ENERGY PARTNERS LTD
Form DEF 14A
May 04, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x   Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

ENERGY PARTNERS, LTD.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, schedule or registration statement no.:

(3) Filing party:

(4) Date filed:

201 St. Charles Avenue

Suite 3400

New Orleans, Louisiana 70170

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On June 1, 2007

Notice is hereby given that the 2007 Annual Meeting of Stockholders of Energy Partners, Ltd. (the *Company*), a Delaware corporation, will be held at the Hotel InterContinental New Orleans, Vieux Carré B Room, 444 St. Charles Ave., New Orleans, Louisiana 70130, on June 1, 2007, at 9:00 a.m., Central Daylight Time, for the following purposes:

(1) to elect eleven (11) directors to hold office until the Annual Meeting of Stockholders in the year 2008 and until their successors are duly elected and qualified;

(2) to ratify the appointment of KPMG LLP as the Company s independent registered public accountants for the year ended December 31, 2007; and

(3) to transact such other business as may properly come before the meeting and any adjournment or postponement thereof.

Only stockholders of record at the close of business on May 2, 2007 (the *Record Date*) will be entitled to notice of, and to vote at, the 2007 Annual Meeting, or any adjournment thereof, notwithstanding the transfer of any stock on the books of the Company after the Record Date. A list of these stockholders will be open for examination by any stockholder for any purpose germane to the 2007 Annual Meeting for a period of ten (10) days prior to the meeting at the Company s principal executive offices at 201 St. Charles Ave., Suite 3400, New Orleans, Louisiana 70170.

By Order of the Board of Directors,

John H. Peper

Executive Vice President, General Counsel

and Corporate Secretary

New Orleans, Louisiana

May 8, 2007

PLEASE RETURN THE ENCLOSED PROXY CARD TODAY, WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING IN PERSON. STOCKHOLDERS WHO ATTEND THE 2007 ANNUAL MEETING MAY REVOKE THEIR PROXIES AND VOTE IN PERSON.

ENERGY PARTNERS, LTD.

201 St. Charles Avenue

Suite 3400

New Orleans, Louisiana 70170

The 2006 Annual Report to Stockholders, including audited financial statements, is being mailed to stockholders, together with these proxy materials, on or about May 8, 2007.

PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS

To Be Held On June 1, 2007

This Proxy Statement is furnished to the stockholders of Energy Partners, Ltd. (the *Company*) in connection with the solicitation of proxies by the Board of Directors of the Company (the *Board of Directors* or the *Board*) for use at the Annual Meeting of Stockholders of the Company to be held on June 1, 2007 at the Hotel InterContinental New Orleans, Vieux Carré B Room, 444 St. Charles Ave., New Orleans, Louisiana 70130 at 9:00 a.m., Central Daylight Time (the *2007 Annual Meeting* or the *Meeting*), or at any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders.

ABOUT THE 2007 ANNUAL MEETING

Voting Procedures

Stockholders of record at the close of business on May 2, 2007 (the *Record Date*) will be entitled to vote at the Meeting. On the Record Date, there were outstanding and entitled to vote 31,676,270 shares of the Company s Common Stock (the *Company Shares* or the *Common Stock*). The holders of a majority of the Company Shares issued and outstanding and entitled to vote at the Meeting, present in person or represented by proxy, will constitute a quorum. The person(s) whom the Company appoints to act as inspector(s) of election will treat all Company Shares represented by a returned, properly executed proxy as present for purposes of determining the existence of a quorum at the Meeting. The Company Shares present at the meeting, in person or by proxy, that are abstained from voting will be counted as present for determining the existence of a quorum.

Each of the Company Shares will entitle the holder to one vote. Cumulative voting is not permitted. Directors are elected by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote at the meeting. Other than with respect to the election of directors, an abstention has the effect of a vote against a matter to be presented at the Meeting. A broker non-vote is not entitled to be voted and will not affect the outcome on any proposal in the Proxy Statement. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and the broker has not received voting instructions from the beneficial owner. Votes cast at the meeting will be counted by the inspector(s) of election.

The Board of Directors is soliciting your proxy on the enclosed Proxy Card to provide you with an opportunity to vote on all matters to come before the meeting, whether or not you attend in person. If you execute and return the enclosed Proxy Card, your shares will be voted as you specify. If you make no specifications, your shares will be voted in accordance with the recommendations of the Board, as set forth below. If you submit a Proxy Card, you may subsequently revoke it by submitting a revised proxy or a written revocation at any time before your original proxy is voted. You may also attend the meeting in person and vote in person by ballot, which would cancel any proxy you previously gave.

The Board of Directors urges you to vote, and solicits your proxy, as follows:

(1) FOR the election of eleven (11) nominees for membership on the Company s Board of Directors, Messrs. Bachmann, Bumgarner, Carlisle, Carter, Dawkins, Gershen, Gobe, Herrin, Hiltz and Phillips and Dr. Francis, to serve until the Annual Meeting of Stockholders in the year 2008 and until their successors are duly elected and qualified;

(2) FOR the ratification of the appointment of KPMG LLP as the Company s independent registered public accountants for the year ending December 31, 2007; and

(3) At the discretion of the designated proxies named on the enclosed Proxy Card, on any other matter that may properly come before the 2007 Annual Meeting, and any adjournment or postponement thereof.

Proxy Solicitation

Your proxy is being solicited by and on behalf of the Board of Directors of the Company. The expense of preparing, printing and mailing proxy solicitation materials will be borne by the Company. In addition to solicitation of proxies by mail, certain directors, officers, representatives and employees of the Company may solicit proxies by telephone and personal interview. Such individuals will not receive additional compensation from the Company for solicitation of proxies, but may be reimbursed by the Company for reasonable out-of-pocket expenses in connection with such solicitation. In addition, MacKenzie Partners, Inc. has been retained to aid in the solicitation at an estimated fee of $7,500. Banks, brokers and other custodians, nominees and fiduciaries also will be reimbursed by the Company, as necessary, for their reasonable expenses for sending proxy solicitation materials to the beneficial owners of Common Stock.

OWNERSHIP OF COMMON STOCK BY

MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table shows the number of shares of Common Stock beneficially owned by each director; by the Company s principal executive officer, principal financial officers and by the three other executive officers of the Company (the Named Officers); by all directors and executive officers as a group; and by such persons known to the Company to own beneficially more than five (5%) of the outstanding Common Stock of the Company.

The information set forth below is as of May 2, 2007 (the *Record Date*) and is based upon information supplied or confirmed by the named individuals:

Beneficial Owner	Common Shares	Percent of Common Shares (1)
Richard A. Bachmann (2)	2,654,930	8.3
John C. Bumgarner, Jr. (3)	63,820	*
Jerry D. Carlisle (4)	32,442	*
Harold D. Carter (3)	57,270	*
Enoch L. Dawkins (5)	24,839	*
T. Rodney Dykes (6)	84,746	*
Dr. Norman C. Francis (7)	18,379	*
Robert D. Gershen (3)	59,795	*
Phillip A. Gobe (8)	92,464	*
William R. Herrin, Jr. (7)	21,821	*
William O. Hiltz (9)	100,857	*
Joseph H. LeBlanc (10)	38,836	*
John H. Peper (11)	224,820	*
John G. Phillips (3)	50,523	*
Timothy R. Woodall (12)	355	*
All directors and executive officers as a group (15 persons)	3,525,898	10.8
Farallon Capital Partners, L.P. and affiliates (13)	2,257,121	7.1

* Represents beneficial ownership of less than 1%.

(1) Percentage ownership of a holder or class of holders is calculated by dividing (1) the number of shares of Common Stock, including restricted shares, outstanding attributed to such holder or class of holders, as the case may be, plus the total number of shares of Common Stock underlying options exercisable and restricted share units that vest within sixty days from May 2, 2007, by (2) the total number of shares of Common Stock outstanding plus the total number of shares of Common Stock underlying options exercisable and restricted share units that vest within sixty days from May 2, 2007 but not Common Stock underlying such securities held by any other person.

(2) Includes 930,898 shares of Common Stock pledged to support obligations incurred in five separate transactions under Forward Purchase Agreements entered into with Citigroup. Mr. Bachmann retains voting rights with respect to these shares. The number of shares to be delivered commencing in June 2007 pursuant to such agreements will be based on the market price of the Company s Common Stock and will not exceed 930,898 shares. Mr. Bachmann has the right to deliver cash instead of shares of Common Stock. Also includes (i) 431,977 shares of Common Stock underlying options granted to Mr. Bachmann under our 2006 Long Term Stock Incentive Plan, which may be exercised within 60 days from May 2, 2007, (ii) 2,579 shares of Common Stock beneficially owned by Mr. Bachmann and held in trust by the Energy Partners, Ltd. 401(k) Plan and (iii) 1,148 shares beneficially owned by Mr. Bachmann s wife. The address for Mr. Bachmann is Energy Partners, Ltd., 201 St. Charles Avenue, Suite 3400, New Orleans, Louisiana 70170.

(3) Includes 31,500 shares of Common Stock underlying options exercisable, and 3,000 restricted share units vesting, within 60 days of May 2, 2007 granted under our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors to each of Messrs. Bumgarner, Carter, Gershen and Phillips. Also includes 15,819 and 1,993 phantom shares accrued for Messrs. Bumgarner and Gershen under our Stock and Deferral Plan for Non-Employee Directors.

(4) Includes 21,500 shares of Common Stock underlying options exercisable, and 3,000 restricted share units vesting, within 60 days of May 2, 2007 granted to Mr. Carlisle under our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors. Includes 500 shares of Common Stock beneficially owned by Mr. Carlisle s wife of which Mr. Carlisle disclaims beneficial ownership.

(5) Includes 17,500 shares of Common Stock underlying options exercisable, and 3,000 restricted share units vesting, within 60 days of May 2, 2007 granted to Mr. Dawkins under our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors.

(6) Includes 73,947 shares of Common Stock underlying options exercisable within 60 days of May 2, 2007 granted to Mr. Dykes under our 2006 Long Term Stock Incentive Plan. Also includes 1,519 shares of Common Stock beneficially owned by Mr. Dykes and held in trust by the Energy Partners, Ltd. 401(k) Plan.

(7) Includes 11,500 shares of Common Stock underlying options exercisable, and 3,000 restricted share units vesting, within 60 days of May 2, 2007 granted under our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors to each of Dr. Francis and Mr. Herrin. Also includes 1,780 phantom shares accrued for Dr. Francis under our Stock and Deferral Plan for Non-Employee Directors.

(8) Includes 88,605 shares of Common Stock underlying options exercisable within 60 days of May 2, 2007 granted to Mr. Gobe under our 2006 Long Term Stock Incentive Plan. Also includes 1,279 shares of Common Stock beneficially owned by Mr. Gobe and held in trust by the Energy Partners, Ltd. 401(k) Plan.

(9) Includes 15,500 shares of Common Stock underlying options exercisable, and 3,000 restricted share units vesting, within 60 days of May 2, 2007 granted under our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors to Mr. Hiltz, and 4,314 phantom shares accrued for Mr. Hiltz under our Stock and Deferral Plan for Non-Employee Directors.

(10) Includes 27,700 shares of Common Stock underlying options exercisable within 60 days of May 2, 2007 granted to Mr. LeBlanc under our 2006 Long Term Stock Incentive Plan. Also includes 1,456 shares of Common Stock beneficially owned by Mr. LeBlanc and held in trust by the Energy Partners, Ltd. 401(k) Plan.

(11) Includes 150,857 shares of Common Stock underlying options exercisable within 60 days of May 2, 2007 granted to Mr. Peper under our 2006 Long Term Stock Incentive Plan. Also includes 1,804 shares of Common Stock beneficially owned by Mr. Peper and held in trust by the Energy Partners, Ltd. 401(k) Plan. Also includes 62,600 shares of Common Stock pledged in a margin account held by Mr. Peper.

(12) Shares of Common Stock beneficially owned by Mr. Woodall and held in trust by the Energy Partners, Ltd. 401(k) Plan.

(13) Based on information supplied by Farallon Capital Management, L.L.C. as of April 30, 2007, and adjusted for the Company s estimate of the effect of proration for the Company s equity self-tender offer:

Beneficial Owner	Number of Common Shares Beneficially Owned
Farallon Capital Partners, L.P.*	493,353
Farallon Capital Institutional Partners, L.P.*	177,203
Farallon Capital Institutional Partners II, L.P.*	33,053
Farallon Capital Institutional Partners III, L.P.*	14,843
Tinicum Partners, L.P.*	12,625
Farallon Capital Offshore Investors II, L.P.*	380,268
Farallon Capital Offshore Investors, Inc. *	1,145,776

* As the general partner of each of the noted partnerships (such partnerships being the *Farallon Partnerships*), Farallon Partners, L.L.C. (*FPLLC*), may, for purposes of Rule 13d-3 under the Securities Exchange Act of 1934, as amended, (the Exchange Act), be deemed to own beneficially the shares held by the Farallon Partnerships. As the manager of Farallon Capital Offshore Investors, Inc. (*the Managed Account*), Farallon Capital Management, L.L.C. (*FCM*), may, for purposes of Rule 13d-3 under the Exchange Act, be deemed to own beneficially the shares held by the Managed Account. As the managing members of FPLLC and FCM, each of Chun R. Ding, William F. Duhamel, Richard B. Fried, Monica R. Landry, Douglas M. MacMahon, William F. Mellin, Stephen L. Millham, Jason E. Moment, Rajiv A. Patel, Derek C. Schrier, and Mark C. Wehrly (together, the *Farallon Managing Members*) and as senior managing member of FPLLC and FCM, Thomas F. Steyer (the *Farallon Senior Managing Member*) may, for purposes of Rule 13d-3 under the Exchange Act, be deemed to own beneficially the shares held by the Farallon Partnerships and the Managed Account. Each of FPLLC, FCM, the Farallon Managing Members and the Farallon Senior Managing Member disclaim any beneficial ownership of such shares. All of the above-mentioned entities and persons disclaim group attribution.

MATTERS TO BE PRESENTED TO THE STOCKHOLDERS

AT THE 2007 ANNUAL MEETING

Item 1 ***Election of Directors***

At the 2007 Annual Meeting, eleven (11) directors are to be elected, each of whom will serve until the Annual Meeting of Stockholders in the year 2008 and until their respective successors are duly elected and qualified. The persons named as proxies on the enclosed Proxy Card intend to vote FOR the election of each of the eleven (11) nominees listed below, unless otherwise directed.

The Board has nominated, and the proxies will vote to elect, the following individuals as members of the Board of Directors to serve for a period of one (1) year and until their respective successors are duly elected and qualified: Richard A. Bachmann, John C. Bumgarner, Jerry D. Carlisle, Harold D. Carter, Enoch L. Dawkins, Dr. Norman C. Francis, Robert D. Gershen, Phillip A. Gobe, William R. Herrin, William O. Hiltz and John G. Phillips. Each nominee has consented to be nominated and to serve, if elected.

Under the Company s Corporate Governance Guidelines, a majority of the Board must be comprised of directors who are independent under the rules of the New York Stock Exchange (NYSE). No director will be

deemed to be independent unless the Board affirmatively determines that the director has no material relationship with the Company, either directly or as an officer, stockholder or partner of an organization that has a relationship with the Company. The Board observes all criteria established by the NYSE and other governing laws and regulations. In its review of director independence, the Board of Directors considers all relevant facts and circumstances, including without limitation, all commercial, banking, consulting, legal, accounting, charitable or other business relationships any director may have with the Company. The Board has adopted categorical standards to assist it in making determinations of independence for directors, a copy of which is attached as Annex I to this Proxy Statement.

The Board has determined that each of Messrs. Bumgarner, Carlisle, Carter, Gershen, Herrin, Hiltz and Phillips and Dr. Francis is independent. In making its determination, in addition to the matter described under Certain Relationships and Related Transactions, the Board considered that Mr. Phillip s daughter is a non-executive employee of the Company whose compensation does not exceed the limits of the Company s categorical standards or the NYSE rules. Mr. Bachmann was determined to be not independent because he is our chief executive officer. Mr. Gobe was determined to be not independent because he is our president and chief operating officer. Mr. Dawkins was determined to be not independent because one of his immediate family members (as defined in the NYSE rules) is a consulting principal of KPMG LLP, our independent registered public accountant.

The Board of Directors recommends that you vote FOR the election of the eleven (11) nominees: Messrs. Bachmann, Bumgarner, Carlisle, Carter, Dawkins, Gershen, Gobe, Herrin, Hiltz and Phillips and Dr. Francis.

Information About the Nominees

Richard A. Bachmann, age 62, has been chief executive officer of the Company and chairman of its Board of Directors since the Company s incorporation in January 1998. Mr. Bachmann began organizing the Company in February 1997 and served as the Company s president until November 2005. From 1995 to January 1997, he served as director, president and chief operating officer of The Louisiana Land and Exploration Company *(LL&E)*, an independent oil and gas exploration company. From 1982 to 1995, Mr. Bachmann held various positions with LL&E, including director, executive vice president, chief financial officer and senior vice president of finance and administration. From 1978 to 1981, Mr. Bachmann was the treasurer of Itel Corporation. Prior to 1978, Mr. Bachmann served with Exxon International, Esso Central America, Esso InterAmerica and Standard Oil of New Jersey. He is also a director of Trico Marine Services, Inc.

John C. Bumgarner, Jr., age 65, has been a director since January 2000. Mr. Bumgarner is currently serving as managing member of Utica Plaza Management Company, a family-owned real estate company. Mr. Bumgarner was chief operating officer and president of strategic investments for Williams Communications Group, Inc., a high technology company, from May 2001 to November 2002. Williams Communications Group, Inc. filed a Plan of Reorganization with the U.S. Bankruptcy Court for the Southern District of New York in August 2002. Mr. Bumgarner joined The Williams Companies, Inc. in 1977 and served as senior vice president of Williams Corporate Development and Planning and then also served as president of Williams International Company prior to joining Williams Communications Group, Inc. Mr. Bumgarner is also a director of Management Planning Systems, Inc. and Sirenza Microdevices, Inc. Mr. Bumgarner is a former treasurer of Skelly Oil.

Jerry D. Carlisle, age 61, has been a director since March 2003. Mr. Carlisle has been vice president and director of DarC Marketing, Inc., a family-owned marketing company, since 1997. From 1983 to 1997, Mr. Carlisle was vice president, controller and chief accounting officer of LL&E and, from 1979 to 1983, he held various management positions at LL&E. Mr. Carlisle has a masters of business administration from Loyola University, is a certified public accountant, and serves as a trustee of the Mississippi State University Business School.

Harold D. Carter, age 68, has been a director since May 1998. Since 1995, Mr. Carter has been an independent oil and natural gas consultant and investment advisor. Mr. Carter is a director of Brigham Exploration Company and Abraxas Petroleum Corp., public oil and gas companies, a director of Longview Energy Company, a privately held oil and gas company, and former president of Sabine Corporation, an independent oil and gas exploration company.

Enoch L. Dawkins, age 69, has been a director since January 2004. Mr. Dawkins retired from Murphy Exploration and Production Co., where he served as president from 1991 until 2003. From 1964 until 1991, Mr. Dawkins held various operational, marketing and managerial positions at Ocean Drilling and Exploration Company, including president from 1989 until its acquisition by Murphy Oil Corporation in 1991. He is also a director of Superior Energy Services, Inc.

Dr. Norman C. Francis, age 75, has been a director since May 2005. Dr. Francis has served as the President of Xavier University of Louisiana since 1968. Dr. Francis is the chairman of the board for the Southern Education Foundation and for Liberty Bank and Trust, a member of the board of directors of the American Council on Education and a Fellow of The American Academy of Arts and Sciences (inducted 1993).

Robert D. Gershen, age 53, has been a director since May 1998. Mr. Gershen is president of Associated Energy Managers, LLC, an investment management firm specializing in private equity investments in the energy sector. In addition, Mr. Gershen serves as the President of Longview Energy Company, a privately held oil and gas company. Since 1989, Mr. Gershen has managed, through Associated Energy Managers, LLC, three funds that invest in energy companies in the United States.

Phillip A. Gobe, age 54, has been a director since November 2005. Mr. Gobe joined the Company in December 2004 as chief operating officer and became president in May 2005. Mr. Gobe has over 31 years of energy industry experience and was with Nuevo Energy Company as chief operating officer from February 2001 until its acquisition by Plains Exploration & Production Company in May 2004. Mr. Gobe s primary responsibilities were managing Nuevo s domestic and international exploitation and exploration operations. Prior to his position with Nuevo, Mr. Gobe had been the Senior Vice President of Production for Vastar Resources, Inc. since 1997. From 1976 to 1997, Mr. Gobe worked for Atlantic Richfield Company and its subsidiaries in positions of increasing responsibility, primarily in the Gulf of Mexico and Alaska.

William R. Herrin, Jr., age 72, has been a director since May 2005. Mr. Herrin served in a number of capacities for Chevron Corporation, most recently as Vice President and General Manager, Gulf of Mexico Production Business Unit, Chevron U.S.A. Production Co. from July 1992 until his retirement in 1998.

William O. Hiltz, age 55 has been a director since November 2000. Mr. Hiltz is a senior managing director of Evercore Partners and has been since joining that firm in October 2000. From April 1995 until October 2000, Mr. Hiltz was a managing director and head of the global energy group for UBS Warburg LLC and its predecessor firms, SBC Warburg Dillon Read and Dillon, Read & Co. Inc.

John G. Phillips, age 84, has been a director since May 1998. Since 1995, Mr. Phillips has been an independent financial consultant. Mr. Phillips is former chairman, president and chief executive officer of LL&E and, since 1972, continues to serve as a director of the Whitney National Bank and Whitney Holding Corporation. Mr. Phillips retired from LL&E in 1985.

Item 2 ***Ratification of Appointment of Independent Registered Public Accountants***

The Audit Committee of the Board of Directors is required by law and applicable NYSE rules to be directly responsible for the appointment, compensation and retention of the Company s independent registered public accountants. The Audit Committee has appointed KPMG LLP as the independent registered public accountants for the year ending December 31, 2007. While stockholder ratification is not required by the Company s By-laws

or otherwise, the Board of Directors is submitting the selection of KPMG LLP to the stockholders for ratification as part of good corporate governance practices. If the stockholders fail to ratify the selection, the Audit Committee may, but is not required to, reconsider whether to retain KPMG LLP. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of different independent registered public accountants at any time during the year if it determines that such a change would be in the best interest of the Company and its stockholders.

The Board of Directors recommends a vote FOR the proposal to ratify the selection of KPMG LLP as the Company s independent registered public accountants to audit the Company s consolidated financial statements for the year ending December 31, 2007. The persons designated as proxies will vote FOR the ratification of KPMG LLP as the Company s independent registered public accountants, unless otherwise directed. Representatives of KPMG LLP are expected to be present at the 2007 Annual Meeting, with the opportunity to make a statement should they choose to do so, and to be available to respond to questions, as appropriate.

CORPORATE GOVERNANCE

The Board of Directors

The directors hold regular meetings, attend special meetings as required and spend such time on the affairs of the Company as their duties require. The Company s Corporate Governance Guidelines provide that directors are expected to attend regular Board meetings and the Annual Meeting of Stockholders in person and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. During calendar year 2006, the Board of Directors held a total of 28 meetings, regular and special. All directors of the Company attended at least seventy-five percent (75%) of the meetings of the Board of Directors and of the committees on which they served during the period. All of the Company s then current directors who were standing for reelection at the meeting attended the annual meeting of stockholders in 2006.

The non-management directors meet in executive sessions at least semi-annually and our independent directors meet at least annually, to discuss such matters as they deem appropriate. At least once a year, our non-management directors meet to review the Compensation Committee s annual review of the chief executive officer. These executive sessions are chaired by the Chairman of the Nominating & Governance Committee. Stockholders may communicate with the non-management directors, or the chair of our executive sessions, by following the procedures under Communications with Board of Directors.

Committees of the Board

The Audit Committee

The Board of Directors has a standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, the current members of which are Messrs. Bumgarner, Carlisle (Chairman), Carter and Phillips. The Board of Directors has determined that each of the members of the Audit Committee is independent as defined by NYSE listing standards and the rules of the SEC applicable to audit committee members, and that Mr. Carlisle qualifies as an audit committee financial expert as described in Item 401(h) of Regulation S-K. The Audit Committee has a charter under which its primary purpose is to assist the Board in overseeing (1) the integrity of the Company s financial statements, (2) the independent registered public accountants qualifications and independence, (3) the performance of the Company s internal audit function and independent registered public accountants and (4) the compliance by the Company with legal and regulatory requirements. The Audit Committee is directly responsible for the appointment and compensation of the independent registered public accountants. During fiscal year 2006, the Audit Committee held five (5) meetings.

The Compensation Committee

The Board of Directors has a standing Compensation Committee, the current members of which are Messrs. Bumgarner (Chairman), Gershen, Herrin and Phillips. The Compensation Committee has a charter under which its responsibilities and authorities include reviewing the Company s compensation strategy, reviewing the performance of and approving the compensation for the senior management (other than the chief executive officer), evaluating the chief executive officer s performance and, either as a committee or together with the other independent directors, determining and approving the chief executive officer s compensation level. In addition, the committee approves and administers employee benefit plans and takes such other action as may be appropriate or as directed by the Board of Directors to ensure that the compensation policies of the Company are reasonable and fair. The Board of Directors has determined that each member of the Compensation Committee is independent as defined by NYSE listing standards. During fiscal year 2006, the Compensation Committee held three (3) meetings.

The Nominating & Governance Committee

The Board of Directors also has a standing Nominating & Governance Committee, the current members of which are Dr. Francis (Chairman) and Messrs. Carter and Herrin. The Nominating & Governance Committee has

a charter under which its responsibilities and authorities include identifying director candidates and recommending director nominees for the next annual meeting of stockholders or for any vacancy on the Board of Directors and recommending members of the Board of Directors to serve on the various committees. In addition, the Nominating & Governance Committee develops and recommends to the Board of Directors the Corporate Governance Guidelines of the Company and is responsible for the oversight of the evaluation of the Board of Directors and management. The Board of Directors has determined that each member of the Nominating & Governance Committee is independent as defined by NYSE listing standards. During fiscal year 2006, the Nominating & Governance Committee held four (4) meetings.

Nominee Qualifications

When seeking candidates for director, the Nominating & Governance Committee may solicit suggestions from incumbent directors, management, stockholders or others. While the Nominating & Governance Committee has authority under its charter to retain a search firm for this purpose, no such firm was utilized in 2006. After conducting an initial evaluation of a potential candidate, the Nominating & Governance Committee will interview that candidate if it believes such candidate might be suitable to be a director. The Nominating & Governance Committee may also ask the candidate to meet with management. If the Nominating & Governance Committee believes a candidate would be a valuable addition to the Board, it will recommend to the full Board that candidate s election.

The Nominating & Governance Committee selects each nominee based on the nominee s skills, achievements and experience. The Nominating & Governance Committee considers a variety of factors in selecting candidates, including, but not limited to the following: independence, wisdom, integrity, an understanding and general acceptance of the Company s corporate philosophy, valid business or professional knowledge and experience, a proven record of accomplishment with excellent organizations, an inquiring mind, a willingness to speak one s mind, an ability to challenge and stimulate management and a willingness to commit time and energy.

Communications with Board of Directors

The Nominating & Governance Committee, on behalf of the Board, reviews letters from stockholders concerning the Company s annual general meeting and governance process and makes recommendations to the Board based on such communications. Stockholders can send communications to the Board and to the non-management directors by mail in care of the Corporate Secretary at 201 St. Charles Avenue, Suite 3400, New Orleans, Louisiana 70170, and should specify the intended recipient or recipients. All such communications, other than unsolicited commercial solicitations or communications, will be forwarded to the appropriate director or directors for review. Any such unsolicited commercial solicitation or communication not forwarded to the appropriate director or directors will be available to any non-management director who wishes to review it.

Website Access to Corporate Governance Documents

Copies of the charters for the Audit Committee, the Compensation Committee and the Nominating & Governance Committee, as well as the Company s Corporate Governance Guidelines and Code of Business Conduct and Ethics (the *Code*) that applies, among others, to the Company s principal executive officer, principal financial officer and controller, are available free of charge on the Company s website at www.eplweb.com or by writing to Investor Relations, Energy Partners, Ltd., 201 St. Charles Avenue, Suite 3400, New Orleans, Louisiana 70170. The Company will also post on its website any amendment to the Code and any waiver of the Code granted to any of its directors or executive officers to the extent required by applicable rules.

Compensation of Directors

Fiscal 2006 Director Compensation

The table below sets forth cash and equity compensation paid to our non-employee directors in Fiscal 2006.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)(2)	Total ($)
John C. Bumgarner, Jr.	62,000	116,365	65,839	244,204
Jerry D. Carlisle	82,500	93,448	65,839	241,787
Harold D. Carter	78,500	88,448	65,839	232,787
Enoch L. Dawkins	70,000	85,948	65,839	221,787
Dr. Norman C. Francis	71,000	94,865	65,839	231,704
Robert D. Gershen	56,000	100,532	65,839	222,371
William R. Herrin, Jr.	61,000	100,532	65,839	227,371
William O. Hiltz	51,000	100,532	65,839	217,371
John G. Phillips	77,500	88,448	65,839	231,787

(1) Amounts reflect compensation cost recorded in the 2006 consolidated financial statements for each named individual and include grants made in previous years for which compensation expense is required to be recognized in accordance with Statement of Financial Standards No. 123 (R) Share-Based Payment (*Statement 123R*). As of December 31, 2006 outstanding stock awards were 3,000 restricted share units for each director granted under our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors. Messrs. Bumgarner, Gershen and Hiltz and Dr. Francis, respectively, also have 15,819, 4,314, 1,993 and 1,780 phantom shares accrued for under our Stock and Deferral Plan for Non-Employee Directors. The grant date fair value of restricted share unit awards made to all directors in 2006 was $26.95 per share as computed in accordance with Statement 123R. Please refer to footnotes 2(j) and 14 in our consolidated financial statements filed on Form 10-K for the year ended December 31, 2006 for a discussion of the assumptions used in computing the grant date fair value of stock based compensation awards. These amounts reflect the Company s accounting expense for these awards and do not correspond to the actual value that might be realized by the named individuals.

(2) Amounts reflect compensation cost recorded in the 2006 consolidated financial statements for each named individual and include grants made in previous years for which compensation expense is required to be recognized in accordance with Statement 123R. As of December 31, 2006 there were 31,500 shares of Common Stock underlying options granted under our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors to each of Messrs. Bumgarner, Carter, Gershen and Phillips, respectively, 21,500 to Mr. Carlisle, 11,500 to each of Dr. Francis and Mr. Herrin, 15,500 to Mr. Hiltz and 17,500 to Mr. Dawkins. The grant date fair value of stock option awards made to all directors in 2006 was $11.42 per share as computed in accordance with Statement 123R. Please refer to footnotes 2(j) and 14 in our consolidated financial statements filed on Form 10-K for the year ended December 31, 2006 for a discussion of the assumptions used in computing the grant date fair value of stock based compensation awards. These amounts reflect the Company s accounting expense for these awards and do not correspond to the actual value that might be realized by the named individuals.

Non-employee directors receive an annual retainer of $30,000 ($40,000 commencing with the 2007 Annual Meeting) and meeting fees of $2,000 for each Board meeting, and $1,500 for each committee meeting, attended (even if held on the same date). The Chairman of the Audit Committee receives an additional $15,000 per year, each other Audit Committee member receives an additional $5,000 per year and the Chairman of each of the Compensation Committee and the Nominating & Governance Committee receives an additional $10,000 per year. Meeting fees are paid in cash. Retainer fees are paid in shares of Common Stock (valued at fair market value); provided that a director may elect to receive up to 50% of such retainer fees in cash. Directors may defer all or a portion of their retainer and meeting fees. Directors are also reimbursed for their reasonable expenses in connection with attending Board of Director meetings and other Company events.

Our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors provides for grants of stock options and restricted share units to members of the Board of Directors who are not employees of the

Company or any subsidiary. The size of any grants of stock options and restricted share units to non-employee directors, including to new directors, will be determined annually, based on the analysis of an independent compensation consultant. Based on such analysis, the Compensation Committee recommended, and the Board approved, the grant of 4,000 restricted stock units to each non-employee director on the date of the 2007 Annual Meeting. Restricted share units become 100% vested on the first anniversary of the date of grant provided the eligible director continues as a director of the Company throughout that one-year period. Prior to the first anniversary of the date of grant, an eligible director shall be vested in the pro rata number of restricted share units based on the number of days during that year that the eligible director served. The total number of shares of our Common Stock that may be issued under the plan is 500,000, subject to adjustment in the case of certain corporate transactions and events.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The objectives of the Company s compensation program are (i) to attract and retain the best available talent, (ii) to motivate employees to achieve the Company s goals, (iii) to link employee and stockholder interests through performance rewards and (iv) to provide compensation that can recognize individual contributions to corporate objectives. The Company s compensation philosophy is designed so that a substantial component of each employee s potential annual compensation is dependent upon measurable improvement to stockholder value. Decisions with respect to the compensation of the Company s executive officers are made by the Compensation Committee (the *Committee*) of the Board of Directors. The compensation of non-executive officers is determined by the executive officers. The compensation of the Chief Executive Officer is recommended by the Committee and approved by the independent members of the Board of Directors.

The Committee based its decisions with respect to performance-measured compensation of our executive officers for services rendered in 2006 upon these principles and its assessment of each officer s potential to enhance long-term stockholder value. The Committee also considered each executive officer s current salary and prior year compensation, as well as compensation paid to the executive officer s peers. The Committee engages Frederic W. Cook & Co., Inc. as a consultant to assist it in determining appropriate types and levels of compensation. The Committee expects recommendations from the Company s Chief Executive Officer but exercises its own judgment and makes its own determination.

Types of Compensation

The Company provides two main types of compensation to executive officers:

(1) annual compensation, consisting of a base salary and an incentive bonus on the attainment of corporate and individual objectives; and

(2) long-term compensation, consisting of stock options, the value of which is directly linked to the value of a share of the Company s Common Stock, and restricted stock units.

Annual Compensation

At least once each year, the Committee reviews the Company s executive compensation program. This review is conducted with the assistance of the Company s compensation consultant. The consultant s analysis includes an assessment of the Company s executive officers compensation levels compared to other executive officers in similar positions in the Company s industry sector. The annual base salary of each executive is determined by an analysis of the compensation paid to other executive officers in similar positions in the Company s proxy peer group and market data derived from a combination of sources, including published salary survey data of other exploration and production companies. The Committee targets the median to 75th percentile for base salary. A competitive base salary is consistent with the Company s long-term objectives of attracting and retaining highly qualified, competent executives.

The incentive bonus is particularly aligned with the interests of the Company s stockholders. Incentive bonuses are based on quantitative and qualitative factors that the Committee may deem appropriate and the Committee s assessment of the individual s performance. While the Committee does not apply a completely formulaic approach, in 2006 the quantitative factors considered consisted of predetermined targets of production growth (both organic and through acquisitions), reserve replacement, reserve replacement cost relative to peers, lease operating expense per barrel of oil equivalent *(Loe/Boe)* and the increase in value of the Company s Common Stock relative to peers. The Committee has in the past adjusted targets for extraordinary events such as significant storms. The Committee also compares the Company s results against the results of its proxy peer group. A target bonus percentage of base salary is predetermined and periodically reviewed for each executive on the basis of market practices, although actual bonus payments can be significantly affected by the Committee s assessment of individual performance. The target bonus percentages for the current Named Officers set forth in the Summary Compensation Table are as follows: Mr. Bachmann, 100%; Mr. Gobe, 65%; Mr. Peper, 55%; Mr. Woodall, 55%; Mr. Dykes, 50%; and Mr. LeBlanc, 40%. The Committee targets the 75th percentile for the combination of base salary and incentive bonus when results warrant. In reviewing quantitative factors, the Committee will determine each year whether a threshold level of performance below the Company s objectives is deserving of any bonus percentage, taking into account external factors beyond the control of the executives. For 2006, the Committee determined that the Company exceeded its target for production growth of 10% and that the Company s stock price performance over the year was at the top of its peer group. The Company did not meet its targets relative to reserve replacement (130%), Loe/Boe ($5.40) and for reserve replacement cost (an indexed target based on peer performance). Based on these results, the Committee determined that a bonus in accordance with the Company s quantitative factors of 68% of target was warranted. The bonuses for Named Officers are set forth below under Summary Compensation. The Committee has not yet established the corporate targets that are to serve as the quantitative factors used in determining incentive bonuses for 2007 performance.

Long-Term Compensation

In determining the appropriate levels of incentive compensation, the Committee reviews comparable compensation, as well as historical share usage and dilution analyses and the fair value of long-term compensation as a percentage of market capitalization, of its proxy peer group. It also reviews the mix of equity forms used by exploration and production companies of similar size and revenues in compensating executive officers.

Last year the Committee determined to use a combination of stock options and restricted stock units to provide equity compensation to the executive officers. These equity forms create an alignment of interests with the Company s stockholders. Stock options have an exercise price equal to the fair market value of the date of grant, and have a ten-year term, vesting in one-third increments on the first three anniversaries of the date of grant. If any grantee voluntarily leaves the Company other than by reason of retirement, unvested options are forfeited and vested options must be exercised within 30 days. Unvested options will become immediately exercisable upon a change of control (as defined) of the Company. Restricted stock units have been granted rather than performance shares (as used in prior years), consistent with competitive practices. If any grantee leaves the Company, unvested restricted share units are forfeited. Unvested restricted share units will become fully vested upon a change of control (as defined) of the Company. Each restricted stock unit vests in one-third increments on the first three anniversaries of the date of grant for annual awards, but could vest differently if used as an employment or other special award, as determined by the Committee. The Committee has not yet made long-term incentive awards for executive officers for 2007.

The Committee has historically targeted the 75th percentile for long-term compensation. In 2006, the desired dollar value of long-term compensation was divided between stock options (75%) and restricted stock units (25%) based on the binomial value of the stock options with FAS 123R assumptions and the market price of Common Stock at grant for restricted stock units. For 2006, the Committee approved awards in March 2006 for our executive officers based on the 50th percentile, and determined to review additional potential awards later in the year when additional peer group data was available. Additional awards were made in August 2006 based on the 75th percentile after review of more current compensation information that was not available in March 2006. The awards are set forth under Summary Compensation.

The Committee also reviewed data relating to the 2004 2006 performance cycle, and determined that the increase in reserves per share target of 25% per year and the increase in value of proved reserves target of 5% per year were not met, but the three year average of total shareholder return exceeded the maximum of 20% per year. As a result, the Committee vested two-thirds of the performance shares, or an aggregate of 69,000 shares in accordance with the quantitative targets. The Committee did not grant any performance shares in 2006.

Compensation of the Chief Executive Officer

The Committee based its recommendations to the independent members of the Board with respect to compensation of our Chief Executive Officer, Richard A. Bachmann, for services rendered in 2006 on the factors discussed above and our assessment of his potential to enhance long-term stockholder value. The Committee also considered Mr. Bachmann s current salary and prior year compensation, as well as compensation paid to his peers. The Committee used its outside compensation consultant to assist it in determining appropriate types and levels of compensation. The independent members of the Board accepted the Committee s recommendations.

Mr. Bachmann s base salary of $440,000 for 2006 was commensurate with the median to 75th percentile of base salaries for chief executive officers of the Company s proxy peer group. For 2007, Mr. Bachmann s base salary was increased to $500,000. Mr. Bachmann s bonus target is 100%. Mr. Bachmann was awarded a bonus of $300,000 for 2006.

Policy on Deductibility of Compensation

Section 162(m) of the Internal Revenue Code of 1986 limits the deductibility for federal income taxes of compensation in excess of $1 million paid to a publicly held company s chief executive officer and any of the other four highest-paid executive officers, except for performance-based compensation. The Committee is aware of this limitation and intends to consider the effects of Section 162(m) on the Company when making compensation decisions.

Stock Ownership Guidelines

The Company has Executive Stock Ownership Guidelines that generally require the Company s Chief Executive Officer, President, and each Executive Vice President and each Senior Vice President to maintain a share ownership equal to 50% of the profit shares acquired under equity compensation plans of the Company. Profit shares means the Shares held by an executive as a result of the exercise of stock options, the lapsing of restrictions on restricted stock and restricted stock units and the earning of performance shares, after giving effect to Shares sold or netted to pay any exercise price or tax withholding amounts related to such award.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis provisions to be included in the Company s filings pursuant to the Securities Exchange Act of 1934. Based on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the Compensation Discussion and Compensation Analysis referred to above be included in such filings.

Compensation Committee

John C. Bumgarner, Chairman

Robert D. Gershen, Member

William R. Herrin, Member

John G. Phillips, Member

Notwithstanding any SEC filing by the Company that includes or incorporates by reference other SEC filings in their entirety, this Compensation Committee Report shall not be deemed to be filed with the SEC except as specifically provided otherwise therein.

Summary Compensation Table

The following table sets forth certain summary information for the year ending December 31, 2006 concerning the compensation earned by the Company s Named Officers consisting of its principal executive officer (Mr. Bachmann), each individual who served as principal financial officer in 2006 (Messrs. Looney, LeBlanc and Woodall) and the three other most highly-compensated executive officers for fiscal 2006.

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Stock Awards ($)(2)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)(4)	All Other Compensation ($)(5)	Total ($)
Richard A. Bachmann Chairman and Chief Executive Officer	2006	440,000		649,580	890,594	300,000	20,914	2,301,088
Phillip A. Gobe President and Chief Operating Officer	2006	315,000		583,422	717,595	139,230	25,396	1,780,643
John H. Peper Executive Vice President, General Counsel and Corporate Secretary	2006	236,000		149,425	313,471	88,264	27,953	815,113
Timothy R. Woodall Executive Vice President and Chief Financial Officer (6)	2006	91,987	150,000	52,231	162,561	38,958	29,471	525,208
T. Rodney Dykes Senior Vice President-Production	2006	212,000		103,299	210,599	72,080	14,891	612,869
Joseph H. LeBlanc Treasurer and acting Principal Financial Officer during a portion of the year (7)	2006	158,125		138,335	1,810	43,500	24,788	366,558
David R. Looney Former Executive Vice President and Chief Financial Officer (7)	2006	91,866		(245,400)	(435,232)		20,576	(568,190)

(1) Bonuses paid for 2006 performance are found under the column captioned Non-Equity Incentive Plan Compensation.

(2) Amounts reflect compensation cost recorded in the 2006 consolidated financial statements for each named individual and includes grants made in previous years for which compensation expense is required to be recognized in accordance with Statement 123R. The expense has been calculated based on the grant date fair value of the respective awards. Please refer to footnotes 2(j) and 14 in our consolidated financial statements filed on Form 10-K for the year ended December 31, 2006 for a discussion of the assumptions used in computing the grant date fair value of stock based compensation awards. These amounts reflect the Company s accounting expense for these awards and do not correspond to the actual value that might be realized by the named individuals.

(3) Amounts reflected under this column are paid pursuant to the Company s incentive compensation plan as described in the incentive bonus paragraph under Annual Compensation in the Compensation Discussion and Analysis .

(4) Amount for Mr. Woodall represents bonus paid *pro rata* from date of commencement of employment.

(5) The amounts represent the dollar value of term life insurance premiums paid by us for the benefit of the Named Officers, the dollar value of the Company match to the Energy Partners, Ltd. 401(k) Plan on the employees behalf, reimbursement of relocation expenses and the Company s contributions to a key employee retention plan. The plan generally requires that the 401(k) match be held in our Common Stock for a period of three years. For 2006, (i) the life insurance premiums for Messrs. Bachmann, Gobe, Peper, Woodall, Dykes, LeBlanc and Looney were $6,574, $1,662, $1,163, $162, $1,031, $478, and $421, respectively; (ii) the value of the 401(k) match for Messrs. Bachmann, Gobe, Peper, Woodall, Dykes, LeBlanc and Looney were $13,200, $13,200, $13,200, $3,750, $12,720, $6,488 and $3,825 respectively; (iii) the value of reimbursed relocation expenses for Messrs. Gobe, Peper, Woodall and Looney was $9,395, $12,440, $25,341 and $16,030, respectively, inclusive of tax gross up for Messrs. Gobe, Woodall and Looney of $2,861, $8,119 and $6,289 respectively and (iv) the amount credited on Mr. LeBlanc s behalf to a key employee retention plan in 2006 was $17,418.

	741	199
Accounts payable	(653)	846
Accrued liabilities and other noncurrent liabilities	(3,488)	(666)
Net cash provided by operating activities	6,534	3,064

Investing Activities

Proceeds from the sale of equipment		2
Purchases of property, equipment and patents	(2,071)	(1,700)
Net cash used in investing activities	(2,071)	(1,698)
Financing Activities		
Proceeds from exercise of stock options		336
Payments to repurchase common stock	(7,889)	(3,367)
Excess income tax benefits from exercise of stock options		74
Net cash used in financing activities	(7,889)	(2,957)
Effect of exchange rate fluctuations on cash	(320)	65
Net decrease in cash and cash equivalents	(3,746)	(1,526)
Cash and cash equivalents at beginning of period	28,229	30,524
Cash and cash equivalents at end of period	$ 24,483	$ 28,998

See notes to consolidated financial statements.

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FUEL TECH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(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. 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 (NO_x) reduction and FUEL CHEM® processes. The Air Pollution Control (APC) technology segment reduces NO_x emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources by utilizing combustion optimization techniques and Low NO_x and Ultra Low NO_x Burners; Over-Fire Air systems, NO_xOUT® and HERT High Energy Reagent Technology SNCR systems; systems that incorporate ASCR (Advanced Selective Catalytic Reduction) technologies including NO_xOUT-CASCADE®, ULTRA and NO_xOUT-SCR® processes, Ammonia Injection Grid (AIG) and Graduated Straightening Grid (GSG). 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 ($PM_{2.5}$), carbon dioxide, NO_x 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 air pollution control, fuel and boiler treatment chemicals, computer modeling and advanced visualization technologies. 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 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 balance sheet at December 31, 2011 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, 2011 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.

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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, supplies, and depreciation. 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. The completed contract method is used for certain contracts 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 September 30, 2012, the Company had three contracts in progress that were identified as loss contracts and a provision for losses in the amount of $498 was recorded as of September 30, 2012 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; all performance guarantees and equipment warranties granted by us are void 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 September 30, 2012 and December 31, 2011, unbilled receivables were approximately $12,127 and $11,334, respectively, and are included in accounts receivable on the consolidated balance sheets. Billings in excess of costs and estimated earnings on uncompleted contracts were $1,517 and $3,895 at September 30, 2012 and December 31, 2011, respectively. Such amounts are included in other accrued liabilities on the consolidated balance sheets.

Fuel Tech has installed over 700 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.

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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 $57 and no cost basis at September 30, 2012.

Purchases and sales of securities are recognized on a trade date basis. Realized securities gains or losses are reported in other 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 September 30, 2012 and 2011.

Note G: 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 stock options, restricted stock units, and of the nil coupon non-redeemable convertible unsecured loan notes. The following table sets forth the weighted-average shares used in calculating the earnings per share for the three- and nine-month periods ended September 30, 2012 and 2011.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Basic weighted-average shares	22,105	24,322	22,932	24,269
Conversion of unsecured loan notes	7	7	7	7
Unexercised options and RSUs	910	521	810	605
Diluted weighted-average shares	23,022	24,850	23,749	24,881

Note H: Stock-Based Compensation

Fuel Tech has a stock-based employee compensation plan, referred to as the Fuel Tech, Inc. Incentive Plan (Incentive Plan), under which awards may be granted to participants in the form of Non-Qualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units (RSUs), Performance Awards, Bonuses or other forms of share-based or non-share-based awards or combinations thereof. Participants in the Incentive Plan may be Fuel Tech s directors, officers, employees, consultants or advisors (except consultants or advisors in capital-raising transactions) as the directors determine are key to the success of Fuel Tech s business. The amount of shares that may be issued or reserved for awards to participants under a 2004 amendment to the Incentive Plan is 12.5% of outstanding shares calculated on a diluted basis. At September 30, 2012, Fuel Tech had approximately 507,000 equity awards available for issuance under the Incentive 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 three- and nine-month periods ended September 30, 2012 and 2011 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Stock options and restricted stock units	$ 460	$ 493	$ 800	$ 2,148
Deferred directors fees	12	12	44	49
Total stock-based compensation expense	472	505	844	2,197
Tax benefit of stock-based compensation expense	(173)	(168)	(302)	(733)
After-tax effect of stock-based compensation	$ 299	$ 337	$ 542	$ 1,464

As of September 30, 2012, there was $2,777 of total unrecognized compensation cost related to all non-vested share-based compensation arrangements granted under the Incentive Plan.

Stock Option Exchange Program

On June 1, 2011, the Company commenced an exchange offer that offered to certain employees the right to exchange eligible options to purchase shares of common stock of the Company for a lesser number of replacement awards of restricted stock units. The exchange offer expired on June 29, 2011. Pursuant to the exchange offer, 814,500 eligible options were tendered and the Company granted 267,372 restricted stock units in exchange for those options. As a result of the exchange, which is deemed a modification of the original stock option awards under generally accepted accounting principles, additional stock-based compensation of approximately $252 will be recognized over the two year vesting period associated with the replacement awards commencing June 30, 2011. The Company recognized $31 of additional stock-based compensation during the three- and nine-month period ended September 30, 2011 as a result of the stock option exchange program. Additional information regarding the stock option exchange program may be found on the Company s Tender Offer Statement on Schedule TO filed with the SEC on June 1, 2011.

Stock Options

Stock options granted to employees under the Incentive Plan 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.

Based on the results of the model, the weighted-average fair value of the stock options granted during the nine-month period ended September 30, 2012 was $1.72 per option using the following assumptions:

Expected dividend yield	0.0%
Risk-free interest rate	0.67%
Expected volatility	58.6%

Expected life of option	4.8 years

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Stock option activity for Fuel Tech s Incentive Plan for the nine months ended September 30, 2012 was as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding on January 1, 2012	1,902,000	$ 11.51		
Granted	70,000	3.55		
Converted to RSUs				
Exercised				
Expired or forfeited	(58,000)	6.33		
Outstanding on September 30, 2012	1,914,000	$ 11.38	4.5 years	$ 95
Exercisable on September 30, 2012	1,822,312	$ 11.48	4.3 years	$ 95

Non-vested stock option activity for the nine months ended September 30, 2012 was as follows:

	Non-Vested Stock Options Outstanding	Weighted-Average Grant Date Fair Value
Outstanding on January 1, 2012	183,938	$ 5.56
Granted	70,000	1.72
Vested	(161,500)	4.00
Forfeited	(750)	5.18
Outstanding on September 30, 2012	91,688	$ 5.39

As of September 30, 2012, there was $377 of total unrecognized compensation cost related to non-vested stock options granted under the Incentive Plan. That cost is expected to be recognized over a weighted average period of 0.9 years.

Restricted Stock Units

Restricted stock units (RSUs) granted to employees vest over time based on continued service (typically vesting over a period between one and four years). Such time-vested RSUs are valued at the date of grant using the intrinsic value method. 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, in March 2011 and 2012, the Company entered into performance-based RSU agreements (the Agreements) with each of the Company s President/Chief Executive Officer, Treasurer/Chief Financial Officer, Executive Vice President of Marketing & Sales, and Executive Vice President of Worldwide Operations. 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

intrinsic value method 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.

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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 intrinsic value method 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.

At September 30, 2012, there is $2,400 of unrecognized compensation costs related to restricted stock unit awards to be recognized over a weighted average period of 2.3 years.

A summary of restricted stock unit activity for the nine-month period ended September 30, 2012 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock units at December 31, 2011	487,165	$ 7.59
Granted	349,000	4.82
Forfeited	(11,355)	7.18
Vested		
Unvested restricted stock units at September 30, 2012	824,810	$ 6.42

Deferred Directors Fees

In addition to the Incentive Plan, Fuel Tech has a Deferred Compensation Plan 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 as opposed to liability awards. In the nine-month periods ended September 30, 2012 and 2011, Fuel Tech recorded $44 and $49, respectively, of stock-based compensation expense under the Deferred Plan.

Note I: Debt

On June 30, 2011, 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, 2013. The amendment decreases the total borrowing base of the facility to $15,000 from $25,000 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 a spread range of 250 basis points to 375 basis points, as determined under a formula related to the Company s leverage ratio, 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 September 30, 2012 and December 31, 2011, there were no outstanding borrowings on the amended or previous credit facility.

The Facility contains several debt covenants with which the Company must comply on a quarterly or annual basis, including a maximum Funded Debt to EBITDA Ratio (or Leverage Ratio, as defined in the Facility) of 1.5:1.0 based on the four trailing quarterly periods. Maximum funded debt is defined as all borrowed funds, outstanding standby letters of credit and bank guarantees. EBITDA includes after tax earnings with add backs for interest expense, income taxes, depreciation and amortization, and stock-based compensation expenses. In addition, the Facility covenants include an annual capital expenditure limit of $10,000 and a minimum tangible net worth of $50,000, adjusted upward for 50% of net income generated and 100% of all capital issuances. At September 30, 2012, the Company was in compliance with all financial covenants specified by the Facility.

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At September 30, 2012 and December 31, 2011, the Company had outstanding standby letters of credit and bank guarantees totaling approximately $2,439 and $1,374, 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 September 30, 2012 and December 31, 2011, there were no cash borrowings under the domestic revolving credit facility and approximately $12,561 and $13,626, 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 29, 2012, 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 $5,526), which expires on June 30, 2013. This new credit facility replaced the previous RMB 35 million facility that expired on June 28, 2012. 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 September 30, 2012 and December 31, 2011, Beijing Fuel Tech has borrowings outstanding in the amount of $1,184 and $1,181, respectively. These borrowings were subject to interest rates of approximately 7.3% and 7.6% at September 30, 2012 and December 31, 2011, respectively.

At September 30, 2012 and December 31, 2011, the Company had outstanding standby letters of credit and bank guarantees totaling approximately $1,006 and $750, respectively, on its Beijing Fuel Tech revolving credit facility in connection with contracts in process. At September 30, 2012 and December 31, 2011, approximately $3,336 and $3,580 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 $90 and $125 were made during the nine-month periods ended September 30, 2012 and 2011.

Note J: 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_x emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources. These include Low and Ultra Low NO_x Burners (LNB and ULNB), Over-Fire Air (OFA) systems, NO_xOUT® and HERT Selective Non-Catalytic Reduction (SNCR) systems, and Advanced Selective Catalytic Reduction (ASCR) 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) systems to provide high NO_x reductions at significantly lower capital and operating costs than conventional SCR systems. The NO_xOUT-CASCADE® and NO_xOUT-SCR® processes are basic types of ASCR systems, using just SNCR and SCR catalyst components. ULTRA technology creates ammonia at a plant site using safe urea for use with any SCR application. Flue Gas Conditioning systems are chemical injection systems offered in markets outside the U.S. and Canada to enhance electrostatic precipitator and fabric filter performance in controlling particulate emissions.

The FUEL CHEM® 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® Targeted In-Furnace Injection 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.

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

Three months ended September 30, 2012	Air Pollution Control Segment	FUEL CHEM Segment	Other	Total
Revenues from external customers	$ 15,432	$ 9,475	$	$ 24,907
Cost of sales	10,282	4,389		14,671
Gross margin	5,150	5,086		10,236
Selling, general and administrative			(8,064)	(8,064)
Research and development			(569)	(569)
Operating income (loss)	5,150	5,086	(8,633)	1,603

Three months ended September 30, 2011	Air Pollution Control Segment	FUEL CHEM Segment	Other	Total
Revenues from external customers	$ 12,223	$ 11,800	$	$ 24,023
Cost of sales	7,539	5,511		13,050
Gross margin	4,684	6,289		10,973
Selling, general and administrative			(7,701)	(7,701)
Research and development			(358)	(358)
Operating income (loss)	$ 4,684	$ 6,289	$ (8,059)	$ 2,914

Nine months ended September 30, 2012	Air Pollution Control Segment	FUEL CHEM Segment	Other	Total
Revenues from external customers	$ 43,964	$ 27,066	$	$ 71,030
Cost of sales	26,984	12,787		39,771
Gross margin	16,980	14,279		31,259
Selling, general and administrative			(24,932)	(24,932)
Research and development			(2,044)	(2,044)
Operating income (loss)	$ 16,980	$ 14,279	$ (26,976)	$ 4,283

Nine months ended September 30, 2011	Air Pollution Control Segment	FUEL CHEM Segment	Other	Total
Revenues from external customers	$ 32,959	$ 32,707	$	$ 65,666
Cost of sales	18,338	16,731		35,069
Gross margin	14,621	15,976		30,597
Selling, general and administrative			(23,618)	(23,618)
Gain from revaluation of contingent performance obligation			758	758
Research and development			(1,075)	(1,075)
Operating income (loss)	$ 14,621	$ 15,976	$ (23,935)	$ 6,662

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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 September 30,		Nine months ended September 30	
	2012	2011	2012	2011
Revenues:				
United States	$ 16,609	$ 19,121	$ 57,519	$ 54,268
Foreign	8,298	4,902	13,511	11,398
	$ 24,907	$ 24,023	$ 71,030	$ 65,666

	September 30, 2012	December 31, 2011
Assets:		
United States	$ 85,338	$ 99,601
Foreign	19,184	13,389
	$ 104,522	$ 112,990

Note K: 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, which is included in other accrued liabilities on the accompanying balance sheets, for the nine months ended September 30, 2012, and 2011, are summarized below:

	Nine Months Ended September 30,	
	2012	2011
Aggregate product warranty liability at beginning of period	$ 313	$ 215
Net aggregate expense related to product warranties	710	620
Aggregate reductions for payments	(240)	(390)
Aggregate product warranty liability at end of period	$ 783	$ 445

In 2009, the Company recorded a contingent consideration accrual representing the fair value of the future consideration to be paid in connection with its acquisition of substantially all of the assets of Advanced Combustion Technology, Inc. (ACT). The contingent consideration arrangement required the Company to pay ACT a pro rata amount of up to $4,000 annually for the achievement of a minimum annual gross margin dollar level (the Hurdle) of $10,000, $11,000, and $12,000 in fiscal 2009, 2010, and 2011, respectively. In addition, the agreement required the Company to pay ACT thirty-five percent of all qualifying gross margin dollars above the annual Hurdle rate for each of the three years. The potential undiscounted amount of all future payments that the Company could be required to make is between $0 and $4,000 in any one year, and $0 and $12,000 in total, not including the amount related to the thirty-five percent sharing of qualifying gross margin dollars above the pre-determined Hurdle. The fair value of the contingent consideration at inception was $2,307, which was recorded as a liability when the business combination was initially recorded.

The Company periodically evaluated the probability that payment of the contingent consideration accrual was probable based on a range of outcomes and assumptions used to develop the fair value estimate. Based upon this analysis, management concluded during the quarter ended June 30, 2011 that the payout for 2011 was not probable of being made. Thus, the Company recorded a gain of $758 from the revaluation of the contingent liability. A similar adjustment was made in the two preceding years for $781 and $768, respectively. As of September 30, 2012, there is no contingent liability accrual remaining.

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Note L: Income Taxes

The Company s effective tax rates of 32.7% and 29.8% for the nine-month periods ended September 30, 2012 and 2011, respectively, differ from the statutory federal tax rate of 34% due primarily to state taxes, stock-based compensation, differences between U.S. and foreign tax rates, foreign losses incurred with no related tax benefit, changes in state rate rates, non-deductible meals and entertainment expenses, and the tax benefit recorded in the three-month period ended September 30, 2012 described below.

Fuel Tech had unrecognized tax benefits as of December 31, 2011 in the amount of $667 all of which, if ultimately recognized, will reduce Fuel Tech s annual effective tax rate. During the quarter ended September 30, 2012, the Company reduced its accrual for unrecognized tax benefits to $198 and recognized a tax benefit of $369 as a result of no longer being subject to tax examination for the 2008 tax year. This discrete tax item reduced our effective tax rate by 6% in the quarter ended September 30, 2012.

Note M: 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 September 30, 2012 and December 31, 2011, goodwill allocated to the FUEL CHEM technology segment was $1,723 while goodwill allocated to the APC technology segment was $19,328.

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. Our last fair value measurement test, performed annually as of October 1, revealed no indications of impairment. There were no indications of goodwill impairment in the three- and nine-month periods ended September 30, 2012 and 2011.

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 three- and nine-month periods ended September 30, 2012 and 2011.

Note N: 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 of 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 $57 at September 30, 2012 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 three- and nine-month periods ended September 30, 2012.

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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 O: Recently Adopted and Pending Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued amended disclosure requirements for the presentation of comprehensive income. The amended guidance eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in equity. Under the amended guidance, all changes in OCI are to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive financial statements. In addition, in December 2011, the FASB issued an amendment to this accounting standard which defers the requirement to present components of reclassifications of other comprehensive income on the face of the income statement. This guidance was effective as of the beginning of our 2012 fiscal year. Accordingly, we have presented the components of net income and other comprehensive income for the three- and nine-month periods ending September 30, 2012 and 2011 as two separate but consecutive statements. We will continue to monitor the FASB s activities related to the deferral of the presentation and disclosure of reclassification adjustments from other comprehensive income to net income, but it will only affect our financial statement presentation and will have no impact to our consolidated financial results.

Note P: Share Repurchase Program

In August 2011, Fuel Tech s Board of Directors authorized the repurchase of up to $6 million of its outstanding common shares through December 31, 2012. This initial program was completed in the quarter ended March 31, 2012. In May 2012, the Board of Directors authorized a second repurchase program allowing the Company to repurchase up to an additional $6 million of its outstanding common shares through June 30, 2013 and this repurchase program was completed September 2012. The share repurchase programs were funded through the Company s existing cash on hand. Purchases made pursuant to the programs are made in the open market. The timing, manner, price and amount of any repurchases are determined by the Company in its discretion and are subject to economic and market conditions, stock price, applicable legal requirements, and other factors.

During the course of the share repurchase programs, Fuel Tech repurchased an aggregate of 2,306,590 common shares for a total cost of approximately $12,000 including commissions of approximately $76. These acquired shares have been retired and are no longer shown as issued or outstanding shares.

The following table summarizes our share repurchase programs since their inception:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Cost	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
Phase One Program				
August 25, 2011 through September 30, 2011	571,554	$ 5.89	$ 3,367	$ 2,633
October 1, 2011 through December 31, 2011	130,160	5.71	744	1,889
January 1, 2012 through March 31, 2012	334,636	5.64	1,889	
Phase Two Program				
April 1, 2012 through June 30, 2012	1,124,797	4.70	5,290	710
July 1, 2012 through September 30, 2012	145,443	4.88	710	
Total	2,306,590	$ 5.20	$ 12,000	$

FUEL TECH, INC.

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

Results of Operations

Consolidated revenues for the three months ended September 30, 2012 and 2011 were $24,907 and $24,023 respectively, while consolidated revenues for the nine months ended September 30, 2012 and 2011 were $71,030 and $65,666, respectively. These represent increases of $884, or 4%, and $5,364, or 8%, from the prior year three- and nine-month periods.

The Air Pollution Control (APC) technology segment generated revenues of $15,432 and $43,964 for the three and nine months ended September 30, 2012, respectively, an increase of $3,209 or 26%, and $11,005, or 33%, from the prior-year periods due to increased orders for APC primarily in foreign markets and the timing and recognition of work in progress on those APC. The Company expects demand for its APC products to remain strong based on new and existing air pollution control regulations around the world, particularly in China.

Consolidated APC backlog at September 30, 2012 was $52,310 versus backlog at September 30, 2011 of approximately $22,890. Although projects in this segment are typically completed within eight to sixteen months, the amount of revenue recognition in the final quarter of 2012 and beyond is subject to the timing of the expenses incurred on existing projects.

The FUEL CHEM technology segment generated revenues of $9,475 and $27,066 for the three- and nine-months ended September 30, 2012, a decrease of $2,325, or 20%, and $5,641, or 17%, from the respective prior-year periods. The decrease is due to decreased sales volume at existing customer accounts in part due to the lower demands for electricity and fuel switching by customers to take advantage of of low natural gas prices. These factors led to coal combustion units operating at less than full capacity which resulted in a corresponding decrease in our quarter-over-quarter and overall year-to-date revenue. Another factor contributing to the decrease in overall year-to-date revenues for 2012 was a non-recurring sale of installation-related work totaling $1.3 million that occurred in 2011.

Consolidated gross margin percentage for the quarters ended September 30, 2012 and 2011 were 41.1% and 44.5%, respectively. The gross margin percentage for the APC technology segment decreased to 33.4% from 45.6% in the comparable prior-year period, primarily due to an increase in lower margin international projects. For the FUEL CHEM technology segment, the gross margin percentage increased to 53.7% from 53.3% in the comparable prior-year quarter primarily due to a higher margin mix of customer orders.

Consolidated gross margin percentage for the nine months ended September 30, 2012 and 2011 was 44.0% and 46.6%, respectively. The cost of sales for the APC technology segment decreased to 38.6% from 44.4% due to the aforementioned increase in APC international projects. For the FUEL CHEM technology segment, the gross margin percentage increased to 52.8% from 48.8% due to a higher margin mix of customer orders and the non-recurring sale of lower margin installation work recognized in the first two quarters of 2011, which diluted the margin percentage for that year-to-date period.

Selling, general and administrative expenses (SG&A) for the quarters ended September 30, 2012 and 2011 were $8,064 and $7,701, respectively. The quarter-over-quarter increase is primarily attributed to spending on employee-related and other international costs of $877 to position ourselves for current and future sales demands, offset by a decrease in commissions of $277 as a result of lower domestic sales bookings in 2012 compared to 2011. SG&A for the nine-month periods ended September 30, 2012 and 2011 were $24,932 and $23,618, respectively. The increase of $1,314 was primarily related to increases in employee-related costs of $1,254.

The Company recorded a gain during the quarter ended June 30, 2011 of $758 from the revaluation of the contingent liability recorded in connection with the ACT acquisition in January 2009. The $758 had been initially recorded in the first quarter of 2009 as part of a $2,307 contingent consideration accrual representing the fair value, weighted-average probability of future consideration expected to be paid in connection with the ACT acquisition. In the year ended December 31, 2011, management concluded that the earnout payment related to the ACT acquisition for fiscal 2011 is not probable, thus the remaining $758 portion of the total contingent liability was reversed.

Research and development expenses for the three- and nine-month periods ended September 30, 2012 were $569 and $2,044, respectively, and $358 and $1,075, respectively, for the comparable prior year periods. The Company has increased its R&D efforts in the pursuit of commercial applications for its technologies outside of its traditional markets, and in the development and analysis of new technologies that could represent incremental market opportunities.

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Interest expense for the three- and nine-month periods ended September 30, 2012 totaled $16 and $90, respectively, and $47 and $125, respectively, for the same periods in the prior year. Interest expense relates to borrowings under the Beijing Fuel Tech Facility.

Income tax expense for the three- and nine-months ended September 30, 2012 was $382 and $1,366, respectively, and $169 and $1,880 for the comparable periods in 2011. The 2012 effective tax rate of 33% for the nine-month period was lower than the 38% rate used in the six-month period ended June 30, 2012 primarily due to a reduction in our accrual for uncertain tax positions. This reduction is the result of no longer being subject to tax examination for the 2008 tax year.

Liquidity and Sources of Capital

At September 30, 2012, Fuel Tech had cash and cash equivalents and short-term investments on hand of $24,540 and working capital of $39,246 versus $28,286 and $43,626 at December 31, 2011, respectively.

Operating activities provided cash of $6,534 during the nine-month period ended September 30, 2012, primarily due to cash generated by our net income of $2,805, a net decrease in our accounts receivable, prepaid expenses, and other assets balances of $5,631, depreciation and amortization of $2,324, and stock compensation of $844. Partially offsetting these items were a net decrease in our accounts payable and accrued liabilities of $4,141 and an increase in our inventory by $646.

Investing activities used cash of $2,071 during the nine-month period ended September 30, 2012 for purchases of property, equipment, and patent expenditures.

Financing activities used cash of $7,889 due entirely to payments made under our share repurchase program.

On June 30, 2011, 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, 2013. The amendment decreases the total borrowing base of the facility to $15,000 from $25,000 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 a spread range of 250 basis points to 375 basis points, as determined under a formula related to the Company s leverage ratio, 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 September 30, 2012 and December 31, 2011, there were no outstanding borrowings on the amended or previous credit facility.

The Facility contains several debt covenants with which the Company must comply on a quarterly or annual basis, including a maximum Funded Debt to EBITDA Ratio (or Leverage Ratio, as defined in the Facility) of 1.5:1.0 based on the four trailing quarterly periods. Maximum funded debt is defined as all borrowed funds, outstanding standby letters of credit and bank guarantees. EBITDA includes after tax earnings with add backs for interest expense, income taxes, depreciation and amortization, and stock-based compensation expenses. In addition, the Facility covenants include an annual capital expenditure limit of $10,000 and a minimum tangible net worth of $50,000, adjusted upward for 50% of net income generated and 100% of all capital issuances. At September 30, 2012, the Company was in compliance with all financial covenants specified by the Facility.

At September 30, 2012 and December 31, 2011, the Company had outstanding standby letters of credit and bank guarantees totaling approximately $2,439 and $1,374, 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 September 30, 2012 and December 31, 2011, there were no cash borrowings under the domestic revolving credit facility and approximately $12,561 and $13,626, 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 29, 2012, 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 $5,526), which expires on June 30, 2013. This new credit facility replaced the previous RMB 35 million facility that expired on June 28, 2012. 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 September 30, 2012 and December 31, 2011, Beijing Fuel Tech has borrowings outstanding in the amount of $1,184 and $1,181, respectively. These borrowings were subject to interest rates of approximately 7.3% and 7.6% at September 30, 2012 and December 31, 2011, respectively.

At September 30, 2012 and December 31, 2011, the Company had outstanding standby letters of credit and bank guarantees totaling approximately $1,006 and $750, respectively, on its Beijing Fuel Tech revolving credit facility in connection with contracts in process. At September 30, 2012 and December 31, 2011, approximately $3,336 and $3,580 was available for future borrowings.

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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 K. The warranty liability balance during the nine months ended September 30, 2012 and 2011 increased by approximately $470 and $230, respectively.

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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 exclus 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, 2011 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 long-term debt arrangement (refer to Note I 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, 2012.

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.

In 2011, Fuel Tech filed a series of civil actions in the Second People s Intermediate Court of Beijing against Liu Minghui, Zhu Limin and related parties who formerly worked with Fuel Tech (collectively, the Defendants.) In the actions, Fuel Tech seeks damages and equitable relief based upon alleged unfair competition due to misappropriation of Fuel Tech s property and trade secrets and other misconduct in China by the Defendants, and Fuel Tech also has asserted prior ownership rights over Chinese patents filed in China by certain of the Defendants pertaining to air pollution control technologies. Certain of the Defendants have filed actions before the Chinese Patent Review Board seeking to invalidate two China patents held by Fuel Tech for use in China relating to its ULTRA product line. These actions are in various stages, but management does not currently believe that based on the facts at hand that resolution of the actions would have a material adverse impact on Fuel Tech s business in China.

Item 1A. Risk Factors

The risk factors included in our Annual Report on Form 10-K for fiscal year ended December 31, 2011 have not materially changed.

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

In August 2011, Fuel Tech s Board of Directors authorized the repurchase of up to $6 million of its outstanding common shares through December 31, 2012. This initial program was completed in the quarter ended March 31, 2012. In May 2012, the Board of Directors authorized a second repurchase program allowing the Company to repurchase up to an additional $6 million of its outstanding common shares through June 30, 2013 and this repurchase program ended in September 2012. The share repurchase programs were funded through the Company s existing cash on hand. Purchases made pursuant to the programs are made in the open market. The timing, manner, price and amount of any repurchases are determined by the Company in its discretion and are subject to economic and market conditions, stock price, applicable legal requirements, and other factors.

During the course of the share repurchase programs, Fuel Tech repurchased an aggregate of 2,306,590 common shares for a total cost of approximately $12,000 including commissions of approximately $76. These acquired shares have been retired and are no longer shown as issued or outstanding shares.

The following table summarizes our share repurchase programs since their inception:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Cost	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
Phase One Program				
August 25, 2011 through September 30, 2011	571,554	$ 5.89	$ 3,367	$ 2,633
October 1, 2011 through December 31, 2011	130,160	5.71	744	1,889
January 1, 2012 through March 31, 2012	334,636	5.64	1,889	
Phase Two Program				
April 1, 2012 through June 30, 2012	1,124,797	4.70	5,290	710
July 1, 2012 through September 30, 2012	145,443	4.88	710	

Total	2,306,590	$	5.20	$ 12,000	$

Item 6. Exhibits

a. Exhibits (all filed herewith)

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

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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: November 5, 2012	By: /s/ Douglas G. Bailey Douglas G. Bailey President and Chief Executive Officer (Principal Executive Officer)
Date: November 5, 2012	By: /s/ David S. Collins David S. Collins Senior Vice President and Chief Financial Officer (Principal Financial Officer)

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