

FUEL TECH, INC.  
Form 10-Q  
May 05, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

or

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

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

Commission file number: 001-33059

FUEL TECH, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation of  
organization)

20-5657551  
(I.R.S. Employer Identification Number)

Fuel Tech, Inc.  
27601 Bella Vista Parkway  
Warrenville, IL 60555-1617  
630-845-4500

(Address and telephone number of principal executive offices)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in rule 12b-2 under the Securities Exchange Act of 1934)

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer

Indicate by check mark whether the registrant is shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of April 20, 2009 there were outstanding 24,121,967 shares of Common Stock, par value \$0.01 per share, of the registrant.



FUEL TECH, INC.  
Form 10-Q for the three-month period ended March 31, 2009

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

FUEL TECH, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except share and per-share data)

	March 31, 2009 (Unaudited)	December 31, 2008 (Note B)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 11,316	\$ 28,149
Accounts receivable, net of allowance for doubtful accounts of \$80 and \$80, respectively	21,521	23,365
Inventories	1,210	1,014
Deferred income taxes	1,151	767
Prepaid expenses and other current assets	5,160	4,718
Total current assets	40,358	58,013
Equipment, net of accumulated depreciation of \$12,677 and \$12,588, respectively	17,369	17,515
Goodwill	21,191	5,158
Other intangible assets, net of accumulated amortization of \$1,928 and \$1,504, respectively	7,411	2,543
Deferred income taxes	2,892	2,412
Other assets	3,081	3,232
Total assets	\$ 92,302	\$ 88,873
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Short-term debt	\$ 2,191	\$ 2,188
Accounts payable	7,062	8,196
Accrued liabilities	6,520	3,283
Total current liabilities	15,773	13,667
Other liabilities	2,880	1,389
Total liabilities	18,653	15,056
Shareholders' equity:		
Common stock, \$.01 par value, 40,000,000 shares authorized, 24,116,717 and 24,110,967 shares issued, respectively	241	241
Additional paid-in capital	119,997	118,588
Accumulated deficit	(46,842)	(45,280)
Accumulated other comprehensive income	172	187
Nil coupon perpetual loan notes	81	81
Total shareholders' equity	73,649	73,817
Total liabilities and shareholders' equity	\$ 92,302	\$ 88,873

See notes to condensed consolidated financial statements.



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

	Three Months Ended March 31	
	2009	2008
Revenues	\$ 17,317	\$ 20,467
Costs and expenses:		
Cost of sales	11,374	10,669
Selling, general and administrative	8,254	6,979
Research and development	154	555
	19,782	18,203
Operating income / (loss)	(2,465)	2,264
Interest expense	(30)	(46)
Interest income	16	276
Other income (expense)	(124)	136
Income / (Loss) before taxes	(2,603)	2,630
Income tax benefit /(expense)	1,041	(997)
Net (loss) / income	\$ (1,562)	\$ 1,633
Net (loss) / income per Common Share:		
Basic	\$ (0.06)	\$ 0.07
Diluted	\$ (0.06)	\$ 0.07
Weighted-average number of Common Shares outstanding:		
Basic	24,112,000	22,420,000
Diluted	24,112,000	24,567,000

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31	
	2009	2008
<b>Operating activities</b>		
Net cash provided by operating activities	\$ 6,504	\$ 4,416
<b>Investing activities</b>		
Sales of short-term investments	-	1,998
Acquisition of business	(22,490)	-
Purchases of equipment and patents	(883)	(2,761)
Net cash used in investing activities	(23,373)	(763)
<b>Financing activities</b>		
Proceeds from short-term borrowings	3	85
Issuance of deferred shares	21	15
Proceeds from exercise of stock options and warrants	27	88
Excess tax benefit for stock-based compensation	-	163
Net cash provided by financing activities	51	351
Effect of exchange rate fluctuations on cash	(15)	91
Net (decrease) increase in cash and cash equivalents	(16,833)	4,095
Cash and cash equivalents at beginning of period	28,149	30,473
Cash and cash equivalents at end of period	\$ 11,316	\$ 34,568
<b>Supplemental disclosure of cash flow information:</b>		
Increase in contingent consideration payable	\$ 2,307	\$ -

See notes to condensed consolidated financial statements.

FUEL TECH, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

(Unaudited)

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

Note A: Nature of Business

Fuel Tech, Inc. ("Fuel Tech" or the "Company") is a fully integrated company that uses a suite of advanced technologies to provide boiler optimization, efficiency improvement and air pollution reduction and control solutions to utility and industrial customers worldwide. Originally incorporated in 1987 under the laws of the Netherlands Antilles as Fuel-Tech N.V., Fuel Tech became domesticated in the United States on September 30, 2006, and continues as a Delaware corporation with its corporate headquarters at 27601 Bella Vista Parkway, Warrenville, Illinois, 60555-1617. Fuel Tech maintains an Internet website at [www.ftek.com](http://www.ftek.com). Our 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 are made available through our website as soon as reasonably practical after we electronically file or furnish the reports to the Securities and Exchange Commission. Also available on the Corporation's website are the Company's Corporate Governance Guidelines and Code of Ethics and Business Conduct, as well as the charters of the Audit and Compensation & Nominating 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<sub>x</sub>) reduction and FUEL CHEM® processes. The Air Pollution Control (APC) technology segment reduces NO<sub>x</sub> emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources by utilizing combustion optimization techniques and Low-NO<sub>x</sub> and Ultra Low-NO<sub>x</sub> burners; over-fire air systems, NO<sub>x</sub>OUT® and HERT™ High Energy Reagent Technology™ SNCR systems; systems that incorporate NO<sub>x</sub>OUT CASCADE®, NO<sub>x</sub>OUT ULTRA® and NO<sub>x</sub>OUT-SCR® processes; and Ammonia Injection Grids (AIG) and the 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<sub>2.5</sub>), carbon dioxide, NO<sub>x</sub> 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 processes or are similar in their technological base. Fuel Tech's business is materially dependent on the continued existence and enforcement of worldwide air quality regulations.

Note B: Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the balance sheet and results of operations for the periods covered have been included and all significant intercompany transactions and balances have been eliminated. The results of operations of all acquired businesses have been consolidated for all periods subsequent to the date of acquisition.

The balance sheet at December 31, 2008 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, 2008 as filed with the Securities and Exchange Commission.

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## Note C: Revenue Recognition Policy

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

Fuel Tech uses the percentage of completion method of accounting for equipment construction and license contracts. 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. Revisions in completion estimates and contract values in the period in which the facts giving rise to the revisions become known can influence the timing of when revenues are recognized under the percentage of completion method of accounting. Provisions are made for estimated losses on uncompleted contracts in the period in which such losses are determined. As of March 31, 2009 and December 31, 2008 the Company had no construction contracts in progress that were identified as loss contracts.

Accounts receivable includes unbilled receivables, representing revenues recognized in excess of billings on uncompleted contracts under the percentage of completion method of accounting. At March 31, 2009 and December 31, 2008, unbilled receivables on all projects were approximately \$7,622 and \$6,311, respectively. Such amounts are included in accounts receivable on the condensed consolidated balance sheets. Billings in excess of costs and estimated earnings on uncompleted contracts were \$2,911 and \$1,223 at March 31, 2009 and December 31, 2008, respectively. Such amounts are included in other accrued liabilities on the condensed consolidated balance sheets.

## Note D: Earnings per Share Data

Basic earnings per share excludes the dilutive effects of stock options and warrants and of the nil coupon non-redeemable convertible unsecured loan notes. Diluted earnings per share includes the dilutive effect of stock options and warrants 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-month periods ended March 31, 2009 and 2008:

	Three Months Ended March 31	
	2009	2008
Basic weighted-average shares	24,112,000	22,420,000
Conversion of unsecured loan notes	–	45,000
Unexercised options and warrants	–	2,102,000
Diluted weighted-average shares	24,112,000	24,567,000

## Note E: Total Comprehensive Income

Total comprehensive income for Fuel Tech is comprised of net income and the impact of foreign currency translation as follows:

	Three Months Ended March	
	31	
	2009	2008
<b>Comprehensive income:</b>		
Net income / (loss)	\$ ( 1,562)	\$ 1,633
Foreign currency translation	(15)	91
	\$ ( 1,577)	\$ 1,724

## Note F: 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, 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 March 31, 2009, Fuel Tech has 549,000 stock options available for issuance under the Incentive Plan.

Fuel Tech utilizes the Black-Scholes option-pricing model to estimate the fair value of stock option grants. The Company recorded stock-based compensation expense for the three-month periods ended March 31, 2009 and 2008 of \$1,396 and \$1,102, respectively.

The awards granted 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 based on the grant date fair value of the award and recognizes expense on a straight-line basis over the four-year service period of the award.

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.

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Based on the results of the model, the weighted-average fair value of the stock options granted during the three-month period ended March 31, 2009 was \$5.18 per share using the following assumptions:

	2009
Expected dividend yield	0.00%
Risk-free interest rate	1.89%
Expected volatility	68.2%
Expected life of option	5.1 years

Stock option activity for Fuel Tech's Incentive Plan for the three months ended March 31, 2009 was as follows:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding on January 1, 2009	2,905,325	\$ 16.30		
Granted	70,000			