form 10-Q for the period ended July 3, 1999 [File No. 1-12137] and incorporated herein by reference).
10.3	Amended and Restated Equity Incentive Plan of the Registrant.
10.4	Amended and Restated Nonqualified Stock Option Plan of the Registrant.
10.5	Amended and Restated Deferred Compensation Plan for Directors of the Registrant.
10.6	Amended and Restated Directors Stock Option Plan of the Registrant.
10.7	Amended and Restated Thermo Fibergen Inc. Equity Incentive Plan (filed as Exhibit 10.4 to Thermo Fibergen Inc.'s Quarterly Report on Form 10-Q for the period ended July 3, 1999 [File No. 1-12137] and incorporated herein by reference).
10.8	Amended and Restated Thermo Fibertek Inc. - Thermo Fibergen Inc. Nonqualified Stock Option Plan.
27	Financial Data Schedule.

MASTER CASH MANAGEMENT, GUARANTEE
REIMBURSEMENT AND LOAN AGREEMENT

This AGREEMENT is entered into as of the 1st day of June, 1999 by and between Thermo Electron Corporation, a Delaware corporation ("Thermo Electron") and Thermo Fibertek Inc., a Delaware corporation (the "Subsidiary").

WITNESSETH:

WHEREAS, Thermo Electron and the Subsidiary are party to a Master Repurchase Agreement, as amended and restated, which contains terms governing a cash management arrangement between them and a Master Guarantee Reimbursement and Loan Agreement, as amended and restated, which contains terms relating to intercompany credit support and a short term borrowing facility;

WHEREAS, Thermo Electron and the Subsidiary desire to establish a new cash management arrangement and short term borrowing facility between them in lieu of the arrangements set forth in the Master Repurchase Agreement and the Master Guarantee Reimbursement and Loan Agreement and also to consolidate the terms relating to intercompany credit support in one agreement;

WHEREAS, the Subsidiary and other majority owned subsidiaries of Thermo Electron that join in this Agreement (collectively, the "Majority-Owned Subsidiaries") and their wholly-owned subsidiaries wish to enter into various financial transactions, such as convertible or nonconvertible debt, loans, equity offerings, and other contractual arrangements with third parties (the "Underlying Obligations") and may provide credit support to, on behalf of or for the benefit of, other subsidiaries of Thermo Electron ("Credit Support Obligations");

WHEREAS, the Majority Owned Subsidiaries and Thermo Electron acknowledge that the Majority Owned Subsidiaries and their wholly-owned subsidiaries may be unable to enter into many kinds of Underlying Obligations without a guarantee of their performance thereunder from Thermo Electron (a "Parent Guarantee") or without obtaining Credit Support Obligations from other Majority Owned Subsidiaries;

WHEREAS, certain Majority Owned Subsidiaries ("Second Tier Majority Owned Subsidiaries") may themselves be majority owned subsidiaries of other Majority Owned Subsidiaries ("First Tier Majority Owned Subsidiaries");

WHEREAS, for various reasons, Parent Guarantees of a Second Tier Majority Owned Subsidiary's Underlying Obligations may be demanded and given without the respective First Tier Majority Owned Subsidiary also issuing a guarantee of such Underlying Obligation;

WHEREAS, Thermo Electron may itself make a loan or provide other credit to a Second Tier Majority Owned Subsidiary or its wholly-owned subsidiaries under circumstances where the applicable First Tier Majority Owned Subsidiary does not provide such credit; and

WHEREAS, Thermo Electron is willing to consider continuing to issue Parent Guarantees and providing credit, and the Majority Owned Subsidiaries are willing to consider continuing to provide Credit Support Obligations, on the terms and conditions set forth below;

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each party hereto, the parties agree as follows:

1. Cash Management Arrangement. The Subsidiary directly, or through its wholly-owned U.S. subsidiaries, may, from time to time, lend its excess cash to Thermo Electron (a "Transaction"), on an unsecured basis, bearing interest at a rate equal to the 30-day Dealer Commercial Paper Rate as reported in the Wall Street Journal (the "DCP Rate") plus 50 basis points, which rate shall be adjusted on the second business day of each fiscal month of the Subsidiary and shall be in effect for the entirety of such fiscal month. The Subsidiary shall institute a Transaction by depositing its excess cash in the Subsidiary's concentration account at BankBoston Corporation ("BankBoston") or other bank designated by Thermo Electron. At the end of each business day, the cash balance deposited in the Subsidiary's concentration account shall be transferred to Thermo Electron's intercompany account at BankBoston or other bank designated by Thermo Electron. Thermo Electron shall indicate on its books the balance of the Subsidiary's cash held by Thermo Electron under this arrangement. After each fiscal month end, Thermo Electron shall provide the Subsidiary a report

indicating the Subsidiary's aggregate cash balance ("Excess Cash") held by Thermo Electron hereunder. The Subsidiary shall have the right to withdraw all or part of its Excess Cash upon 30 days' prior notice to Thermo Electron. Within 30 days of receipt of such withdrawal notice, Thermo Electron shall transfer the portion of the Excess Cash requested for withdrawal to an account designated by the Subsidiary. Thermo Electron shall maintain, at all times, cash, cash equivalents and/or immediately available bank lines of credit equal to at least 50% of the cash balances of the Subsidiary and of all other participating subsidiaries of Thermo Electron, other than wholly-owned subsidiaries of Thermo Electron, held by Thermo Electron under this arrangement. Interest shall be payable on the Excess Cash by Thermo Electron to the Subsidiary each fiscal month in arrears. In addition, the Subsidiary's non-U.S. subsidiaries may, from time to time, lend or advance their excess cash to Thermo Electron, on an unsecured basis, bearing interest at rates set by Thermo Electron at the beginning of each month, based to the extent practicable on comparable interest rates generally available in the local jurisdiction of such participating non-U.S. subsidiary. Further, Thermo Electron and such non-U.S. subsidiaries participating in the cash management arrangement with Thermo Electron shall establish mutually agreeable procedures governing such cash management arrangement.

2. Loans and Advances. Upon request from the Subsidiary, Thermo Electron may make loans and advances to the Subsidiary on a short-term, revolving credit basis, from time to time, in such amounts as mutually determined by Thermo Electron and the Subsidiary. The aggregate principal amount of such loans and advances shall be reflected on the books and records of the Subsidiary and Thermo Electron. All such loans and advances shall be on an unsecured basis unless specifically provided otherwise in separate loan documents executed at that time. The Subsidiary shall pay interest on the aggregate unpaid principal amount of such loans from time to time outstanding at a rate equal to the DCP Rate plus one hundred fifty (150) basis points, which rate shall be adjusted on the second business day of each fiscal month of the Subsidiary and shall be in effect for the entirety of such fiscal month. If, however, one or more of the Subsidiary's majority-owned U.S. subsidiaries (i.e., not wholly-owned) is also participating in the cash management arrangement with Thermo Electron, then the rate payable on the Subsidiary's outstanding principal balance shall be calculated as follows: If the aggregate amount of the Subsidiary's majority-owned U.S. subsidiaries' cash balances under the cash management arrangement ("Majority-Owned Excess Cash") equals or exceeds the Subsidiary's outstanding principal balance, then the Subsidiary shall pay interest on the aggregate unpaid principal amount of such loans at a rate per annum equal to the DCP Rate plus fifty (50) basis points. If the aggregate amount of the Majority-Owned Excess Cash is less than the Subsidiary's outstanding principal balance, then (A) the Subsidiary shall pay interest at a rate per annum equal to the DCP Rate plus fifty (50) basis points on that portion of the unpaid principal amount equal to the Majority-Owned Excess Cash, and (B) the Subsidiary shall pay interest at a rate per annum equal to the DCP Rate plus one hundred fifty (150) basis points on that portion of the unpaid principal amount equal to (i) the Subsidiary's outstanding principal balance, minus (ii) the Majority-Owned Excess Cash. The interest rates set forth in the prior two sentences shall be adjusted on the second business day of each fiscal month of the Subsidiary and shall be in effect for the entirety of such fiscal month. Interest shall be computed on a 360-day basis. Interest is payable each fiscal month in arrears. The aggregate principal amount outstanding shall be payable within 30 days of demand by Thermo Electron. Overdue principal and interest shall bear interest at a rate per annum equal to the rate of interest published from time to time in the Wall Street Journal as the "prime rate" plus one percent (1%). The principal and accrued interest may be paid by the Subsidiary at any time or from time to time, in whole or in part, without premium or penalty. All payments shall be applied first to accrued interest and then to principal. At the end of each business day, Thermo Electron shall apply the balance of the Subsidiary's Excess Cash held by Thermo Electron under the cash management arrangement toward the payment of any loans or advances to the Subsidiary. Principal and interest shall be payable in lawful money of the United States of America, in immediately available funds, at the principal office of Thermo Electron or at such other place as Thermo Electron may designate from time to time in writing to the Subsidiary. The unpaid principal amount of any such borrowings, and accrued interest thereon, shall become immediately due and payable, without demand, upon occurrence of any of the following events:

(a) the failure of the Subsidiary to pay any amount due hereunder within fifteen (15) days of the date when due;

(b) the failure of the Subsidiary to pay its debts as they become due, the filing by or against the Subsidiary of any petition under the U.S. Bankruptcy Code (or the filing of any similar petition under the insolvency law of any jurisdiction), or the making by the Subsidiary 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 material property of the Subsidiary;

(c) the sale by the Subsidiary of all or substantially all of its assets;

(d) the merger or consolidation of the Subsidiary with or into any other corporation in a transaction in which the Subsidiary is not the surviving entity;

(e) the issuance of any writ of attachment, by trustee process or otherwise, or any restraining order or injunction against or affecting the person or property of the Subsidiary that is not removed, repealed or dismissed within thirty (30) days of issuance and as a result has a material adverse effect on the business, operations, assets or condition, financial or otherwise, of the Subsidiary or its ability to discharge any of its liabilities or obligations to Thermo Electron; and

(f) the suspension of the transaction of the usual business of the Subsidiary.

3. Guarantee Arrangements.

(a) If Thermo Electron provides a Parent Guarantee of an Underlying Obligation, and the beneficiary(ies) of the Parent Guarantee enforce the Parent Guarantee, or Thermo Electron performs under the Parent Guarantee for any other reason, then the Majority Owned Subsidiary that is obligated, either directly or indirectly through a wholly-owned subsidiary, under such Underlying Obligation shall indemnify and save harmless Thermo Electron from any liability, cost, expense or damage (including reasonable attorneys' fees) suffered by Thermo Electron as a result of the Parent Guarantee. If the Underlying Obligation is issued by a Second Tier Majority Owned Subsidiary or a wholly-owned subsidiary thereof, and such Second Tier Majority Owned Subsidiary is unable to fully indemnify Thermo Electron (because of the poor financial condition of such Second Tier Majority Owned Subsidiary, or for any other reason), then the First Tier Majority Owned Subsidiary that owns the majority of the stock of such Second Tier Majority Owned Subsidiary shall indemnify and save harmless Thermo Electron from any remaining liability, cost, expense or damage (including reasonable attorneys' fees) suffered by Thermo Electron as a result of the Parent Guarantee. If a Majority Owned Subsidiary or a wholly-owned subsidiary thereof provides a Credit Support Obligation for any subsidiary of Thermo Electron, other than a subsidiary of such Majority Owned Subsidiary, and the beneficiary(ies) of the Credit Support Obligation enforce the Credit Support Obligation, or the Majority Owned Subsidiary or its wholly-owned subsidiary performs under the Credit Support Obligation for any other reason, then Thermo Electron shall indemnify and save harmless the Majority Owned Subsidiary or its wholly-owned subsidiary, as applicable, from any liability, cost, expense or damage (including reasonable attorneys' fees) suffered by the Majority Owned Subsidiary or its wholly-owned subsidiary, as applicable, as a result of the Credit Support Obligation. Without limiting the foregoing, Credit Support Obligations include the deposit of funds by a Majority Owned Subsidiary or a wholly-owned subsidiary thereof in a credit arrangement with a banking facility whereby such funds are available to the banking facility as collateral for overdraft obligations of other Majority Owned Subsidiaries or their subsidiaries also participating in the credit arrangement with such banking facility. Nothwithstanding the foregoing, in order to obtain the benefits of the indemnification obligations of the First Tier Majority Owned Subsidiary set forth above in this Section 3(a), Thermo Electron must have notified the First Tier Majority Owned Subsidiary prior to guaranteeing the obligations of the

Second Tier Majority Owned Subsidiary. If after five (5) business days, Thermo Electron has not received from the First Tier Majority Owned Subsidiary a notice of objection stating that the First Tier Majority Owned Subsidiary objects to Thermo Electron guaranteeing the obligations of the Second Tier Majority Owned Subsidiary, then Thermo Electron may proceed to issue its guarantee of the Underlying Obligation and such guarantee shall be subject to the benefits of the indemnification obligations of the First Tier Majority Owned Subsidiary set forth above in this Section 3(a). If Thermo Electron does receive such notice of objection, then Thermo Electron's guarantee shall not be subject to the indemnification obligations of the First Tier Majority Owned Subsidiary set forth above in this Section 3(a).

(b) For purposes of this Agreement, the term "guarantee" shall include not only a formal guarantee of an obligation, but also any other arrangement where Thermo Electron is liable for the obligations of a Majority Owned Subsidiary or its wholly-owned subsidiaries. Such other arrangements include (a) representations, warranties and/or covenants or other obligations joined in by Thermo Electron, whether on a joint or joint and several basis, for the benefit of the Majority Owned Subsidiary or its wholly-owned subsidiaries and (b) responsibility of Thermo Electron by operation of law for the acts and omissions of the Majority Owned Subsidiary or its wholly-owned subsidiaries, including controlling person liability under securities and other laws.

(c) Promptly after Thermo Electron receives notice that a beneficiary of a Parent Guarantee is seeking to enforce such Parent Guarantee, Thermo Electron shall notify the Majority Owned Subsidiary(s) obligated, either directly or indirectly through a wholly-owned subsidiary, under the relevant Underlying Obligation. Such Majority Owned Subsidiary(s) or wholly-owned subsidiary thereof, as applicable, shall have the right, at its own expense, to contest the claim of such beneficiary. If a Majority Owned Subsidiary or wholly-owned subsidiary thereof, as applicable, is contesting the claim of such beneficiary, Thermo Electron will not perform under the relevant Parent Guarantee unless and until, in Thermo Electron's reasonable judgment, Thermo Electron is obligated under the terms of such Parent Guarantee to perform. Subject to the foregoing, any dispute between a Majority Owned Subsidiary or wholly-owned subsidiary thereof, as applicable, and a beneficiary of a Parent Guarantee shall not affect such Majority Owned Subsidiary's obligation to promptly indemnify Thermo Electron hereunder. Promptly after a Majority Owned Subsidiary or wholly-owned subsidiary thereof, as applicable, receives notice that a beneficiary of a Credit Support Obligation is seeking to enforce such Credit Support Obligation, the Majority Owned Subsidiary shall notify Thermo Electron. Thermo Electron shall have the right, at its own expense, to contest the claim of such beneficiary. If Thermo Electron or the subsidiary of Thermo Electron on whose behalf the Credit Support Obligation is given is contesting the claim of such beneficiary, the Majority Owned Subsidiary or wholly-owned subsidiary thereof, as applicable, will not perform under the relevant Credit Support Obligation unless and until, in the Majority Owned Subsidiary's reasonable judgment, the Majority Owned Subsidiary or wholly-owned subsidiary thereof, as applicable, is obligated under the terms of such Credit Support Obligation to perform. Subject to the foregoing, any dispute between Thermo Electron or the subsidiary of Thermo Electron on whose behalf the Credit Support Obligation was given, on the one hand, and a beneficiary of a Credit Support Obligation, on the other, shall not affect Thermo Electron's obligation to promptly indemnify the Majority Owned Subsidiary or its wholly-owned subsidiary, as applicable, hereunder.

(d) If Thermo Electron makes a loan or provides other credit ("Credit Extension") to a Second Tier Majority Owned Subsidiary, the First Tier Majority Owned Subsidiary that owns the majority of the stock of such Second Tier Majority Owned Subsidiary hereby guarantees the Second Tier Majority Owned Subsidiary's obligations to Thermo Electron thereunder. Such guaranty shall be enforced only after Thermo Electron, in its reasonable judgment, determines that the Second Tier Majority Owned Subsidiary is unable to fully perform its obligations under the Credit Extension. If Thermo Electron provides Credit Extension to a wholly-owned subsidiary of a Second Tier Majority Owned Subsidiary, the Second Tier Majority Owned Subsidiary hereby guarantees it wholly-owned subsidiary's obligations to Thermo Electron thereunder and the First Tier Majority Owned Subsidiary that owns the majority of the stock of such Second Tier Majority Owned Subsidiary hereby guarantees the Second Tier Majority Owned Subsidiary's obligations to Thermo Electron hereunder. Such guaranty by the First Tier Majority Owned Subsidiary shall be enforced only after Thermo Electron, in its reasonable judgment, determines that the Second Tier Majority Owned Subsidiary is unable to fully perform its guaranty obligation hereunder. Notwithstanding the foregoing, in order for a Credit Extension to be deemed guaranteed by the First Tier Majority Owned Subsidiary as set forth above in this Section 3(d), Thermo Electron must have notified the First Tier Majority Owned Subsidiary prior to providing the Credit Extension to the Second Tier Majority Owned Subsidiary. If after five (5) business days, Thermo Electron has not received from the First Tier Majority Owned Subsidiary a notice of objection stating that the First Tier Majority Owned Subsidiary objects to Thermo Electron providing a Credit Extension to the Second Tier Majority Owned Subsidiary, then Thermo Electron may proceed to issue the Credit Extension to the Second Tier Majority Owned Subsidiary and the First Tier Majority Owned Subsidiary shall be deemed to have guaranteed such Credit Extension as set forth above in this Section 3(d). If Thermo Electron does receive such notice of objection, then Thermo Electron's Credit Extension shall not be deemed guaranteed by the First Tier Majority Owned Subsidiary as set forth in this Section 3(d).

(e) All payments required to be made under this Section 3 by a Majority Owned Subsidiary or its wholly-owned subsidiaries, as applicable, shall be made within two days after receipt of notice from Thermo Electron. All payments required to be made under this Section 3 by Thermo Electron shall be made within two days after receipt of notice from the Majority Owned Subsidiary.

4. Waivers. No delay or omission on the part of either party in exercising any right hereunder shall operate as a waiver of such right or of any other right of the party, 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 Subsidiary hereby waives demand, notice of prepayment, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of the Subsidiary's obligations hereunder. The Subsidiary hereby assents to any indulgence and any extension of time for payment of any indebtedness hereunder granted or permitted by the party.

5. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts applicable to contracts made and performed therein without giving effect to any choice of law provision or rule that would cause the application of laws of any jurisdiction other than the Commonwealth of Massachusetts.

6. Severability. Each provision 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.

7. Non-assignability. The rights and obligations of the parties under this Agreement shall not be assigned by either party without the prior written consent of the other party. Subject to the foregoing, this Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns.

8. Other Agreements. The parties agree that, effective as of the date hereof, each of the Master Repurchase Agreement, as amended and restated, between the Subsidiary and Thermo Electron and the Master Guarantee Reimbursement and Loan Agreement, as amended and restated, between the Subsidiary and Thermo Electron, is hereby terminated and is of no further force and effect.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

THERMO ELECTRON CORPORATION

By: /s/ Theo Melas-Kyriazi

Theo Melas-Kyriazi
Title: Vice President & Chief Financial Officer

THERMO FIBERTEK INC.

By: /s/ William A. Rainville

William A. Rainville
Title: President and Chief Executive Officer

THERMO FIBERTEK INC.

EQUITY INCENTIVE PLAN

As amended and restated effective as of June 7, 1999

1. Purpose

The purpose of this Equity Incentive Plan (the "Plan") is to secure for Thermo Fibertek Inc. (the "Company") and its Stockholders the benefits arising from capital stock ownership by employees and Directors of, and consultants to, the Company and its subsidiaries or other persons who are expected to make significant contributions to the future growth and success of the Company and its subsidiaries. The Plan is intended to accomplish these goals by enabling the Company to offer such persons equity-based interests, equity-based incentives or performance-based stock incentives in the Company, or any combination thereof ("Awards").

2. Administration

The Plan will be administered by the Board of Directors of the Company (the "Board"). The Board shall have full power to interpret and administer the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan and Awards, and full authority to select the persons to whom Awards will be granted ("Participants"), determine the type and amount of Awards to be granted to Participants (including any combination of Awards), determine the terms and conditions of Awards granted under the Plan (including terms and conditions relating to events of merger, consolidation, dissolution and liquidation, change of control, vesting, forfeiture, restrictions, dividends and interest, if any, on deferred amounts), waive compliance by a participant with any obligation to be performed by him or her under an Award, waive any term or condition of an Award, cancel an existing Award in whole or in part with the consent of a Participant, grant replacement Awards, accelerate the vesting or lapse of any restrictions of any Award and adopt the form of instruments evidencing Awards under the Plan and change such forms from time to time. Any interpretation by the Board of the terms and provisions of the Plan or any Award thereunder and the administration thereof, and all action taken by the Board, shall be final, binding and conclusive on all parties and any person claiming under or through any party. No Director shall be liable for any action or determination made in good faith. The Board may, to the full extent permitted by law, delegate any or all of its responsibilities under the Plan to a committee (the "Committee") appointed by the Board and consisting of two or more members of the Board, each of whom shall be deemed a "disinterested person" within the meaning of Rule 16b-3 (or any successor rule) of the Securities Exchange Act of 1934 (the "Exchange Act").

3. Effective Date

The Plan shall be effective as of the date first approved by the Board of Directors, subject to the approval of the Plan by the Corporation's Stockholders. Grants of Awards under the Plan made prior to such approval shall be effective when made (unless otherwise specified by the Board at the time of grant), but shall be conditioned on and subject to such approval of the Plan.

4. Shares Subject to the Plan

Subject to adjustment as provided in Section 10.6, the total number of shares of Common Stock reserved and available for distribution under the Plan shall be 2,250,000 shares. Such shares may consist, in whole or in part, of authorized and unissued shares or treasury shares.

If any Award of shares of Common Stock requiring exercise by the Participant for delivery of such shares terminates without having been exercised in full, is forfeited or is otherwise terminated without a payment being made to the Participant in the form of Common Stock, or if any shares of Common Stock subject to restrictions are repurchased by the Company pursuant to the terms of any Award or are otherwise reacquired by the Company to satisfy obligations arising by virtue of any Award, such shares shall be available for distribution in connection with future Awards under the Plan.

5. Eligibility

Employees and Directors of, and consultants to, the Company and its subsidiaries, or other persons who are expected to make significant contributions to the future growth and success of the Company and its subsidiaries shall be eligible to receive Awards under the Plan. The Board, or other appropriate committee or person to the extent permitted pursuant to the last sentence of Section 2, shall from time to time select from among such eligible persons those who will receive Awards under the Plan.

6. Types of Awards

The Board may offer Awards under the Plan in any form of equity-based interest, equity-based incentive or performance-based stock incentive in Common Stock of the Company or any combination thereof. The type, terms and conditions and restrictions of an Award shall be determined by the Board at the time such Award is made to a Participant; provided however that the maximum number of shares permitted to be granted under any Award or combination of Awards to any Participant during any one calendar year may not exceed 500,000 shares of Common Stock.

An Award shall be made at the time specified by the Board and shall be subject to such conditions or restrictions as may be imposed by the Board and shall conform to the general rules applicable under the Plan as well as any special rules then applicable under federal tax laws or regulations or the federal securities laws relating to the type of Award granted.

Without limiting the foregoing, Awards may take the following forms and shall be subject to the following rules and conditions:

6.1 Options

An option is an Award that entitles the holder on exercise thereof to purchase Common Stock at a specified exercise price. Options granted under the Plan may be either incentive stock options ("incentive stock options") that meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or options that are not intended to meet the requirements of Section 422 ("non-statutory options").

6.1.1 Option Price. The price at which Common Stock may be purchased upon exercise of an option shall be determined by the Board, provided however, the exercise price shall not be less than the par value per share of Common Stock.

6.1.2 Option Grants. The granting of an option shall take place at the time specified by the Board. Options shall be evidenced by option agreements. Such agreements shall conform to the requirements of the Plan, and may contain such other provisions (including but not limited to vesting and forfeiture provisions, acceleration, change of control, protection in the event of merger, consolidations, dissolutions and liquidations) as the Board shall deem advisable. Option agreements shall expressly state whether an option grant is intended to qualify as an incentive stock option or non-statutory option.

6.1.3 Option Period. An option will become exercisable at such time or times (which may be immediately or in such installments as the Board shall determine) and on such terms and conditions as the Board shall specify. The option agreements shall specify the terms and conditions applicable in the event of an option holder's termination of employment during the option's term.

Any exercise of an option must be in writing, signed by the proper person and delivered or mailed to the Company, accompanied by (1) any additional documents required by the Board and (2) payment in full in accordance with Section 6.1.4 for the number of shares for which the option is exercised.

6.1.4 Payment of Exercise Price. Stock purchased on exercise of an option shall be paid for as follows: (1) in cash or by check (subject to such guidelines as the Company may establish for this purpose), bank draft or money order payable to the order of the Company or (2) if so permitted by the instrument evidencing the option (or in the case of a non-statutory option, by the Board at or after grant of the option), (i) through the delivery of shares of Common Stock that have been outstanding for at least six months (unless the Board expressly approves a shorter period) and that have a fair market value (determined in accordance with procedures prescribed by the Board) equal to the exercise price, (ii) by delivery of a promissory note of the option holder to the Company, payable on such terms as are specified by the Board, (iii) by delivery of an unconditional and irrevocable undertaking by a broker to deliver promptly to the Company sufficient funds to pay the exercise price, or (iv) by any combination of the permissible forms of payment.

6.1.5 Buyout Provision. The Board may at any time offer to buy out for a payment in cash, shares of Common Stock, deferred stock or restricted stock, an option previously granted, based on such terms and conditions as the Board shall establish and communicate to the option holder at the time that such offer is made.

6.1.6 Special Rules for Incentive Stock Options. Each provision of the Plan and each option agreement evidencing an incentive stock option shall be construed so that each incentive stock option shall be an incentive stock option as defined in Section 422 of the Code or any statutory provision that may replace such Section, and any provisions thereof that cannot be so construed shall be disregarded. Instruments evidencing incentive stock options must

contain such provisions as are required under applicable provisions of the Code. Incentive stock options may be granted only to employees of the Company and its subsidiaries. The exercise price of an incentive stock option shall not be less than 100% (110% in the case of an incentive stock option granted to a more than ten percent Stockholder of the Company) of the fair market value of the Common Stock on the date of grant, as determined by the Board. An incentive stock option may not be granted after the tenth anniversary of the date on which the Plan was adopted by the Board and the latest date on which an incentive stock option may be exercised shall be the tenth anniversary (fifth anniversary, in the case of any incentive stock option granted to a more than ten percent Stockholder of the Company) of the date of grant, as determined by the Board.

6.2 Restricted and Unrestricted Stock

An Award of restricted stock entitles the recipient thereof to acquire shares of Common Stock upon payment of the purchase price subject to restrictions specified in the instrument evidencing the Award.

6.2.1 Restricted Stock Awards. Awards of restricted stock shall be evidenced by restricted stock agreements. Such agreements shall conform to the requirements of the Plan, and may contain such other provisions (including restriction and forfeiture provisions, change of control, protection in the event of mergers, consolidations, dissolutions and liquidations) as the Board shall deem advisable.

6.2.2 Restrictions. Until the restrictions specified in a restricted stock agreement shall lapse, restricted stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of, and upon certain conditions specified in the restricted stock agreement, must be resold to the Company for the price, if any, specified in such agreement. The restrictions shall lapse at such time or times, and on such conditions, as the Board may specify. The Board may at any time accelerate the time at which the restrictions on all or any part of the shares shall lapse.

6.2.3 Rights as a Stockholder. A Participant who acquires shares of restricted stock will have all of the rights of a Stockholder with respect to such shares including the right to receive dividends and to vote such shares. Unless the Board otherwise determines, certificates evidencing shares of restricted stock will remain in the possession of the Company until such shares are free of all restrictions under the Plan.

6.2.4 Purchase Price. The purchase price of shares of restricted stock shall be determined by the Board, in its sole discretion, but such price may not be less than the par value of such shares.

6.2.5 Other Awards Settled With Restricted Stock. The Board may provide that any or all the Common Stock delivered pursuant to an Award will be restricted stock.

6.2.6 Unrestricted Stock. The Board may, in its sole discretion, sell to any Participant shares of Common Stock free of restrictions under the Plan for a price determined by the Board, but which may not be less than the par value per share of the Common Stock.

6.3 Deferred Stock

6.3.1 Deferred Stock Award. A deferred stock Award entitles the recipient to receive shares of deferred stock, which is Common Stock to be delivered in the future. Delivery of the Common Stock will take place at such time or times, and on such conditions, as the Board may specify. The Board may at any time accelerate the time at which delivery of all or any part of the Common Stock will take place.

6.3.2 Other Awards Settled with Deferred Stock. The Board may, at the time any Award described in this Section 6 is granted, provide that, at the time Common Stock would otherwise be delivered pursuant to the Award, the Participant will instead receive an instrument evidencing the right to future delivery of deferred stock.

6.4 Performance Awards

6.4.1 Performance Awards. A performance Award entitles the recipient to receive, without payment, an amount, in cash or Common Stock or a combination thereof (such form to be determined by the Board), following the attainment of performance goals. Performance goals may be related to personal performance, corporate performance, departmental performance or any other category of performance deemed by the Board to be important to the success of the Company. The Board will determine the performance goals, the period or periods during which performance is to be measured and all other terms and conditions applicable to the Award.

6.4.2 Other Awards Subject to Performance Conditions. The Board may, at the time any Award described in this Section 6 is granted, impose the condition (in addition to any conditions specified or authorized in this Section 6 of the Plan) that performance goals be met prior to the Participant's realization of any payment or benefit under the Award.

7. Purchase Price and Payment

Except as otherwise provided in the Plan, the purchase price of Common Stock to be acquired pursuant to an Award shall be the price determined by the Board, provided that such price shall not be less than the par value of the Common Stock. Except as otherwise provided in the Plan, the Board may determine the method of payment of the exercise price or purchase price of an Award granted under the Plan and the form of payment. The Board may determine that all or any part of the purchase price of Common Stock pursuant to an Award has been satisfied by past services rendered by the Participant. The Board may agree at any time, upon request of the Participant, to defer the date on which any payment under an Award will be made.

8. Loans and Supplemental Grants

The Company may make a loan to a Participant, either on or after the grant to the Participant of any Award, in connection with the purchase of Common Stock under the Award or with the payment of any obligation incurred or recognized as a result of the Award. The Board will have full authority to decide whether the loan is to be secured or unsecured or with or without recourse against the borrower, the terms on which the loan is to be repaid and the conditions, if any, under which it may be forgiven.

In connection with any Award, the Board may at the time such Award is made or at a later date, provide for and make a cash payment to the participant not to exceed an amount equal to (a) the amount of any federal, state and local income tax or ordinary income for which the Participant will be liable with respect to the Award, plus (b) an additional amount on a grossed-up basis necessary to make him or her whole after tax, discharging all the participant's income tax liabilities arising from all payments under the Plan.

9. Change in Control

9.1 Impact of Event

In the event of a "Change in Control" as defined in Section 9.2, the following provisions shall apply, unless the agreement evidencing the Award otherwise provides (by specific explicit reference to Section 9.2 below). If a Change in Control occurs while any Awards are outstanding, then, effective upon the Change in Control, (i) each outstanding stock option or other stock-based Award awarded under the Plan that was not previously exercisable and vested shall become immediately exercisable in full and will no longer be subject to a right of repurchase by the Company, (ii) each outstanding restricted stock award or other stock-based Award subject to restrictions and to the extent not fully vested, shall be deemed to be fully vested, free of restrictions and no longer subject to a right of repurchase by the Company, and (iii) deferral limitations and conditions that relate solely to the passage of time, continued employment or affiliation will be waived and removed as to deferred stock Awards and performance Awards; performance of other conditions (other than conditions relating solely to the passage of time, continued employment or affiliation) will continue to apply unless otherwise provided in the agreement evidencing the Award or in any other agreement between the Participant and the Company or unless otherwise agreed by the Board.

9.2 Definition of "Change in Control"

"Change in Control" means an event or occurrence set forth in any one or more of subsections (a) through (d) below (including an event or occurrence that constitutes a Change in Control under one of such subsections but is specifically exempted from another such subsection):

(a) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership of any capital stock of Thermo Electron Corporation ("Thermo Electron") if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) 40% or more of either (i) the then-outstanding shares of common stock of Thermo Electron (the "Outstanding TMO Common Stock") or (ii) the combined voting power of the then-outstanding securities of Thermo Electron entitled to vote generally in the election of directors (the "Outstanding TMO Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change in Control: (i) any acquisition by Thermo Electron, (ii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by Thermo Electron or any corporation controlled by Thermo Electron, or (iii) any acquisition by any corporation pursuant to a

transaction which complies with clauses (i) and (ii) of subsection (c) of this definition; or

(b) such time as the Continuing Directors (as defined below) do not constitute a majority of the Board of Directors of Thermo Electron (the "Thermo Board") (or, if applicable, the Board of Directors of a successor corporation to Thermo Electron), where the term "Continuing Director" means at any date a member of the Thermo Board (i) who was a member of the Thermo Board as of July 1, 1999 or (ii) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Thermo Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (ii) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Thermo Board; or

(c) the consummation of a merger, consolidation, reorganization, recapitalization or statutory share exchange involving Thermo Electron or a sale or other disposition of all or substantially all of the assets of Thermo Electron in one or a series of transactions (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding TMO Common Stock and Outstanding TMO Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns Thermo Electron or substantially all of Thermo Electron's assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the "Acquiring Corporation") in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding TMO Common Stock and Outstanding TMO Voting Securities, respectively; and (ii) no Person (excluding the Acquiring Corporation or any employee benefit plan (or related trust) maintained or sponsored by Thermo Electron or by the Acquiring Corporation) beneficially owns, directly or indirectly, 40% or more of the then outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors; or

(d) approval by the stockholders of Thermo Electron of a complete liquidation or dissolution of Thermo Electron.

10. General Provisions

10.1 Documentation of Awards

Awards will be evidenced by written instruments, which may differ among Participants, prescribed by the Board from time to time. Such instruments may be in the form of agreements to be executed by both the Participant and the Company or certificates, letters or similar instruments which need not be executed by the participant but acceptance of which will evidence agreement to the terms thereof. Such instruments shall conform to the requirements of the Plan and may contain such other provisions (including provisions relating to events of merger, consolidation, dissolution and liquidations, change of control and restrictions affecting either the agreement or the Common Stock issued thereunder), as the Board deems advisable.

10.2 Rights as a Stockholder

Except as specifically provided by the Plan or the instrument evidencing the Award, the receipt of an Award will not give a Participant rights as a Stockholder with respect to any shares covered by an Award until the date of issue of a stock certificate to the participant for such shares.

10.3 Conditions on Delivery of Stock

The Company will not be obligated to deliver any shares of Common Stock pursuant to the Plan or to remove any restriction from shares previously delivered under the Plan (a) until all conditions of the Award have been satisfied or removed, (b) until, in the opinion of the Company's counsel, all applicable federal and state laws and regulations have been complied with, (c) if the outstanding Common Stock is at the time listed on any stock exchange, until the shares have been listed or authorized to be listed on such exchange upon official notice of issuance, and (d) until all other legal matters in connection with the issuance and delivery of such shares have been approved by

the Company's counsel. If the sale of Common Stock has not been registered under the Securities Act of 1933, as amended, the Company may require, as a condition to exercise of the Award, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of such act and may require that the certificates evidencing such Common Stock bear an appropriate legend restricting transfer.

If an Award is exercised by the participant's legal representative, the Company will be under no obligation to deliver Common Stock pursuant to such exercise until the Company is satisfied as to the authority of such representative.

10.4 Tax Withholding

The Company will withhold from any cash payment made pursuant to an Award an amount sufficient to satisfy all federal, state and local withholding tax requirements (the "withholding requirements").

In the case of an Award pursuant to which Common Stock may be delivered, the Board will have the right to require that the participant or other appropriate person remit to the Company an amount sufficient to satisfy the withholding requirements, or make other arrangements satisfactory to the Board with regard to such requirements, prior to the delivery of any Common Stock. If and to the extent that such withholding is required, the Board may permit the participant or such other person to elect at such time and in such manner as the Board 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 requirement.

10.5 Transferability of Awards

Except as may be authorized by the Board, in its sole discretion, no Award (other than an Award in the form of an outright transfer of cash or Common Stock not subject to any restrictions) may be transferred other than by will or the laws of descent and distribution, and during a Participant's lifetime an Award requiring exercise may be exercised only by him or her (or in the event of incapacity, the person or persons properly appointed to act on his or her behalf). The Board may, in its discretion, determine the extent to which Awards granted to a Participant shall be transferable, and such provisions permitting or acknowledging transfer shall be set forth in the written agreement evidencing the Award executed and delivered by or on behalf of the Company and the Participant.

10.6 Adjustments in the Event of Certain Transactions

(a) In the event of a stock dividend, stock split or combination of shares, or other distribution with respect to holders of Common Stock other than normal cash dividends, the Board will make (i) appropriate adjustments to the maximum number of shares that may be delivered under the Plan under Section 4 above, and (ii) appropriate adjustments to the number and kind of shares of stock or securities subject to Awards then outstanding or subsequently granted, any exercise prices relating to Awards and any other provisions of Awards affected by such change.

(b) In the event of any recapitalization, merger or consolidation involving the Company, any transaction in which the Company becomes a subsidiary of another entity, any sale or other disposition of all or a substantial portion of the assets of the Company or any similar transaction, as determined by the Board, the Board in its discretion may make appropriate adjustments to outstanding Awards to avoid distortion in the operation of the Plan.

10.7 Employment Rights

Neither the adoption of the Plan nor the grant of Awards will confer upon any person any right to continued employment with the Company or any subsidiary or interfere in any way with the right of the Company or subsidiary to terminate any employment relationship at any time or to increase or decrease the compensation of such person. Except as specifically provided by the Board in any particular case, the loss of existing or potential profit in Awards granted under the Plan will not constitute an element of damages in the event of termination of an employment relationship even if the termination is in violation of an obligation of the Company to the employee.

Whether an authorized leave of absence, or absence in military or government service, shall constitute termination of employment shall be determined by the Board at the time. For purposes of this Plan, transfer of employment between the Company and its subsidiaries shall not be deemed termination of employment.

10.8 Other Employee Benefits

The value of an Award granted to a Participant who is an employee, and the amount of any compensation deemed to be received by an employee as a result of any exercise or purchase of Common Stock pursuant to an Award or sale of shares received under the Plan, will not constitute "earnings" or "compensation" with respect to which any other employee benefits of such employee are determined, including without limitation benefits under any pension, stock ownership, stock purchase, life insurance, medical, health, disability or salary continuation plan.

10.9 Legal Holidays

If any day on or before which action under the Plan must be taken falls on a Saturday, Sunday or legal holiday, such action may be taken on the next succeeding day not a Saturday, Sunday or legal holiday.

10.10 Foreign Nationals

Without amending the Plan, Awards may be granted to persons who are foreign nationals or employed outside the United States or both, on such terms and conditions different from those specified in the Plan, as may, in the judgment of the Board, be necessary or desirable to further the purpose of the Plan.

11. Termination and Amendment

The Plan shall remain in full force and effect until terminated by the Board. Subject to the last sentence of this Section 11, the Board may at any time or times amend the Plan or any outstanding Award for any purpose that may at the time be permitted by law, or may at any time terminate the Plan as to any further grants of Awards. No amendment of the Plan or any agreement evidencing Awards under the Plan may adversely affect the rights of any participant under any Award previously granted without such participant's consent.

THERMO FIBERTEK INC.

NONQUALIFIED STOCK OPTION PLAN

As amended and restated effective as of June 7, 1999

1. Purpose

This Nonqualified Stock Option Plan (the "Plan") is intended to encourage ownership of Common Stock (the "Common Stock"), of Thermo Fibertek Inc. ("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. 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

Subject to adjustment as provided in Section 11, the total number of shares of Common Stock reserved and available for issuance under the Plan and the Company's Incentive Stock Option Plan in the aggregate shall be 3,600,000 shares. Shares to be issued upon the exercise of options granted under the Plan may be either authorized but unissued shares or shares held by the Company in its treasury. 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 will be administered by the Board of Directors of the Company (the "Board"). Subject to the provisions of the Plan, the Board 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; (f) the terms and conditions of options granted under the Plan (including terms and conditions relating to events of merger, consolidation, dissolution and liquidation, change of control, vesting, forfeiture, restrictions, dividends and interest, if any, on deferred amounts); (g) waive compliance by an optionee with any obligation to be performed by him or her under an option; (h) waive any term or condition of an option; (i) cancel an existing option in whole or in part with the consent of an Optionee; (j) grant replacement options; (k) accelerate the vesting or lapse of any restrictions of any option; and (l) adopt the form of instruments evidencing options under the Plan and change such forms from time to time. In making such determinations, the Board 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 Board in its discretion shall deem relevant. Subject to the provisions of the Plan, the Board 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. Any interpretation by the Board of the terms and provisions of the Plan or any Award thereunder and the administration thereof, and all action taken by the Board, shall be final, binding and conclusive on all parties and any person claiming under or through any party. No Director shall be liable for any action or determination made in good faith. The Board may, to the full extent permitted by law, delegate any or all of its responsibilities under the Plan to a committee (the "Committee") appointed by the Board and consisting of two or more members of the Board, each of whom shall be deemed a "disinterested person" within the meaning of Rule 16b-3 (or any successor rule) of the Securities Exchange Act of 1934 (the "Exchange Act").

5. Eligibility

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

6. Time of Granting Options

The granting of an option shall take place at the time specified by the Board. Only if expressly so provided by the Board 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 Board 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 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 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 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

Except as may be authorized by the Board, in its sole discretion, no Option may be transferred other than by will or the laws of descent and distribution, and during a Optionee's lifetime an option requiring exercise may be exercised only by him or her (or in the event of incapacity, the person or persons properly appointed to act on his or her behalf). The Board may, in its discretion, determine the extent to which options granted to an Optionee shall be transferable, and such provisions permitting or acknowledging transfer shall be set forth in the written agreement evidencing the option executed and delivered by or on behalf of the Company and the Optionee.

10. Vesting, Restrictions and Termination of Options

The Board, 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 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. Adjustments in the Event of Certain Transactions

(a) In the event of a stock dividend, stock split or combination of shares, or other distribution with respect to holders of Common Stock other than normal cash dividends, the Board will make (i) appropriate adjustments to the maximum number of shares that may be delivered under the Plan under Section 3 above, and (ii) appropriate adjustments to the number and kind of shares of stock or securities subject to Options then outstanding or subsequently granted, any exercise prices relating to Options and any other provisions of Awards affected by such change.

(b) In the event of any recapitalization, merger or consolidation involving the Company, any transaction in which the Company becomes a subsidiary of another entity, any sale or other disposition of all or a substantial portion of the assets of the Company or any similar transaction, as determined by the Board, the Board in its discretion may make appropriate adjustments to outstanding Options to avoid distortion in the operation of the Plan.

12. Change in Control

12.1 Impact of Event

In the event of a "Change in Control" as defined in Section 12.2, the

following provisions shall apply, unless the agreement evidencing the Option otherwise provides (by specific explicit reference to Section 12.2 below). If a Change in Control occurs while any Options are outstanding, then, effective upon the Change in Control, (i) each outstanding stock option granted under the Plan that was not previously exercisable and vested shall become immediately exercisable in full and will no longer be subject to a right of repurchase by the Company, (ii) each outstanding Option subject to restrictions and to the extent not fully vested, shall be deemed to be fully vested, free of restrictions and no longer subject to a right of repurchase by the Company, and (iii) performance of other conditions (other than conditions relating solely to the passage of time, continued employment or affiliation) will continue to apply unless otherwise provided in the agreement evidencing the Option or in any other agreement between the Optionee and the Company or unless otherwise agreed by the Board.

12.2 Definition of "Change in Control"

"Change in Control" means an event or occurrence set forth in any one or more of subsections (a) through (d) below (including an event or occurrence that constitutes a Change in Control under one of such subsections but is specifically exempted from another such subsection):

(a) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership of any capital stock of Thermo Electron Corporation ("Thermo Electron") if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) 40% or more of either (i) the then-outstanding shares of common stock of Thermo Electron (the "Outstanding TMO Common Stock") or (ii) the combined voting power of the then-outstanding securities of Thermo Electron entitled to vote generally in the election of directors (the "Outstanding TMO Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change in Control: (i) any acquisition by Thermo Electron, (ii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by Thermo Electron or any corporation controlled by Thermo Electron, or (iii) any acquisition by any corporation pursuant to a transaction which complies with clauses (i) and (ii) of subsection (c) of this definition; or

(b) such time as the Continuing Directors (as defined below) do not constitute a majority of the Board of Directors of Thermo Electron (the "Thermo Board") (or, if applicable, the Board of Directors of a successor corporation to Thermo Electron), where the term "Continuing Director" means at any date a member of the Thermo Board (i) who was a member of the Thermo Board as of July 1, 1999 or (ii) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Thermo Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (ii) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Thermo Board; or

(c) the consummation of a merger, consolidation, reorganization, recapitalization or statutory share exchange involving Thermo Electron or a sale or other disposition of all or substantially all of the assets of Thermo Electron in one or a series of transactions (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding TMO Common Stock and Outstanding TMO Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns Thermo Electron or substantially all of Thermo Electron's assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the "Acquiring Corporation") in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding TMO Common Stock and Outstanding TMO Voting Securities, respectively; and (ii) no Person (excluding the Acquiring Corporation or any employee benefit plan (or related trust) maintained or sponsored by Thermo Electron or by the Acquiring Corporation) beneficially owns, directly or indirectly, 40% or more of the then outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors; or

(d) approval by the stockholders of Thermo Electron of a complete liquidation or dissolution of Thermo Electron.

13. 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.

14. 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.

15. 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.

16. 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 Board 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 Board 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 Board may permit the Optionee or such other person to elect at such time and in such manner as the Board 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.

17. Termination and Amendment

The Plan shall remain in full force and effect until terminated by the Board. Subject to the last sentence of this Section 17, the Board may at any time or times amend the Plan or any outstanding Option for any purpose that may at the time be permitted by law, or may at any time terminate the Plan as to any further grants of Options. No amendment of the Plan or any agreement evidencing Options under the Plan may adversely affect the rights of any participant under any Option previously granted without such participant's consent.

THERMO FIBERTEK INC.

DEFERRED COMPENSATION PLAN FOR DIRECTORS

As amended and restated as of June 7, 1999

Section 1. Participation. Any director of Thermo Fibertek Inc. (the "Company") may elect to have such percentage as he or she may specify of the fees otherwise payable to him or her deferred and paid to him or her as provided in this Plan. A director who is also an employee of the Company or any subsidiary or parent of the Company, shall not be eligible to participate in this Plan. Each election shall be made by notice in writing delivered to the Secretary of the Company, in such form as the Secretary shall designate, and each election shall be applicable only with respect to fees earned subsequent to the date of the election for the period designated in the form. The term "participant" as used herein refers to any director who shall have made an election. No participant may defer the receipt of any fees to be earned after the later to occur of either (a) the date on which the participant shall retire from or otherwise cease to engage in his or her principal occupation or employment or (b) the date on which he or she shall cease to be a director of the Company, or such earlier date as the Board of Directors of the Company, with the participant's consent, may designate (the "deferral termination date"). In the event that the participant's deferral termination date is the date on which he or she ceases to engage in his or her principal occupation or employment, the participant or a personal representative shall advise the Company of that date by written notice delivered to the Secretary of the Company.

Section 2. Establishment of Deferred Compensation Accounts. There shall be established for each participant an account to be designated as that participant's deferred compensation account.

Section 3. Allocations to Deferred Compensation Accounts. There shall be allocated to each participant's deferred compensation account, as of the end of each quarter, an amount equal to his or her fees for that quarter which that participant shall have elected to have deferred pursuant to Section 1.

Section 4. Stock Units and Stock Unit Accounts. All amounts allocated to a participant's deferred compensation account pursuant to Section 3 and Section 5 shall be converted, at the end of each quarter, into stock units by dividing the accumulated balance in the deferred compensation account as of the end of that quarter by the average last sale price per share of the Company's common stock as reported in The Wall Street Journal, for the five business days up to and including the last business day of that quarter. The number of stock units, so determined, rounded to the nearest one-hundredth of a share, shall be credited to a separate stock unit account to be established for the participant, and the aggregate value thereof as of the last business day of that quarter shall be charged to the participant's deferred compensation account. No amounts credited to the participant's deferred compensation account pursuant to Section 5 subsequent to the close of the fiscal year in which occurs the participant's deferral termination date shall be converted into stock units. Any such amount shall be distributed in cash as provided in Section 8. A maximum number of 100,000 shares of the Company's common stock may be represented by stock units credited under this Plan, subject to proportionate adjustment in the event of any stock dividend, stock split or other capital change affecting the Company's common stock.

Section 5. Cash Dividend Credits. Additional credits shall be made to a participant's deferred compensation account, until all distributions shall have been made from the participant's stock unit account, in amounts equal to the cash dividends (or the fair market value of dividends paid in property other than dividends payable in common stock of the Company) which the participant would have received from time to time had he or she been the owner on the record dates for the payment of such dividends of the number of shares of the Company's common stock equal to the number of units in his or her stock unit account on those dates.

Section 6. Stock Dividend Credits. Additional credits shall be made to a participant's stock unit account, until all distributions shall have been made from the participant's stock unit account, of a number of units equal to the number of shares of the Company's common stock, rounded to the nearest one-hundredth share, which the participant would have received from time to time as stock dividends had he or she been the owner on the record dates for the payments of such stock dividends of the number of units of the Company's common stock equal to the number of units credited to his or her stock unit account on those dates.

Section 7. Adjustments in the Event of Certain Transactions. In the event of a stock dividend, stock split or combination of shares, or other distribution with respect to holders of Common Stock other than normal cash dividends, the number

of units then credited to a partipant's stock unit account shall be appropriately adjusted on the same basis. In the event of any recapitalization, merger or consolidation involving the Company, any transaction in which the Company becomes a subsidiary of another entity, any sale or other disposition of all or a substantial portion of the assets of the Company or any similar transaction, as determined by the Board, the Board in its discretion may terminate the Plan pursuant to Section 11.

Section 8. Distribution of Stock and Cash After Participant's Deferral Termination Date. When a participant's deferral termination date shall occur, the Company shall become obligated to make the distributions prescribed in the following paragraphs (a) and (b).

(a) The Company shall distribute to the participant the number of shares of the common stock of the Company which shall equal the total number of units accumulated in his or her stock unit account as of the close of the fiscal year in which the participant's deferral termination date occurs. Such distribution of stock shall be made in ten annual installments, unless, at least six months prior to his or her deferral termination date, the participant shall have elected, by notice in writing filed with the Secretary of the Company, to have such distribution made in five annual installments. In either such case, the installments shall be of as nearly equal number of shares as practicable, adjusted to reflect any changes pursuant to Sections 6 and 7 in the number of units remaining in the participant's stock unit account. The first such installment shall be distributed within 60 days after the close of the fiscal year in which the participant's deferral termination date occurs. The remaining installments shall be distributed at annual intervals thereafter. Anything herein to the contrary notwithstanding, the Company shall have the option, if its Board of Directors shall by resolution so determine, in lieu of making distribution in ten or five annual installments as set forth above, with the participant's consent, to distribute stock or any remaining installments thereof in a single distribution at any time following the close of the fiscal year in which the participant's deferral termination date occurs. Distribution of stock made hereunder may be made from shares of common stock held in the treasury and/or from shares of authorized but previously unissued shares of common stock.

(b) The Company shall distribute to the participant sums in cash equal to the balance credited to his or her deferred compensation account as of the close of the fiscal year in which his or her deferral termination date occurs plus such additional amounts as shall be credited thereto from time to time thereafter pursuant to Section 5. The cash distribution shall be made on the same dates as the annual distributions made pursuant to paragraph (a) above, and each cash distribution shall consist of the entire balance credited to the participant's deferred compensation account at the time of the annual distribution.

If a participant's deferral termination date shall occur by reason of his or her death or if he or she shall die after his or her deferral termination date but prior to receipt of all distributions of stock and cash provided for in this Section 8, all stock and cash remaining distributable hereunder shall be distributed to such beneficiary as the participant shall have designated in writing and filed with the Secretary of the Company or, in the absence of designation, to the participant's personal representative. Such distributions shall be made in the same manner and at the same intervals as they would have been made to the participant had he or she continued to live.

Section 9. Participant's Rights Unsecured. The right of any participant to receive distributions under Section 8 shall be an unsecured claim against the general assets of the Company. The Company may but shall not be obligated to acquire shares of its outstanding common stock from time to time in anticipation of its obligation to make such distributions, but no participant shall have any rights in or against any shares of stock so acquired by the Company. All such stock shall constitute general assets of the Company and may be disposed of by the Company at such time and for such purposes as it may deem appropriate.

10. Change in Control

10.1 Impact of Event

In the event of a "Change in Control" as defined in Section 10.2, the Plan shall terminate and full distribution shall be made from all participants' deferred compensation accounts and stock unit accounts effective upon the Change of Control.

10.2 Definition of "Change in Control"

"Change in Control" means an event or occurrence set forth in any one or more of subsections (a) through (d) below (including an event or occurrence that constitutes a Change in Control under one of such subsections but is specifically exempted from another such subsection):

(a) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership of any capital stock of Thermo Electron Corporation ("Thermo Electron") if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) 40% or more of either (i) the then-outstanding shares of common stock of Thermo Electron (the "Outstanding TMO Common Stock") or (ii) the combined voting power of the then-outstanding securities of Thermo Electron entitled to vote generally in the election of directors (the "Outstanding TMO Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change in Control: (i) any acquisition by Thermo Electron, (ii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by Thermo Electron or any corporation controlled by Thermo Electron, or (iii) any acquisition by any corporation pursuant to a transaction which complies with clauses (i) and (ii) of subsection (c) of this definition; or

(b) such time as the Continuing Directors (as defined below) do not constitute a majority of the Board of Directors of Thermo Electron (the "Thermo Board") (or, if applicable, the Board of Directors of a successor corporation to Thermo Electron), where the term "Continuing Director" means at any date a member of the Thermo Board (i) who was a member of the Thermo Board as of July 1, 1999 or (ii) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Thermo Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (ii) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Thermo Board; or

(c) the consummation of a merger, consolidation, reorganization, recapitalization or statutory share exchange involving Thermo Electron or a sale or other disposition of all or substantially all of the assets of Thermo Electron in one or a series of transactions (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding TMO Common Stock and Outstanding TMO Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns Thermo Electron or substantially all of Thermo Electron's assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the "Acquiring Corporation") in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding TMO Common Stock and Outstanding TMO Voting Securities, respectively; and (ii) no Person (excluding the Acquiring Corporation or any employee benefit plan (or related trust) maintained or sponsored by Thermo Electron or by the Acquiring Corporation) beneficially owns, directly or indirectly, 40% or more of the then outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors; or

(d) approval by the stockholders of Thermo Electron of a complete liquidation or dissolution of Thermo Electron.

Section 11. Amendment and Termination of the Plan. The Board of Directors of the Company may amend or terminate the Plan at any time and from time to time, provided, however, that no amendment adversely affecting credits already made to any participant's deferred compensation account or stock unit account may be made without the consent of that participant or, if that participant has died, that participant's beneficiary. Upon termination of the Plan, the Company shall be obligated to distribute to the participant either of the following as the Board of Directors of the Company, in its sole discretion, may determine: (i) the number of shares of the common stock of the Company which shall equal the total number of units accumulated in the participant's stock unit account as of the effective date of termination of the Plan or (ii) a sum in cash equal to the balance credited to the participant's deferred compensation account as of the effective date of termination of the Plan.

THERMO FIBERTEK INC.

DIRECTORS STOCK OPTION PLAN

As amended and restated effective as of June 7, 1999

1. Purpose

The purpose of this Directors Stock Option Plan (the "Plan") of Thermo Fibertek Inc. (the "Company") is to encourage ownership in the Company by outside directors of the Company whose services are considered essential to the Company's growth and progress and to provide them with a further incentive to become directors and to continue as directors of the Company. The Plan is intended to be a nonstatutory stock option plan.

2. Administration

The Board of Directors, or a Committee (the "Committee") consisting of one or more directors of the Company appointed by the Board of Directors, shall supervise and administer the Plan. Grants of stock options under the Plan and the amount and nature of the options to be granted shall be automatic in accordance with Section 5. However, all questions of interpretation of the Plan or of any stock options granted under it shall be determined by the Board of Directors or the Committee and such determination shall be final and binding upon all persons having an interest in the Plan.

3. Participation in the Plan

Directors of the Company who are not employees of the Company or any subsidiary or parent of the Company shall be eligible to participate in the Plan. Directors who receive grants of stock options in accordance with this Plan are sometimes referred to herein as "Optionees."

4. Stock Subject to the Plan

The maximum number of shares that may be issued under the Plan shall be 675,000 shares of the Company's Common Stock (the "Common Stock"), subject to adjustment as provided in Section 9. Shares to be issued upon the exercise of options granted under the Plan may be either authorized but unissued shares or shares held by the Company in its treasury. 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.

5. Terms and Conditions

A. Annual Stock Option Grants

Each Director of the Company who meets the requirements of Section 3 and who is holding office immediately following the Annual Meeting of Stockholders commencing with the Annual Meeting of Stockholders held in calendar year 1997, shall be granted an option to purchase 1,000 shares of Common Stock at the close of business on the date of such Annual Meeting.

B. General Terms and Conditions Applicable to All Grants.

1. Options shall be immediately exercisable at any time from and after the grant date and prior to the date which is the earliest of:

(a) three years after the grant date for options granted under Section 5(A), (b) two years after the Optionee ceases to serve as a director of the Company, Thermo Electron or any subsidiary of Thermo Electron (one year in the event the Optionee ceases to meet the requirements of this Subsection by reason of his or her death), or (c) the date of dissolution or liquidation of the Company.

2. The exercise price at which Options are granted hereunder shall be the average of the closing prices reported by the national securities exchange on which the Common Stock is principally traded for the five trading days immediately preceding and including the date the option is granted or, if such security is not traded on an exchange, the average last reported sale price for the five-day period on the NASDAQ National Market List, or the average of the closing bid prices for the five-day period last quoted by an established quotation service for over-the-counter securities, or if none of the above shall apply, the last price paid for shares of the Common Stock by independent investors in a private placement.

3. All options shall be evidenced by a written agreement

substantially in such form as shall be approved by the Board of Directors or Committee, containing terms and conditions consistent with the provisions of this Plan.

6. Exercise of Options

A. Exercise/Consideration

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 Common Stock of the Company (the shares so tendered referred to herein as "Tendered Shares") with a then current market value equal to the exercise price of the shares to be purchased; provided, however, that such Tendered Shares shall have been acquired by the 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 or the Director 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.

B. Tax Withholding

The Company shall have the right to deduct from payments of any kind otherwise due to the 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. Subject to the prior approval of the Company, which may be withheld by the Company in its sole discretion, the Optionee may elect to satisfy such obligations, in whole or in part, (i) by causing the Company to withhold shares of Common Stock otherwise issuable pursuant to the exercise of an option or (ii) by delivering to the Company shares of Common Stock already owned by the Optionee. The shares so delivered or withheld shall have a fair market value equal to such withholding obligation. The fair market value of the shares used to satisfy such withholding obligation shall be determined by the Company as of the date that the amount of tax to be withheld is to be determined. Notwithstanding the foregoing, no election to use shares for the payment of withholding taxes shall be effective unless made in compliance with any applicable requirements of Rule 16b-3.

7. Transferability

Except as may be authorized by the Board, in its sole discretion, no Option may be transferred other than by will or the laws of descent and distribution, and during an Optionee's lifetime an Option may be exercised only by him or her (or in the event of incapacity, the person or persons properly appointed to act on his or her behalf). The Board may, in its discretion, determine the extent to which Options granted to an Optionee shall be transferable, and such provisions permitting or acknowledging transfer shall be set forth in the written agreement evidencing the Option executed and delivered by or on behalf of the Company and the Optionee.

8. Limitation of Rights to Continue as a Director

Neither the Plan, nor the quantity of shares subject to options granted under the Plan, nor any other action taken pursuant to the Plan, shall constitute or be evidence of any agreement or understanding, express or implied, that the Company will retain a Director for any period of time, or at any particular rate of compensation.

9. Adjustments in the Event of Certain Transactions

(a) In the event of a stock dividend, stock split or combination of shares, or other distribution with respect to holders of Common Stock other than normal cash dividends, the Board will make (i) appropriate adjustments to the maximum number of shares that may be delivered under the Plan under Section 4 above, and (ii) appropriate adjustments to the number and kind of shares of stock or securities subject to Options then outstanding or subsequently granted, any exercise prices relating to Options and any other provisions of Options affected by such change.

(b) In the event of any recapitalization, merger or consolidation involving the Company, any transaction in which the Company becomes a subsidiary of another entity, any sale or other disposition of all or a substantial portion of the assets of the Company or any similar transaction, as determined by the Board, the Board in its discretion may make appropriate adjustments to

outstanding Options to avoid distortion in the operation of the Plan.

10. 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 or the written agreement evidencing options granted hereunder.

11. 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 permit the exercise in full of all options granted under this Plan and shall pay all other fees and expenses necessarily incurred by the Company in connection therewith.

12. Securities Laws Restrictions

A. Investment Representations.

The Company may require any person to whom an option is granted, as a condition of exercising such option, to give written assurances in substance and form satisfactory to the Company to the effect that such person is acquiring the Common Stock subject to the option for his or her own account for investment and not with any present intention of selling or otherwise distributing the same, and to such other effects as the Company deems necessary or appropriate in order to comply with federal and applicable state securities laws.

B. Compliance with Securities Laws.

Each option shall be subject to the requirement that if, at any time, counsel to the Company shall determine that the listing, registration or qualification of the shares subject to such option upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, or that the disclosure of non-public information or the satisfaction of any other condition is necessary as a condition of, or in connection with, the issuance or purchase of shares thereunder, such option may not be exercised, in whole or in part, unless such listing, registration, qualification, consent or approval, or satisfaction of such condition shall have been effected or obtained on conditions acceptable to the Board of Directors. Nothing herein shall be deemed to require the Company to apply for or to obtain such listing, registration or qualification, or to satisfy such condition.

13. Change in Control

A. Impact of Event

In the event of a "Change in Control" as defined in Section 13(A), the following provisions shall apply, unless the agreement evidencing the Award otherwise provides (by specific explicit reference to Section 13(B) below). If a Change in Control occurs while any Options are outstanding, then, effective upon the Change in Control, each outstanding Option under the Plan that was not previously exercisable and vested shall become immediately exercisable in full and will no longer be subject to a right of repurchase by the Company.

B. Definition of "Change in Control"

"Change in Control" means an event or occurrence set forth in any one or more of subsections (a) through (d) below (including an event or occurrence that constitutes a Change in Control under one of such subsections but is specifically exempted from another such subsection):

(a) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership of any capital stock of Thermo Electron Corporation ("Thermo Electron") if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) 40% or more of either (i) the then-outstanding shares of common stock of Thermo Electron (the "Outstanding TMO Common Stock") or (ii) the combined voting power of the then-outstanding securities of Thermo Electron entitled to vote generally in the election of directors (the "Outstanding TMO Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change in Control: (i) any acquisition by Thermo Electron, (ii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by Thermo Electron or any corporation controlled by Thermo Electron, or (iii) any acquisition by any corporation pursuant to a

transaction which complies with clauses (i) and (ii) of subsection (c) of this definition; or

(b) such time as the Continuing Directors (as defined below) do not constitute a majority of the Board of Directors of Thermo Electron (the "Thermo Board") (or, if applicable, the Board of Directors of a successor corporation to Thermo Electron), where the term "Continuing Director" means at any date a member of the Thermo Board (i) who was a member of the Thermo Board as of July 1, 1999 or (ii) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Thermo Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (ii) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Thermo Board; or

(c) the consummation of a merger, consolidation, reorganization, recapitalization or statutory share exchange involving Thermo Electron or a sale or other disposition of all or substantially all of the assets of Thermo Electron in one or a series of transactions (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding TMO Common Stock and Outstanding TMO Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns Thermo Electron or substantially all of Thermo Electron's assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the "Acquiring Corporation") in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding TMO Common Stock and Outstanding TMO Voting Securities, respectively; and (ii) no Person (excluding the Acquiring Corporation or any employee benefit plan (or related trust) maintained or sponsored by Thermo Electron or by the Acquiring Corporation) beneficially owns, directly or indirectly, 40% or more of the then outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors; or

(d) approval by the stockholders of Thermo Electron of a complete liquidation or dissolution of Thermo Electron.

14. Amendment of the Plan

The provisions of Sections 3 and 5 of the Plan shall not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, or the rules thereunder. Subject to the foregoing, the Board of Directors may at any time, and from time to time, modify or amend the Plan in any respect, except that if at any time the approval of the Stockholders of the Company is required as to such modification or amendment under Rule 16b-3, the Board of Directors may not effect such modification or amendment without such approval.

The termination or any modification or amendment of the Plan shall not, without the consent of an Optionee, affect his or her rights under an option previously granted to him or her. With the consent of the Optionees affected, the Board of Directors may amend outstanding option agreements in a manner not inconsistent with the Plan. The Board of Directors shall have the right to amend or modify the terms and provisions of the Plan and of any outstanding option to the extent necessary to ensure the qualification of the Plan under Rule 16b-3.

15. Effective Date of the Plan

The Plan shall become effective when adopted by the Board of Directors, but no option granted under the Plan shall become exercisable until six months after the Plan is approved by the Stockholders of the Company.

16. Notice

Any written notice to the Company required by any of the provisions of the Plan shall be addressed to the Secretary of the Company and shall become effective when it is received.

17. Governing Law

The Plan and all determinations made and actions taken pursuant hereto shall be governed by the laws of the State of Delaware.

THERMO FIBERTEK INC.

THERMO FIBERGEN INC. NONQUALIFIED STOCK OPTION PLAN

As amended and restated effective as of June 7, 1999

1. Purpose

This Nonqualified Stock Option Plan (the "Plan") is intended to encourage ownership of Common Stock (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

Subject to adjustment as provided in Section 11, the total number of shares of Common Stock reserved and available for issuance under the Plan and the Company's Incentive Stock Option Plan in the aggregate shall, be 200,000 shares. 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 will be administered by the Board of Directors of the Company (the "Board"). Subject to the provisions of the Plan, the Board 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 and conditions of options granted under the Plan (including terms and conditions relating to events of merger, consolidation, dissolution and liquidation, change of control, vesting, forfeiture, restrictions, dividends and interest, if any, on deferred amounts); (g) waive compliance by an optionee with any obligation to be performed by him or her under an option; (h) waive any term or condition of an option; (i) cancel an existing option in whole or in part with the consent of an Optionee; (j) grant replacement options; (k) accelerate the vesting or lapse of any restrictions of any option; and (l) adopt the form of instruments evidencing options under the Plan and change such forms from time to time.. In making such determinations, the Board 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 Board in its discretion shall deem relevant. Subject to the provisions of the Plan, the Board 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. Any interpretation by the Board of the terms and provisions of the Plan or any Award thereunder and the administration thereof, and all action taken by the Board, shall be final, binding and conclusive on all parties and any person claiming under or through any party. No Director shall be liable for any action or determination made in good faith. The Board may, to the full extent permitted by law, delegate any or all of its responsibilities under the Plan to a committee (the "Committee") appointed by the Board and consisting of two or more members of the Board, each of whom shall be deemed a "disinterested person" within the meaning of Rule 16b-3 (or any successor rule) of the Securities Exchange Act of 1934 (the "Exchange Act").

5. Eligibility

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

6. Time of Granting Options

The granting of an option shall take place at the time specified by the Board. Only if expressly so provided by the Board 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 Board 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 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

Except as may be authorized by the Board, in its sole discretion, no Option may be transferred other than by will or the laws of descent and distribution, and during a Optionee's lifetime an option requiring exercise may be exercised only by him or her (or in the event of incapacity, the person or persons properly appointed to act on his or her behalf). The Board may, in its discretion, determine the extent to which options granted to an Optionee shall be transferable, and such provisions permitting or acknowledging transfer shall be set forth in the written agreement evidencing the option executed and delivered by or on behalf of the Company and the Optionee.

10. Vesting, Restrictions and Termination of Options

The Board, 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 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. Adjustments in the Event of Certain Transactions

(a) In the event of a stock dividend, stock split or combination of shares, or other distribution with respect to holders of Common Stock other than normal cash dividends, the Board will make (i) appropriate adjustments to the maximum number of shares that may be delivered under the Plan under Section 3 above, and (ii) appropriate adjustments to the number and kind of shares of stock or securities subject to Options then outstanding or subsequently granted, any exercise prices relating to Options and any other provisions of Awards affected by such change.

(b) In the event of any recapitalization, merger or consolidation involving the Company, any transaction in which the Company becomes a subsidiary of another entity, any sale or other disposition of all or a substantial portion of the assets of the Company, any transaction which results in Thermo Electron Corporation ceasing to be the beneficial owner of a majority of the then-outstanding shares of Common Stock, or any similar transaction, as determined by the Board, the Board in its discretion may make appropriate adjustments to outstanding Options to avoid distortion in the operation of the Plan.

12. Change in Control

12.1 Impact of Event

In the event of a "Change in Control" as defined in Section 12.2, the following provisions shall apply, unless the agreement evidencing the Option otherwise provides (by specific explicit reference to Section 12.2 below). If a Change in Control occurs while any Options are outstanding, then, effective upon the Change in Control, (i) each outstanding stock option granted under the Plan that was not previously exercisable and vested shall become immediately exercisable in full and will no longer be subject to a right of repurchase by the Company, (ii) each outstanding Option subject to restrictions and to the extent not fully vested, shall be deemed to be fully vested, free of restrictions and no longer subject to a right of repurchase by the Company, and (iii) performance of other conditions (other than conditions relating solely to the passage of time, continued employment or affiliation) will continue to apply unless otherwise provided in the agreement evidencing the Option or in any other agreement between the Optioneet and the Company or unless otherwise agreed by the Board.

12.2 Definition of "Change in Control"

"Change in Control" means an event or occurrence set forth in any one or more of subsections (a) through (d) below (including an event or occurrence that constitutes a Change in Control under one of such subsections but is specifically exempted from another such subsection):

(a) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership of any capital stock of Thermo Electron Corporation ("Thermo Electron") if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) 40% or more of either (i) the then-outstanding shares of common stock of Thermo Electron (the "Outstanding TMO Common Stock") or (ii) the combined voting power of the then-outstanding securities of Thermo Electron entitled to vote generally in the election of directors (the "Outstanding TMO Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change in Control: (i) any acquisition by Thermo Electron, (ii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by Thermo Electron or any corporation controlled by Thermo Electron, or (iii) any acquisition by any corporation pursuant to a transaction which complies with clauses (i) and (ii) of subsection (c) of this definition; or

(b) such time as the Continuing Directors (as defined below) do not constitute a majority of the Board of Directors of Thermo Electron (the "Thermo Board") (or, if applicable, the Board of Directors of a successor corporation to Thermo Electron), where the term "Continuing Director" means at any date a member of the Thermo Board (i) who was a member of the Thermo Board as of July 1, 1999 or (ii) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Thermo Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (ii) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Thermo Board; or

(c) the consummation of a merger, consolidation, reorganization, recapitalization or statutory share exchange involving Thermo Electron or a sale or other disposition of all or substantially all of the assets of Thermo Electron in one or a series of transactions (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding TMO Common Stock and Outstanding TMO Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns Thermo Electron or substantially all of Thermo Electron's assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the "Acquiring Corporation") in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding TMO Common Stock and Outstanding TMO Voting Securities, respectively; and (ii) no Person (excluding the Acquiring Corporation or any employee benefit plan (or related

trust) maintained or sponsored by Thermo Electron or by the Acquiring Corporation) beneficially owns, directly or indirectly, 40% or more of the then outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors; or

(d) approval by the stockholders of Thermo Electron of a complete liquidation or dissolution of Thermo Electron.

13. 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.

14. 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.

15. 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.

16. 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 Board 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 Board 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 Board may permit the Optionee or such other person to elect at such time and in such manner as the Board 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.

17. Termination and Amendment

The Plan shall remain in full force and effect until terminated by the Board. Subject to the last sentence of this Section 17, the Board may at any time or times amend the Plan or any outstanding Option for any purpose that may at the time be permitted by law, or may at any time terminate the Plan as to any further grants of Options. No amendment of the Plan or any agreement evidencing Options under the Plan may adversely affect the rights of any participant under any Option previously granted without such participant's consent.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THERMO FIBERTEK INC'S QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED JULY 3, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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