SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(mark one)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended January 2, 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

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

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

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

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

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

The aggregate market value of the voting stock held by nonaffiliates of the Registrant as of January 29, 1999, was approximately $37,397,000.

As of January 29, 1999, the Registrant had 61,282,228 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the year ended January 2, 1999, are incorporated by reference into Parts I and II.

Portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 1999, are incorporated by reference into Part III.

PART I

Item 1. Business

(a) General Development of Business

Thermo Fibertek Inc. (the Company or the Registrant) designs and manufactures stock-preparation, accessories, and water-management systems for the paper and paper recycling industries. The Company's principal products include custom-engineered systems and equipment for the preparation of wastepaper for conversion into recycled paper; accessory equipment and related consumables important to the efficient operation of papermaking machines; and water-management systems essential for draining, purifying, and recycling process water. The Company is a leading equipment manufacturer for the worldwide papermaking and paper recycling industries. The Company's products and systems can be found in the majority of the world's pulp and paper mills. In addition, the Company, through its Thermo Fibergen Inc. 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, and began operating, its first plant. Thermo Fibergen also 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 predecessors have been in operation for more than 100 years, and the Company has a large, stable customer base that includes most papermakers worldwide. The Company seeks to expand its business through the introduction of new products and technologies to these customers. The Company currently manufactures its products in several countries in Europe and North America, and licenses certain of its products for manufacture in South America and the Pacific Rim.

In July 1998, Thermo Fibertek acquired Goslin Birmingham, a division of Green Bay Packaging Inc., for $1.3 million in cash, which is subject to a post-closing adjustment. Goslin manufactures evaporators and recausticizing systems that concentrate and recycle process chemicals used during pulping, and products that remove condensate gases.

In February 1999, Thermo Fibertek sold its Thermo Wisconsin Inc. subsidiary for $13.0 million in cash, subject to a post-closing adjustment. Thermo Wisconsin manufactures and markets dryers and pollution-control equipment.

In September 1996, the Company's Thermo Fibergen subsidiary sold 4,715,000 units, each unit consisting of one share of Thermo Fibergen common stock and one redemption right, in an initial public offering at $12.75 per unit for net proceeds of $55.8 million. The common stock and redemption rights began trading separately on December 13, 1996. Holders of a redemption right have the option to require Thermo Fibergen to redeem one share of Thermo Fibergen common stock at $12.75 per share in September 2000 or September 2001. A redemption right may only be exercised if the holder owns a share of Thermo Fibergen common stock. The redemption rights are guaranteed, on a subordinated basis, by Thermo Electron Corporation. The Company has agreed to reimburse Thermo Electron in the event Thermo Electron is required to make a payment under the guarantee.

As of January 2, 1999, the Company owned 10,419,950 shares of Thermo Fibergen common stock, representing 71% of such outstanding common stock, and Thermo Electron owned 266,800 shares of Thermo Fibergen common stock, representing 2% of such outstanding common stock. During 1998*, Thermo Electron purchased these shares of Thermo Fibergen common stock in the open market at a total cost of $2.1 million.

The Company is a majority-owned subsidiary of Thermo Electron. As of January 2, 1999, Thermo Electron owned 55,845,630 shares of the Company's common stock, representing 91% of such outstanding common stock. Thermo Electron is a world leader in monitoring, analytical, and biomedical instrumentation; biomedical products including heart-assist devices, respiratory-care equipment, and mammography systems; and paper recycling and

- --------------------

* References to 1998, 1997, and 1996 herein are for the fiscal years ended January 2, 1999, January 3, 1998, and December 28, 1996, respectively

papermaking equipment. Thermo Electron also develops alternative-energy systems and clean fuels, provides a range of services including industrial outsourcing and environmental-liability management, and conducts research and development in advanced imaging, laser communications, and electronic information-management technologies. During 1998, Thermo Electron purchased 748,200 shares of the Company's common stock in the open market at a total cost of $8.7 million.

Forward-looking Statements

Forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, are made throughout this Annual Report on Form 10-K. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the results of the Company to differ materially from those indicated by such forward-looking statements, including those detailed under the heading "Forward-looking Statements" in the Registrant's 1998 Annual Report to Shareholders, which statements are incorporated herein by reference.

(b) Financial Information About Segments

Financial information concerning the Company's segments is summarized in Note 13 to Consolidated Financial Statements in the Registrant's 1998 Annual Report to Shareholders, which information is incorporated herein by reference.

(c) Description of Business

(i) Principal Products and Services

The Company organizes and manages its business by individual functional operating entity. The Company has combined its operating entities into three segments: Pulp and Papermaking Equipment and Systems, Water- and Fiber-recovery Services and Products, and Dryers and Pollution-control Equipment. In classifying operational entities into a particular segment the Company aggregated businesses with similar economic characteristics, products and services, production processes, customers, and methods of distribution.

Pulp and Papermaking Equipment and Systems

Stock-preparation Equipment

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

Pulping and Trash Removal Systems, including specialized high- and low-consistency pulpers that blend wastepaper with water and certain chemicals to form pulp with minimal contaminant breakdown, thus increasing the efficiency of debris removal; and detrashing equipment.

Screening Systems, including course screens to remove metals and sand from the pulp mixture, as well as fine screens to remove microscopic particles such as glue and plastic.

Cleaning Systems, including forward cleaners to remove heavyweight contaminants such as metal and sand and reverse cleaners for the removal of lightweight contaminants such as glue and plastic.

De-inking Systems, including the patented MAC CELL(R) that uses the latest generation of Autoclean injectors to produce small air bubbles in the bottom of the pulp slurry. The ink bonds to the air bubbles and rises to the surface, where it is removed through a unique propellant system. The efficiency of this unit and the reduced floor space required for equivalent ink removal make the MAC CELL one of the most critical components within a de-inking system.

Reject-handling and Water-treatment Systems, including gravity-type strainers and in-line filtration designed to recapture "good" fiber rejected with debris in the primary process line, as well as compactors and sand separators.

In addition, the Company designs, develops, and manufactures products for the virgin pulping process, including:

Chemi-Washer (R), a horizontal belt washer used in the virgin pulping process. The Chemi-Washer consumes less energy than other commercial washing systems and significantly decreases the amount of water used and effluent produced.

Evaporators, Recausticizing, and Condensate-treatment systems, used during pulping to concentrate and recycle process chemicals and to remove condensate gases.

Revenues from the Company's stock-preparation equipment product line were $107.5 million, $88.8 million, and $53.9 million in 1998, 1997, and 1996, respectively.

Accessories

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

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

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

Revenues from the Company's accessories product line were $77.8 million, $83.0 million, and $82.2 million in 1998, 1997, and 1996, respectively.

Water-management

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

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

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

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

Revenues from the Company's water-management product line were $36.9 million, $44.1 million, and $40.0 million in 1998, 1997, and 1996, respectively.

Water- and Fiber-recovery Services and Products

The Company, through its 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, and began operating, its first fiber-recovery and water-clarification facility, providing clean water and long fiber to a mill under a ten-year contract. The fiber-recovery and water-clarification facility is located in South Carolina in a building adjacent to the mill. The Company's facility is designed to operate 24 hours a day, seven days a week. The paper mill pumps its used process water directly into the Company's system. The facility recovers and returns long fiber to the mill while removing short fiber and minerals, and clarifies water which is recycled for reuse in the papermaking process. The paper mill pays the Company a monthly fee for these services.

In addition, Thermo Fibergen also employs patented technology to produce absorbing granules from papermaking byproducts used as agricultural carriers, oil-and-grease absorbents, and cat box fillers. The agricultural carriers are used to deliver agricultural chemicals for professional turf, home lawn and garden, agricultural row-crop, and mosquito-control applications.

Dryers and Pollution-control Equipment

The Company, through its Thermo Wisconsin subsidiary, manufactured and marketed dryers and pollution-control equipment for the printing, papermaking, and converting industries. The Company's dryers transfer heat efficiently from the dryer to the paper web resulting in significant energy savings and improved paper and printing quality. The Company's thermal incinerators reduce volatile organic compounds (VOCs) that are produced when solvents contained in the printed or coated material evaporate.
In February 1999, Thermo Fibertek sold this business.

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

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

For recycling equipment, the Company maintains a stock-preparation pilot laboratory adjacent to the manufacturing facility at its E. & M. Lamort, S.A. (Lamort) subsidiary and one at Thermo Black Clawson's Middletown, Ohio, facility, both of which contain all equipment necessary to replicate a commercial stock-preparation system. A customer's wastepaper can be tested to determine the exact system configuration that would be recommended for its future facility. The testing laboratories are also used to evaluate prototype equipment, enabling research teams to quickly and thoroughly evaluate new designs. In addition, the Company works closely with its customers in the development of products, typically field testing new products on the customers' papermaking machines. In the U.S., one facility houses an operation for continued development of accessory products, while another is devoted to development of new water-management products.

Thermo Fibergen's mobile pilot plant is used to demonstrate its fiber-recovery and water-clarification process, and to test the effluent streams of mills in the United States and Canada. During 1998, Thermo Fibergen continued its research and development efforts relating to these systems. In addition, Thermo Fibergen's GranTek subsidiary's processing center in Green Bay, Wisconsin, contains a pilot plant that is used to develop cellulose-based products and processes that are employed at its main facility. Development of a nontoxic, noncorrosive, biodegradable deicer was completed in 1998. Other products in development include controlled-release granules for carrying fertilizers, and cellulose-fiber-reinforced composite materials.

The Company seeks to develop a broad range of equipment for all facets of the markets it serves. Over the next several years the Company expects to focus its research and development efforts on the advancement of paper recycling equipment to further improve the quality of recycled paper.

Research and development expenses for the Company were $7.0 million, $6.8 million, and $5.5 million in 1998, 1997, and 1996, respectively.

(iii) Raw Materials

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

(iv) Patents, Licenses, and Trademarks

The Company protects its intellectual property rights by applying for and obtaining patents when appropriate. The Company also relies on technical know-how, trade secrets, and trademarks to maintain its competitive position. The Company has numerous U.S. and foreign patents expiring on various dates ranging from 1999 to 2016.

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

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

(v) Seasonal Influences

Pulp and Papermaking Equipment and Systems

There are no material seasonal influences on the segment's sales of products and services.

Water- and Fiber-recovery Services and Products

A substantial portion of the revenues of the Water- and Fiber-recovery Services and Products segment are from the sale of cellulose-based products in the agricultural-carrier market. The Company's primary customers in this market, chemical formulators, typically purchase carriers during the winter and spring for the cultivation and planting season. As a result, the segment earns a disproportionately high share of its revenues from its agricultural-carrier products during the first two quarters of the year. The Company believes that its entrance into the oil- and grease-absorption, cat box filler, and international agricultural row-crop markets, if successful, may mitigate the seasonality of the sales of this segment.

(vi) Working Capital Requirements

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

(vii) Dependency on a Single Customer

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

(viii) Backlog

The Company's backlog of firm orders for the Pulp and Papermaking Equipment and Systems segment was $49.5 million and $51.3 million at year-end 1998 and 1997, respectively. The backlog of firm orders for the Water- and Fiber-recovery Products and Services segment was $0.4 million and $0.2 million at year-end 1998 and 1997, respectively. In addition, the Water- and Fiber-recovery Products and Services segment has a ten-year contract to provide clean water and long fiber to a mill. The contract may be canceled by either party within six months after the end of the fourth year of the contract, or thereafter by the paper mill with one year's notice, if certain benefits or profitability levels are not achieved. The Company anticipates that substantially all of the backlog at January 2, 1999, will be shipped or completed during the next twelve months. Certain of these orders may be canceled by the customer upon payment of a cancellation fee.

The backlog of firm orders for the Dryers and Pollution-control Equipment segment, sold in February 1999, was $5.9 million and $8.6 million at year-end 1998 and 1997, respectively.

(ix) Government Contracts

Not applicable.

(x) Competition

The Company faces significant competition in each of its principal markets. The Company competes principally on the basis of quality, price, service, technical expertise, and product innovation. The Company believes that the reputation it has established over more than 100 years for quality products and in-depth process knowledge provides it with a competitive advantage. In addition, a significant portion of the Company's business is generated from its existing customer base. To maintain this base, the Company has emphasized service and a problem-solving relationship with its customers.

Pulp and Papermaking Equipment and Systems

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

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

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

Water- and Fiber-recovery Services and Products

The Company expects that its principal competitors for access to papermaking byproducts will be landfills, which currently have a large market share in both North America and Europe. The Company believes, however, that landfill costs will tend to increase over time and that regulations governing landfills will become more strict, particularly in Europe. The balance of the papermaking byproducts produced in the U.S. and Europe is currently incinerated or used to manufacture composting materials, egg cartons, and other low-value industrial products. The Company competes principally on the basis of price and its ability to offer long-term environmentally acceptable byproduct management alternatives.

Certain companies are seeking to develop technologies and services to treat and process papermaking byproducts that are similar to those of the Company. No assurance can be given that such technologies and services will not be superior to those of the Company. As other companies attempt to provide landfill services or byproduct processing capabilities, or both, to the pulp and paper industry, the Company expects to encounter increasing competition.

The Company believes that its approach to the management of environmental problems associated with papermaking byproducts and its ability to take advantage of the Company's name recognition, financial strength, and experience constitute significant competitive advantages.

The Company believes that it is currently the only producer of paper-based agricultural carriers. In this market, the Company's principal competitors in the U.S. are producers of clay-based agricultural carriers for row crops and professional turf protection, including Oil-Dri Corporation of America, Floridin/Engelhard, Aimcor, and American Colloid, and producers of corncob-based granules traditionally used in the home lawn and garden and professional turf markets, including The Andersons, Mt. Pulaski, Green Products, Independence Cob, and Junior Weisner. The Company's principal competitive advantages are that its agricultural carrier product is virtually dust-free and is more uniform in absorptivity and particle-size distribution than are clay- and corncob-based granular carriers. In addition, it is also chemically neutral, requiring little or no chemical deactivation.

As the Company attempts to develop new markets for the components of the papermaking byproducts it processes, the Company will encounter competition from established companies within those markets. Some of these competitors may have substantially greater financial, marketing, and other resources than those of the Company, and the Company expects that such competition may be intense. The Company believes that in the absorbing-products industry price is a significant competitive factor and therefore, expects that the demand for the Company's products in such markets will be significantly influenced by the Company's prices for such products.

(xii) Environmental Protection Regulations

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

(xiii) Number of Employees

As of January 2, 1999, the Company employed approximately 1,300 people. Approximately 30 employees at the Company's Pointe Claire, Quebec, Canada, operation are represented by a labor union under a collective bargaining agreement expiring August 31, 1999. Approximately 5 employees at the Company's Middletown, Ohio, operation are represented by a labor union under a collective bargaining agreement expiring November 1, 2000. Approximately 40 employees at the Company's Guadalajara, Mexico, operation are represented by a labor union under an annual collective bargaining agreement. In addition, employees of the Company's subsidiaries in France and England are represented by trade unions. The Company has had no work stoppages and considers its relations with employees and unions to be good.

(d) Financial Information About Geographic Areas

Financial information about exports by domestic operations and about foreign operations is summarized in Note 13 to Consolidated Financial Statements in the Registrant's 1998 Annual Report to Shareholders, which information is incorporated herein by reference.

(e) Executive Officers of the Registrant

Name	Age	Present Title (Fiscal Year First Became Executive Officer)
William A. Rainville	57	President and Chief Executive Officer (1991)
Thomas M. O'Brien	47	Executive Vice President, Finance (1994)
Jonathan W. Painter	40	Executive Vice President, Operations (1997)
Jan-Eric Bergstedt	63	Vice President (1996)
Bruno Lamort de Gail	64	Vice President (1991)
Edward J. Sindoni	54	Vice President; President, Thermo Web Systems, Inc. (1994)
Theo Melas-Kyriazi	39	Chief Financial Officer (1998)
Paul F. Kelleher	56	Chief Accounting Officer (1991)

Each executive officer serves until his successor is chosen or appointed by the Board of Directors and qualified or until earlier resignation, death, or removal. Messrs. Rainville, Lamort de Gail, and Kelleher have held comparable positions for at least five years with the Company or with its parent company, Thermo Electron. Mr. Painter was Vice President, Strategic Planning of the Company from 1993 to 1994, Treasurer of Thermo Electron from 1994 to 1997, and became an Executive Officer of the Company in 1997. Mr. Bergstedt has been a Vice President of the Company since November 1993, and was designated an Executive Officer in 1996. Mr. O'Brien has been Executive Vice President, Finance of the Company since September 1998, and was Vice President, Finance of the Company from November 1991 until September 1998, and was designated an Executive Officer in 1994. Mr. Sindoni has been Vice President of the Company since November 1991, President of the Company's Thermo Web Systems, Inc. subsidiary since January 1993, was Senior Vice President of Thermo Web Systems Inc. from 1987 to January 1993, and was designated an executive officer in 1994. Mr. Melas-Kyriazi was appointed Chief Financial Officer of the Company and Thermo Electron on January 1, 1999. He joined Thermo Electron in 1986 as Assistant Treasurer, and became Treasurer in 1988. He was named President and Chief Executive Officer of ThermoSpectra Corporation, a public subsidiary of Thermo Instrument Systems Inc., in 1994, a position he held until becoming Vice President of Corporate Strategy for Thermo Electron in 1998. Mr. Melas-Kyriazi remains a Vice President of Thermo Electron. Messrs. Melas-Kyriazi and Kelleher are full-time employees of Thermo Electron, but devote such time to the affairs of the Company as the Company's needs reasonably require.

Item 2. Properties

The Company believes that its facilities are in good condition and are suitable and adequate for its present operations and that suitable space is readily available if any leases are not extended. The location and general character of the Company's principal properties by segment as of January 2, 1999, are:

Pulp and Papermaking Equipment and Systems

The Company owns approximately 1,150,000 square feet and leases approximately 43,000 square feet, under leases expiring at various dates ranging from 1999 to 2006, of manufacturing, engineering, and office space. The Company's principal engineering and manufacturing space is located in Auburn, Massachusetts; Guadalajara, Mexico; Queensbury, New York; Middletown, Ohio; Pointe Claire, Quebec, Canada; Vitry-le-Francois, France; and Bury, England.

Water- and Fiber-recovery Services and Products

The Company owns approximately 26,000 square feet and leases approximately 39,000 square feet, under leases expiring at various dates ranging from 1999 to 2001, of manufacturing, engineering, and office space located principally in Green Bay, Wisconsin; Bedford, Massachusetts; and Cowpens, South Carolina.

Dryers and Pollution-control Equipment

The Company leased approximately 164,000 square feet of manufacturing and office space under a lease expiring in June 1999. The business located at this facility was sold in February 1999 and the lease was assumed by the acquirer.

Item 3. Legal Proceedings

Not applicable.

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

Not applicable.

PART II

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

Information concerning the market and market price for the Registrant's Common Stock, $.01 par value, and dividend policy is included under the sections labeled "Common Stock Market Information" and "Dividend Policy" in the Registrant's 1998 Annual Report to Shareholders and is incorporated herein by reference.

Item 6. Selected Financial Data

The information required under this item is included under the sections labeled "Selected Financial Information" and "Dividend Policy" in the Registrant's 1998 Annual Report to Shareholders and is incorporated herein by reference.

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

The information required under this item is included under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrant's 1998 Annual Report to Shareholders and is incorporated herein by reference.

PART IV

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required under this item is included under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrant's 1998 Annual Report to Shareholders and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The Registrant's Consolidated Financial Statements as of January 2, 1999, and Supplementary Data are included in the Registrant's 1998 Annual Report to Shareholders and are incorporated herein by reference.

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

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

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

Item 11. Executive Compensation

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

Item 12. Security Ownership of Certain Beneficial Owners and Management

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

Item 13. Certain Relationships and Related Transactions

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

PART IV

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

(a,d) Financial Statements and Schedules

(1) The consolidated financial statements set forth in the list below are filed as part of this Report.

(2) The consolidated financial statement schedule set forth in the list below is filed as part of this Report.

(3) Exhibits filed herewith or incorporated herein by reference are set forth in Item 14(c) below.

List of Financial Statements and Schedules Referenced in this Item 14

Information incorporated by reference from Exhibit 13 filed herewith:

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

Financial Statement Schedules filed herewith:

Schedule II: Valuation and Qualifying Accounts

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

(b) Reports on Form 8-K

None.

(c) Exhibits

See Exhibit Index on the page immediately preceding exhibits.

SIGNATURES

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

Date: March 12, 1999

THERMO FIBERTEK INC.

By: /s/ William A. Rainville
William A. Rainville
President, Chief Executive Officer, and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, as of March 12, 1999.

Signature	Title
By: /s/ William A. Rainville William A. Rainville	President, Chief Executive Officer, and Director
By: /s/ Theo Melas-Kyriazi Theo Melas-Kyriazi	Chief Financial Officer
By: /s/ Paul F. Kelleher Paul F. Kelleher	Chief Accounting Officer
By: /s/ Walter J. Bornhorst Walter J. Bornhorst	Director
By: /s/ George N. Hatsopoulos George N. Hatsopoulos	Director
By: /s/ John N. Hatsopoulos John N. Hatsopoulos	Director
By: /s/ Francis L. McKone Francis L. McKone	Director
By: /s/ Donald E. Noble Donald E. Noble	Chairman of the Board and Director

Report of Independent Public Accountants

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

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements included in Thermo Fibertek Inc.'s Annual Report to Shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 10, 1999. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in Item 14 on page 12 is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the consolidated financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

Arthur Andersen LLP

Boston, Massachusetts
February 10, 1999

SCHEDULE II

THERMO FIBERTEK INC.
Valuation and Qualifying Accounts
(In thousands)

Description	Balance at Beginning of Year	Provision Charged to Expense	Accounts Recovered	Accounts Written Off	Other (a)	Balance at End of Year
Allowance for Doubtful Accounts						
Year Ended January 2, 1999	$2,565	$ 248	$ 15	$ (657)	$ 60	$2,231
Year Ended January 3, 1998	$1,948	$ 362	$ -	$ (576)	$ 831	$2,565
Year Ended December 28, 1996	$2,552	$ (450)	$ 74	$ (202)	$ (26)	$1,948

Description	Balance at Beginning of Year	Established as Cost of Acquisitions	Activity Charged to Reserve	Other (c)	Balance at End of Year
Accrued Acquisition Expenses (b)					
Year Ended January 2, 1999	$ 675	$ 80	$ (387)	$ (219)	$ 149
Year Ended January 3, 1998	$ -	$ 945	$ (270)	$ -	$ 675
Year Ended December 28, 1996	$ 71	$ -	$ (71)	$ -	$ -

Description	Balance at Beginning of Year	Provision Charged to Expense	Activity Charged to Reserve	Balance at End of Year
Accrued Restructuring Costs (d)				
Year Ended January 2, 1999	$ 197	$ -	$ (163)	$ 34
Year Ended January 3, 1998	$ -	$1,063	$ (866)	$ 197

(a) Includes allowances of businesses acquired during the year, as described in Note 3 to Consolidated Financial Statements in the Registrant's 1998 Annual Report to Shareholders, and the effect of foreign currency translation.
(b) The nature of activity in this account is described in Note 3 to Consolidated Financial Statements in the Registrant's 1998 Annual Report to Shareholders.
(c) Represents reversal of accrued acquisition expenses and corresponding reduction of cost in excess of net assets of acquired companies resulting from finalization of restructuring plans.
(d) The nature of activity in this account is described in Note 11 to Consolidated Financial Statements in the Registrant's 1998 Annual Report to Shareholders.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
2.1	Share Redemption Agreement, dated as of December 22, 1994, by and among the Registrant, Fiberprep Inc., and Aikawa Iron Works Co., Ltd. (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K relating to events occurring on January 2, 1995 [File No 1-11406] and incorporated herein by reference).
2.2	Asset Purchase Agreement dated as of May 22, 1997 among BC Acquisition Corp., Thermo Fibertek Inc., The Black Clawson Company, Black Clawson Shartle Mfg. Co. Inc., Black Clawson International, Ltd., Black Clawson Canada Fibre Processing Ltd., Black Clawson Europe S.A. and Carl C. Landegger (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K relating to events occurring on May 22, 1997 [File No 1-11406] and incorporated herein by reference).
3.1	Certificate of Incorporation, as amended, of the Registrant (filed as Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 1997 [File No. 1-11406] and incorporated herein by reference).
3.2	By-Laws of the Registrant (filed as Exhibit 3(b) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
4.1 - 4.4	Reserved.
4.5	Fiscal Agency Agreement dated as of July 16, 1997, among the Registrant, Thermo Electron, and Bankers Trust Company as fiscal agent, relating to $153 million principal amount of 4 1/2% Convertible Subordinated Debentures due 2004 (filed as Exhibit 4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 1997 [File No. 1-11406] and incorporated herein by reference).
10.1	Exchange Agreement dated as of December 28, 1991, between Thermo Electron and the Registrant (filed as Exhibit 10(a) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.2	Amended and Restated Corporate Services Agreement dated January 3, 1993, between Thermo Electron and the Registrant (filed as Exhibit 10(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 2, 1993 [File No. 1-11406] and incorporated herein by reference).
10.3	Thermo Electron Corporate Charter, as amended and restated effective January 3, 1993 (filed as Exhibit 10(e) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 2, 1993 [File No. 1-11406] and incorporated herein by reference).
10.4	Thermo Web Systems, Inc. (formerly Thermo Electron Web Systems, Inc.) Retirement Plan, as amended (filed as Exhibit 10(g) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.5	Noncompetition Agreement dated May 30, 1990, between Thermo Electron and Bruno Lamort de Gail (filed as Exhibit 10(h) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.6	Lamort Retirement Plan (filed as Exhibit 10(i) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).

Exhibit Number	Description of Exhibit
10.7	Lamort Retirement Plan for Key Employees (filed as Exhibit 10(j) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.8	Severance Agreement dated January 8, 1988, between Thermo Electron and William A. Rainville (filed as Exhibit 10(p) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.9	Employment Agreement dated as of May 30, 1990, between the Registrant and Bruno Lamort de Gail (filed as Exhibit 10(q) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.10	Form of Indemnification Agreement for officers and directors (filed as Exhibit 10(s) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.11	Tax Allocation Agreement dated as of December 28, 1991, between the Registrant and Thermo Electron (filed as Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 1994 [File No. 1-11406] and incorporated herein by reference).
10.12	Amended and Restated Master Repurchase Agreement dated as of December 28, 1996 (filed as Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the year ended December 28, 1996 [File No. 1-11406] and incorporated herein by reference).
10.13	Assignment Agreement dated as of December 22, 1994, between Thermo Electron and TE Great Lakes, Inc. (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 [File No. 1-11406] and incorporated herein by reference).
10.14	Management Services Agreement dated as of December 22, 1994, between TE Great Lakes, Inc. and Fiberprep (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 [File No. 1-11406] and incorporated herein by reference).
10.15	Equipment Supply Agreement dated as of December 22, 1994, between TE Great Lakes, Inc. and Fiberprep (filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 [File No. 1-11406] and incorporated herein by reference).
10.16	Amended and Restated Master Guarantee Reimbursement and Loan Agreement dated as of December 9, 1997, between the Registrant and Thermo Electron (filed as Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the year ended January 3, 1998, [File No. 1-11406] and incorporated herein by reference).
10.17	Form of Guarantee of Thermo Electron relating to Thermo Fibergen's Redemption Rights (filed as Exhibit 4.1 to Thermo Fibergen's Registration Statement on Form S-1 [Reg. No. 333-07585] and incorporated herein by reference).
10.18	Guarantee Agreement among Thermo Fibergen, Thermo Electron, and the Representatives of the Underwriters (filed as Exhibit 4.2 to Thermo Fibergen's Registration Statement on Form S-1 [Reg. No. 333-07585] and incorporated herein by reference).

Exhibit Number	Description of Exhibit
10.19	Form of Thermo Fibergen's Redemption Right Certificate (filed as Exhibit 4.4 to Thermo Fibergen's Registration Statement on Form S-1 [Reg. No. 333-07585] and incorporated herein by reference).
10.20	Incentive Stock Option Plan of the Registrant (filed as Exhibit 10(k) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.21	Nonqualified Stock Option Plan of the Registrant (filed as Exhibit 10(l) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.22	Equity Incentive Plan of the Registrant (filed as Attachment A to the Proxy Statement dated May 3, 1994, of the Registrant [File No. 1-11406] and incorporated herein by reference).
10.23	Deferred Compensation Plan for Directors of the Registrant (filed as Exhibit 10(m) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.24	Directors' Stock Option Plan of the Registrant (filed as Exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 [File No. 1-11406] and incorporated herein by reference).
10.25	Thermo Fibergen Equity Incentive Plan (filed as Exhibit 10.11 to Thermo Fibergen's Registration Statement on Form S-1 [Registration No. 333-07585] and incorporated herein by reference).
10.26	Thermo Fibertek - Thermo Fibergen Nonqualified Stock Option Plan (filed as Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 28, 1996 [File No. 1-11406] and incorporated herein by reference).
	In addition to the stock-based compensation plans of the Registrant, the executive officers of the Registrant may be granted awards under stock-based compensation plans of Thermo Electron for services rendered to the Registrant. The terms of such plans are substantially the same as those of the Registrant's Equity Incentive Plan.
10.27	Restated Stock Holding Assistance Plan and Form of Promissory Note (filed as Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the year ended January 3, 1998 [File No. 1-11406] and incorporated herein by reference).
13	Annual Report to Shareholders for the year ended January 2, 1999 (only those portions incorporated herein by reference).
21	Subsidiaries of the Registrant.
23	Consent of Arthur Andersen LLP.
27	Financial Data Schedule.

Exhibit 13

Thermo Fibertek Inc.

Consolidated Financial Statements

1998

Consolidated Statement of Income

(In thousands except per share amounts)	1998	1997	1996
Revenues (includes $1,876 from related party in 1996; Notes 9 and 13)	$ 247,426	$239,642	$ 192,209
Costs and Operating Expenses:			
Cost of revenues (includes $639 for related-party revenues in 1996; Note 9)	147,262	145,159	109,537
Selling, general, and administrative expenses (Note 9)	63,381	60,675	47,093
Research and development expenses	6,971	6,814	5,460
Gain on sale of property	(536)	-	-
Restructuring costs (Note 11)	-	1,063	-
	217,078	213,711	162,090
Operating Income	30,348	25,931	30,119
Interest Income	7,956	7,325	3,568
Interest Expense (includes $1,411 and $540 to related party in 1997 and 1996; Note 8)	(7,408)	(4,830)	(663)
Income Before Provision for Income Taxes and Minority Interest	30,896	28,426	33,024
Provision for Income Taxes (Note 7)	11,902	11,011	12,684
Minority Interest Expense	999	989	446
Net Income	$ 17,995	$16,426	$ 19,894
Earnings per Share (Note 14)			
Basic	$ .29	$ .27	$ .33
Diluted	$ .29	$ .26	$ .31
Weighted Average Shares (Note 14)			
Basic	61,612	61,384	61,040
Diluted	62,353	63,613	64,343

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

Consolidated Balance Sheet

(In thousands)	1998	1997
Assets		
Current Assets:		
Cash and cash equivalents (includes $74,447 and $62,550 under repurchase agreement with parent company)	$115,472	$111,648
Available-for-sale investments, at quoted market value (amortized cost of $48,210 and $36,273; Note 2)	48,206	36,319
Accounts receivable, less allowances of $2,231 and $2,565	50,281	53,408
Unbilled contract costs and fees	2,968	4,422
Inventories	30,624	31,960
Prepaid and refundable income taxes (includes $940 due from parent company in 1997; Note 7)	6,806	7,457
Other current assets	1,935	2,256
	256,292	247,470
Property, Plant, and Equipment, at Cost, Net	31,736	28,336
Other Assets (Note 4)	12,309	14,437
Cost in Excess of Net Assets of Acquired Companies (Note 3)	126,763	128,695
	$427,100	$418,938

Consolidated Balance Sheet (continued)

(In thousands except share amounts)	1998	1997
Liabilities and Shareholders' Investment		
Current Liabilities:		
Accounts payable	$ 21,548	$ 25,755
Accrued payroll and employee benefits	10,273	10,588
Billings in excess of contract costs and fees	5,846	5,548
Accrued warranty costs	5,830	8,620
Customer deposits	3,154	1,906
Other accrued expenses	14,916	16,606
Due to parent company and affiliated companies	1,279	1,451
	62,846	70,474
Deferred Income Taxes and Other Deferred Items (Note 7)	6,202	4,267
Subordinated Convertible Debentures (Note 8)	153,000	153,000
Minority Interest	303	290
Commitments and Contingencies (Note 10)		
Common Stock of Subsidiary Subject to Redemption ($54,762 redemption value; Note 1)	53,801	52,812
Shareholders' Investment (Notes 5 and 6):		
Common stock, $.01 par value, 150,000,000 shares authorized; 63,379,337 and 63,331,887 shares issued	634	633
Capital in excess of par value	78,731	81,865
Retained earnings	100,602	82,607
Treasury stock at cost, 2,238,830 and 1,820,709 shares	(21,286)	(19,494)
Accumulated other comprehensive items (Note 15)	(7,733)	(7,516)
	150,948	138,095
	$ 427,100	$ 418,938

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

Consolidated Statement of Cash Flows

(In thousands)	1998	1997	1996
Operating Activities			
Net income	$ 17,995	$ 16,426	$ 19,894
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,062	7,545	4,983
Provision for losses on accounts receivable	248	362	(450)
Minority interest expense	999	989	446
Gain on sale of property	(536)	-	-
Restructuring costs (Note 11)	-	1,063	-
Deferred income tax expense	2,090	1,976	2,017
Other noncash items	(256)	(479)	(316)
Changes in current accounts, excluding the effects of acquisitions:			
Accounts receivable	3,702	(1,878)	5,724
Inventories and unbilled contract costs and fees	3,277	(1,183)	3,139
Other current assets	836	(625)	1,468
Accounts payable	(5,787)	(3,344)	(3,436)
Other current liabilities	307	68	(6,417)
Net cash provided by operating activities	31,937	20,920	27,052
Investing Activities			
Acquisitions, net of cash acquired (Note 3)	(964)	(103,403)	(12,066)
Purchases of available-for-sale investments	(70,882)	(48,050)	-
Proceeds from sale and maturities of available-for-sale investments	59,200	12,256	2,750
Purchases of property, plant, and equipment	(7,773)	(3,793)	(3,936)
Proceeds from sale of property, plant, and equipment	1,586	60	581
Advances under notes receivable (Note 4)	(2,910)	(3,000)	(6,000)
Repayment of notes receivable (Note 4)	1,250	3,000	-
Other	(458)	57	(731)
Net cash used in investing activities	(20,951)	(142,873)	(19,402)
Financing Activities			
Purchase of Company and subsidiary common stock	(6,598)	(23,951)	-
Net proceeds from issuance of Company and subsidiary common stock (Note 1)	405	1,069	55,923
Net proceeds from issuance of subordinated convertible debentures (Note 8)	-	149,768	-
Issuance of obligations to parent company (Note 8)	-	110,000	-
Repayment of obligations to parent company (Note 8)	-	(110,000)	(10,400)
Repayment of long-term obligations	-	(32)	-
Net cash provided by (used in) financing activities	$ (6,193)	$ 126,854	$ 45,523

Consolidated Statement of Cash Flows (continued)

(In thousands)	1998	1997	1996
Exchange Rate Effect on Cash	$ (969)	$ (3,058)	$ (396)
Increase in Cash and Cash Equivalents	3,824	1,843	52,777
Cash and Cash Equivalents at Beginning of Year	111,648	109,805	57,028
Cash and Cash Equivalents at End of Year	$ 115,472	$ 111,648	$ 109,805
Cash Paid For			
Interest	$ 6,917	$ 1,741	$ 662
Income taxes	$ 5,431	$ 10,593	$ 12,625
Noncash Activities			
Fair value of assets of acquired companies	$ 1,161	$ 127,649	$ 12,310
Cash paid for acquired companies	(964)	(103,415)	(12,070)
Liabilities assumed of acquired companies	$ 197	$ 24,234	$ 240
Conversion of subordinated convertible note by parent company (Note 8)	$ -	$ 15,000	$ -

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

Consolidated Statement of Comprehensive Income and Shareholders' Investment

(In thousands)	1998	1997	1996
Comprehensive Income			
Net Income	$ 17,995	$ 16,426	$ 19,894
Other Comprehensive Items (Note 15):			
Foreign currency translation adjustment	(185)	(6,011)	306
Unrealized gain (loss) on available-for-sale investments, net of reclassification adjustment	(32)	29	(2)
	(217)	(5,982)	304
	$ 17,778	$ 10,444	$ 20,198
Shareholders' Investment			
Common Stock, $.01 Par Value:			
Balance at beginning of year	$ 633	$ 612	$ 406
Activity under employees' and directors' stock plans	1	2	2
Conversion of subordinated convertible note by parent company (Note 8)	-	19	-
Effect of three-for-two stock split	-	-	204
Balance at end of year	634	633	612
Capital in Excess of Par Value:			
Balance at beginning of year	81,865	65,951	65,222
Activity under employees' and directors' stock plans	(4,401)	42	54
Tax benefit related to employees' and directors' stock plans	1,267	363	781
Conversion of subordinated convertible note by parent company (Note 8)	-	14,981	-
Effect of purchases of subsidiary common stock (Note 1)	-	528	98
Effect of three-for-two stock split	-	-	(204)
Balance at end of year	78,731	81,865	65,951
Retained Earnings:			
Balance at beginning of year	82,607	66,181	46,287
Net income	17,995	16,426	19,894
Balance at end of year	100,602	82,607	66,181
Treasury Stock:			
Balance at beginning of year	(19,494)	(360)	(446)
Purchases of Company common stock	(6,598)	(20,159)	-
Activity under employees' and directors' stock plans	4,806	1,025	86
Balance at end of year	(21,286)	(19,494)	(360)
Accumulated Other Comprehensive Items (Note 15):			
Balance at beginning of year	(7,516)	(1,534)	(1,838)
Other comprehensive items	(217)	(5,982)	304
Balance at end of year	(7,733)	(7,516)	(1,534)
	$ 150,948	$ 138,095	$ 130,850

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

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

Relationship with Thermo Electron Corporation

The Company was incorporated in November 1991 as a wholly owned subsidiary of Thermo Electron. As of January 2, 1999, Thermo Electron owned 55,845,630 shares of the Company's common stock, representing 91% of such stock outstanding.

Principles of Consolidation

The accompanying financial statements include the accounts of the Company, its wholly owned subsidiaries, its 71%-owned public subsidiary Thermo Fibergen Inc., and its 95%-owned Fiberprep, Inc. subsidiary. All material intercompany accounts and transactions have been eliminated.

Fiscal Year

The Company has adopted a fiscal year ending the Saturday nearest December 31. References to 1998, 1997, and 1996 are for the fiscal years ended January 2, 1999, January 3, 1998, and December 28, 1996, respectively. The Company's E. & M. Lamort, S.A. subsidiary, based in France, has a fiscal year ending on November 30 to allow sufficient time for the Company to receive Lamort's financial statements. Fiscal years 1998 and 1996 each included 52 weeks; fiscal 1997 included 53 weeks.

Revenue Recognition

The Company recognizes the majority of its revenues upon shipment of its products. The Company provides a reserve for its estimate of warranty costs at the time of shipment. In addition, revenues and profits on large contracts are recognized using the percentage-of-completion method. Revenues recorded under the percentage-of-completion method were $45,114,000 in 1998, $37,733,000 in 1997, and $31,066,000 in 1996. The percentage of completion is determined by relating the actual costs incurred to date to management's estimate of total costs to be incurred on each contract. If a loss is indicated on any contract in process, a provision is made currently for the entire loss. The Company's contracts generally provide for billing of customers upon the attainment of certain milestones specified in each contract. Revenues earned on contracts in process in excess of billings are classified as unbilled contract costs and fees, and amounts billed in excess of revenues are classified as billings in excess of contract costs and fees in the accompanying balance sheet. There are no significant amounts included in the accompanying balance sheet that are not expected to be recovered from existing contracts at current contract values, or that are not expected to be collected within one year, including amounts that are billed but not paid under retainage provisions.

Stock-based Compensation Plans

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

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

Income Taxes

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

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

Earnings per Share

Basic earnings per share have been computed by dividing net income by the weighted average number of shares outstanding during the year. Diluted earnings per share have been computed assuming the conversion of convertible obligations and the elimination of the related interest expense, and the exercise of stock options, as well as their related income tax effects.

Cash and Cash Equivalents

At year-end 1998 and 1997, $74,447,000 and $62,550,000, respectively, of the Company's cash equivalents were invested in a repurchase agreement with Thermo Electron. Under this agreement, the Company in effect lends excess cash to Thermo Electron, which Thermo Electron collateralizes with investments principally consisting of corporate notes, U.S. government-agency securities, commercial paper, money market funds, and other marketable securities, in the amount of at least 103% of such obligation. The Company's funds subject to the repurchase agreement are readily convertible into cash by the Company. The repurchase agreement earns a rate based on the 90-day Commercial Paper Composite Rate plus 25 basis points, set at the beginning of each quarter. The Company's cash equivalents also include $15,964,000 of U.S. government-agency securities at year-end 1997 and money market fund investments of the Company's foreign subsidiaries at year-end 1998 and 1997, which have original maturities of three months or less. Cash equivalents are carried at cost, which approximates market value.

Inventories

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

(In thousands)	1998	1997
Raw Materials and Supplies	$14,848	$ 14,609
Work in Process	5,341	6,426
Finished Goods	10,435	10,925
	$30,624	$ 31,960

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

Property, Plant, and Equipment

The costs of additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. The Company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the property as follows: fiber-recovery and water-clarification facility, the shorter of the term of the service contract or the life of the asset; buildings, 15 to 40 years; machinery and equipment, 2 to 15 years; and leasehold improvements, the shorter of the term of the lease or the life of the asset. Property, plant, and equipment consists of:

(In thousands)	1998	1997
Land	$ 3,172	$ 3,070
Fiber-recovery and Water-clarification Facility	3,500	-
Buildings	20,513	19,493
Machinery, Equipment, and Leasehold Improvements	41,476	38,496
	68,661	61,059
Less: Accumulated Depreciation and Amortization	36,925	32,723
	$31,736	$ 28,336

Other Assets

Other assets in the accompanying balance sheet includes intangible assets, deferred debt expense, and a note receivable (Note 4). Intangible assets include the costs of a noncompete agreement entered into in connection with the acquisition of the stock-preparation business of Black Clawson Company and its affiliates and patents that are amortized using the straight-line method over periods of 10 and 12 years, respectively. The aggregate carrying value of these assets is $3,317,000 and $3,700,000, net of accumulated amortization of $683,000 and $300,000 at year-end 1998 and 1997, respectively.

Cost in Excess of Net Assets of Acquired Companies

The excess of cost over the fair value of net assets of acquired companies is amortized using the straight-line method principally over 40 years. Accumulated amortization was $9,193,000 and $5,726,000 at year-end 1998 and 1997, respectively. The Company assesses the future useful life of this asset whenever events or changes in circumstances indicate that the current useful life has diminished. The Company considers the future undiscounted cash flows of the acquired companies in assessing the recoverability of this asset. If impairment has occurred, any excess of carrying value over fair value is recorded as a loss.

Common Stock of Subsidiary Subject to Redemption

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

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

During 1997, the Company purchased 419,950 shares of Thermo Fibergen common stock, resulting in a reduction of common stock of subsidiary subject to redemption and an increase in capital in excess of par value.

Foreign Currency

All assets and liabilities of the Company's foreign subsidiaries are translated at year-end exchange rates, and revenues and expenses are translated at average exchange rates for the year, in accordance with SFAS No. 52, "Foreign Currency Translation." Resulting translation adjustments are reflected in the "Accumulated other comprehensive items" component of shareholders' investment (Note 15). Foreign currency transaction gains and losses are included in the accompanying statement of income and are not material for the three years presented.

Forward Contracts

The Company uses short-term forward foreign exchange contracts to manage certain exposures to foreign currencies. The Company enters into forward contracts to hedge firm purchase and sale commitments denominated in currencies other than its subsidiaries' local currencies. These contracts principally hedge transactions denominated in U.S. dollars and British pounds sterling. 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. Gains and losses arising from forward foreign exchange contracts are recognized as offsets to gains and losses resulting from the transactions being hedged. The Company does not enter into speculative foreign currency agreements.

Use of Estimates

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

Presentation

Certain amounts in 1997 and 1996 have been reclassified to conform to the presentation in the 1998 financial statements.

2. Available-for-sale Investments

The Company's debt securities are considered available-for-sale investments in the accompanying balance sheet and are carried at market value, with the difference between cost and market value, net of related tax effects, recorded in the "Accumulated other comprehensive items" component of shareholders' investment.

2. Available-for-sale Investments (continued)

The aggregate market value, cost basis, and gross unrealized gains and losses of available-for-sale investments by major security type are:

(In thousands)	Market Value	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses
1998				
Government-agency Securities	$47,494	$47,498	$ 6	$ (10)
Other	712	712	-	-
	$48,206	$48,210	$ 6	$ (10)
1997				
Government-agency Securities	$35,826	$35,780	$ 46	$ -
Other	493	493	-	-
	$36,319	$36,273	$ 46	$ -

Available-for-sale investments in the accompanying 1998 balance sheet includes $33,523,000 with contractual maturities of one year or less and $14,683,000 with contractual maturities of more than one year through five years. Actual maturities may differ from contractual maturities as a result of the Company's intent to sell these securities prior to maturity and as a result of put and call features of the securities that enable either the Company, the issuer, or both to redeem these securities at an earlier date.

3. Acquisitions

In July 1998, the Company acquired Goslin Birmingham, a division of Green Bay Packaging Inc., for $1,296,000 in cash, which is subject to a post-closing adjustment. Goslin manufactures evaporators and recausticizing systems that concentrate and recycle process chemicals used during pulping, and products that remove condensate gases.

In May 1997, the Company acquired a majority of the assets, subject to certain liabilities, of the stock-preparation business of Black Clawson Company and affiliates. In August 1997, the Company acquired the remaining assets of the stock-preparation business of Black Clawson Company and affiliates. This business has been renamed Thermo Black Clawson. The aggregate purchase price was approximately $103.1 million in cash, which is net of a purchase price adjustment of $0.3 million in 1998. Pursuant to a promissory note, the Company borrowed $110.0 million from Thermo Electron to finance this acquisition (Note 8). The note was repaid in July 1997 with the net proceeds from the sale of long-term subordinated convertible debentures. Thermo Black Clawson is a leading supplier of recycling equipment used in processing fiber for the production of "brown paper," such as that used in the manufacture of corrugated boxes.

In July 1996, Thermo Fibergen acquired substantially all of the assets, subject to certain liabilities, of Granulation Technology, Inc. and Biodac, a division of Edward Lowe Industries, Inc. for $12,070,000 in cash. This business has been renamed GranTek Inc.

These acquisitions have been accounted for using the purchase method of accounting and their results of operations have been included in the accompanying financial statements from their respective dates of acquisition. The aggregate cost of these acquisitions exceeded the estimated fair value of the acquired net assets by $97,482,000, which is being amortized principally over 40 years. Allocation of the purchase price for these acquisitions was based on estimates of the fair value of the net assets acquired.

3. Acquisitions (continued)

In connection with these acquisitions, the Company has undertaken restructuring activities at the 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. In connection with these restructuring activities, as part of the cost of the acquisitions, the Company established reserves as detailed below, primarily for severance and acquired overmarket leases. In accordance with EITF 95-3, the Company finalized, and for the Goslin acquisition intends to finalize, its restructuring plans no later than one year from the respective dates of the acquisitions. Unresolved matters at January 2, 1999, included completion of planned severances. A summary of the changes in accrued acquisition expenses, which are included in other accrued expenses in the accompanying balance sheet, is:

(In thousands)	Severance	Overmarket Leases	Other	Total
Balance at December 30, 1995	$ 45	$ -	$ 26	$ 71
Reserves established	-	-	-	-
Usage	(45)	-	(26)	(71)
Balance at December 28, 1996	-	-	-	-
Reserves established	654	227	64	945
Usage	(139)	(114)	(17)	(270)
Balance at January 3, 1998	515	113	47	675
Reserves established	80	-	-	80
Usage	(227)	(113)	(47)	(387)
Decrease due to finalization of restructuring plan, recorded as a decrease to cost in excess of net assets of acquired companies	(219)	-	-	(219)
Balance at January 2, 1999	$ 149	$ -	$ -	$ 149

Based on unaudited data, the following table presents selected financial information for the Company and Thermo Black Clawson on a pro forma basis for 1997 and 1996, assuming the companies had been combined since the beginning of 1996. The effect of acquisitions not included in the pro forma data was not material to the Company's results of operations.

(In thousands except per share amounts)	1997	1996
Revenues	$282,376	$290,636
Net Income	16,093	17,373
Earnings per Share:		
Basic	.26	.28
Diluted	.25	.27

The pro forma results are not necessarily indicative of future operations or the actual results that would have occurred had the acquisition of Thermo Black Clawson been made at the beginning of 1996.

4. Note Receivable

During 1996, the Company loaned $6,000,000 to Tree-Free Fiber Company LLC (Tree-Free) 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. In December 1997, a receiver was appointed by the Superior Court of Maine 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 and was the successful bidder and executed a purchase and sale agreement. The Company intends to assign its right to purchase the mill to a third party as soon as practicable or, alternatively, to purchase the mill and operate it with the intent of selling it as a going concern. 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 amount of the notes. The Company believes that the aggregate of the fair value of the tissue mill, net of amounts owed by Tree-Free to a senior lender, is in excess of the carrying amount of the notes, net of established reserves. However, no assurance can be given as to the outcome of a sale of the tissue mill, the timing of any such sale, or the amount of the proceeds that may be received therefrom.

5. Employee Benefit Plans

Stock-based Compensation Plans

Stock Option Plans

The Company maintains stock-based compensation plans for its key employees, directors, and others. Two of these plans, adopted in 1991, permit the grant of nonqualified and incentive stock options. A third plan permits the grant of a variety of stock and stock-based awards as determined by the human resources committee of the Company's Board of Directors (the Board Committee), including restricted stock, stock options, stock bonus shares, or performance-based shares. As of year-end 1998, only nonqualified stock options have been awarded under these plans. The option recipients and the terms of options granted under these plans are determined by the Board Committee. Generally, options granted to date are exercisable immediately, but are subject to certain transfer restrictions and the right of the Company to repurchase shares issued upon exercise of the options at the exercise price, upon certain events. The restrictions and repurchase rights generally lapse ratably over a one- to ten-year period, depending on the term of the option, which may range from five- to twelve years. In addition, under certain options, shares acquired upon exercise are restricted from resale until retirement or other events. Nonqualified options may be granted at any price determined by the Board Committee, although incentive stock options must be granted at not less than the fair market value of the Company's stock on the date of grant. To date, all options have been granted at fair market value. The Company also has a directors' stock option plan that provides for the grant of stock options to outside directors pursuant to a formula approved by the Company's shareholders. Options awarded under this plan are exercisable six months after the date of grant and generally expire three or seven years after the date of grant. In addition to the Company's stock-based compensation plans, certain officers and key employees may also participate in the stock-based compensation plans of Thermo Electron.

In November 1998, the Company's employees, excluding its officers and directors, were offered the opportunity to exchange previously granted options to purchase shares of Company common stock for an amount of options equal to half of the number of options previously held, exercisable at a price equal to the fair market value at the time of the exchange offer. Holders of options to acquire 690,000 shares at a weighted average exercise price of $10.68 per share elected to participate in this exchange and, as a result, received options to purchase 345,000 shares of Company common stock at $5.63 per share, which are included in the 1998 grants in the table below. The other terms of the new options are the same as the exchanged options except that the holders may not sell shares purchased pursuant to such new options for six months from the exchange date. The options exchanged were canceled by the Company.

5. Employee Benefit Plans (continued)

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

(Shares in thousands)	1998 Number of Shares	1998 Weighted Average Exercise Price	1997 Number of Shares	1997 Weighted Average Exercise Price	1996 Number of Shares	1996 Weighted Average Exercise Price
Options Outstanding, Beginning of Year	3,988	$ 6.24	3,570	$ 4.81	3,783	$4.52
Granted	957	6.82	845	11.00	102	11.80
Exercised	(646)	3.11	(396)	3.21	(282)	3.25
Forfeited	(120)	9.23	(31)	9.85	(33)	6.15
Canceled due to exchange	(690)	10.68	-	-	-	-
Options Outstanding, End of Year	3,489	$ 6.00	3,988	$ 6.24	3,570	$4.81
Options Exercisable	3,486	$ 6.00	3,988	$ 6.24	3,570	$4.81
Options Available for Grant	1,449		1,596		2,410	

A summary of the status of the Company's stock options at January 2, 1999, is:

Range of Exercise Prices	Options Outstanding: Number of Shares (In thousands)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 3.00 - $ 5.83	1,773	3.3 years	$ 3.95
5.84 - 8.66	1,157	5.6 years	6.55
8.67 - 11.49	529	7.7 years	11.21
11.50 - 14.32	30	9.2 years	14.32
$ 3.00 - $14.32	3,489	4.8 years	$ 6.00

The information disclosed above for options outstanding at January 2, 1999, does not differ materially for options exercisable.

Employee Stock Purchase Program

Substantially all of the Company's full-time U.S. employees are eligible to participate in an employee stock purchase program sponsored by the Company and Thermo Electron. Prior to the 1998 program year, the applicable shares of common stock could be purchased at the end of a 12-month period at 95% of the fair market value at the beginning of the period, and the shares purchased were subject to a six-month resale restriction. Beginning in November 1998, the applicable shares of common stock may be purchased at 85% of the lower of the fair market value at the beginning or end of the period, and the shares purchased are subject to a one-year resale restriction. Shares are purchased through payroll deductions of up to 10% of each participating employee's gross wages. No shares of Company common stock were issued under this program during 1998. During 1997 and 1996, the Company issued 29,000 shares and 31,000 shares, respectively, of its common stock under this program.

5. Employee Benefit Plans (continued)

Pro Forma Stock-based Compensation Expense

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-based Compensation," which sets forth a fair-value based method of recognizing stock-based compensation expense. As permitted by SFAS No. 123, the Company has elected to continue to apply APB No. 25 to account for its stock-based compensation plans. Had compensation cost for awards granted after 1994 under the Company's stock-based compensation plans been determined based on the fair value at the grant dates consistent with the method set forth under SFAS No. 123, the effect on the Company's net income and earnings per share would have been:

(In thousands except per share amounts)	1998	1997	1996
Net Income:			
As reported	$17,995	$ 16,426	$19,894
Pro forma	16,668	15,552	19,454
Basic Earnings per Share:			
As reported	.29	.27	.33
Pro forma	.27	.25	.32
Diluted Earnings per Share:			
As reported	.29	.26	.31
Pro forma	.27	.25	.31

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

The weighted average fair value per share of options granted was $2.32, $5.25, and $3.89 in 1998, 1997, and 1996, respectively. The fair value of each option grant was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1998	1997	1996
Volatility	35%	35%	26%
Risk-free Interest Rate	4.6%	6.6%	5.9%
Expected Life of Options	4.2 years	6.4 years	4.7 years

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

401(k) Savings Plan

The majority of the Company's domestic subsidiaries participate in Thermo Electron's 401(k) savings plan. Contributions to the plan are made by both the employee and the Company. Company contributions are based upon the level of employee contributions. For this plan, the Company contributed and charged to expense $974,000, $719,000, and $449,000 in 1998, 1997, and 1996, respectively.

5. Employee Benefit Plans (continued)

Profit-sharing Plans

One of the Company's domestic subsidiaries has adopted a profit-sharing plan under which the Company annually contributes 10% of the subsidiary's net income before profit-sharing expense. All contributions are immediately vested. In addition, one of the Company's foreign subsidiaries maintains a state-mandated profit-sharing plan and a voluntary profit-sharing plan, which the Company has agreed with its trade unions to maintain. Under the state-mandated plan, the Company contributes 0-11% of the subsidiary's net profit after taxes reduced by 5% of its shareholders' investment. The voluntary plan provides for the subsidiary to contribute up to 3% of profit after taxes if operating income exceeds 5% of its revenues. For these plans, the Company contributed and charged to expense $1,119,000, $1,125,000, and $1,263,000 in 1998, 1997, and 1996, respectively.

Other Retirement Plans

In addition, certain of the Company's subsidiaries offer other retirement plans in addition to the Thermo Electron 401(k) savings plan and profit-sharing plans. The majority of these subsidiaries offer defined contribution plans. Company contributions to these plans are based on formulas determined by the Company. For these plans, the Company contributed and charged to expense $1,285,000, $1,636,000, and $1,989,000 in 1998, 1997, and 1996, respectively.

6. Common Stock

At January 2, 1999, the Company had reserved 18,316,537 unissued shares of its common stock for possible issuance under stock-based compensation plans and for issuance upon possible conversion of the Company's subordinated convertible debentures.

7. Income Taxes

The components of income before provision for income taxes and minority interest are:

(In thousands)	1998	1997	1996
Domestic	$19,751	$ 17,017	$17,515
Foreign	11,145	11,409	15,509
	$30,896	$ 28,426	$33,024

7. Income Taxes (continued)

The components of the provision for income taxes are:

(In thousands)	1998	1997	1996
Currently Payable:			
Federal	$ 4,491	$ 3,624	$ 5,672
Foreign	4,282	4,367	3,382
State	1,039	1,044	1,613
	9,812	9,035	10,667
Net Deferred (Prepaid):			
Federal	1,939	1,852	142
Foreign	(71)	(338)	1,813
State	222	462	62
	2,090	1,976	2,017
	$11,902	$ 11,011	$12,684

The Company receives a tax deduction upon exercise of nonqualified stock options by employees for the difference between the exercise price and the market price of the Company's common stock on the date of exercise. The provision for income taxes that is currently payable does not reflect $1,267,000, $363,000, and $781,000 of such benefits from exercises of stock options that have been allocated to capital in excess of par value in 1998, 1997, and 1996, respectively.

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

(In thousands)	1998	1997	1996
Provision for Income Taxes at Statutory Rate	$10,814	$ 9,949	$11,558
Increases (Decreases) Resulting From:			
State income taxes, net of federal tax	820	980	1,089
Foreign tax rate and tax regulation differential	310	36	(233)
Nondeductible expenses	178	163	150
Other	(220)	(117)	120
	$11,902	$ 11,011	$12,684

7. Income Taxes (continued)

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

(In thousands)	1998	1997
Prepaid Income Taxes:		
Reserves and accruals	$ 5,076	$ 5,298
Inventory basis difference	1,439	1,253
Accrued compensation	193	227
Allowance for doubtful accounts	77	308
Other	21	-
	$ 6,806	$ 7,086
Deferred Income Taxes, Net:		
Amortization of intangible assets	$ 3,183	$ 1,837
Depreciation	663	283
Other	633	549
	$ 4,479	$ 2,669

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

A provision has not been made for U.S. or additional foreign taxes on $63.8 million of undistributed earnings of foreign subsidiaries that could be subject to tax if remitted to the U.S. because the Company plans to keep these amounts permanently reinvested overseas. The Company believes that any additional U.S. tax liability due upon remittance of such earnings would be immaterial due to available U.S. foreign tax credits.

8. Short- and Long-term Obligations

In connection with the acquisition of Thermo Black Clawson, the Company borrowed $110.0 million from Thermo Electron in May 1997. The promissory note bore interest at the 90-day Commercial Paper Composite Rate plus 25 basis points. In July 1997, the Company issued and sold at par $153.0 million principal amount of 4 1/2% subordinated convertible debentures due 2004 for net proceeds of approximately $149.8 million. The debentures are convertible into shares of the Company's common stock at a conversion price of $12.10 per share and are guaranteed on a subordinated basis by Thermo Electron. In July 1997, the Company repaid the $110.0 million promissory note due to Thermo Electron with a portion of the net proceeds from the sale of subordinated convertible debentures.

In February 1994, the Company issued to Thermo Electron a $15.0 million principal amount 3 1/2% subordinated convertible note due August 1997, convertible at $7.94 per share. The note was converted by Thermo Electron during 1997 for 1,888,122 shares of Company common stock.

In January 1995, in connection with a partial redemption of Fiberprep stock, Fiberprep issued to Thermo Electron a $10.4 million promissory note due January 1996, which bore interest at the Commercial Paper Composite Rate plus 25 basis points and was repaid in 1996.

See Note 12 for fair value information pertaining to the Company's long-term obligations.

9. Related-party Transactions

Corporate Services Agreement

The Company and Thermo Electron have a corporate services agreement under which Thermo Electron's corporate staff provides certain administrative services, including certain legal advice and services, risk management, certain employee benefit administration, tax advice and preparation of tax returns, centralized cash management, and certain financial and other services, for which the Company currently pays Thermo Electron annually an amount equal to 0.8% of the Company's revenues. In 1997 and 1996, the Company paid an amount equal to 1.0% of the Company's revenues. For these services, the Company was charged $1,979,000, $2,396,000, and $1,922,000 in 1998, 1997, and 1996, respectively. The fee is reviewed and adjusted annually by mutual agreement of the parties. Management believes that the service fee charged by Thermo Electron is reasonable and that such fees are representative of the expenses the Company would have incurred on a stand-alone basis. The corporate services agreement is renewed annually but can be terminated upon 30 days' prior notice by the Company or upon the Company's withdrawal from the Thermo Electron Corporate Charter (the Thermo Electron Corporate Charter defines the relationship among Thermo Electron and its majority-owned subsidiaries). For additional items such as employee benefit plans, insurance coverage, and other identifiable costs, Thermo Electron charges the Company based upon costs attributable to the Company.

Recycling Equipment Subcontract

In December 1994, Thermo Electron subcontracted with Fiberprep to supply equipment and services to Thermo Electron, in its role as general contractor on a turnkey contract with a customer for an office wastepaper de-inking facility. The subcontract was substantially completed by Fiberprep during 1996. Under this subcontract, the Company recorded revenues of $1,876,000 during 1996.

Repurchase Agreement

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

Short- and Long-term Obligations

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

10. Commitments and Contingencies

Operating Leases

The Company occupies office and operating facilities under various operating leases. The accompanying statement of income includes expenses from operating leases of $1,862,000, $1,998,000, and $1,252,000 in 1998, 1997, and 1996, respectively. The future minimum payments due under noncancelable operating leases as of January 2, 1999, are $1,079,000 in 1999; $546,000 in 2000; $360,000 in 2001; $162,000 in 2002; and $3,000 in 2003. Total future minimum lease payments are $2,150,000.

Long-term Contract

In December 1997, Thermo Fibergen entered into a ten-year contract with a paper mill to provide fiber-recovery and water-clarification services to the mill, and also entered into an engineering, procurement, and construction contract for the construction of the facility to provide such services. In July 1998, Thermo Fibergen completed construction of, and began operating, the fiber-recovery and water-clarification facility, providing clean water and long fiber to the mill. In addition, Thermo Fibergen and the paper mill have entered into lease and services agreements, under which it leases land from the paper mill for a nominal fee and the paper mill provides certain utilities and services. Thermo Fibergen provides the paper mill with fiber-recovery and water-clarification services for established fixed fees, subject to certain adjustments and increases upon the attainment of certain performance goals by Thermo Fibergen. The contract may be canceled by either party within six months after the end of the fourth year of the contract, or thereafter by the paper mill with one year's notice, if certain benefits or profitability levels are not achieved. If either party elects to terminate the agreement, the paper mill will be required to purchase the facility from Thermo Fibergen at its net book value.

10. Commitments and Contingencies (continued)

Contingencies

In the ordinary course of business, the Company is often required to issue limited performance guarantees relating to its equipment and systems. The Company typically limits its liability under these guarantees to the cost of the equipment. The Company believes that it has adequate reserves for any potential liability in connection with such guarantees.

11. Restructuring Costs

During 1997, the Company recorded restructuring costs of $1,063,000 relating to the consolidation of operations at its Fiberprep, Inc. subsidiary and Lamort Paper Services Ltd. subsidiary (a subsidiary of E&M Lamort, S.A. located in the United Kingdom) into the operations of Thermo Black Clawson. The restructuring charges, which were accounted for in accordance with EITF 94-3, related primarily to severance for 34 employees whose employment was terminated during 1997 and abandoned-facility payments. Of the total restructuring costs, $197,000 remained accrued at year-end 1997, of which $163,000 was paid during 1998.

12. Fair Value of Financial Instruments

The Company's financial instruments consist mainly of cash and cash equivalents, available-for-sale investments, accounts receivable, accounts payable, due to parent company and affiliated companies, subordinated convertible debentures, common stock of subsidiary subject to redemption, and forward foreign exchange contracts. The carrying amounts of accounts receivable, accounts payable, and due to parent company and affiliated companies approximate fair value due to their short-term nature.

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

The carrying amount and fair value of the Company's subordinated convertible debentures, common stock of subsidiary subject to redemption, and off-balance-sheet financial instruments are:

	1998		1997	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Subordinated Convertible Debentures	$153,000	$130,433	$153,000	$ 160,650
Common Stock of Subsidiary Subject to Redemption	$ 53,801	$ 53,626	$ 52,812	$ 54,717
Off-balance-sheet Financial Instruments:				
Forward foreign exchange contracts payable		$ 1		$ 22

The fair value of the Company's subordinated convertible debentures and common stock of subsidiary subject to redemption was determined based on quoted market prices.

The notional amounts of forward foreign exchange contracts outstanding totaled $3,284,000 and $1,728,000 at year-end 1998 and 1997, respectively. The fair value of such contracts is the estimated amount that the Company would pay upon termination of the contracts, taking into account the change in foreign exchange rates.

13. Business Segment and Geographical Information

The Company organizes and manages its business by individual functional operating entity. The Company has combined its operating entities into three segments: Pulp and Papermaking Equipment and Systems, Dryers and Pollution-control Equipment, and Water- and Fiber-recovery Services and Products. In classifying operational entities into a particular segment the Company aggregated businesses with similar economic characteristics, products and services, production processes, customers, and methods of distribution.

The Company's Pulp and Papermaking Equipment and Systems segment designs and manufactures processing machinery, 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. Revenues from the stock-preparation equipment product line were $107,518,000, $88,848,000, and $53,948,000 in 1998, 1997, and 1996, respectively. Revenues from the accessories product line were $77,817,000, $82,970,000, and $82,173,000 in 1998, 1997, and 1996, respectively. Revenues from the water-management product line were $36,908,000, $44,106,000, and $39,950,000 in 1998, 1997, and 1996, respectively.

The Dryers and Pollution-control Equipment segment, which consists 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 (Note 17).

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, and began operating, its first plant (Note 10). 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.

(In thousands)	1998	1997	1996
Business Segment Information			
Revenues:			
Pulp and Papermaking Equipment and Systems (a)	$ 223,799	$217,270	$ 178,004
Dryers and Pollution-control Equipment (b)	19,513	19,724	14,988
Water- and Fiber-recovery Services and Products	5,276	4,836	2,223
Intersegment sales elimination (c)	(1,162)	(2,188)	(3,006)
	$ 247,426	$239,642	$ 192,209
Income Before Provision for Income Taxes and Minority Interest:			
Pulp and Papermaking Equipment and Systems	$ 33,937	$30,060	$ 33,390
Dryers and Pollution-control Equipment	2,736	1,594	1,196
Water- and Fiber-recovery Services and Products	(2,468)	(2,424)	(1,591)
Corporate (d)	(3,857)	(3,299)	(2,876)
Total operating income	30,348	25,931	30,119
Interest income, net	548	2,495	2,905
	$ 30,896	$28,426	$ 33,024

13. Business Segment and Geographical Information (continued)

(In thousands)	1998	1997	1996
Total Assets:			
Pulp and Papermaking Equipment and Systems	$ 277,688	$276,784	$ 157,571
Dryers and Pollution-control Equipment	5,390	7,155	4,074
Water- and Fiber-recovery Services and Products	71,116	70,164	71,033
Corporate (e)	72,906	64,835	24,554
	$ 427,100	$418,938	$ 257,232
Depreciation and Amortization:			
Pulp and Papermaking Equipment and Systems	$ 7,286	$ 5,996	$ 4,150
Dryers and Pollution-control Equipment	153	133	132
Water- and Fiber-recovery Services and Products	1,151	1,204	701
Corporate	472	212	-
	$ 9,062	$ 7,545	$ 4,983
Capital Expenditures:			
Pulp and Papermaking Equipment and Systems	$ 3,442	$ 3,215	$ 3,109
Dryers and Pollution-control Equipment	197	201	116
Water- and Fiber-recovery Services and Products	4,134	377	711
	$ 7,773	$ 3,793	$ 3,936
Geographical Information			
Revenues (f):			
United States	$153,658	$150,998	$ 102,118
France	65,308	52,416	59,941
Other	39,636	47,266	38,650
Transfers among geographic areas (c)	(11,176)	(11,038)	(8,500)
	$247,426	$239,642	$ 192,209
Long-lived Assets (g):			
United States	$ 27,232	$23,119	$ 13,884
France	5,381	6,139	7,152
Other	4,844	5,304	5,686
	$ 37,457	$34,562	$ 26,722
Export Revenues Included in United States Revenues Above (h)	$ 24,244	$20,140	$ 11,060

(a) Includes intersegment sales of $526,000, $198,000, and $7,000 in 1998, 1997, and 1996, respectively.
(b) Includes intersegment sales of $636,000, $1,990,000, and $2,999,000 in 1998, 1997, and 1996, respectively.
(c) Intersegment sales and transfers among geographic areas are accounted for at prices that are representative of transactions with unaffiliated parties.
(d) Primarily general and administrative expenses.
(e) Primarily cash, cash equivalents, and available-for-sale investments. (f) Revenues are attributed to countries based on selling location. (g) Includes property, plant, and equipment, net and other long-term tangible assets. (h) In general, export revenues are denominated in U.S. dollars.

14. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

(In thousands except per share amounts)	1998	1997	1996
Basic			
Net Income	$17,995	$ 16,426	$19,894
Weighted Average Shares	61,612	61,384	61,040
Basic Earnings per Share	$ .29	$ .27	$ .33
Diluted			
Net Income	$17,995	$ 16,426	$19,894
Effect of:			
Convertible obligations	-	188	315
Majority-owned subsidiary's dilutive securities	(33)	(76)	-
Income Available to Common Shareholders, as Adjusted	$17,962	$ 16,538	$20,209
Weighted Average Shares	61,612	61,384	61,040
Effect of:			
Convertible obligations	-	1,126	1,888
Stock options	741	1,103	1,415
Weighted Average Shares, as Adjusted	62,353	63,613	64,343
Diluted Earnings per Share	$ .29	$ .26	$ .31

The computation of diluted earnings per share excludes the effect of assuming the exercise of certain outstanding stock options because the effect would be antidilutive. As of January 2, 1999, there were 818,000 such options outstanding, with exercise prices of $6.28 to $14.32 per share.

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

15. Comprehensive Income

During the first quarter of 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." This pronouncement sets forth requirements for disclosure of the Company's comprehensive income and accumulated other comprehensive items. In general, comprehensive income combines net income and "other comprehensive items," which represent certain amounts that are reported as components of shareholders' investment in the accompanying balance sheet, including foreign currency translation adjustments and unrealized net of tax gains and losses on available-for-sale investments.

15. Comprehensive Income (continued)

Accumulated other comprehensive items in the accompanying consolidated balance sheet consist of the following:

(In thousands)	1998	1997
Cumulative Translation Adjustment	$(7,730)	$(7,545)
Net Unrealized Gain (Loss) on Available-for-sale Investments	(3)	29
	$(7,733)	$(7,516)

16. Unaudited Quarterly Information

(In thousands except per share amounts)

1998	First	Second	Third	Fourth
Revenues	$62,330	$63,583	$59,678	$61,835
Gross Profit	25,278	26,119	23,976	24,791
Net Income	4,251	5,328	4,157	4,259
Earnings per Share:				
Basic	.07	.09	.07	.07
Diluted	.07	.08	.07	.07

1997	First	Second(a)	Third	Fourth
Revenues	$44,667	$54,511	$67,606	$72,858
Gross Profit	19,131	21,861	25,270	28,221
Net Income	3,460	3,759	3,594	5,613
Earnings per Share:				
Basic	.06	.06	.06	.09
Diluted	.05	.06	.06	.09

(a) Reflects the May 1997 acquisition of Thermo Black Clawson and borrowings to finance such acquisition.

17. Subsequent Event

In February 1999, the Company sold its Thermo Wisconsin subsidiary for $13.0 million in cash, which is subject to a post-closing adjustment. Thermo Wisconsin's unaudited revenues to external customers and net income in 1998 were $18,877,000 and $1,547,000, respectively. Thermo Wisconsin manufactured and marketed dryers and pollution-control equipment.

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheet of Thermo Fibertek Inc. (a Delaware corporation and 91%-owned subsidiary of Thermo Electron Corporation) and subsidiaries as of January 2, 1999, and January 3, 1998, and the related consolidated statements of income, comprehensive income and shareholders' investment, and cash flows for each of the three years in the period ended January 2, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thermo Fibertek Inc. and subsidiaries as of January 2, 1999 and January 3, 1998, and the results of their operations and their cash flows for each of the three years in the period ended January 2, 1999, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Boston, Massachusetts
February 10, 1999

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

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

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.

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 $13.0 million in cash, which is subject to a post-closing adjustment. Thermo Wisconsin's unaudited revenues to external customers and net income in 1998 were $18,877,000 and $1,547,000, respectively.

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, and began operating, its first plant (Note 10). 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 primarily manufactures stock-preparation equipment and accessories.

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 enters into forward contracts to hedge certain firm purchase and sale commitments denominated in currencies other than its subsidiaries' local currencies, principally U.S. dollars and British pounds sterling. 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. In addition, the Company's results of operations could be adversely affected by possible costs related to the Euro currency's introduction, which began in January 1999.

Overview (continued)

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

1998 Compared With 1997

Revenues increased to $247.4 million in 1998 from $239.6 million in 1997, primarily due to an increase in revenues of $6.5 million at the Papermaking Equipment segment. The increase in revenues at the Papermaking Equipment segment was primarily due to an $18.9 million increase in revenues from the stock-preparation equipment product line, offset in part by decreases in revenues from the accessories and water-management product lines, primarily due to a decrease in demand, and the unfavorable effects of foreign currency translation. Revenues from the stock-preparation equipment product line increased principally due to a $14.0 million increase in revenues from Thermo Black Clawson, acquired in May 1997, due to its inclusion for the full twelve-month period in 1998, offset in part by a decrease in its revenues due to a decrease in demand in Asia, North America, and Europe. The primary reasons for the decrease in demand in Asia, North America, and Europe are discussed in the Overview. The unfavorable effects of currency translation due to the strengthening of the U.S. dollar relative to foreign currencies in countries in which the Company operates decreased revenues by $2.4 million in 1998.

The gross profit margin increased to 40% in 1998 from 39% in 1997, primarily due an increase in gross profit margin at the Papermaking Equipment segment as a result of improvement at Thermo Black Clawson. Gross profit margins improved at Thermo Black Clawson principally as a result of a change in pricing strategies and product mix, and an improved cost structure.

Selling, general, and administrative expenses as a percentage of revenues were relatively unchanged at 25.6% in 1998, compared with 25.3% in 1997.

Research and development expenses were relatively unchanged at $7.0 million in 1998, compared with $6.8 million in 1997.

In 1998, the Company recorded gains of $0.5 million relating to the sale of real estate. In 1997, restructuring costs of $1.1 million were recorded by the Papermaking Equipment segment, primarily for severance costs relating to the consolidation of the operations of two subsidiaries into the operations of Thermo Black Clawson (Note 11).

Interest income increased to $8.0 million in 1998 from $7.3 million in 1997, primarily due to an increase in average invested balances, offset in part by the effect of a decrease in interest rates in 1998. The increase in average invested balances principally related to the net proceeds from the sale of $153.0 million principal amount of 4 1/2% subordinated convertible debentures in July 1997, of which $103.4 million was used to finance the acquisition of Thermo Black Clawson (Note 8). Interest expense increased to $7.4 million in 1998 from $4.8 million in 1997, principally as a result of the July 1997 issuance of subordinated convertible debentures.

1998 Compared With 1997 (continued)

The effective tax rate was unchanged at 39% in 1998 and 1997. 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.

In connection with a proposed engineering, procurement, and construction project, the Company loaned $6.0 million to Tree-Free Fiber Company, LLC (Tree-Free) during 1996. 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. In December 1997, a receiver was appointed by the Superior Court of Maine 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 and was the successful bidder and executed a purchase and sale agreement. The Company intends to assign its right to purchase the mill to a third party as soon as practicable or, alternatively, to purchase the mill and operate it with the intent of selling it as a going concern. 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 amount of the notes. The Company believes that the aggregate of the fair value of the tissue mill, net of amounts owed by Tree-Free to a senior lender, is in excess of the carrying amount of the notes, net of established reserves. However, no assurance can be given as to the outcome of a sale of the tissue mill, the timing of any such sale, or the amount of the proceeds that may be received therefrom.

1997 Compared With 1996

Revenues increased 25% to $239.6 million in 1997 from $192.2 million in 1996, primarily due to the inclusion of $52.7 million in revenues from Thermo Black Clawson, acquired in May 1997, and GranTek, acquired in July 1996. Excluding the effect of the Thermo Black Clawson acquisition, revenues at the Papermaking Equipment segment decreased $10.3 million, due to an $11.3 million decrease in revenues from the stock-preparation equipment product line resulting from a continuing decrease in demand, principally at the Company's Fiberprep subsidiary, due to a severe drop in de-inked pulp prices in the summer of 1996 and a $6.3 million decrease in revenues due to the unfavorable effects of currency translation, offset in part by an increase in revenues from the accessories and water-management product lines due to an increase in demand. Revenues at the Dryers and Pollution-control Equipment segment increased $4.7 million, principally due to large orders from various customers during 1997. Revenues at the Fiber-recovery segment increased $2.6 million due to the inclusion of revenues from GranTek for the full twelve-month period in 1997.

The gross profit margin decreased to 39% in 1997 from 43% in 1996, primarily due a decrease in gross profit margin at the Papermaking Equipment segment due to the inclusion of lower-margin revenues at Thermo Black Clawson.

Selling, general, and administrative expenses as a percentage of revenues was unchanged at 25% in 1997 and 1996. At the Papermaking Equipment segment, the impact of the inclusion of lower expenses as a percentage of revenues at Thermo Black Clawson was offset by an increase in expenses as a percentage of revenues at Lamort, principally due to a decrease in its revenues. Selling, general, and administrative expenses as a percentage of revenues at the Fiber-recovery segment increased because of an increase in expenses due to the hiring of additional sales, marketing, and administrative staff to expand that business.

Research and development expenses increased to $6.8 million in 1997 from $5.5 million in 1996, primarily due to an increase at the Papermaking Equipment segment due to the inclusion of $1.1 million in expenses at Thermo Black Clawson and at the Fiber-recovery segment due to continuing research and development efforts relating to fiber-recovery and water-clarification systems.

1997 Compared With 1996 (continued)

During 1997, restructuring costs of $1.1 million were recorded by the Papermaking Equipment segment for the reasons discussed in the results of operations for 1998.

Interest income increased to $7.3 million in 1997 from $3.6 million in 1996, primarily due to an increase in average invested balances resulting from the net proceeds from Thermo Fibergen's initial public offering in September 1996 and the remaining net proceeds from the sale of subordinated convertible debentures in July 1997. Interest expense increased to $4.8 million in 1997 from $0.7 million in 1996, as a result of borrowings from Thermo Electron to finance the May 1997 acquisition of Thermo Black Clawson and the July 1997 issuance of subordinated convertible debentures. The borrowings from Thermo Electron were repaid with a portion of the net proceeds from the sale of subordinated convertible debentures.

The effective tax rate was 39% in 1997 and 38% in 1996. These rates exceeded the statutory federal income tax rate primarily due to the impact of state income taxes. In 1996, the impact of state income taxes was offset in part by the effect of lower foreign tax rates.

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

Liquidity and Capital Resources

Consolidated working capital was $193.4 million at January 2, 1999, compared with $177.0 million at January 3, 1998. Included in working capital are cash, cash equivalents, and available-for-sale investments of $163.7 million at January 2, 1999, compared with $148.0 million at January 3, 1998. Of the $163.7 million balance at January 2, 1999, $55.0 million was held by Thermo Fibergen, $7.2 million was held by Fiberprep, and the remainder was held by the Company and its wholly owned subsidiaries. At January 2, 1999, $40.7 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 1998, $31.9 million of cash was provided by operating activities. Cash provided by a decrease in accounts receivable of $3.7 million was more than offset by a $5.8 million reduction of accounts payable. The reduction in both accounts receivable and accounts payable is due primarily to the reduction in fourth quarter 1998 sales and related inventory activity as compared with the fourth quarter of 1997.

During 1998, the Company's primary investing activities, excluding available-for-sale investments activity, were the purchase of property, plant, and equipment for $7.8 million and a net cash payment of $1.7 million under a note receivable (Note 4). In July 1998, the Company acquired Goslin Birmingham, a division of Green Bay Packaging Inc., a manufacturer of systems that recycle chemicals used during the pulping process and products that remove condensate gases. The $1.3 million purchase price for this business, which is subject to a post-closing adjustment, was offset in part by a $0.3 million post-closing adjustment relating to the 1997 acquisition of Thermo Black Clawson.

In February 1999, the Company sold its Thermo Wisconsin subsidiary for approximately $13.0 million in cash, which is subject to a post-closing adjustment (Note 17).

During 1998, the Company's financing activities used $6.2 million in cash. The Company used $6.6 million to purchase Company common stock pursuant to authorizations by the Company's Board of Directors. At January 2, 1999, the Company had a remaining authorization to purchase 125,500 shares of Company common stock, or the equivalent in outstanding convertible debentures, in open market or negotiated transactions through July 15, 1999. In January 1999, the Company's Board of Directors authorized the purchase of up to $10 million of Company common stock, outstanding convertible debentures, or Thermo Fibergen common stock in open market or negotiated transactions through January 22, 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 $54.8 million.

Liquidity and Capital Resources (continued)

At January 2, 1999, the Company had $63.8 million of undistributed foreign earnings. The Company does not intend to repatriate undistributed foreign earnings into the U.S., and does not expect that this will have a material adverse effect on the Company's current liquidity.

During 1999, the Company plans to make expenditures for property, plant, and equipment of approximately $5 million. In addition, Thermo Fibergen may make capital expenditures for the construction of additional fiber-recovery facilities. Construction of fiber-recovery facilities is dependent upon Thermo Fibergen entering into long-term contracts with pulp and paper mills, under which Thermo Fibergen will charge fees to process the mills' papermaking byproducts. Thermo Fibergen currently has only one such agreement in place and there is no assurance that Thermo Fibergen will be able to obtain such additional contracts. The Company believes that its existing resources are sufficient to meet the capital requirements of its existing operations for the foreseeable future.

Market Risk

The Company is exposed to market risk from changes in interest rates, equity prices, and foreign currency exchange rates, which could affect its future results of operations and financial condition. The Company manages its exposure to these risks through its regular operating and financing activities. Additionally, the Company uses short-term forward contracts to manage certain exposures to foreign currencies. The Company enters into forward foreign exchange contracts to hedge firm purchase and sale commitments denominated in currencies other than its subsidiaries' local currencies. The Company does not engage in extensive foreign currency hedging activities; however, the purpose of the Company's foreign currency hedging activities is to protect the Company's local currency cash flows related to these commitments from fluctuations in foreign exchange rates. The Company's forward foreign exchange contracts principally hedge transactions denominated in U.S. dollars and British pounds sterling. Gains and losses arising from forward contracts are recognized as offsets to gains and losses resulting from the transactions being hedged. The Company does not enter into speculative foreign currency agreements.

Interest Rates

The Company's available-for-sale investments and subordinated convertible debentures are sensitive to changes in interest rates. Interest rate changes would result in a change in the fair value of these financial instruments due to the difference between the market interest rate and the rate at the date of purchase or issuance of the financial instrument. A 10% decrease in year-end 1998 market interest rates would result in a negative impact of $21 million on the net fair value of the Company's interest-sensitive financial instruments.

The Company's cash, cash equivalents, and available-for-sale investments maturing within one year are sensitive to changes in interest rates. Interest rate changes would result in a change in interest income due to the difference between the current interest rates on cash and cash equivalents and the variable rate that these financial instruments may adjust to in the future. A 10% decrease in year-end 1998 interest rates would result in a negative impact of $0.4 million on the Company's net income.

Equity Prices

The Company's subordinated convertible debentures are sensitive to fluctuations in the price of Company common stock into which the debentures are convertible. Changes in equity prices would result in changes in the fair value of the Company's subordinated convertible debentures due to the difference between the current market price and the market price at the date of issuance of the debentures. A 10% increase in the year-end 1998 market equity prices would result in a negative impact of $6.3 million on the net fair value of the Company's subordinated convertible debentures.

The Company's common stock of subsidiary subject to redemption is sensitive to fluctuations in the price of Thermo Fibergen common stock. The holder of a Thermo Fibergen redemption right may require Thermo Fibergen to redeem one share of Thermo Fibergen common stock at $12.75 per share in September 2000 or September 2001. If Thermo Fibergen's common stock is trading on the open market at a price which is less than $12.75 per share in

September 2001, the holders of redemption rights would more likely than not exercise their redemption rights. In the event all redemption rights are exercised, the Company may use up to $54.8 million in cash to settle the redemption obligation.

In addition, changes in equity prices would result in changes in the fair value of common stock of subsidiary subject to redemption due to the difference between the current market price and the price at the date of issuance of the underlying financial instruments, Thermo Fibergen common stock and redemption rights. Since the market price of Thermo Fibergen's redemption rights generally fluctuates in the opposite direction of fluctuations in the market price of Thermo Fibergen's common stock, the effect of a 10% increase in the market price of Thermo Fibergen common stock on the fair value of common stock of subsidiary subject to redemption would be mitigated in part by a decrease in the market price of the Thermo Fibergen redemption rights.

Foreign Currency Exchange Rates

The Company generally views its investment in foreign subsidiaries with a functional currency other than the Company's reporting currency as long-term. The Company's investment in foreign subsidiaries is sensitive to fluctuations in foreign currency exchange rates. The functional currencies of the Company's foreign subsidiaries are principally denominated in French francs, British pounds sterling, and Canadian dollars. The effect of a change in foreign exchange rates on the Company's net investment in foreign subsidiaries is reflected in the "Accumulated other comprehensive items" component of shareholders' investment. A 10% depreciation in year-end 1998 functional currencies, relative to the U.S. dollar, would result in a $7.9 million reduction of shareholders' investment.

Year 2000

The Company continues to assess the potential impact of the year 2000 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) contacting key suppliers and vendors to determine their year 2000 compliance status; and (iv) developing contingency plans.

The Company's State of Readiness

The Company has implemented a compliance program to ensure that its critical information technology systems and facilities will be ready for the year 2000. The first phase of the program, testing and evaluating the Company's critical information technology systems and facilities 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 facilities. The Company is currently in phase two of its program, during which any noncompliant systems or facilities 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 facilities year 2000 compliant. The Company is currently upgrading or replacing its material noncompliant information technology systems, and the Company expects that all such 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. The Company has started to follow-up and monitor the year 2000 compliance progress of significant suppliers and vendors which indicate that they are not year 2000 compliant or which do not respond to the Company's questionnaires. The Company has not completed the majority of its assessment of third-party risk, but expects to be substantially completed by September 1999.

Contingency Plans

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.

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.

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. 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. 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 significant adverse impact on the Company's business, operations, and financial condition in amounts that cannot be reasonably estimated at this time.

Forward-looking Statements

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company wishes to caution readers that the following important factors, among others, in some cases have affected, and in the future could affect, the Company's actual results and could cause its actual results in 1999 and beyond to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

Dependence on Paper Industry and Pulp and Paper Prices. The Company's products are primarily sold to the paper industry. Generally, the financial condition of the paper industry corresponds to the condition of the general economy, as well as 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 has adversely affected the Company's business since the second half of 1996. No assurance can be given that the financial condition of the paper industry will improve in the near future.

Risks Associated with International Operations. During 1998, approximately 48% of the Company's sales were to customers outside the United States, principally in Europe. International revenues are subject to a number of risks, including the following: agreements may be difficult to enforce and receivables difficult to collect through a foreign country's legal system; foreign customers may have longer payment cycles; foreign countries may impose additional withholding taxes or otherwise tax the Company's foreign income, impose tariffs, or adopt other restrictions on foreign trade; U.S. export licenses may be difficult to obtain; and the protection of intellectual property in foreign countries may be more difficult to enforce. Although the Company seeks to charge its customers in the same currency as its operating costs, fluctuations in currency exchange rates may affect product demand and adversely affect the profitability in U.S. dollars of products provided by the Company in foreign markets where payment for the Company's products and services is made in the local currency. In addition, the Company's results of operations could be adversely affected by possible costs related to the Euro currency's introduction which began in January 1999. There can be no assurance that any of these factors will not have a material adverse impact on the Company's business and results of operations.

During 1998, the Company's sales to customers in Asia were approximately 5% of the Company's total revenues, a substantial portion of which were sales to China. Asia is experiencing a severe economic crisis, which has been characterized by sharply reduced economic activity and liquidity, highly volatile foreign-currency-exchange and interest rates, and unstable stock markets. The Company's sales to Asia have been, and could continue to be, adversely affected by the unstable economic conditions in that region. 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. As a result, the pulp and paper industry in North America and Europe has been making fewer capital expenditures, including expenditures to purchase the Company's products. The economic crisis in Asia has, and could continue to, adversely affect the Company's sales to North America, Europe, and Asia.

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

Dependence on Patents and Proprietary Rights. The Company places considerable emphasis on obtaining patent and trade secret protection for significant new technologies, products, and processes because of the length of time and expense associated with bringing new products through the development process and to the marketplace. The Company's success depends in part on its ability to develop patentable products and obtain and enforce patent protection for its products both in the United States and in other countries. The Company owns numerous U.S. and foreign patents, and intends to file additional applications as appropriate for patents covering its products. No assurance can be given that patents will issue from any pending or future patent applications owned by or licensed to the Company, or that the claims allowed under any issued patents will be sufficiently broad to protect the Company's technology. No assurance can be given that any issued patents owned by or licensed to the Company will not be challenged, invalidated, or circumvented, or that the rights thereunder will provide competitive advantages to the Company. The Company could incur substantial costs in defending itself in suits brought against it or in suits in which the Company may assert its patent rights against others. If the outcome of any such litigation is unfavorable to the Company, the Company's business and results of operations could be materially adversely affected.

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

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

Risks Associated with Acquisition Strategy. The Company's acquisition strategy includes the acquisition of businesses that complement or augment the Company's existing products and services. Promising acquisitions are difficult to identify and complete for a number of reasons, including competition among prospective buyers and the need for regulatory, including antitrust, approvals. Any acquisition completed by the Company may be made at a substantial premium over the fair value of the net assets of the acquired company. There can be no assurance that the Company will be able to complete future acquisitions or that the Company will be able to successfully integrate any acquired businesses into its existing businesses or make such businesses profitable.

Potential Impact of Year 2000 on Processing of Date-sensitive Information. 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. 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. 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 significant adverse impact on the Company's business, operations, and financial condition in amounts that cannot be reasonably estimated at this time.

Selected Financial Information

(In thousands except per share amounts)	1998	1997(a)	1996(b)	1995(c)	1994
Statement of Income Data					
Revenues	$247,426	$ 239,642	$192,209	$206,743	$162,625
Net Income	17,995	16,426	19,894	20,249	10,894
Earnings per Share:					
Basic	.29	.27	.33	.33	.18
Diluted	.29	.26	.31	.32	.18
Balance Sheet Data					
Working Capital	$193,446	$ 176,996	$115,609	$ 70,882	$ 54,879
Total Assets	427,100	418,938	257,232	199,671	162,389
Long-term Obligations	153,000	153,000	34	15,041	15,406
Common Stock of Subsidiary Subject to Redemption	53,801	52,812	56,087	-	-
Shareholders' Investment	150,948	138,095	130,850	109,631	84,696

(a) Reflects the May 1997 acquisition of Thermo Black Clawson, the issuance of $153.0 million principal amount of 4 1/2% subordinated convertible debentures, and the conversion of a $15.0 million principal amount subordinated convertible note by Thermo Electron.
(b) Reflects the July 1996 acquisition of GranTek, the net proceeds from Thermo Fibergen's September 1996 initial public offering, and the repayment of a $10.4 million promissory note to Thermo Electron.
(c) Reflects the January 1995 redemption of a portion of Fiberprep's stock and the issuance of a $10.4 million promissory note to Thermo Electron.

Common Stock Market Information

The Company's common stock is traded on the American Stock Exchange under the symbol TFT. The following table sets forth the high and low sale prices of the Company's common stock for 1998 and 1997, as reported in the consolidated transaction reporting system.

	1998		1997	
Quarter	High	Low	High	Low
First	$14 1/4	$11 1/4	$12 1/2	$ 8 1/2
Second	12 3/4	9 1/2	11	8 1/8
Third	10 5/8	7 7/16	12 3/8	9 7/16
Fourth	7 3/4	4 15/16	13 5/8	10 9/16

As of January 29, 1999, the Company had 809 holders of record of its common stock. This does not include holdings in street or nominee names. The closing market price on the American Stock Exchange for the Company's common stock on January 29, 1999, was $7 5/8 per share.

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

Shareholder Services

Shareholders of Thermo Fibertek Inc. who desire information about the Company are invited to contact the Investor Relations Department, Thermo Fibertek Inc., 81 Wyman Street, P.O. Box 9046, Waltham, Massachusetts 02454-9046, (781) 622-1111. A mailing list is maintained to enable shareholders whose stock is held in street name, and other interested individuals, to receive quarterly reports, annual reports, and press releases as quickly as possible. Distribution of printed quarterly reports is limited to the second quarter only. All material is available from Thermo Electron's Internet site (http://www.thermo.com/ subsid/tft1.html).

Stock Transfer Agent

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

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

Dividend Policy

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

Form 10-K Report

A copy of the Annual Report on Form 10-K for the fiscal year ended January 2, 1999, as filed with the Securities and Exchange Commission, may be obtained at no charge by writing to the Investor Relations Department, Thermo Fibertek Inc., 81 Wyman Street, P.O. Box 9046, Waltham, Massachusetts 02454-9046.

Annual Meeting

The annual meeting of shareholders will be held on Thursday, May 27, 1999, at 9 a.m. at The Westin Hotel, 70 Third Avenue, Waltham, Massachusetts.

Exhibit 21

THERMO FIBERTEK INC.

Subsidiaries of the Registrant

At February 28, 1999, the Registrant owned the following companies:

NAME	STATE OR JURISDICTION OF INCORPORATION	REGISTRANT'S PERCENT OF OWNERSHIP
AES Equipos y Sistemas S.A. de C.V.	Mexico	100
Fibertek Construction Company, Inc.	Maine	100
Thermo AES Canada Inc.	Canada	100
Thermo Black Clawson Inc.	Delaware	100
Thermo Black Clawson (China)	China	100
Thermo Black Clawson S.A.	France	100
Thermo Fibertek Holdings Limited	United Kingdom	100
Thermo Black Clawson Limited	United Kingdom	100
Thermo Fibertek U.K. Limited	United Kingdom	100
Vickerys Holdings Limited	United Kingdom	100
Vickerys Limited	United Kingdom	100
Winterburn Limited	United Kingdom	100
Thermo Web Systems, Inc.	Massachusetts	100
Fiberprep Inc.	Delaware	95
(31.05% of which shares are owned directly by E. & M. Lamort, S.A.)		
Fiberprep Securities Corporation	Delaware	100
Thermo Fibergen Inc.	Delaware	70.81*
(additionally, 1.81%* of the shares are owned directly by The Thermo Electron Companies Inc.)		
Fibergen Securities Corporation	Massachusetts	100
GranTek Inc.	Wisconsin	100
TMO Lamort Holdings Inc.	Delaware	100
E. & M. Lamort, S.A.	France	100
Lamort-Black Clawson Industrial Ltda.	Brazil	70
Lamort GmbH	Germany	100
Lamort Iberia S.A.	Spain	100
Lamort Italia S.R.L.	Italy	100
Lamort Paper Services Ltd.	United Kingdom	100
Nordiska Lamort Lodding AB	Sweden	100

* As of January 2, 1999

Exhibit 23

Consent of Independent Public Accountants

As independent public accountants, we hereby consent to the incorporation by reference of our reports dated February 10, 1999, included in or incorporated by reference into Thermo Fibertek Inc.'s Annual Report on Form 10-K for the year ended January 2, 1999, into the Company's previously filed Registration Statements as follows: Registration Statement No. 33-67190 on Form S-8, Registration Statement No. 33-67192 on Form S-8, Registration Statement No. 33-67194 on Form S-8, Registration Statement No. 33-67196 on Form S-8, Registration Statement No. 33-83718 on Form S-8, Registration Statement No. 33-80751 on Form S-8, and Registration Statement No. 333-34461 on Form S-3.

Arthur Andersen LLP

Boston, Massachusetts
March 10, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THERMO FIBERTEK INC'S REPORT ON FORM 10-K FOR THE YEAR ENDED JANUARY 2, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR
JAN-02-1999
JAN-02-1999
115,472
48,206
52,512
2,231
30,624
256,292
68,661
36,925
427,100
62,846
153,000
0
0
634
150,314
427,100
247,426
247,426
147,262
147,262
6,971
248
7,408
30,896
11,902
17,995
0
0
0
17,995
0.29
0.29