

FUEL TECH, INC.  
Form 10-Q  
August 10, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended June 30, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-33059

\_\_\_\_\_  
FUEL TECH, INC.

(Exact name of registrant as specified in its charter)

\_\_\_\_\_  
Delaware

(State or other jurisdiction of  
incorporation of organization)

Fuel Tech, Inc.

27601 Bella Vista Parkway

Warrenville, IL 60555-1617

630-845-4500

www.ftek.com

(Address and telephone number of principal executive offices)

20-5657551

(I.R.S. Employer  
Identification Number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

On August 10, 2015 there were outstanding 23,167,216 shares of Common Stock, par value \$0.01 per share, of the registrant.



FUEL TECH, INC.  
 Form 10-Q for the six-month period ended June 30, 2015  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## FUEL TECH, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except share and per share data)

|   | June 30,<br>2015 | December 31,<br>2014 |
|---|------------------|----------------------|
| Assets  |                  |                      |
| Current assets:   |                  |                      |
| Cash and cash equivalents   | \$14,967         | \$18,637             |
| Marketable securities   | 37               | 36                   |
| Accounts receivable, net of allowance for doubtful accounts of \$1,925 and \$1,922, respectively  | 29,539           | 31,910               |
| Inventories   | 1,390            | 1,111                |
| Prepaid expenses and other current assets   | 3,919            | 4,094                |
| Prepaid income taxes  | 2,629            | 597                  |
| Deferred income taxes   | 1,804            | 1,953                |
| Total current assets  | 54,285           | 58,338               |
| Property and equipment, net of accumulated depreciation of \$22,432 and \$21,925, respectively  | 12,740           | 13,527               |
| Goodwill  | 2,116            | 2,116                |
| Other intangible assets, net of accumulated amortization of \$6,577 and \$5,802, respectively   | 9,507            | 10,464               |
| Deferred income taxes   | 4,275            | 5,649                |
| Other assets  | 1,368            | 1,377                |
| Total assets  | \$84,291         | \$91,471             |
| Liabilities and Shareholders' Equity  |                  |                      |
| Current liabilities:  |                  |                      |
| Short-term debt   | \$—              | \$1,625              |
| Accounts payable  | 8,964            | 7,310                |
| Accrued liabilities:  |                  |                      |
| Employee compensation   | 1,625            | 2,007                |
| Other accrued liabilities   | 4,805            | 7,708                |
| Total current liabilities   | 15,394           | 18,650               |
| Other liabilities   | 500              | 520                  |
| Total liabilities   | 15,894           | 19,170               |
| Commitments and Contingencies   |                  |                      |
| Shareholders' equity:   |                  |                      |
| Common stock, \$.01 par value, 40,000,000 shares authorized, 23,419,008 and 23,027,704 shares issued, and 23,167,216, and 22,860,398 shares outstanding, respectively | 234              | 230                  |
| Additional paid-in capital  | 134,418          | 134,985              |
| Accumulated deficit   | (64,777          | ) (61,752            |
| Accumulated other comprehensive loss  | (512             | ) (448               |

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|   |          |          |
|---|----------|----------|
| Nil coupon perpetual loan notes                                   | 76       | 76       |
| Treasury stock, 251,792 and 167,306 shares, respectively, at cost | (1,042   | ) (790   |
| Total shareholders' equity  | 68,397   | 72,301   |
| Total liabilities and shareholders' equity                        | \$84,291 | \$91,471 |

See notes to condensed consolidated financial statements.

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FUEL TECH, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited)  
 (in thousands, except share and per-share data)

|   | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 2015                           | 2014       | 2015                         | 2014       |
| Revenues  | \$18,683                       | \$20,190   | \$33,786                     | \$38,851   |
| Costs and expenses:                                   |                                |            |                              |            |
| Cost of sales   | 11,547                         | 11,677     | 19,984                       | 22,487     |
| Selling, general and administrative                   | 8,400                          | 8,959      | 16,603                       | 17,703     |
| Research and development                              | 982                            | 225        | 1,854                        | 469        |
|   | 20,929                         | 20,861     | 38,441                       | 40,659     |
| Operating loss  | (2,246 )                       | (671 )     | (4,655 )                     | (1,808 )   |
| Interest expense                                      | (3 )                           | (34 )      | (30 )                        | (63 )      |
| Interest income                                       | 7                              | 6          | 14                           | 17         |
| Other expense   | (65 )                          | (39 )      | (161 )                       | (69 )      |
| Loss before income taxes                              | (2,307 )                       | (738 )     | (4,832 )                     | (1,923 )   |
| Income tax benefit                                    | 936                            | 18         | 1,807                        | 117        |
| Net loss  | \$(1,371 )                     | \$(720 )   | \$(3,025 )                   | \$(1,806 ) |
| Net loss per common share:                            |                                |            |                              |            |
| Basic   | \$(0.06 )                      | \$(0.03 )  | \$(0.13 )                    | \$(0.08 )  |
| Diluted   | \$(0.06 )                      | \$(0.03 )  | \$(0.13 )                    | \$(0.08 )  |
| Weighted-average number of common shares outstanding: |                                |            |                              |            |
| Basic   | 23,140,000                     | 22,814,000 | 23,034,000                   | 22,728,000 |
| Diluted   | 23,140,000                     | 22,814,000 | 23,034,000                   | 22,728,000 |

See notes to condensed consolidated financial statements.

FUEL TECH, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands)

|   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |            |
|---|--------------------------------|----------|------------------------------|------------|
|   | 2015                           | 2014     | 2015                         | 2014       |
| Net loss  | \$(1,371                       | ) \$(720 | ) \$(3,025                   | ) \$(1,806 |
| Other comprehensive income (loss):                      |                                |          |                              |            |
| Foreign currency translation adjustments                | 97                             | 151      | (64                          | ) (358     |
| Unrealized gains from marketable securities, net of tax | —                              | (13      | ) —                          | 15         |
| Total other comprehensive income (loss)                 | 97                             | 138      | (64                          | ) (343     |
| Comprehensive loss                                      | \$(1,274                       | ) \$(582 | ) \$(3,089                   | ) \$(2,149 |

See notes to condensed consolidated financial statements.

FUEL TECH, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (in thousands)

|   | Six Months Ended |           |
|---|------------------|-----------|
|   | June 30,         |           |
|   | 2015             | 2014      |
| Operating Activities  |                  |           |
| Net loss  | \$(3,025)        | \$(1,806) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                  |           |
| Depreciation  | 1,049            | 944       |
| Amortization  | 1,075            | 390       |
| Gain on disposal of equipment   | (26)             | —         |
| Allowance for doubtful accounts   | —                | 85        |
| Deferred income taxes   | (167)            | (141)     |
| Stock-based compensation  | 833              | 1,225     |
| Changes in operating assets and liabilities, net of acquisitions:           |                  |           |
| Accounts receivable   | 2,378            | 2,584     |
| Inventories   | (279)            | (856)     |
| Prepaid expenses, other current assets and other non-current assets         | 183              | (229)     |
| Accounts payable  | 1,674            | (2,451)   |
| Accrued liabilities and other non-current liabilities                       | (5,002)          | (1,656)   |
| Net cash used in operating activities                                       | (1,307)          | (1,911)   |
| Investing Activities  |                  |           |
| Purchases of property, equipment and patents                                | (383)            | (1,193)   |
| Proceeds from the sale of equipment   | 26               | —         |
| Payment for acquisitions, net of cash acquired                              | —                | (8,079)   |
| Net cash used in investing activities                                       | (357)            | (9,272)   |
| Financing Activities  |                  |           |
| (Payments) / proceeds on short-term borrowings                              | (1,636)          | 732       |
| Proceeds from exercises of stock options                                    | —                | 298       |
| Excess tax benefit from exercises of stock options                          | —                | 7         |
| Treasury shares withheld  | (252)            | (267)     |
| Net cash (used in) provided by financing activities                         | (1,888)          | 770       |
| Effect of exchange rate fluctuations on cash                                | (118)            | (419)     |
| Net decrease in cash and cash equivalents                                   | (3,670)          | (10,832)  |
| Cash and cash equivalents at beginning of period                            | 18,637           | 27,738    |
| Cash and cash equivalents at end of period                                  | \$14,967         | \$16,906  |
| See notes to condensed consolidated financial statements.                   |                  |           |



FUEL TECH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

(in thousands, except share and per-share data)

Note A: Nature of Business

Fuel Tech, Inc. (Fuel Tech or the Company or “we”, “us”, or “our”) is a fully integrated company that uses a suite of advanced technologies to provide boiler optimization, efficiency improvement and air pollution reduction and control solutions to utility and industrial customers worldwide. Originally incorporated in 1987 under the laws of the Netherlands Antilles as Fuel-Tech N.V., Fuel Tech became domesticated in the United States on September 30, 2006, and continues as a Delaware corporation with its corporate headquarters at 27601 Bella Vista Parkway, Warrenville, Illinois, 60555-1617. Fuel Tech maintains an Internet website at [www.ftek.com](http://www.ftek.com). Fuel Tech’s Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as amended (Exchange Act), are made available through our website as soon as reasonably practical after electronically filed or furnished to the Securities and Exchange Commission. Also available on Fuel Tech’s website are the Company’s Corporate Governance Guidelines and Code of Ethics and Business Conduct, as well as the charters of the Audit, Compensation, and Nominating and Corporate Governance committees of the Board of Directors. All of these documents are available in print without charge to stockholders who request them. Information on our website is not incorporated into this report. Fuel Tech’s special focus is the worldwide marketing of its nitrogen oxide (NOx) reduction and FUEL CHEM® processes. The Air Pollution Control (APC) technology segment reduces NOx emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources by utilizing combustion optimization techniques and Low NOx and Ultra Low NOx Burners; Over-Fire Air systems, NOxOUT® and HERT™ High Energy Reagent Technology™ SNCR systems; systems that incorporate ASCR™ (Advanced Selective Catalytic Reduction) technologies including NOxOUT-CASCADE®, ULTRA™ and NOxOUT-SCR processes, Ammonia Injection Grid (AIG) and Graduated Straightening Grid (GSG™), as well as Electrostatic Precipitator rebuilds and Flue Gas Conditioning systems to control particulate emissions. The FUEL CHEM® technology segment improves the efficiency, reliability and environmental status of combustion units by controlling slagging, fouling and corrosion, as well as the formation of sulfur trioxide, ammonium bisulfate, particulate matter (PM2.5), carbon dioxide, NOx and unburned carbon in fly ash through the addition of chemicals into the fuel or via TIFI® Targeted In-Furnace Injection™ programs. Fuel Tech has other technologies, both commercially available and in the development stage, all of which are related to APC and FUEL CHEM technology segments or are similar in their technological base. We have expended significant resources in the research and development of new technologies in building our proprietary portfolio of products and services. Fuel Tech’s business is materially dependent on the continued existence and enforcement of worldwide air quality regulations.

Note B: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Exchange Act. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the balance sheet and results of operations for the periods covered have been included and all significant intercompany transactions and balances have been eliminated. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year. The balance sheet at December 31, 2014 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in Fuel Tech's Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission.

Note C: Revenue Recognition Policy

Revenues from the sales of chemical products are recorded when title transfers, either at the point of shipment or at the point of destination, depending on the contract with the customer.

Fuel Tech uses the percentage of completion method of accounting for equipment construction and license contracts that are sold within the Air Pollution Control technology segment. Under the percentage of completion method, revenues are recognized as work is performed based on the relationship between actual construction costs incurred and total estimated costs at completion. Construction costs include all direct costs such as materials, labor, and subcontracting costs, and indirect costs allocable to the particular contract such as indirect labor, tools and equipment, and supplies. Revisions in completion estimates and contract values

are made in the period in which the facts giving rise to the revisions become known and can influence the timing of when revenues are recognized under the percentage of completion method of accounting. Such revisions have historically not had a material effect on the amount of revenue recognized. The completed contract method is used for certain contracts that are not long-term in nature or when reasonably dependable estimates of the percentage of completion cannot be made. When the completed contract method is used, revenue and costs are deferred until the contract is substantially complete, which usually occurs upon customer acceptance of the installed product. Provisions are made for estimated losses on uncompleted contracts in the period in which such losses are determined. As of June 30, 2015 there were no contracts in progress that were identified as loss contracts, and as of December 31, 2014 the Company had one contract in progress that was identified as a loss contract and a provision for loss in the amount of \$4 was recorded in other accrued liabilities on the consolidated balance sheets.

Fuel Tech's APC contracts are typically eight to sixteen months in length. A typical contract will have three or four critical operational measurements that, when achieved, serve as the basis for us to invoice the customer via progress billings. At a minimum, these measurements will include the generation of engineering drawings, the shipment of equipment and the completion of a system performance test.

As part of most of its contractual APC project agreements, Fuel Tech will agree to customer-specific acceptance criteria that relate to the operational performance of the system that is being sold. These criteria are determined based on mathematical modeling that is performed by Fuel Tech personnel, which is based on operational inputs that are provided by the customer. The customer will warrant that these operational inputs are accurate as they are specified in the binding contractual agreement. Further, the customer is solely responsible for the accuracy of the operating condition information; typically all performance guarantees and equipment warranties granted by us are voidable if the operating condition information is inaccurate or is not met.

Accounts receivable includes unbilled receivables, representing revenues recognized in excess of billings on uncompleted contracts under the percentage of completion method of accounting. At June 30, 2015 and December 31, 2014, unbilled receivables were approximately \$8,720 and \$9,904, respectively, and are included in accounts receivable on the consolidated balance sheets. Billings in excess of costs and estimated earnings on uncompleted contracts were \$1,024 and \$2,994, at June 30, 2015 and December 31, 2014, respectively. Such amounts are included in other accrued liabilities on the consolidated balance sheets.

Fuel Tech has installed over 1,000 units with APC technology and normally provides performance guarantees to our customers based on the operating conditions for the project. As part of the project implementation process, we perform system start-up and optimization services that effectively serve as a test of actual project performance. We believe that this test, combined with the accuracy of the modeling that is performed, enables revenue to be recognized prior to the receipt of formal customer acceptance.

#### Note D: Cost of Sales

Cost of sales includes all internal and external engineering costs, equipment and chemical charges, inbound and outbound freight expenses, internal and site transfer costs, installation charges, purchasing and receiving costs, inspection costs, warehousing costs, project personnel travel expenses and other direct and indirect expenses specifically identified as project- or product line-related, as appropriate (e.g., test equipment depreciation and certain insurance expenses). Certain depreciation and amortization expenses related to tangible and intangible assets, respectively, are also allocated to cost of sales.

#### Note E: Selling, General and Administrative Expenses

Selling, general and administrative expenses primarily include the following categories except where an allocation to the cost of sales line item is warranted due to the project or product-line nature of a portion of the expense category: salaries and wages, employee benefits, non-project travel, insurance, legal, rent, accounting and auditing, recruiting, telephony, employee training, Board of Directors' fees, auto rental, office supplies, dues and subscriptions, utilities, real estate taxes, commissions and bonuses, marketing materials, postage and business taxes. Departments comprising the selling, general and administrative line item primarily include the functions of executive management, finance and accounting, investor relations, regulatory affairs, marketing, business development, information technology, human

resources, sales, legal and general administration.

Note F: Available-for-Sale Marketable Securities

At the time of purchase, marketable securities are classified as available-for-sale as management has the intent and ability to hold such securities for an indefinite period of time, but not necessarily to maturity. Any decision to sell available-for-sale securities would be based on various factors, including, but not limited to asset/liability management strategies, changes in interest rates or prepayment risks, and liquidity needs. Available-for-sale securities are carried at fair value with unrealized gains and losses, net of related deferred income taxes, recorded in equity as a separate component of other comprehensive income (OCI). Our marketable securities consist of a single equity investment with a fair value of \$37 and \$36 and no cost basis at June 30, 2015 and December 31, 2014, respectively. Purchases and sales of securities are recognized on a trade date basis. Realized securities gains or losses are reported in other income/(expense) in the Consolidated Statements of Operations. The cost of securities sold is based on the specific identification

method. On a quarterly basis, we make an assessment to determine if there have been any events or circumstances to indicate whether a security with an unrealized loss is impaired on an other-than-temporary (OTTI) basis. This determination requires significant judgment. OTTI is considered to have occurred (1) if management intends to sell the security; (2) if it is more likely than not we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis. The credit-related OTTI, represented by the expected loss in principal, is recognized in non-interest income, while noncredit-related OTTI is recognized in OCI. For securities which we do expect to sell, all OTTI is recognized in earnings. Presentation of OTTI is made in the income statement on a gross basis with a reduction for the amount of OTTI recognized in OCI. Once an other-than-temporary impairment is recorded, when future cash flows can be reasonably estimated, future cash flows are re-allocated between interest and principal cash flows to provide for a level-yield on the security. We have not experienced any other-than-temporary impairments during the periods ended June 30, 2015 and 2014.

Note G: Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive (loss) income by component were as follows:

|  | Three Months Ended |          | Six Months Ended |          |
|--|--------------------|----------|------------------|----------|
|  | June 30,           |          | June 30,         |          |
|  | 2015               | 2014     | 2015             | 2014     |
| Foreign currency translation                 |                    |          |                  |          |
| Balance at beginning of period               | \$(632             | ) \$(491 | ) \$(471         | ) \$18   |
| Other comprehensive loss:                    |                    |          |                  |          |
| Foreign currency translation adjustments (1) | 97                 | 151      | (64              | ) (358   |
| Balance at end of period                     | \$(535             | ) \$(340 | ) \$(535         | ) \$(340 |
| Available-for-sale marketable securities     |                    |          |                  |          |
| Balance at beginning of period               | \$23               | \$47     | \$23             | \$19     |
| Other comprehensive income:                  |                    |          |                  |          |
| Net unrealized holding (loss) gain (2)       | —                  | (22      | ) —              | 24       |
| Deferred income taxes (2)                    | —                  | 9        | —                | (9       |
| Total other comprehensive (loss) income      | —                  | (13      | ) —              | 15       |
| Balance at end of period                     | \$23               | \$34     | \$23             | \$34     |
| Total accumulated other comprehensive loss   | \$(512             | ) \$(306 | ) \$(512         | ) \$(306 |

(1) In all periods presented, there were no tax impacts related to rate changes and no amounts were reclassified to earnings.

(2) In all periods presented, there were no realized holding gains or losses and therefore no amounts were reclassified to earnings.

Note H: Treasury Stock

Common stock held in treasury totaled 251,792 and 167,306 with a cost of \$1,042 and \$790 at June 30, 2015 and December 31, 2014, respectively. These shares were withheld from employees to settle personal tax withholding obligations that arose as a result of restricted stock units that have vested since 2012.

Note I: Earnings per Share Data

Basic earnings per share excludes the dilutive effects of stock options, restricted stock units (RSUs), and the nil coupon non-redeemable convertible unsecured loan notes. Diluted earnings per share includes the dilutive effect of the nil coupon non-redeemable convertible unsecured loan notes, RSUs, and unexercised in-the-money stock options, except in periods of net loss where the effect of these instruments is anti-dilutive. Out-of-money stock options are excluded from diluted earnings per share because they are anti-dilutive. For the three and six months ended June 30, 2015 and 2014, basic earnings per share is equal to diluted earnings per share because all outstanding stock awards

and convertible loan notes are considered anti-dilutive during periods of net loss. The following table sets forth the weighted-average shares used in calculating the earnings per share for the three and six month periods ended June 30, 2015 and 2014.

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|                                       | Three Months Ended |            | Six Months Ended |            |
|---------------------------------------|--------------------|------------|------------------|------------|
|                                       | June 30,           |            | June 30,         |            |
|                                       | 2015               | 2014       | 2015             | 2014       |
| Basic weighted-average shares         | 23,140,000         | 22,814,000 | 23,034,000       | 22,728,000 |
| Conversion of unsecured loan notes    | —                  | —          | —                | —          |
| Unexercised options and unvested RSUs | —                  | —          | —                | —          |
| Diluted weighted-average shares       | 23,140,000         | 22,814,000 | 23,034,000       | 22,728,000 |

Fuel Tech had 1,895,000 and 1,434,000 weighted average equity awards outstanding at June 30, 2015 and 2014, respectively, that were not dilutive for the purposes of inclusion in the calculation of diluted earnings per share but could potentially become dilutive in future periods.

#### Note J: Stock-Based Compensation

Fuel Tech's 2014 Long-term Incentive Plan (2014 Plan) was adopted in May 2014, and replaced our prior incentive plan which was first approved by our stockholders in 1993 and subsequently amended and approved by our stockholders in 2004 (FTIP). No further grants will be made from the FTIP. The 2014 Plan and FTIP are referred to collectively as the Incentive Plans.

The 2014 Plan permits grants of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards (in the form of equity or cash bonuses), dividend equivalents on full value awards and other awards (which may be based in whole or in part on the value of our common stock or other property). Directors, salaried employees, and consultants of Fuel Tech and its commonly-controlled affiliates are eligible to participate in the 2014 Plan. The number of shares originally reserved for share-based awards under the 2014 Plan equaled 2,000,000 shares, less the number of share-based awards made under the FTIP between December 31, 2013 and the effective date of the 2014 Plan. As of June 30, 2015, Fuel Tech had 950,135 shares available for share-based awards under the 2014 Plan.

Stock-based compensation is included in selling, general, and administrative costs in our Consolidated Statements of Operations. The components of stock-based compensation for the six month periods ended June 30, 2015 and 2014 were as follows:

|   | Three Months Ended |       | Six Months Ended |         |
|---|--------------------|-------|------------------|---------|
|   | June 30,           |       | June 30,         |         |
|   | 2015               | 2014  | 2015             | 2014    |
| Stock options and restricted stock units        | \$561              | \$801 | \$833            | \$1,225 |
| Tax benefit of stock-based compensation expense | (217               | )(309 | )(320            | )(472   |
| After-tax effect of stock-based compensation    | \$344              | \$492 | \$513            | \$753   |

#### Stock Options

Stock options granted to employees under the Incentive Plans have a 10-year life and they vest as follows: 50% after the second anniversary of the award date, 25% after the third anniversary, and the final 25% after the fourth anniversary of the award date. Fuel Tech calculates stock compensation expense for employee option awards based on the grant date fair value of the award, less expected annual forfeitures, and recognizes expense on a straight-line basis over the four-year service period of the award. Stock options granted to members of our board of directors vest immediately. Stock compensation for these awards is based on the grant date fair value of the award and is recognized in expense immediately.

Fuel Tech uses the Black-Scholes option pricing model to estimate the grant date fair value of employee stock options. The principal variable assumptions utilized in valuing options and the methodology for estimating such model inputs include: (1) risk-free interest rate – an estimate based on the yield of zero-coupon treasury securities with a maturity equal to the expected life of the option; (2) expected volatility – an estimate based on the historical volatility of Fuel

Tech's Common Stock for a period equal to the expected life of the option; and (3) expected life of the option – an estimate based on historical experience including the effect of employee terminations.



Stock option activity for Fuel Tech's Incentive Plans for the six months ended June 30, 2015 was as follows:

|                                | Number<br>of<br>Options | Weighted-<br>Average<br>Exercise Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|--------------------------------|-------------------------|--|--|---------------------------------|
| Outstanding on January 1, 2015 | 1,546,500               | \$ 11.62                               |  |                                 |
| Granted                        | 126,000                 | 2.44                                   |  |                                 |
| Exercised                      | —                       | —                                      |  |                                 |
| Expired or forfeited           | (264,250 )              | 15.02                                  |  |                                 |
| Outstanding on June 30, 2015   | 1,408,250               | \$ 10.16                               | 4.14   | \$—                             |
| Exercisable on June 30, 2015   | 1,408,250               | \$ 10.16                               | 4.14   | \$—                             |

As of June 30, 2015, there was no unrecognized compensation cost related to non-vested stock options granted under the Incentive Plans.

#### Restricted Stock Units

Restricted stock units (RSUs) granted to employees vest over time based on continued service (typically vesting over a three year period in equal installments). Such time-vested RSUs are valued at fair value based on the closing price on the date of grant. Compensation cost, adjusted for estimated forfeitures, is amortized on a straight-line basis over the requisite service period.

In addition to the time vested RSUs described above, commencing in 2011, on an annual basis the Company entered into performance-based RSU agreements (the Agreements) with each of the Company's then-serving President/Chief Executive Officer, Treasurer/Chief Financial Officer, Executive Vice President of Marketing & Sales, and Executive Vice President and Chief Operating Officer. Commencing in 2013, the Company's Senior Vice President, General Counsel, and Secretary also entered into agreements. As a result of organizational changes announced in the second quarter of 2015 the Company entered into Agreements with each of its President/Chief Executive Officer, Executive Chairman, Treasurer/Chief Financial Officer, Senior Vice President, Fuel Conversion, and Senior Vice President, General Counsel and Secretary. The Agreements provide each participating executive the opportunity to earn three types of awards with each award type specifying a targeted number of RSUs that may be granted to each executive based on either the individual performance of the executive or the Company's relative performance compared to a peer group, as determined by the award type. The Compensation Committee of our Board of Directors (the Committee) determines the extent to which, if any, RSUs will be granted based on the achievement of the applicable performance criteria specified in the Agreement. This determination will be made following the completion of the applicable performance period (each a Determination Date). Such performance based awards include the following:

The first type of award is based on individual performance during the respective calendar year as determined by the Committee based on performance criteria specified in the Agreement. These awards will vest over a three year period beginning on the Determination Date. We estimated the fair value of these performance-based RSU awards on the date of the Agreement using the trading price of the Company's stock and our estimate of the probability that the specified performance criteria will be met. The fair value measurement and probability estimate will be re-measured each reporting date until the Determination Date, at which time the final award amount will be known. For these job performance-based awards, we amortize compensation costs over the requisite service period, adjusted for estimated forfeitures, for each separately vesting tranche of the award.

The second type of RSU award contains a targeted number of RSUs to be granted based on the Company's revenue growth relative to a specified peer group during a period of two calendar years. These awards vest 67% on the second anniversary of the Agreement date and 33% on the third anniversary of the Agreement date. We estimated the fair value of these performance-based RSU awards on the Agreement date using the trading price of the Company's stock on the date of determination and our estimate of the probability that the specified performance criteria will be met. For these revenue growth performance-based awards, we amortize compensation costs over the requisite service period, adjusted for estimated forfeitures, for each separately vesting tranche of the award.

The third type of RSU award contains a targeted number of RSUs to be granted based on the total shareholder return (TSR) of the Company's common stock relative to a specified peer group during a period of two calendar years. These awards vest 67% on the second anniversary of the Agreement date and 33% on the third anniversary of the Agreement date. We estimated the fair value of these market-based RSU awards on the Agreement date using a Monte Carlo valuation methodology and amortize the fair value over the requisite service period for each separately vesting tranche of the award. The principal variable assumptions utilized in valuing these RSUs under this valuation methodology include the risk-free interest rate, stock volatility, and correlations between our stock price and the stock prices of a peer group of companies.

At June 30, 2015, there is \$3,456 of unrecognized compensation costs related to restricted stock unit awards to be recognized over a weighted average period of 2.11 years.

A summary of restricted stock unit activity for the six months ended June 30, 2015 is as follows:

|  | Shares     | Weighted Average Grant Date Fair Value |
|--|------------|--|
| Unvested restricted stock units at January 1, 2015 | 977,069    | \$ 5.36                                |
| Granted  | 789,500    | 3.33                                   |
| Forfeited  | (186,582 ) | 4.71                                   |
| Vested   | (351,938 ) | 5.17                                   |
| Unvested restricted stock units at June 30, 2015   | 1,228,049  | \$ 4.21                                |

The fair value of restricted stock that vested during the six month period ending June 30, 2015 was \$1,058, resulting in an expected tax benefit of approximately \$408.

#### Deferred Directors Fees

In addition to the Incentive Plans, Fuel Tech has a Deferred Compensation Plans for Directors (Deferred Plan). Under the terms of the Deferred Plan, Directors can elect to defer Directors' fees for shares of Fuel Tech Common Stock that are issuable at a future date as defined in the agreement. In accordance with ASC 718, Fuel Tech accounts for these awards as equity awards. In the six-month periods ended June 30, 2015 and 2014, Fuel Tech recorded no stock-based compensation expense under the Deferred Plan.

#### Note K: Debt

On June 30, 2015, Fuel Tech amended its existing revolving credit facility (the Facility) with JPMorgan Chase Bank, N.A (JPM Chase) to extend the maturity date through June 30, 2017. The total borrowing base of the facility is \$15,000 and contains a provision to increase the facility up to a total principal amount of \$25,000 upon approval from JPM Chase. The Facility is unsecured, bears interest at a rate of LIBOR plus 300 basis points, and has the Company's Italian subsidiary, Fuel Tech S.r.l., as a guarantor. Fuel Tech can use this Facility for cash advances and standby letters of credit. As of June 30, 2015 and December 31, 2014, there were no outstanding borrowings on the credit facility.

The Facility contains several debt covenants with which the Company must comply on a quarterly or annual basis, including a minimum EBITDA of \$500 for the twelve-month period ending December 31, 2015, and beginning with the fiscal quarter ended June 30, 2016 a minimum EBITDA for the trailing twelve-month period then ended of not less than \$1,000. EBITDA includes after tax earnings with add backs for interest expense, income taxes, depreciation and amortization, stock-based compensation expense, and other non-cash items. In addition, the Facility covenants include a minimum shareholder equity requirement of \$69,000 at any measurement period from December 31, 2015 until December 30, 2016, and beginning December 31, 2016 the minimum is \$70,000. Lastly, the amended Facility has an annual capital expenditure limit of \$5,000.

At June 30, 2015 and December 31, 2014, the Company had outstanding standby letters of credit and bank guarantees totaling approximately \$8,171 and \$8,284, respectively, on its domestic credit facility in connection with contracts in process. Fuel Tech is committed to reimbursing the issuing bank for any payments made by the bank under these instruments. At June 30, 2015 and December 31, 2014, there were no cash borrowings under the domestic revolving credit facility and approximately \$6,829 and \$6,716, respectively, was available for future borrowings. The Company pays a commitment fee of 0.25% per year on the unused portion of the revolving credit facility.

On June 26, 2015, Beijing Fuel Tech Environmental Technologies Company, Ltd. (Beijing Fuel Tech), a wholly-owned subsidiary of Fuel Tech, entered into a new revolving credit facility (the China Facility) agreement with JPM Chase for RMB 35 million (approximately \$5,748), which expires on June 24, 2016. This credit facility replaced the previous RMB 35 million facility that expired on June 26, 2015. The facility is unsecured, bears interest at a rate of 125% of the People's Bank of China (PBOC) Base Rate, and is guaranteed by Fuel Tech. Beijing Fuel Tech can use this facility for cash advances and bank guarantees. As of June 30, 2015, Beijing Fuel Tech had no cash borrowings under the China Facility and as of December 31, 2014 had borrowings outstanding in the amount \$1,625.

These borrowings were subject to interest rates of approximately 6.7% at June 30, 2015 and 7.0% at December 31, 2014, respectively.

At June 30, 2015 and December 31, 2014, the Company had outstanding standby letters of credit and bank guarantees totaling approximately \$174 and \$336, respectively, on its Beijing Fuel Tech revolving credit facility in connection with contracts in process. At June 30, 2015 and December 31, 2014, approximately \$5,574 and \$3,727 was available for future borrowings.

In the event of default on either the domestic facility or the China facility, the cross default feature in each allows the lending bank to accelerate the payments of any amounts outstanding and may, under certain circumstances, allow the bank to cancel the facility. If the Company were unable to obtain a waiver for a breach of covenant and the bank accelerated the payment of any outstanding amounts, such acceleration may cause the Company's cash position to deteriorate or, if cash on hand were insufficient to satisfy the payment due, may require the Company to obtain alternate financing to satisfy the accelerated payment.

Interest payments in the amount of \$30 and \$63 were made during the six-month periods ended June 30, 2015 and 2014, and \$3 and \$34 for the three-month periods then ended.

**Note L: Business Segment and Geographic Disclosures**

Fuel Tech segregates its financial results into two reportable segments representing two broad technology segments as follows:

The Air Pollution Control technology segment includes technologies to reduce NO<sub>x</sub> emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources. These include Low and Ultra Low NO<sub>x</sub> Burners (LNB and ULNB), Over-Fire Air (OFA) systems, NO<sub>x</sub>OUT<sup>®</sup> and HERT<sup>™</sup> Selective Non-Catalytic Reduction (SNCR) systems, and Advanced Selective Catalytic Reduction (ASCR<sup>™</sup>) systems. The ASCR system includes ULNB, OFA, and SNCR components, along with a downsized SCR catalyst, Ammonia Injection Grid (AIG), and Graduated Straightening Grid (GSG<sup>™</sup>) systems to provide high NO<sub>x</sub> reductions at significantly lower capital and operating costs than conventional SCR systems. The NO<sub>x</sub>OUT CASCADE<sup>®</sup> and NO<sub>x</sub>OUT-SCR<sup>®</sup> processes are basic types of ASCR systems, using just SNCR and SCR catalyst components. ULTRA<sup>™</sup> technology creates ammonia at a plant site using safe urea for use with any SCR application. Also included in this technology segment are Electrostatic Precipitator (ESP) rebuilds and retrofits and Flue Gas Conditioning systems, which are chemical injection systems used to enhance ESP and fabric filter performance in controlling particulate emissions.

The FUEL CHEM<sup>®</sup> technology segment, which uses chemical processes in combination with advanced Computational Fluid Dynamics (CFD) and Chemical Kinetics Modeling (CKM) boiler modeling, for the control of slagging, fouling, corrosion, opacity and other sulfur trioxide-related issues in furnaces and boilers through the addition of chemicals into the furnace using TIFI<sup>®</sup> Targeted In-Furnace Injection<sup>™</sup> technology.

The "Other" classification includes those profit and loss items not allocated by Fuel Tech to each reportable segment. Further, there are no intersegment sales that require elimination.

Fuel Tech evaluates performance and allocates resources based on reviewing gross margin by reportable segment. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies (Note 1 in our annual report on Form 10-K). Fuel Tech does not review assets by reportable segment, but rather, in aggregate for Fuel Tech as a whole.

Information about reporting segment net sales and gross margin are provided below:

| Three months ended June 30, 2015    | Air Pollution<br>Control Segment | FUEL CHEM<br>Segment | Other      | Total      |
|-------------------------------------|----------------------------------|----------------------|------------|------------|
| Revenues from external customers    | \$ 11,087                        | \$ 7,596             | \$—        | \$ 18,683  |
| Cost of sales                       | (7,769 )                         | (3,778 )             | —          | (11,547 )  |
| Gross margin                        | 3,318                            | 3,818                | —          | 7,136      |
| Selling, general and administrative | —                                | —                    | (8,400 )   | (8,400 )   |
| Research and development            | —                                | —                    | (982 )     | (982 )     |
| Operating income (loss)             | \$ 3,318                         | \$ 3,818             | \$(9,382 ) | \$(2,246 ) |

| Three months ended June 30, 2014    | Air Pollution<br>Control Segment | FUEL CHEM<br>Segment | Other      | Total     |
|-------------------------------------|----------------------------------|----------------------|------------|-----------|
| Revenues from external customers    | \$ 11,304                        | \$ 8,886             | \$—        | \$ 20,190 |
| Cost of sales                       | (7,688 )                         | (3,989 )             | —          | (11,677 ) |
| Gross margin                        | 3,616                            | 4,897                | —          | 8,513     |
| Selling, general and administrative | —                                | —                    | (8,959 )   | (8,959 )  |
| Research and development            | —                                | —                    | (225 )     | (225 )    |
| Operating income (loss)             | \$ 3,616                         | \$ 4,897             | \$(9,184 ) | \$(671 )  |

| Six months ended June 30, 2015      | Air Pollution<br>Control Segment | FUEL CHEM<br>Segment | Other       | Total      |
|-------------------------------------|----------------------------------|----------------------|-------------|------------|
| Revenues from external customers    | \$ 17,944                        | \$ 15,842            | \$—         | \$ 33,786  |
| Cost of sales                       | (12,090 )                        | (7,894 )             | —           | (19,984 )  |
| Gross margin                        | 5,854                            | 7,948                | —           | 13,802     |
| Selling, general and administrative | —                                | —                    | (16,603 )   | (16,603 )  |
| Research and development            | —                                | —                    | (1,854 )    | (1,854 )   |
| Operating income (loss)             | \$ 5,854                         | \$ 7,948             | \$(18,457 ) | \$(4,655 ) |

| Six months ended June 30, 2014      | Air Pollution<br>Control Segment | FUEL CHEM<br>Segment | Other       | Total      |
|-------------------------------------|----------------------------------|----------------------|-------------|------------|
| Revenues from external customers    | \$ 22,038                        | \$ 16,813            | \$—         | \$ 38,851  |
| Cost of sales                       | (14,718 )                        | (7,769 )             | —           | (22,487 )  |
| Gross margin                        | 7,320                            | 9,044                | —           | 16,364     |
| Selling, general and administrative | —                                | —                    | (17,703 )   | (17,703 )  |
| Research and development            | —                                | —                    | (469 )      | (469 )     |
| Operating income (loss)             | \$ 7,320                         | \$ 9,044             | \$(18,172 ) | \$(1,808 ) |

Information concerning Fuel Tech's operations by geographic area is provided below. Revenues are attributed to countries based on the location of the customer. Assets are those directly associated with operations of the geographic area.

|               | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---------------|--------------------------------|-----------|------------------------------|-----------|
|               | 2015                           | 2014      | 2015                         | 2014      |
| Revenues:     |                                |           |                              |           |
| United States | \$ 11,901                      | \$ 13,734 | \$ 24,476                    | \$ 22,963 |
| Foreign       | 6,782                          | 6,456     | 9,310                        | 15,888    |
|               | \$ 18,683                      | \$ 20,190 | \$ 33,786                    | \$ 38,851 |

|               | June 30,<br>2015 | December 31,<br>2014 |
|---------------|------------------|----------------------|
| Assets:       |                  |                      |
| United States | \$56,536         | \$64,324             |
| Foreign       | 27,755           | 27,147               |
|               | \$84,291         | \$91,471             |

Note M: Contingencies

Fuel Tech issues a standard product warranty with the sale of its products to customers. Our recognition of warranty liability is based primarily on analyses of warranty claims experienced in the preceding years as the nature of our historical product sales for which we offer a warranty are substantially unchanged. This approach provides an aggregate warranty accrual that is historically aligned with actual warranty claims experienced.

Changes in the warranty liability for the six months June 30, 2015, and 2014, are summarized below:

|   | Six Months Ended |       |
|---|------------------|-------|
|   | June 30,<br>2015 | 2014  |
| Aggregate product warranty liability at beginning of period   | \$268            | \$596 |
| Net aggregate expense (benefit) related to product warranties | 8                | (75 ) |
| Aggregate reductions for payments                             | (8 )             | (22 ) |
| Aggregate product warranty liability at end of period         | \$268            | \$499 |

Note N: Income Taxes

The Company's effective tax rate of 37% and 6% for the six-month periods ended June 30, 2015 and 2014, respectively, differs from the statutory federal tax rate of 34% due primarily to state taxes, differences between U.S. and foreign tax rates, foreign losses incurred with no related tax benefit, non-deductible commissions, and non-deductible meals and entertainment expenses.

Fuel Tech had unrecognized tax benefits as of June 30, 2015 and December 31, 2014 in the amount of \$117, respectively, all of which, if ultimately recognized, will reduce Fuel Tech's annual effective tax rate.

Note O: Goodwill and Other Intangibles

Goodwill is allocated among and evaluated for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment. Fuel Tech has two reporting units which are reported in the FUEL CHEM® technology segment and the APC technology segment. At both June 30, 2015 and December 31, 2014 our entire goodwill balance of \$2,116 was allocated to the FUEL CHEM technology segment.

Goodwill is allocated to each of our reporting units after considering the nature of the net assets giving rise to the goodwill and how each reporting unit would enjoy the benefits and synergies of the net assets acquired. There were no indications of goodwill impairment in the six months ended June 30, 2015 and 2014.

Fuel Tech reviews other intangible assets, which include customer lists and relationships, covenants not to compete, patent assets, tradenames, and acquired technologies, for impairment on a recurring basis or when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. In the event that impairment indicators exist, a further analysis is performed and if the sum of the expected undiscounted future cash flows resulting from the use of the asset is less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Management considers historical experience and all available information at the time the estimates of future cash flows are made, however, the actual cash values that could be realized may differ from those that are estimated. There were no indications of intangible asset impairment in the six-month periods ended June 30, 2015 and 2014.

Note P: Fair Value

The Company applies authoritative accounting guidance for fair value measurements of financial and nonfinancial assets and liabilities. This guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly



transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the standard establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Observable inputs to the valuation methodology such as quoted prices in active markets for identical assets or liabilities

Level 2 – Inputs to the valuation methodology including quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 – Significant unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own estimates and assumptions or those expected to be used by market participants. Generally, these fair value measures are model-based valuation techniques such as discounted cash flows, option pricing models, and other commonly used valuation techniques

The fair value of our marketable securities was \$37 and \$36 at June 30, 2015 and December 31, 2014, respectively, and was determined using quoted prices in active markets for identical assets (Level 1 fair value measurements). Transfers between levels of the fair value hierarchy are recognized based on the actual date of the event or change in circumstances that caused the transfer. We had no assets or liabilities that were valued using level 2 or level 3 inputs and therefore there were no transfers between levels of the fair value hierarchy during the six-month periods ended June 30, 2015 and 2014.

The carrying amount of our short-term debt and revolving line of credit approximates fair value due to its short-term nature and because the amounts outstanding accrue interest at variable market-based rates.

#### Note Q: Recently Added and Pending Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09 "Revenue from Contracts with Customers". This new accounting guidance on revenue recognition provides for a single five-step model to be applied to all revenue contracts with customers. The new standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. There is no option for early adoption. In April 2015, the FASB proposed a one-year deferral of the effective date of the new revenue standard. Under the proposal, the new guidance will be effective as of the beginning of our 2018 fiscal year. We are currently evaluating the impact of the new guidance on our financial statements and have not yet selected a transition approach to implement the standard.

FUEL TECH, INC.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  
Results of Operations

Revenues for the three- and six- month periods ending June 30, 2015 and 2014 were \$18,683 and \$20,190, and \$33,786 and \$38,851, respectively, representing decreases of 7% and 13% versus the same periods last year.

The Air Pollution Control (APC) technology segment generated revenues of \$11,087 and \$17,944 for the three- and six-month periods ending June 30, 2015, respectively, a decrease of \$217 or 2%, and \$4,094 or 19% from the prior period amounts of \$11,304 and \$22,038, respectively.

Consolidated APC backlog at June 30, 2015 was \$17,132 versus backlog at December 31, 2014 of \$17,965. Our current backlog consists of U.S. domestic projects totaling \$7,007 and international projects totaling \$10,125.

The FUEL CHEM<sup>®</sup> technology segment generated revenues of \$7,596 and \$15,842 for the three- and six-months ended June 30, 2015, respectively. For the three-month period this represents a decrease of \$1,290, or 15% versus the prior year amount of \$8,886. For the six-month period ended June 30, 2015 this represents a decrease of \$971 or 6% compared to the prior year period amount of \$16,813. This segment continues to be affected by the soft electric demand market and low natural gas prices, which leads to fuel switching, unscheduled outages, and combustion units operating at less than capacity.

Consolidated gross margin percentage for the three-month periods ended June 30, 2015 and 2014 decreased to 38% from 42%, and was 41% and 42% for the six-month periods then ended. The gross margin percentage for the APC technology segment for the three-month periods ended June 30, 2015 and 2014 was 30% and 32%, respectively, and was 33% in both six-month periods ending June 30, 2015 and 2014. For the FUEL CHEM technology segment, the gross margin percentage decreased to 50% from 55% in the three-month periods ending June 30, 2015. For the six-month periods, the gross margin percentage for the FUEL CHEM technology segment decreased to 50% from 54% compared to the prior-year period.

Selling, general and administrative expenses (SG&A) for the three- and six-month periods ended June 30, 2015 were \$8,400 and \$16,603, respectively, and for the same periods in 2014 were \$8,959 and \$17,703, respectively. For the three-month period ended June 30, 2015 this represents a decrease of \$559, which was primarily the result of decreases in employee related costs of \$25, administrative costs associated with our foreign operations of \$436, outside commissions of \$131, insurance cost of \$100, and expenses related to a formerly leased property of \$300, partially offset by increases in fees for professional and consulting services of \$381 and depreciation and amortization of \$83. SG&A for the six month period ended June 30, 2015 decreased by \$1,100, which was primarily the result of decreases in employee related costs of \$463, administrative costs associated with our foreign operations of \$747, and expenses related to a formerly leased property of \$300, partially offset by increases in fees for professional and consulting services of \$441. SG&A as a percentage of revenues increased slightly to 45% from 44% in the three-month periods, and increased to 49% from 46% in the six-month periods ending June 30, 2015 and 2014, respectively. These increases in SG&A percentages are attributed to lower revenues in the current periods compared to the prior periods.

Research and development expenses for the three and six-month periods ended June 30, 2015 and 2014 were \$982 and \$225, and \$1,854 and \$469, respectively. The increase in R&D spending is attributed primarily to costs incurred related to our ongoing fuel conversion initiative.

Interest expense for the three- and six-month periods ended June 30, 2015 and 2014 were \$3 and \$34, and \$30 and \$63, respectively. This interest expense relates to borrowings made under the Beijing Fuel Tech credit facility.

Income tax benefit for the three- and six-months ended ended June 30, 2015 and 2014 were \$936 and \$18, and \$1,807 and \$117 respectively. The Company is projecting a consolidated effective tax rate of 38% for 2015 which is higher

than the federal income tax rate of 34% due primarily to the effect of state income taxes.

#### Liquidity and Sources of Capital

At June 30, 2015, Fuel Tech had cash and cash equivalents and short-term investments on hand of \$15,004 and working capital of \$38,891 versus \$18,673 and \$39,688 at December 31, 2014, respectively.

Operating activities used cash of \$1,307 during the six-month period ended June 30, 2015. This decrease in cash from operations was due to cash used as a result of our net loss of \$3,025, a decrease in accounts payable and accrued expenses of \$3,328 and an

increase in inventory of \$279, offset by cash provided by a decrease in our accounts receivable of \$2,378, a decrease in prepaid and other assets of \$183, and the effect of non-cash charges of \$2,764.

Investing activities used cash of \$357 during the six-month period ended June 30, 2015 and related to net cash used for purchases of equipment and patents of \$383 offset by proceeds from the sale of equipment of \$26.

Financing activities used cash of \$1,888 as a result of \$252 in cash used for the acquisition of common shares held in treasury that were withheld for taxes due by employees upon lapsing of restricted stock units and \$1,636 for payments made on short-term borrowings.

On June 30, 2015, Fuel Tech amended its existing revolving credit facility (the Facility) with JPMorgan Chase Bank, N.A (JPM Chase) to extend the maturity date through June 30, 2017. The total borrowing base of the facility is \$15,000 and contains a provision to increase the facility up to a total principal amount of \$25,000 upon approval from JPM Chase. The Facility is unsecured, bears interest at a rate of LIBOR plus 300 basis points, and has the Company's Italian subsidiary, Fuel Tech S.r.l., as a guarantor. Fuel Tech can use this Facility for cash advances and standby letters of credit. As of June 30, 2015 and December 31, 2014, there were no outstanding borrowings on the credit facility.

The Facility contains several debt covenants with which the Company must comply on a quarterly or annual basis, including a minimum EBITDA of \$500 for the twelve-month period ending December 31, 2015, and beginning with the fiscal quarter ended June 30, 2016 a minimum EBITDA for the trailing twelve-month period then ended of not less than \$1,000. EBITDA includes after tax earnings with add backs for interest expense, income taxes, depreciation and amortization, stock-based compensation expense, and other non-cash items. In addition, the Facility covenants include a minimum shareholder equity requirement of \$69,000 at any measurement period from December 31, 2015 until December 30, 2016, and beginning December 31, 2016 the minimum is \$70,000. Lastly, the amended Facility has an annual capital expenditure limit of \$5,000.

At June 30, 2015 and December 31, 2014, the Company had outstanding standby letters of credit and bank guarantees totaling approximately \$8,171 and \$8,284, respectively, on its domestic credit facility in connection with contracts in process. Fuel Tech is committed to reimbursing the issuing bank for any payments made by the bank under these instruments. At June 30, 2015 and December 31, 2014, there were no cash borrowings under the domestic revolving credit facility and approximately \$6,829 and \$6,716, respectively, was available for future borrowings. The Company pays a commitment fee of 0.25% per year on the unused portion of the revolving credit facility.

On June 26, 2015, Beijing Fuel Tech Environmental Technologies Company, Ltd. (Beijing Fuel Tech), a wholly-owned subsidiary of Fuel Tech, entered into a new revolving credit facility (the China Facility) agreement with JPM Chase for RMB 35 million (approximately \$5,748), which expires on June 24, 2016. This credit facility replaced the previous RMB 35 million facility that expired on June 26, 2015. The facility is unsecured, bears interest at a rate of 125% of the People's Bank of China (PBOC) Base Rate, and is guaranteed by Fuel Tech. Beijing Fuel Tech can use this facility for cash advances and bank guarantees. As of June 30, 2015, Beijing Fuel Tech had no cash borrowings under the China Facility and as of December 31, 2014 had borrowings outstanding in the amount \$1,625. These borrowings were subject to interest rates of approximately 6.7% at June 30, 2015 and 7.0% at December 31, 2014, respectively.

At June 30, 2015 and December 31, 2014, the Company had outstanding standby letters of credit and bank guarantees totaling approximately \$174 and \$336, respectively, on its Beijing Fuel Tech revolving credit facility in connection with contracts in process. At June 30, 2015 and December 31, 2014, approximately \$5,574 and \$3,727 was available for future borrowings.

In the event of default on either the domestic facility or the China facility, the cross default feature in each allows the lending bank to accelerate the payments of any amounts outstanding and may, under certain circumstances, allow the bank to cancel the facility. If the Company were unable to obtain a waiver for a breach of covenant and the bank accelerated the payment of any outstanding amounts, such acceleration may cause the Company's cash position to deteriorate or, if cash on hand were insufficient to satisfy the payment due, may require the Company to obtain

alternate financing to satisfy the accelerated payment.

#### Contingencies and Contractual Obligations

Fuel Tech issues a standard product warranty with the sale of its products to customers as discussed in Note M. There was no change in the warranty liability balance during the six-months ended June 30, 2015.

#### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements,” as defined in Section 21E of the Securities Exchange Act of 1934, as amended, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and reflect Fuel Tech’s current expectations regarding future growth, results of operations, cash flows, performance and

business prospects, and opportunities, as well as assumptions made by, and information currently available to, our management. Fuel Tech has tried to identify forward-looking statements by using words such as “anticipate,” “believe,” “plan,” “expect,” “estimate,” “intend,” “will,” and similar expressions, but these words are not the exclusive means of identifying forward-looking statements. These statements are based on information currently available to Fuel Tech and are subject to various risks, uncertainties, and other factors, including, but not limited to, those discussed in Fuel Tech’s Annual Report on Form 10-K for the year ended December 31, 2014 in Item 1A under the caption “Risk Factors,” which could cause Fuel Tech’s actual growth, results of operations, financial condition, cash flows, performance and business prospects and opportunities to differ materially from those expressed in, or implied by, these statements. Fuel Tech undertakes no obligation to update such factors or to publicly announce the results of any of the forward-looking statements contained herein to reflect future events, developments, or changed circumstances or for any other reason. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including those detailed in Fuel Tech’s filings with the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Risk Management

Fuel Tech’s earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates. We do not enter into foreign currency forward contracts nor into foreign currency option contracts to manage this risk due to the immaterial nature of the transactions involved.

Fuel Tech is also exposed to changes in interest rates primarily due to its debt facilities (refer to Note K to the consolidated financial statements). A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not have a materially adverse effect on interest expense during the upcoming year ended December 31, 2015.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Fuel Tech maintains disclosure controls and procedures and internal controls designed to ensure (a) that information required to be disclosed in Fuel Tech’s filings under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and (b) that such information is accumulated and communicated to management, including the principal executive and financial officer, as appropriate to allow timely decisions regarding required disclosure. Fuel Tech’s Chief Executive Officer and Chief Financial Officer have evaluated the Company’s disclosure controls and procedures, as defined in Rules 13a – 15(e) and 15d -15(e) of the Exchange Act, as of the end of the period covered by this report, and they have concluded that these controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time involved in litigation incidental to our business. We are not currently involved in any litigation in which we believe an adverse outcome would have a material effect on our business, financial conditions, results of operations, or prospects.

Item 1A. Risk Factors

The risk factors included in our Annual Report on Form 10-K for fiscal year ended December 31, 2014 have not materially changed.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

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Item 6. Exhibits

a. Exhibits (all filed herewith)

- 10.1 Sixth Amendment to Credit Agreement, dated as of June 30, 2015, between Fuel Tech, Inc. and JP Morgan Chase Bank, N.A.
- 31.1 Certification of CEO pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 31.2 Certification of CFO pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 32 Certification of CEO and CFO pursuant to Section 906 of Sarbanes-Oxley Act of 2002
- 101.1 INSBRL Instance Document
- 101.2 SCHXBRL Taxonomy Extension Schema Document
- 101.3 CALXBRL Taxonomy Extension Calculation Linkbase Document
- 101.4 DEFXBRL Taxonomy Extension Definition Linkbase Document
- 101.5 LABXBRL Taxonomy Extension Label Linkbase Document
- 101.6 PREXBRL Taxonomy Extension Prevention Linkbase Document



FUEL TECH, INC.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 10, 2015

By: /s/ Vincent J. Arnone  
Vincent J. Arnone  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 10, 2015

By: /s/ David S. Collins  
David S. Collins  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)