generating

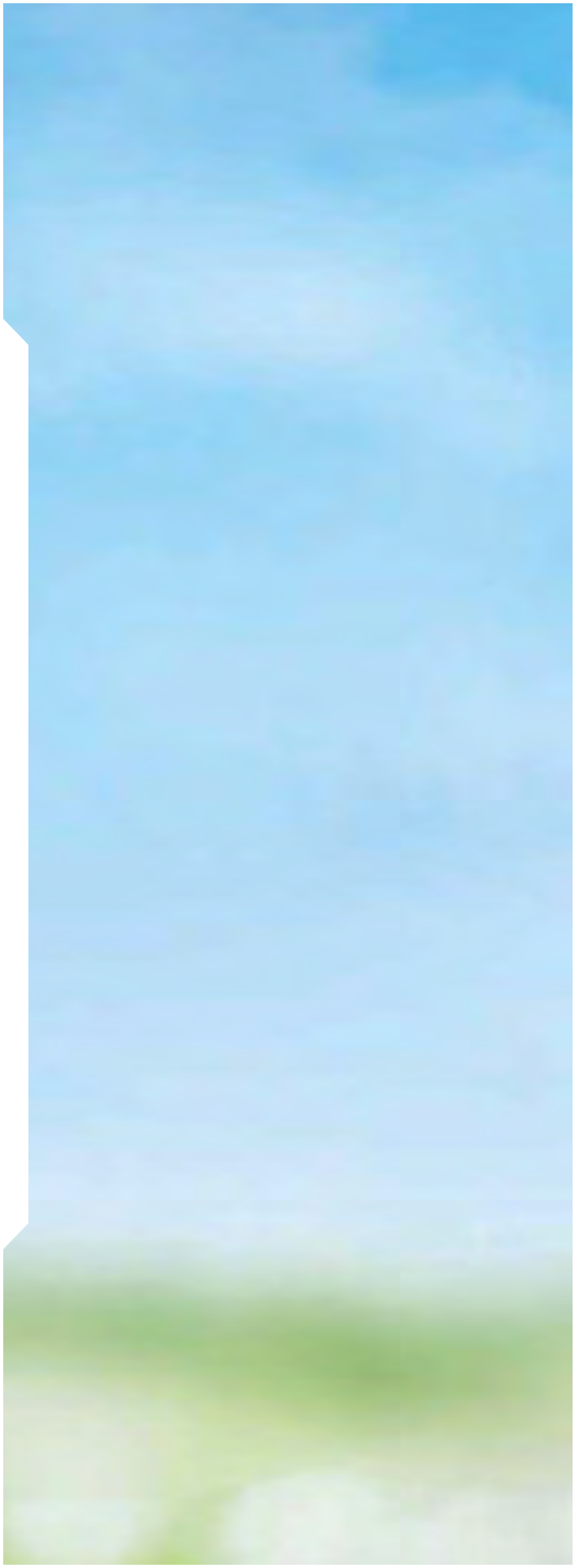
strong results

in a demanding environment

Fuel Tech, Inc.
(NASDAQ: FTEK)

Fuel Tech, Inc. is a fully integrated company utilizing a suite of advanced technologies to provide boiler and combustion optimization, efficiency improvement, and air pollution reduction and control solutions to utility and industrial customers worldwide. The Company's core activities center on its nitrogen oxide (NO_x) reduction systems and processes and its unique application of chemicals to improve combustion unit performance. Fuel Tech's products and services rely heavily on the Company's exceptional Computational Fluid Dynamics modeling skills, which are enhanced by internally developed, high-end visualization software.

Additional information can be found at www.ftek.com.



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Record revenue of $93.7 million, an increase of $11.9 million, or 15%, over 2010

Continued expansion in foreign demand with year-over-year revenue growth of 38%

Segment growth in both Air Pollution Control (24%) and FUEL CHEM® (5%) revenue

Expansion in gross margin to 47%, a 4% improvement over prior year

Record year in world-wide announced bookings of $60 million

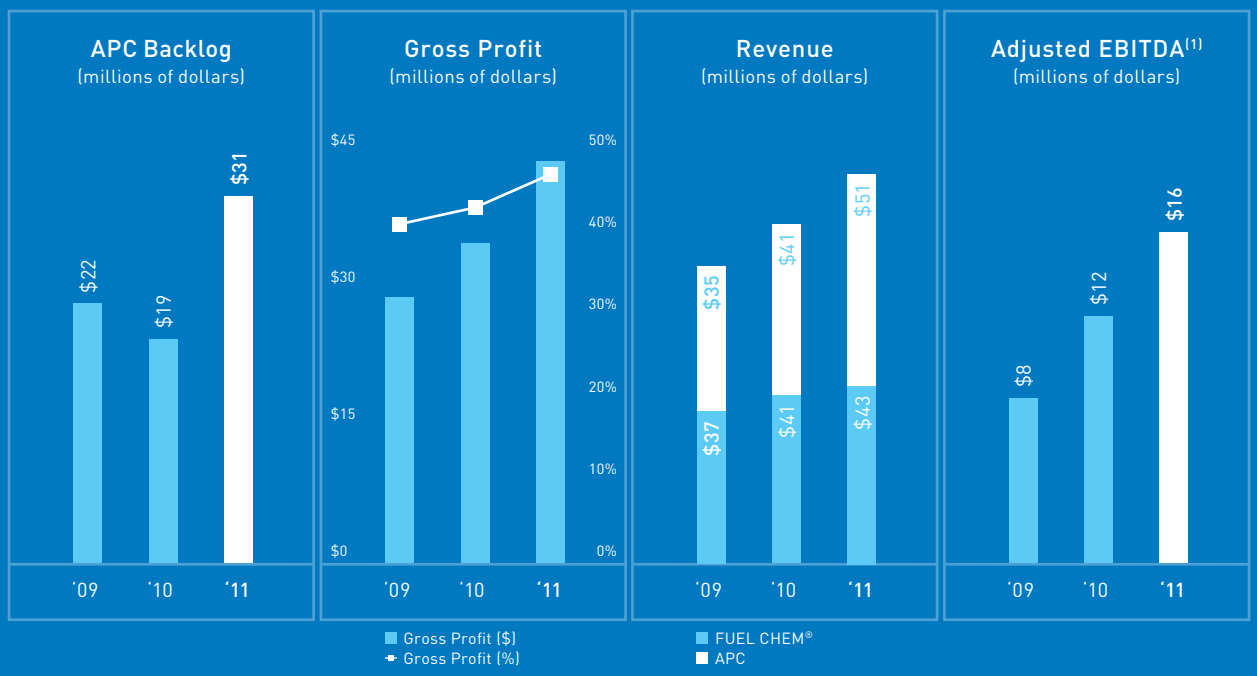
Diluted Earnings Per Share of $0.25, a 257% increase over $0.07 in 2010

Adjusted EBITDA of $15.9 million, a 32% increase over prior yearAdj582(e)1(a)623(n)T95.2ts-7(d)6(j58

Financial Highlights

(millions of dollars, except share and per-share data)	2011	2010	2009
Revenues	**$93.7**	$81.8	$ 71.4
Net income (loss)	**$ 6.1**	$ 1.8	$ (2.3)
Net income (loss) per Common Share:			
Basic	**$0.26**	$0.07	$(0.10)
Diluted	**$0.25**	$0.07	$(0.10)
Weighted-average Common Shares outstanding (000):			
Basic	**24,095**	24,213	24,148
Diluted	**24,633**	24,405	24,148
Adjusted EBITDA[1]	**$15.9**	$12.1	$ 7.8
Cash and short-term investments*	**$28.2**	$30.5	$ 21.2
Working capital*	**$43.6**	$36.6	$ 30.6
Stockholders' equity*	**$89.0**	$83.9	$ 78.2
Closing stock price per Common Share*	**$6.58**	$9.71	$ 8.17

*At year end



[1]Adjusted EBITDA references US GAAP net income before interest, taxes, depreciation and amortization expense, plus the add-back of stock-based compensation.

VISION

A cleaner, more energy-efficient, sustainable environment to benefit the world's present and future generations.

MISSION

We provide our customers innovative solutions to produce clean, efficient energy by applying advanced technologies through engineering excellence and our knowledge of complex combustion processes.

We create long-term value for our employees and our stockholders, and for the communities in which we do business, through our continued pursuit of innovation and growth.

ANOTHER SOLID YEAR OF OPERATING AND FINANCIAL PERFORMANCE

Revenues for 2011 were a record $93.7 million, up 15% from 2010. This was driven by increases in both the APC and FUEL CHEM® segments. Net income for the year was $6.1 million, or $0.25 per diluted share, up from $1.8 million, or $0.07 per diluted share, for the prior year. Adjusted EBITDA in 2011 was $15.9 million, an increase of 32%. Our strong earnings and cash flow generation enabled us to maintain a healthy cash and short-term investment position of $28 million at year-end following the initiation of a stock repurchase program.

We delivered particularly strong results in our APC segment. Annual revenues were a record $51 million, up 24% over 2010. Not only did revenues and operating margins improve, but we significantly grew our contract bookings. During 2011, we announced record APC bookings of $60 million. As we stated at the beginning of the year, we expected this business to be stronger in the second half of 2011. In fact, during the third and fourth quarters, we booked a total of $41 million in domestic orders, an increase of 155% over the prior year.

This higher activity was driven by a strong surge in orders for our Selective Non-Catalytic Reduction (SNCR) systems, which were placed to meet the requirements of the Cross-State Air Pollution Rule (CSAPR). Issued on July 6, 2011, CSAPR called for further reductions in nitrogen oxide (NO_x) emissions in 27 states, with compliance set to begin on January 1, 2012 and additional reductions required in a second phase by 2014. However, in response to litigation filed by a number of states and companies with combustion sources, a stay on CSAPR was ordered by the D.C. Circuit Court on December 30, 2011. The Clean Air Interstate Rule (CAIR) was reinstated pending the resolution of the CSAPR stay, which is expected later this year.

We are pleased that domestic utility customers selected Fuel Tech to implement solutions and evaluate strategies to achieve compliance during what was expected to be a short implementation timeline for CSAPR compliance. Our performance and success in this area is based on our employees' continued dedication to solving our customers' most critical problems, with timely and cost-effective solutions that consistently deliver engineering excellence and meet our guarantees. This is where Fuel Tech's strengths lie. We excel at customer collaboration by addressing our customers' challenges in a responsive and timely manner. We listen and we anticipate. We have the skillsets to move quickly from problem to proposal in order to turn a customer need into a contracted answer within the customer's desired timeframe. We have a track record of consistently providing well-designed solutions to complex problems. These solutions are efficient, reliable and cost-effective. Our customers rely on us to execute and deliver, and the Fuel Tech name has come to be identified with these capabilities. Our reputation gives us an edge, which we strive to enhance every day by prudently investing in technology and building long-term customer relationships.

During this dynamic regulatory environment, we continue to work with our customers to understand their emission control needs and offer innovative product solutions. In the interim, sources will still be driven by consent decrees, state and local permit requirements, and the National Ambient Air Quality Standards for criteria pollutants including NO_x and ozone. Other domestic growth drivers include the Boiler Maximum Achievable Control Technology (MACT) Rule, which impacts a universe of almost 2,000 coal and biomass units and more than 10,000 small gas-fired units. This Rule sets emission standards for new and existing industrial boilers and solid waste incinerators. With required reductions for particulates, mercury, and hydrogen chloride, along with a tight carbon monoxide (CO) requirement, new opportunities for burner tuning and SNCR projects will emerge due to both the CO requirement and existing NO_x site permits. We anticipate new opportunities from the industrial segment for our SCR technology and services, which include managing catalyst performance to maximize NO_x reduction.

We also saw strong financial performance from our international operations. Total international revenues during 2011 increased 38%, primarily due to our China operations, which generated record revenues of $12.5 million – more than twice the previous year's level. Record announced bookings of $13.4 million were also achieved in China during 2011.

As China's economic growth drives the need for more power, we expect the use of coal to continue to expand and the need for pollution control technologies to be robust, as utility and industrial operators comply with the NO_x reductions set out in the country's 12th Five-Year Plan. Released by the Chinese government last year, the Plan lays out pollution reduction goals to be achieved between 2011 and 2015. It is intended to build upon China's achievement in pollution control over the past five years and sets aggressive new goals for the future. While the Plan has several goals, of primary interest to us is the Chinese government's inclusion of nitrogen oxides as a controlled pollutant for the first time. The Plan has set a goal to reduce the total output of nitrogen oxides by 10% from 2010 levels. These requirements align well with our portfolio of NO_x reduction capabilities, which cover the full spectrum of pollution control from combustion modifications to ASCR™ systems.

China continues to be an active and growing market for our pollution control technologies. Bidding activity continues to be strong and we anticipate this to result in additional future orders. Already in 2012, we have announced two ULTRA™ systems and two SNCR systems on coal-fired units in China. There is particularly strong interest in China in our ULTRA product line, as evidenced by the award of 13 ULTRA systems last year as well as two so far this year. As more SCR systems are installed to comply with the NO_x reduction requirements, we will see this market opportunity expand as our proprietary ULTRA technology continues to demonstrate its ability to generate ammonia in a safe, cost-effective manner. I believe that we are in an excellent position to fulfill the need for safe delivery and storage of ammonia for SCR systems, especially in China's heavily populated Key Point Regions.

Turning to our FUEL CHEM segment, we reported record annual revenues of $43 million in 2011. Eight new FUEL CHEM programs, representing over 2,000 megawatts of coal-fired generation, were awarded during the year. These new wins, prompted by our clients' needs for enhanced fuel flexibility and improved energy efficiency, were predominantly on larger units that were sold as commercial orders versus demonstrations, two trends that we hope will continue.

These achievements are quite noteworthy given the challenging environment we have been facing, particularly due to the reduced electrical demand coupled with low natural gas prices. Natural gas prices, currently trading below $2.50/MMBTU, represent the lowest domestic price in a decade. Such prices place pressure on coal-fired units and, as a result, some coal plants have switched or will switch to gas.

However, gas may not be the answer for a good number of power plants because of natural gas pipeline distribution constraints. That's because, regardless of how low the price of natural gas may become, only those coal-burning plants that are connected to a gas supply pipeline may consider conversion. So despite the inroads made by gas, coal should remain a dominant energy source for quite some time. It's abundant, it's cheap, and it's found in many places. Currently, coal is the world's most preferred fuel for electricity generation, accounting for about 45% of the planet's electricity usage, and is expected to increase by 25% from 2009 to 2035 as power demand continues to grow on a worldwide basis.

Coal's continuing high usage rate provides opportunities for Fuel Tech. Coal-fired generators continue to seek creative ways to comply with EPA rules by keeping their costs in check and maintaining reliability. This is where F6ehiy kes
Fur

As we enter 2012 with a record $31 million in backlog and a solid pipeline of business prospects, we have the right elements in place to seize these opportunities.

FUEL CHEM opportunities even when total domestic coal consumption may be contracting.

OTHER NOTEWORTHY DEVELOPMENTS

New Initiatives: To take advantage of the many opportunities before us, we continue to capitalize on our reputation for engineering excellence, strong sales and field support network, and trusted customer relationships by growing our capabilities and product offerings. To that end, our New Product Development team continues to leverage and enhance our core technologies as well as focus on new products to enhance and expand our product offerings. New opportunities are emerging as our customers move forward to comply with the new Boiler MACT and Utility MACT rules, including control of sulfur dioxide, acid gases and mercury. Additionally, we will continue to evaluate non-organic business development possibilities that we believe can aid in the execution of our overall strategy, add critical mass, demonstrate accretive earnings potential, and create stockholder value.

Stock Repurchase Program: We are pleased to announce that, during the first quarter of 2012, we completed the repurchase of $6 million of Fuel Tech stock, which was the total dollar amount authorized under a stock repurchase program that was approved by our Board of Directors in August 2011. The Company repurchased 1,036,350 shares at an average price of $5.75 per share, excluding commissions. Given our financial strength and the growth opportunities available to the Company, we believe this was an attractive investment that reflects our confidence in our strategy going forward.

Board of Directors: During 2011, several changes occurred in the composition of the Company's Board of Directors. Most notably, my father, Ralph E. Bailey, the former Chairman and Chief Executive Officer (CEO) of Fuel Tech, retired as a Director after 13 years of service in that capacity. Along with directorships at numerous private and public companies, his distinguished career includes serving as Chairman and CEO of Conoco Inc. and Vice Chairman of E.I. du Pont de Nemours & Company (DuPont). We have been most fortunate to have had an executive of Ralph Bailey's stature help guide Fuel Tech during a period of rapid growth and expansion.

We also welcomed two new members to the Board – W. Grant Gregory and George F. MacCormack. Among his many accomplishments, Mr. Gregory is the retired Chairman of the predecessor company to Deloitte & Touche and played a leadership role in opening the firm's first office in the People's Republic of China in Beijing. Mr. MacCormack is a retired Group Vice President of DuPont, with deep knowledge of the chemical industry. These executives should prove invaluable to Fuel Tech as we extend our reach into the immense China market and provide clients with innovative technical solutions to produce clean, efficient energy.

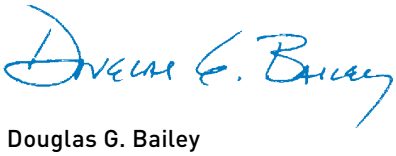
Lastly, we have been advised by John D. Morrow that he will not be standing for re-election as a Director at the upcoming Annual Stockholders' Meeting. John served with distinction on the Board of a predecessor Fuel Tech entity in the mid-1980s and on the Fuel Tech Board starting in 2004. As a former Chief Financial Officer and Director of Conoco Inc., John brought his financial acumen to Fuel Tech Board deliberations along with a steadying influence. We will miss his wise counsel.

LOOKING AHEAD

I am very proud of our organization and what our people accomplished in 2011. As we enter 2012 with a record $31 million in backlog and a solid pipeline of business prospects, we have the right elements in place to seize these opportunities. We play a critical role for our customers and possess a large opportunity to provide superior value for our stockholders by enabling the production of clean, efficient energy. Our focus on technologies that help improve the efficiency, emissions and performance in the energy markets should drive our growth for decades to come.

On behalf of the Board of Directors, I would like to thank our employees for their continued contributions and dedication to our vision, our customers for their business, our suppliers for their support, and our stockholders for their partnership.

Sincerely,

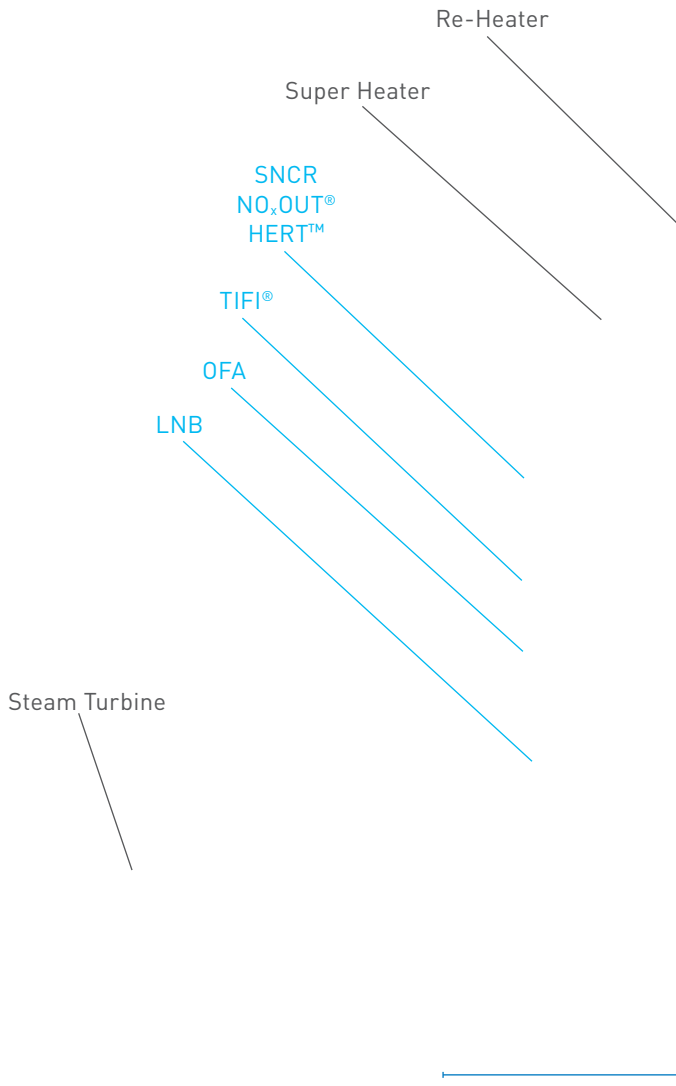


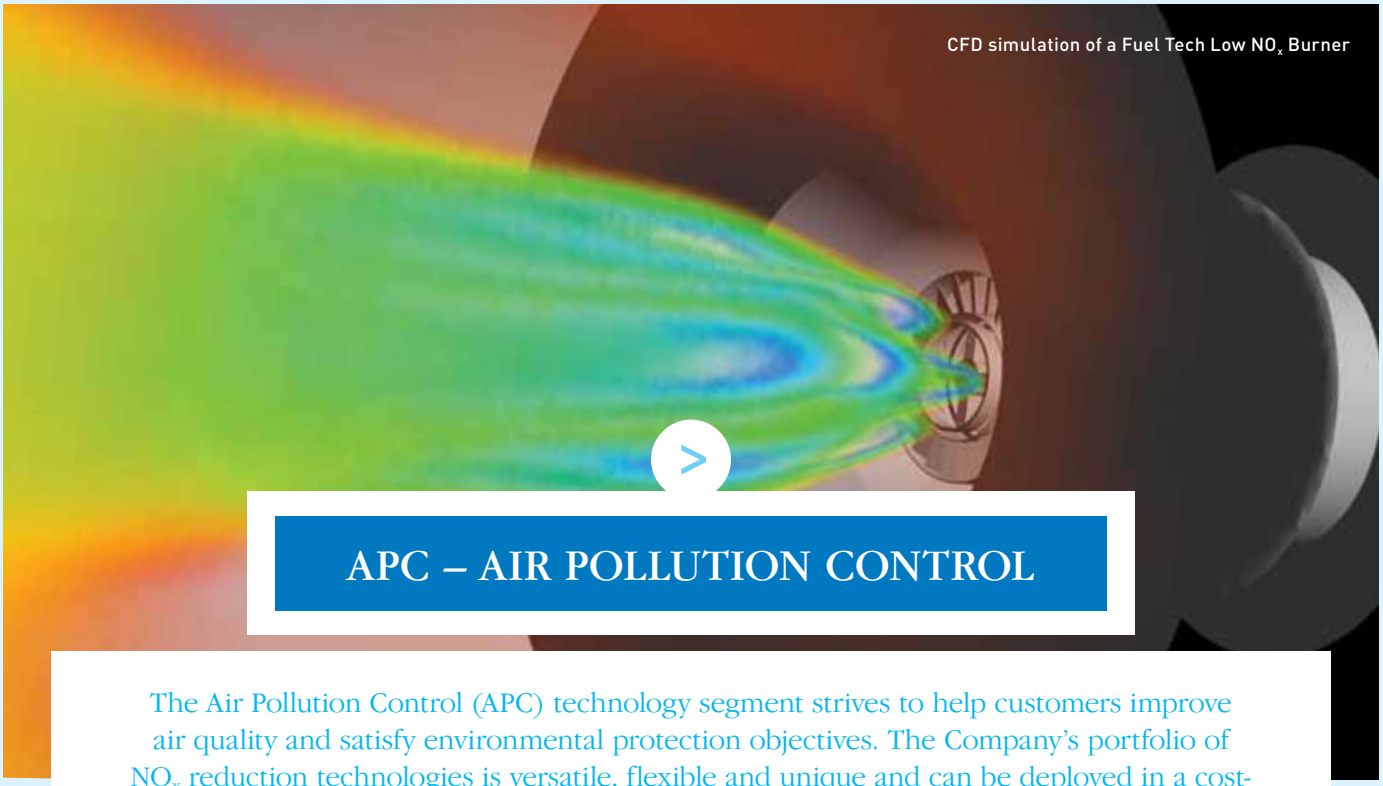
Douglas G. Bailey
Chairman, President and Chief Executive Officer

March 23, 2012

a look inside a typical power plant

Diverse product portfolio and deepening pipelines of **opportunities** across multiple customer segments.





CFD simulation of a Fuel Tech Low NO_x Burner

APC – AIR POLLUTION CONTROL

The Air Pollution Control (APC) technology segment strives to help customers improve air quality and satisfy environmental protection objectives. The Company's portfolio of NO_x reduction technologies is versatile, flexible and unique and can be deployed in a cost-effective manner on combustion units burning a variety of fuels, including coal, fuel oil, natural gas, municipal solid waste and biomass, while meeting both unit-specific as well as total emission control objectives.

KCP&L engineer monitoring the aqueous urea solution that is injected into the ULTRA™ thermal decomposition chamber.

Domestic customers are being challenged to lower emissions significantly on a wide range of pollutants over the next three to five years, and Fuel Tech is positioning itself to provide cost-effective solutions to meet these stricter requirements as well as our customers' balance of plant operational needs.

The air pollution control (APC) segment provides a broad suite of technologies designed to address increasingly stringent air quality regulations, both in the United States and abroad. Domestic policy continues to move toward more stringent emission requirements to be applied to a broader array of utility and industrial boilers. Internationally, China has enacted a new set of stringent air quality control measures that will require significant APC investment in both new and retrofit installations. During the past 30 years, Fuel Tech has worked diligently to assemble what we believe to be a broad or one of the broadest suite of APC technologies available for economically meeting the growing regulatory needs of our customers.

The domestic market for APC solutions is driven primarily by regulatory standards, including several key regulations that have remained unresolved since 2008. It is expected that clarification of these standards will come later this year with the Environmental Protection Agency's (EPA) Cross State Air Pollution Rule (CSAPR), which was issued in 2011 with initial compliance by 2012, and a second phase by 2014. CSAPR is currently under a Court stay, pending final determination of boiler specific nitrogen oxide (NO_x) and sulfur dioxide (SO_2) emission requirements, state specific emission caps, and revised compliance deadlines. In addition, separate Maximum Achievable Control Technology (MACT) Rules for both utility and industrial units have been issued with tighter regulations, and compliance is scheduled over the next three years. What is clear is that U.S. NO_x control policy will continue to evolve during the next few years and we believe this evolution and clarity will benefit our business prospects. Fuel Tech's portfolio of APC technologies provides boiler operators with cost and operational flexibility through the layering of our suite of products in a step-wise fashion to meet multiple requirements.

The EPA has also issued the Utility Mercury and Air Toxics Standards (MATS) Rule, which regulates hazardous air pollutants including fine particulate, acid gas emissions along with mercury and other heavy metals from power generating units. For smaller industrial and commercial units focused on generating heat for various processes, where excess heat may provide power as a by-product of their operations, the EPA is finalizing the Boiler Maximum Achievable Control Technology (MACT) Rule. This rule addresses the same pollutants with the addition of carbon monoxide.

Fuel Tech is addressing these customer needs by actively pursuing new technology development through organizational focus and a significant increase in research and development activity and funding. Our domestic customers are being challenged to lower emissions significantly on this wide range of pollutants over the next three to five years, and Fuel Tech is positioning itself to provide cost-effective solutions to meet these stricter requirements as well as our customers' balance of plant operational needs.

We continue to pursue our opportunities in China, where the power generation market is heavily reliant on coal, with upwards of 80% of electricity output originating from coal-fired plants. Currently, China burns three times the amount of coal burned in the United States. In the pursuit of a more environmentally friendly economy, the Chinese government, as part of its 12th Five-Year Plan, laid out a blueprint for pollution reduction goals to be achieved between 2011 and 2015. This Plan for Environmental Protection, which set aggressive new goals upon its release in 2011, is intended to build upon China's achievements in pollution control during the five years of the 11th Five-Year Plan. While the 12th Five-Year Plan has several goals, including the establishment of policies to restructure the economy, reduce China's reliance on energy imports, improve energy efficiency and slow the pace of environmental degradation, of primary interest to Fuel Tech is the Chinese government's inclusion of NO_x as a controlled pollutant for the first time. The Plan has set a goal of reducing total NO_x output by 10% from 2010 levels.

These NO_x reduction requirements in China align well with our broad portfolio of low-capital cost technologies. In particular, our unique ability to combine technologies on a project-specific basis, ranging from Low NO_x Burners and Over-Fire Air to NO_x-reducing hybrid systems, affords us the ability to bid on power plant units of all sizes. Additionally, the growing recognition of the need for safer delivery of ammonia reagent to NO_x reduction equipment, particularly in the heavily populated Key Point Regions, is creating strong interest in our ULTRA™ technology. This is evidenced by the award of 13 ULTRA systems in China during 2011 as well as two thus far in 2012.

Other international opportunities include Western Europe and Latin America, where plant operators are required to reduce pollutants in a variety of boiler types, including biomass-burning units. Among many countries in these regions, Chile has ratified new air pollution regulations in 2011 and its utilities operating coal-fired boilers are actively planning and installing APC equipment. In other parts of the region, we will continue to monitor the status of international regulations to ensure adequate resources are being deployed to capitalize on existing and emerging market opportunities.

Fuel Tech's APC technologies are installed on over 700 combustion units worldwide, including utility, industrial and municipal solid waste applications.

"We are pleased with our results from Fuel Tech and would recommend the Company to other utilities. The SNCR system is delivering 50% NO_x reduction. The ULTRA system was installed as a safety precaution given our close proximity to the town. We wanted to avoid the hazards associated with the storage and transport of anhydrous and aqueous ammonia."
Mark Menke, Supervising Engineer, KCP&L

"Working with Fuel Tech has been a good experience. Their systems are reliable and have been operating well. The maintenance is minimal. Their service representatives are easy to reach and are very knowledgeable. They do a good job teaching us what we need to know about the equipment and how the technology operates."
Ben Cerra, Operations Superintendent, KCP&L

Fuel Tech's ULTRA™ process generates ammonia on-site by metering urea into a decomposition chamber (shown above).

FUEL CHEM® TECHNOLOGY SEGMENT

The FUEL CHEM® technology segment concluded 2011 with record revenues. FUEL CHEM proprietary programs are based on TIFI® Targeted In-Furnace Injection™ technology and incorporate design, modeling, equipment, reagent and service components to provide a customized, on-site program designed to improve plant operations and promote fuel flexibility by enabling plant operators to expand the universe of available fuel options for their combustion units.

The slag removal benefits of a FUEL CHEM® program are evident in the images at the top of the page. As part of the FUEL CHEM program, Fuel Tech technicians utilize infrared cameras to monitor the ease of slag removal during the normal soot blowing process.

The ability to work with our clients to improve their fuel selection capabilities, address the challenges of slag formation and furnace fouling, and offer effective solutions to other emissions challenges, along with the operational impact of these challenges, positions FUEL CHEM extremely well today and into the future.

Fuel Tech's patented TIFI® Targeted In-Furnace Injection™ technology is an innovative approach to fireside and back-end treatment. Customized solutions are developed for each combustion unit, involving the use of two different forms of fluid dynamics modeling coupled with a virtual reality engine. Together, these simulation methods create a furnace model with injection overlays and dosage maps to predict the precise trajectory of an injected chemical, ensuring nearly 100% coverage of the target zones. By targeting the problem areas of a furnace or back-end, instead of targeting the fuel, the performance and cost effectiveness of TIFI programs are significantly improved.

FUEL CHEM programs are designed to improve the efficiency of a combustion unit and attack a wide variety of performance-hindering conditions, such as slagging, fouling, corrosion, opacity and operational issues associated with sulfur trioxide (SO_3), ammonium bisulfate (ABS), particulate matter ($PM_{2.5}$), nitrogen oxide (NO_x) and carbon dioxide (CO_2). This specialty chemicals business is largely financially driven, with the ultimate purchasing decision being made by Fuel Tech's customer on the basis of the economic value added through use of the FUEL CHEM program. Historically, Fuel Tech has been able to achieve returns on investment (ROI) up to, and in some cases greater than, 400% for its customers while generating an attractive revenue stream for the Company through the ongoing use of the program including its chemical reagent.

Principal among the Company's portfolio of FUEL CHEM technologies are:

TIFI MG™ The most common application of our TIFI technology utilizes a magnesium hydroxide slurry that is diluted with water prior to injection. This slurry is injected into the combustion unit, at locations defined by computer modeling, to maximize coverage of slag and fouling problem areas. TIFI MG™ programs react with slag as it is forms and penetrate existing deposits with nano-scale particles that change the physical crystal characteristics and allow internal soot blowing machines to remove the deposits with little difficulty. This technology also has strong SO_3 abatement performance. TIFI MG can be utilized as a stand-alone SO_3 abatement technology or utilized in conjunction with other technologies to dramatically reduce SO_3 formation, reduce plume issues, reduce corrosion of air heater components and reduce, and even reverse, air heater fouling by ABS.

TIFI XP™ Specifically designed for both slag control and increased fuel flexibility in high sulfur and iron fuels such as Illinois Basin (ILB) coal, TIFI XP™ can provide extreme performance to help mitigate corrosion from ILB fuels with high chlorine levels. TIFI XP also provides strong SO_3 abatement performance.

TIFI Flux™ Specifically designed for cyclone boilers, especially those burning Powder River Basin (PRB) and low iron coals, TIFI Flux™ allows greater operating flexibility, lower power settings and avoidance of the use of costly kerosene or primitive iron additives to meet the demands of cyclone units.

TIFI BlueCat™ Acts as both a slag inhibitor and a combustion catalyst. Used to lower carbon monoxide (CO) and unburned carbon (LOI), it can be fed by itself for these purposes, or in combination with other TIFI technologies to provide SO_2 trim control, enhance capture of heavy metals or control SO_3 emissions.

TIFI Hybrid™ Designed for oil-fired boilers, TIFI Hybrid™ uses a combination of TIFI MG™ and in-fuel injection of magnesium hydroxide, TIFI BlueCat or other reagents to further enhance performance.

TCI™ Targeted Corrosion Inhibition™ Principally designed for boilers burning high chloride fuels such as ILB coals and those in the waste-to-energy (WTE) industry. TCI™ technology inhibits corrosion and slag build-up in a variety of solid- and liquid-fueled boilers.

With power generating stations under pressure to achieve maximum availability, higher efficiency, and minimum environmental emissions at the lowest possible cost, fuel flexibility for utility operators has become a high priority, both financially and operationally. Low natural gas prices and the spread in U.S. coal prices continues to be a significant driver for our FUEL CHEM business as utilities are increasingly attracted to the compelling economic benefits of shifting from Appalachian coals, generally one of the fuels with the highest heat content and fewest operational issues, to the lower priced and lower British Thermal Unit (BTU) coals originating in the ILB and PRB.

Given the slagging and fouling challenges caused by high levels of sodium (typically found in PRB coals), and high levels of iron and sulfur in ILB coals, this ongoing shift in fuel preference should enable Fuel Tech to provide solutions to an expanded customer base of PRB and ILB coal users.

While our existing slag inhibition and SO_3 reduction capabilities offer a large untapped market, we continue to seek to improve our TIFI applications by making them more efficient and cost-effective, while adding new products that we believe will satisfy the evolving needs of our customers.

With these changes and challenges in the electric generation market, we are optimistic regarding the substantive offerings from our various FUEL CHEM technologies. The ability to work with our clients to improve their fuel selection capabilities, address the challenges of slag formation and furnace fouling and offer effective solutions to other emissions challenges, along with the operational impact of these challenges, positions FUEL CHEM extremely well today and into the future.

2011: Effective Execution

Focused Investment for the Road Ahead

- Generated strong momentum with record revenues and operating income
  - Achieved vibrant APC performance with record year-end backlog
- Further enhanced financial flexibility and stability with strong cash flow generation and healthy balance sheet
  - Positioned ourselves for anticipated growth in new markets and geographies with investments in global infrastructure
- Focused R&D programs on product enhancement and new product development
  - Leveraged technological leadership and market position to continue delivering value to our customers, partners and stockholders
- Developed new opportunities through teamwork, excellence and commitment

Fuel Tech, Inc. 2011 Form 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the fiscal year ended: December 31, 2011
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission File No. 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
www.ftek.com

(Address and telephone number of principal executive offices)

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

Common Stock $0.01 par value per share **(Title of Class)**	**The NASDAQ Stock Market, Inc.** **(Name of Exchange on Which Registered)**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes _ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes _ No X

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No _

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or a smaller reporting company (as defined in rule 12b-2 under the Securities Exchange Act of 1934).
Large Accelerated Filer _ Accelerated Filer X
Non-accelerated Filer (Do not check if a smaller reporting company) _ Smaller reporting company _

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

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2011 was approximately $117,865,000 based on the closing stock price as reported on the NASDAQ Stock Exchange.

Indicate number of shares outstanding of each of the registered classes of Common Stock at March 5, 2012: 23,644,301 shares of Common Stock, $0.01 par value.

Documents incorporated by reference:
Certain portions of the registrant's definitive Proxy Statement for the annual meeting of stockholders to be held in 2012 are incorporated by reference in Parts II, III, and IV hereof.

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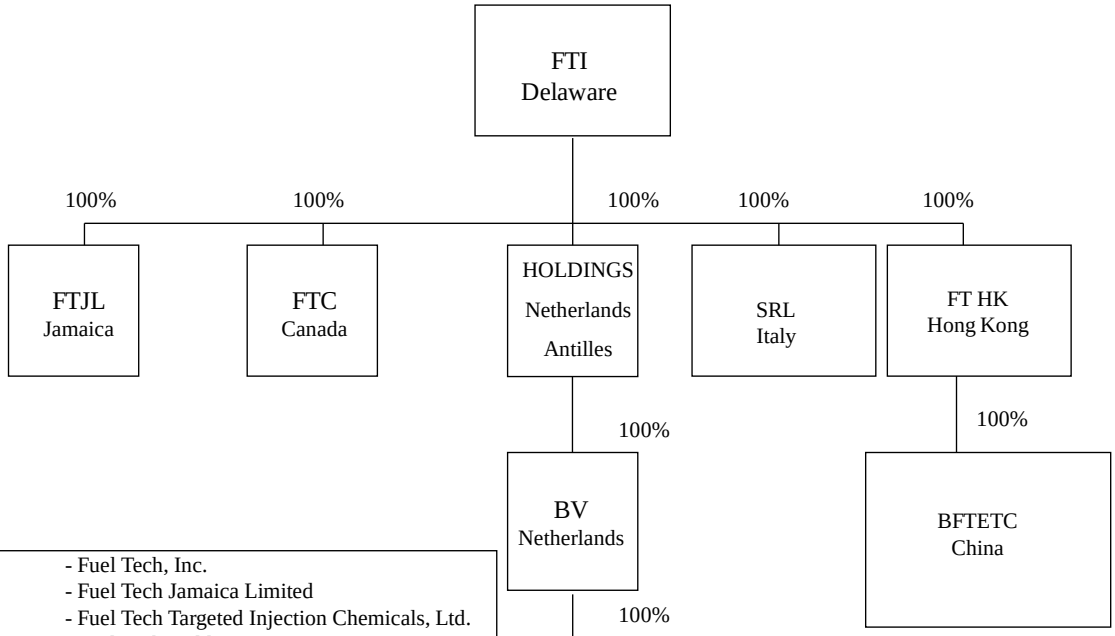
TABLE OF DEFINED TERMS

Term	Definition
ABC	American Bailey Corporation
AIG	Ammonia Injection Grid
ASCR™	A trademark used to describe Fuel Tech's Advanced SCR process
CAAA	Clean Air Act Amendments of 1990
CAIR	Clean Air Interstate Rule
CAVR	Clean Air Visibility Rule
CFD	Computational Fluid Dynamics
Common Shares	Shares of the Common Stock of Fuel Tech
Common Stock	Common Stock of Fuel Tech
EPA	The U.S. Environmental Protection Agency
FGC	Flue Gas Conditioning
FUEL CHEM®	A trademark used to describe Fuel Tech's fuel and flue gas treatment processes, including its TIFI® Targeted In-Furnace Injection™ technology to control slagging, fouling, corrosion and a variety of sulfur trioxide-related issues
GSG™	Graduated Straightening Grid
HERT™ High Energy Reagent Technology™	A trademark used to describe a Fuel Tech SNCR process
Loan Notes	Nil-coupon, non-redeemable convertible unsecured loan notes of Fuel Tech
NOx	Oxides of nitrogen
NOxOUT®	A trademark used to describe Fuel Tech's SNCR process for the reduction of NOx
NOxOUT-SCR®	A trademark used to describe Fuel Tech's direct injection of urea as a catalyst reagent
NOxOUT CASCADE®	A trademark used to describe Fuel Tech's combination of SNCR and SCR
SCR	Selective Catalytic Reduction
SIP Call	State Implementation Plan Regulation
SNCR	Selective Non-Catalytic Reduction
TCI® Targeted Corrosion Inhibition™	A FUEL CHEM program designed for high-temperature slag and corrosion control, principally in waste-to-energy boilers
TIFI® Targeted In-Furnace Injection™	A proprietary technology that enables the precise injection of a chemical reagent into a boiler or furnace as part of a FUEL CHEM program
ULTRA™	A trademark used to describe Fuel Tech's process for generating ammonia for use as SCR reagent

Fuel Tech, Inc. and Subsidiaries

December 31, 2011



FTI	- Fuel Tech, Inc.
FTJL	- Fuel Tech Jamaica Limited
FTC	- Fuel Tech Targeted Injection Chemicals, Ltd.
HOLDINGS	- Fuel Tech Holdings N.V.
SRL	- Fuel Tech Srl
FTHK	- Fuel Tech (HK) Holding Limited
BV	- Fuel Tech B.V.
GmbH	- Fuel Tech GmbH
BFTETC	- Beijing Fuel Tech Environmental Technologies Co., Ltd.

PART I

Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements,” as defined in Section 21E of the Securities Exchange Act of 1934, as amended, that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and reflect our current expectations regarding our 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. We have tried to identify forward-looking statements by using words such as “anticipate,” “believe,” “plan,” “expect,” “intend,” “will,” and similar expressions, but these words are not the exclusive means of identifying forward-looking statements. These statements are based on information currently available to us and are subject to various risks, uncertainties, and other factors, including, but not limited to, those discussed herein under the caption “Risk Factors” that could cause our 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. Except as expressly required by the federal securities laws, we undertake 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. See "Risk Factors" in Item 1A.

ITEM 1 - BUSINESS

As used in this Annual Report on Form 10-K, the terms “we,” “us,” “our,” “the Company,” and “Fuel Tech” refer to Fuel Tech, Inc. and our wholly-owned subsidiaries.

Fuel Tech

Fuel Tech 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. 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 our 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 committees of the Board of Directors. All of these documents are available in print without charge to stockholders who request them. Information on our website is not incorporated into this report.

Fuel Tech's special focus is the worldwide marketing of its nitrogen oxide (NOx) reduction and FUEL CHEM® technologies. The Air Pollution Control (APC) technology segment reduces NOx emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources by utilizing combustion optimization techniques and Low NOx and Ultra Low NOx Burners; NOxOUT® and HERT™ High Energy Reagent Technology™ SNCR systems; systems that incorporate Advanced SCR (ASCR™) and NOxOUT CASCADE® technologies, ULTRA™ and NOxOUT-SCR® technologies; and Ammonia Injection Grid (AIG) and Graduated Straightening Grid (GSG™) technologies. Fuel Tech's APC technology business is materially dependent on the continued existence and enforcement of worldwide air quality regulations. 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, 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.

American Bailey Corporation

Douglas G. Bailey, Chairman, Chief Executive Officer, President, and Director of Fuel Tech, is a stockholder of American Bailey Corporation (ABC), which is a related party. Please refer to Note 9 to the consolidated financial statements in this document for information about transactions between Fuel Tech and ABC. Additionally, see the more detailed information relating to this subject under the caption “Certain Relationships and Related Transactions” in Fuel Tech’s definitive Proxy Statement to be distributed in connection with Fuel Tech’s 2012 Annual Meeting of Stockholders, which information is incorporated by reference.

Air Pollution Control

Regulations and Markets

The U.S. air pollution control market, and more specifically federal and state NOx regulations, currently are the primary drivers in Fuel Tech's APC technology segment. This market is dependent on air pollution regulations and their continued enforcement. These regulations are based on the Clean Air Act Amendments of 1990 (the "CAAA"), which require reductions in NOx emissions on varying timetables with respect to various sources of emissions. Under the State Implementation Plan (SIP) Call, a regulation promulgated under the Amendments (discussed further below), over 1,000 utility and large industrial boilers in 19 states were required to achieve NOx reduction targets by May 31, 2004.

In 1994, governors of 11 Northeastern states, known collectively as the Ozone Transport Region, signed a Memorandum of Understanding requiring utilities to reduce their NOx emissions by 55% to 65% from 1990 levels by May 1999. In 1998, the Environmental Protection Agency (EPA) announced more stringent regulations. The Ozone Transport SIP Call regulation, designed to mitigate the effects of wind-aided ozone transported from the Midwestern and Southeastern U.S. into the Northeastern non-attainment areas, required, following the litigation described below, 19 states to make even deeper aggregate reductions of 85% from 1990 levels by May 31, 2004. Over 1,000 utility and large industrial boilers were affected by these mandates. Additionally, most other states with non-attainment areas were also required to meet ambient air quality standards for ozone by 2007.

Although the SIP Call was the subject of litigation, an appellate court of the D.C. Circuit upheld the validity of this regulation. This court's ruling was later affirmed by the U.S. Supreme Court.

In February 2001, the U.S. Supreme Court, in a unanimous decision, upheld EPA's authority to revise the National Ambient Air Quality Standard (NAAQS) for ozone to 0.080 parts per million averaged through an eight-hour period from the then current 0.120 parts per million for a one-hour period. This more stringent standard provided clarity and impetus for air pollution control efforts well beyond the then current ozone attainment requirement of 2007. In keeping with this trend, the Supreme Court, only days later, denied industry's attempt to stay the SIP Call, effectively exhausting all means of appeal. The ozone NAAQS is currently 0.075 parts per million averaged over an eight-hour period, and EPA is proposing to reduce the Standard to 0.06 or 0.07 parts per million for the most severe non-attainment areas by 2013.

On December 23, 2003, the EPA proposed a new regulation affecting the SIP Call states by specifying more expansive NOx reduction. This rule, under the name Clean Air Interstate Rule (CAIR), was issued by the EPA on March 10, 2005. CAIR specifies that additional annual NOx reduction requirements be extended to most SIP-affected units in 28 Eastern states, while permitting a cap and trade format similar to the SIP Call. The Company estimates an additional 1,300 electric generating units using coal and other fuels to be affected by this rule. In an action related to CAIR, on June 15, 2005, the EPA issued the Clean Air Visibility Rule (CAVR), which is a nationwide initiative to improve federally preserved areas through reduction of NOx and other pollutants. CAVR expands the NOx reduction market to Western states unaffected by CAIR or the SIP Call. Compliance begins in 2013 and CAVR will potentially affect an additional 230 Western coal-fired electric-generating units. In addition, CAVR, along with the EPA rule for revised eight-hour ozone attainment, have the potential to impact thousands of boilers and industrial units in multiple industries nationwide for units burning coal and other fuels starting in 2013.

On July 11, 2008, the U.S. District Court of Appeals for the District of Columbia Circuit vacated the CAIR regulations under the CAAA under the premise that the EPA exceeded its authority when the rule was created in 2005. The court found "more than several fatal flaws in the rule" but neither took issue with the concept that NOx emissions are to be controlled nor over the limits and thresholds established by CAIR. In vacating the rule in its entirety, the court remanded to EPA to promulgate a rule consistent with the court's opinion. On September 24, 2008, the EPA filed a petition for the case to be reviewed by the full Court of Appeals, not just the three judge panel that issued the vacatur ruling in July 2008. On October 22, 2008, the EPA was granted a 15-day period to present a basis as to why the court should reconsider its decision. On December 23, 2008, the D.C. Circuit Court granted the EPA's petition only to the extent that it remanded the case without vacatur for EPA to conduct further proceedings consistent with the court's prior opinion. In summary, the court stated that "…allowing CAIR to remain in effect until it is replaced by a rule consistent with our opinion would at least temporarily preserve the environmental values covered by CAIR." CAIR was re-instated and required the affected states to be in year-round NOx emission compliance beginning January 1, 2009.

As a replacement for CAIR, EPA issued the Cross State Air Pollution Rule (CSAPR) in July 2011. CSAPR included more stringent NOx regulations affecting 27 states, with compliance for the first phase in 2012, with additional reductions required in the second phase by 2014. Under CSAPR, state emission caps were designated to mitigate the emission impact on downwind states by controlling emissions from upwind states. If sources within a state caused the state to exceed its assurance limit, severe penalties including a two-for-one reduction based on each source's contribution percentage of the state overage would be applied. An October 2011 revision to CSAPR delayed the enforcement of these state specific emission caps and requirements until 2014 to provide sources with greater timing flexibility through emission trading. A stay on CSAPR was ordered by the D.C. Circuit Court on December 30, 2011, pending resolution of litigation filed by a number of states and companies with combustion sources. CAIR was put back into effect pending the resolution of the CSAPR stay, which is expected sometime in the middle of 2012. Fuel Tech's wide range of NOx reduction technologies provides opportunities for sources to meet their unit specific

emission requirements under CSAPR, both for the first and second phases. While we cannot predict the final form of CSAPR, any unfavorable outcome could have a material adverse effect on our business, results of operations, cash flows, and financial position. However, the primary driver of CSAPR is the Federal Clean Air Act which includes National Ambient Air Quality Standards for criteria pollutants including NOx and ozone with emission requirements that continue to tighten. These continue to remain in effect and states must comply with the requirements of this law.

Fuel Tech also sells NOx control systems outside the United States, specifically in Europe, Latin America, and in the Pacific Rim, including the People's Republic of China (China). Under European Union Directives, certain power plants must come into compliance with specified NOx reduction targets by 2016.

China also represents attractive opportunities for Fuel Tech as the government has set pollution control and energy conservation and efficiency improvements as top priorities. Fuel Tech has viable technologies to help achieve these objectives. China has taken initial steps to reduce NOx emissions on new electric utility units (principally Low NOx Burners and Over-Fire Air systems and Selective Catalytic Reduction (SCR)), and on-going research and demonstration projects have generated cost and performance data for use in tightened standards that were issued in 2012 and are discussed below. China's dominant reliance on coal as an energy resource is not expected to change in the foreseeable future. China alone is forecasted to account for 76% of the projected increase in world coal use through 2035. Clean air will continue to be a pressing issue, especially with China's robust economic growth, expected growth in thermal power production, and an increasingly expanded role in international events and organizations.

China has tightened its pollution control standards as part of the Twelfth Five-Year Plan that runs from 2011-2015 for their existing fleet of fossil plants as well as for fossil plants to be built in the future.

China's Ministry of Environmental Protection issued regulations to be implemented as part of the Twelfth Five-Year Plan in support of reducing harmful pollutants and further defining the technologies recommended to achieve the reductions. The regulations for NOx apply to all thermal power units that have a steaming rate of 65 tons per hour (155 megawatts (MW)) or larger. Newly constructed units and existing units that were approved subsequent to December 31, 2003, must meet the same stringent emission standard, while certain existing units approved prior to December 31, 2003 must meet a standard that is less stringent. In addition, all units that are in Key Regions must achieve the same standard as the newly constructed units. Key Regions are defined as those areas that are highly developed or highly populated and are sensitive to environmental overloading. All existing coal and oil-fired thermal units must comply with the proposed regulation by January 1, 2014 while all new units must comply by January 1, 2012.

In addition, the regulation noted that NOx reduction should be achieved via the use of Low NOx Burners and Over-Fire Air systems in combination with Selective Non-Catalytic Reduction (SNCR) or SCR, where appropriate, to achieve required emissions levels. The combination of SNCR and SCR technologies in tandem is also considered as a viable technology choice.

While the current regulations d þite
systems o

The use of ammonia as the reagent for the SNCR process can reduce NOx by 30% - 70% on incinerators, but has limited applicability in the utility industry. Ammonia system capital costs range from $5 - $20/kW, with annualized operating costs ranging from $1,000 - $3,000/ton of NOx removed. These systems require the use of either anhydrous or aqueous ammonia, both of which are hazardous substances.

In addition to or in lieu of using the foregoing processes, certain customers may elect to close or de-rate plants, purchase electricity from third-party sources, switch from higher to lower NOx-emitting fuels or purchase NOx emission allowances.

Lastly, with respect to urea-to-ammonia conversion technologies, a competitive approach to Fuel Tech's controlled urea decomposition system is available from Wahlco, Inc., which manufactures a system that hydrolyzes urea under high temperature and pressure.

APC BACKLOG

Consolidated APC segment backlog at December 31, 2011 was $30.8 million versus backlog at December 31, 2010 of $19.3 million. Substantially all of the backlog as of December 31, 2011 should be recognized as revenue in fiscal 2012, although the timing of such revenue recognition in 2012 is subject to the timing of the expenses incurred on existing projects.

FUEL CHEM

Product and Markets

The FUEL CHEM® technology segment revolves around the unique application of specialty chemicals to improve the efficiency, reliability and environmental status of plants operating in the electric utility, industrial, pulp and paper, waste-to-energy, university and district heating markets. FUEL CHEM programs are currently in place on combustion units in North America and Europe, treating a wide variety of solid and liquid fuels, including coal, heavy oil, biomass and municipal waste.

Central to the FUEL CHEM approach is the introduction of chemical reagents, such as magnesium hydroxide, to combustion units via in-body fuel application (pre-combustion) or via direct injection (post-combustion) utilizing Fuel Tech's proprietary TIFI® technology. By attacking performance-hindering problems, such as slagging, fouling and corrosion, as well as the formation of sulfur trioxide (SO_3), ammonium bisulfate (ABS), particulate matter ($PM_{2.5}$), carbon dioxide (CO_2), NOx and unburned carbon in fly ash, the Company's programs offer numerous operational, financial and environmental benefits to owners of boilers, furnaces and other combustion units.

The key market dynamic for this product line is the continued use of coal as the principal fuel source for global electricity production. Coal currently accounts for approximately 45% of all U.S. electricity generation and roughly 80% of Chinese electricity generation. Coal's share of global electricity generation is just over 40% today and is forecasted to decline marginally to a level just under 40% by 2035. Major coal consumers include the United States, China and India.

The principal markets for this product line are electric power plants burning coals with slag-forming constituents such as sodium, iron and high levels of sulfur. Sodium is typically found in the Powder River Basin (PRB) coals of Wyoming and Montana. Iron is typically found in coals produced in the Illinois Basin region. High sulfur content is typical of Illinois Basin coals and certain Appalachian coals. High sulfur content can give rise to unacceptable levels of SO_3 formation especially in plants with SCR systems and flue gas desulphurization units (scrubbers).

The combination of slagging coals and SO_3-related issues, such as "blue plume" formation, air pre-heater fouling and corrosion, SCR fouling and the proclivity to suppress certain mercury removal processes, represents attractive market potential for Fuel Tech.

A potentially large fuel treatment market exists in Mexico, where high-sulfur, low-grade fuel oil containing vanadium and nickel is a major source for electricity production and refinery steam production. The presence of these metallic constituents and high sulfur promotes slag build-up and high and low temperature corrosion of combustion units, and releases acid gas emissions from the stack. Fuel Tech has successfully treated such units with its TIFI and in-Fuel technologies. To capitalize on this market opportunity, the Company has a license implementation agreement until 2015 with options for renewal with a large Mexican energy company to implement our TIFI program for utility and industrial end user customers in Mexico. In 2011, our TIFI program was in continuous use on three boilers at one of this Company's power plants (110 MW generating capacity). In addition, we have installed TIFI equipment on three boilers at a different power plant (610 MW) affiliated with this Company. The first of these units has successfully undergone an initial test in 2011.

Sales of the FUEL CHEM products were $42.7 million, $40.9 million, and $36.7 million for the years ended December 31, 2011, 2010, and 2009, respectively.

Competition

Competition for Fuel Tech's FUEL CHEM product line includes chemicals sold by specialty chemical and combustion engineering companies, such as GE Infrastructure, Ashland Inc., and Environmental Energy Services, Inc. No substantive competition currently exists for Fuel Tech's TIFI technology, which is designed primarily for slag control and SO_3 abatement, but there can be no assurance that such lack of substantive competition will continue.

INTELLECTUAL PROPERTY

The majority of Fuel Tech's products are protected by U.S. and non-U.S. patents. Fuel Tech owns 72 granted patents worldwide and has 11 patent applications pending in the United States and 89 pending in non-U.S. jurisdictions. These patents and applications cover some 37 inventions, 19 associated with the NOx reduction business, 9 associated with the FUEL CHEM business and 9 associated with non-commercialized technologies. Our patents have expiration dates ranging from January 30, 2012 to November 9, 2028. The average remaining duration of our patents is approximately eight years. Six patents are due to expire in 2012. These patents cover four inventions. Two of these patents are US patents.

Seven patents were acquired in 2011 that cover four distinct technologies and are currently not commercialized.

Fuel Tech believes that the protection provided by the numerous claims in the above referenced patents or patent applications is substantial, and affords Fuel Tech a significant competitive advantage in its business. Accordingly, any significant reduction in the protection afforded by these patents or any significant development in competing technologies could have a material adverse effect on Fuel Tech's business.

EMPLOYEES

At December 31, 2011, Fuel Tech had 168 employees, 140 in North America, 20 in China and 8 in Europe. Fuel Tech enjoys good relations with its employees and is not a party to any labor management agreement.

ITEM 1A - RISK FACTORS

Investors in Fuel Tech should be mindful of the following risk factors relative to Fuel Tech's business.

(i) Lack of Diversification

Fuel Tech has two broad technology segments that provide advanced engineering solutions to meet the pollution control, efficiency improvement, and operational optimization needs of energy-related facilities worldwide. They are as follows:

- The Air Pollution Control technology segment includes technologies to reduce NOx emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources. These include Low and Ultra Low NOx Burners (LNB and ULNB), Over-Fire Air (OFA) systems, NOxOUT® 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 NOx reductions at significantly lower capital and operating costs than conventional SCR systems. The NOxOUT CASCADE® and NOxOUT-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.

An adverse development in Fuel Tech's advanced engineering solution business as a result of competition, technological change, government regulation, or any other factor could have a significantly greater impact than if Fuel Tech maintained more diverse operations.

(ii) Competition

Competition in the Air Pollution Control market comes from competitors utilizing their own NOx reduction processes, including SNCR systems, Low NOx Burners, Over-Fire Air systems, flue gas recirculation, ammonia SNCR, SCR and, with respect to particular uses of urea not infringing Fuel Tech's patents (see Item 1 "Intellectual Property" in the *Air Pollution Control* segment overview). Competition will also come from business practices such as the purchase rather than the generation of electricity, fuel switching, closure or de-rating of units, and sale or trade of pollution credits and emission allowances. Utilization by customers of such processes or business practices or combinations thereof may adversely affect Fuel Tech's pricing and participation in the NOx control market if customers elect to comply with regulations by methods other than the purchase of Fuel Tech's suite of Air Pollution Control products. See Item 1 "*Products*" and "*NOx Reduction Competition*" in the *Air Pollution Control* segment overview.

Competition in the FUEL CHEM markets includes chemicals sold by specialty chemical and combustion engineering companies, such as GE Infrastructure, Ashland Inc. and Environmental Energy Services, Inc. As noted previously, no significant competition currently exists for Fuel Tech's patented TIFI technology, which is designed primarily for slag control and SO_3 abatement. However, there can be no assurance that such lack of significant competition will continue.

(iii) Dependence on and Change in Air Pollution Control Regulations and Enforcement

Fuel Tech's business is significantly impacted by and dependent upon the regulatory environment surrounding the electricity generation market. Our business will be adversely impacted to the extent that regulations are repealed or amended to significantly reduce the level of required NOx reduction, or to the extent that regulatory authorities delay or otherwise minimize enforcement of existing laws. Additionally, long-term changes in environmental regulation that threaten or preclude the use of coal or other fossil fuels as a primary fuel source for electricity production, based on the theory that gases emitted therefrom impact climate change through a greenhouse effect, and result in the reduction or closure of a significant number of fossil fuel-fired power plants, may adversely affect the Company's business, financial condition and results of operations. See Item 1 above under the caption "*Regulations and Markets*" in the *Air Pollution Control* segment overview.

(iv) Protection of Patents and Proprietary Rights

Fuel Tech holds licenses to or owns a number of patents for our products and processes. In addition, we also have numerous patents pending. There can be no assurance that pending patent applications will be granted or that outstanding patents will not be challenged or circumvented by competitors. Moreover, the absence of harmonized patent laws outside of the United States makes it more difficult to ensure consistent respect for our patent rights in emerging markets. Certain critical technology relating to our products is protected by trade secret laws and by confidentiality and licensing agreements. There can be no assurance that such protection will prove adequate or that we will have adequate remedies against contractual counterparties for disclosure of

our trade secrets or violations of Fuel Tech's intellectual property rights. See Item 1 "Intellectual Property."

(v) Foreign Operations

In 2007, we expanded our operations into China by establishing a wholly-owned subsidiary in Beijing. The Asia-Pacific region, particularly China, offers significant market opportunities for Fuel Tech as nations in this region look to establish regulatory policies for improving their environment and utilizing fossil fuels, especially coal, efficiently and effectively. The future business opportunities in these markets are dependent on the continued implementation of regulatory policies that will benefit our technologies, the acceptance of Fuel Tech's engineering solutions in such markets, the ability of potential customers to utilize Fuel Tech's technologies on a cost-effective basis, and our ability to protect and enforce our intellectual property rights.

(vi) Product Pricing and Operating Results

The onset of significant competition for either of the technology segments might have an adverse impact on product pricing and a resulting adverse impact on realized gross margins and operating profitability.

(vii) Raw Material Supply and Pricing

The FUEL CHEM technology segment is dependent, in part, upon a supply of magnesium hydroxide. Any adverse change in the availability of this chemical will likely have an adverse impact on ongoing operation of our FUEL CHEM programs. On March 4, 2009, we entered into a Restated Product Supply Agreement ("PSA") with Martin Marietta Magnesia Specialties, LLC (MMMS) in order to assure the continuance of a stable supply from MMMS of magnesium hydroxide products for our requirements in the United States and Canada until December 31, 2013, the date of the expiration of the PSA. Magnesium hydroxide products are a significant component of the FUEL CHEM programs. Pursuant to the PSA, MMMS supplies us with magnesium hydroxide products manufactured pursuant to our specifications and we have agreed to purchase from MMMS, and MMMS has agreed to supply, 100% of our requirements for such magnesium hydroxide products for our customers who purchase such products for delivery in the United States and Canada. There can be no assurance that Fuel Tech will be able to obtain a stable source of magnesium hydroxide in markets outside the United States.

(viii) Customer Access to Capital Funds

Uncertainty about current economic conditions in the United States and globally poses risk that Fuel Tech's customers may postpone spending for capital improvement projects in response to tighter credit markets, negative financial news and/or decline in demand for electricity generated by combustion units, all of which could have a material negative effect on demand for the Fuel Tech's products and services.

(ix) Customer Concentration

A small number of customers have historically accounted for a material portion of Fuel Tech's revenues (see Item 8, note 1 – *Organization and Significant Accounting Policies,* under the caption "*Risk Concentrations"*). There can be no assurance that Fuel Tech's current customers will continue to place orders, that orders by existing customers will continue at the levels of previous periods, or that Fuel Tech will be able to obtain orders from new customers. The loss of one or more of our customers could have a material adverse effect on our sales and operating results.

(x) Domestic Credit Facility

Fuel Tech is party to a $15 million domestic revolving credit agreement with JPMorgan Chase Bank, N.A. As of December 31, 2011, there were no outstanding borrowings on this facility and Fuel Tech was in compliance with all financial covenants contained in the agreement. In addition, Beijing Fuel Tech Environmental Technologies Company, Ltd. has a RMB $35 million (approximately $5.5 million) revolving credit facility with JPMorgan Chase Bank (China) Company Limited. As of December 31, 2011 the outstanding borrowings on this facility were approximately $1.2 million. In the event of any default on the part of Fuel Tech or Beijing Fuel Tech under either of these agreements, the lender is entitled to accelerate payment of any amounts outstanding and may, under certain circumstances, cancel the facilities. If the Company were unable to obtain a waiver for a breach of covenant and the lender accelerated the payment of any outstanding amounts, such acceleration may cause the Company's cash position to significantly deteriorate or, if cash on hand were insufficient to satisfy the payment due, may require the Company to obtain alternate financing. See "Liquidity and Sources of Capital" under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 1B - UNRESOLVED STAFF COMMENTS

None

ITEM 2 - PROPERTIES

Fuel Tech owns an office building in Warrenville, Illinois, which has served as our corporate headquarters since June 23, 2008. This facility, with approximately 40,000 square feet of office space, was purchased for approximately $6,000,000 and subsequently built out and furnished for an additional cost of approximately $5,500,000. This facility will meet our growth requirements for the foreseeable future.

Fuel Tech and its subsidiaries also operate from leased office facilities in Stamford, Connecticut; Durham, North Carolina; Gallarate, Italy and Beijing, China. Fuel Tech does not segregate any of its leased facilities by operating business segment. The terms of the Company's four material lease arrangements are as follows:

- The Stamford, Connecticut building lease term, for approximately 6,440 square feet, runs from February 1, 2010 to December 31, 2019. The facility houses certain administrative functions including Investor Relations.

- The Beijing, China building lease term, for approximately 5,800 square feet, runs from September 1, 2011 to August 31, 2012. This facility serves as the operating headquarters for our Beijing Fuel Tech operation. Fuel Tech has the option to extend the lease term at a market rate to be agreed upon between Fuel Tech and the lessor.

- The Durham, North Carolina building lease term, for approximately 16,000 square feet, runs from November 1, 2005 to April 30, 2014. Fuel Tech has no option to extend the lease.

- The Gallarate, Italy building lease term, for approximately 1,300 square feet, runs from July 1, 2005 to April 30, 2013. This facility serves as the operating headquarters for our Italy operations.

ITEM 3 - 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 4 – MINE SAFETY DISCLOSURES

Not Applicable

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

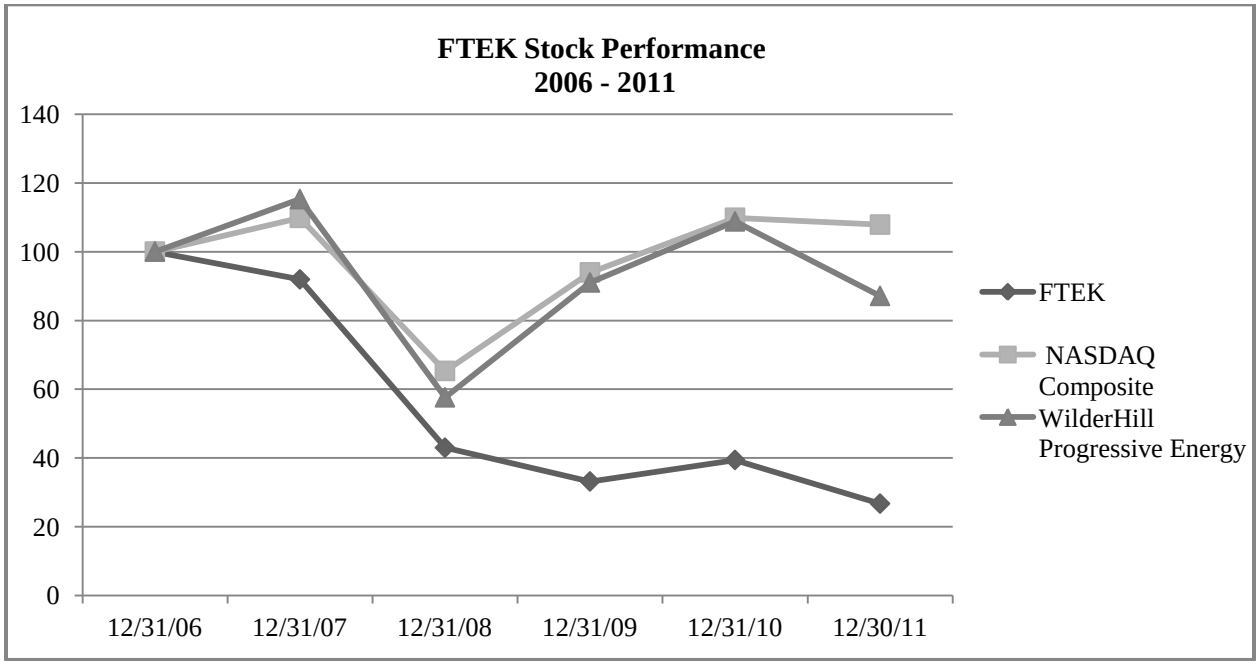
Market

Transfer Agent

The Transfer Agent and Registrar for the Common Shares is Computershare Shareowner Services LLP, 480 Washington Boulevard, Jersey City, New Jersey 07310-1900.

Performance Graph

The following line graph compares Fuel Tech's total return to stockholders per share of Common Stock for the five years ended December 31, 2011 to that of the NASDAQ Composite Index and the WilderHill Progressive Energy Index for the period December 31, 2006 through December 30, 2011.



ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(amounts in thousands of dollars)*

Background

Fuel Tech, Inc. ("Fuel Tech") has two broad technology segments that provide advanced engineered solutions to meet the pollution control, efficiency improvement and operational optimization needs of energy-related facilities worldwide. They are as follows:

Air Pollution Control Technologies

The Air Pollution Control technology segment includes technologies to reduce NOx emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources. These include Low and Ultra Low NOx Burners (LNB and ULNB), Over-Fire Air (OFA) systems, NOxOUT® 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 NOx reductions at significantly lower capital and operating costs than conventional SCR systems. The NOxOUT CASCADE® and NOxOUT-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. Fuel Tech distributes its products through its direct sales force and agents.

FUEL CHEM Technologies

The FUEL CHEM® technology segment, which uses chemical processes in combination with advanced CFD and 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. Fuel Tech sells its FUEL CHEM program through its direct sales force and agents to industrial and utility power-generation facilities. FUEL CHEM programs are installed on combustion units in North America, Europe, China, and India, treating a wide variety of solid and liquid fuels, including coal, heavy oil, biomass and municipal waste. The FUEL CHEM program improves the efficiency, reliability and environmental status of plants operating in the electric utility, industrial, pulp and paper, waste-to-energy, university and district heating markets and offers numerous operational, financial and environmental benefits to owners of boilers, furnaces and other combustion units.

The key market dynamic for both technology segments is the continued use of fossil fuels, especially coal, as the principal fuel source for global electricity production. Coal currently accounts for approximately 45% of all U.S. electricity generation and roughly 80% of Chinese electricity generation. Coal's share of global electricity generation is just over 40% today and is forecasted to decline marginally to a level just under 40% by 2035. Major coal consumers include China, the United States and India.

Critical Accounting Policies and Estimates

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and assumptions. We believe that of our accounting policies (see Note 1 to the consolidated financial statements), the following involve a higher degree of judgment and complexity and are deemed critical. We routinely discuss our critical accounting policies with the Company's Audit Committee.

Revenue Recognition

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

Fuel Tech uses the percentage of completion method of accounting for equipment construction and license contracts that are sold within the Air Pollution Control technology segment. Under the percentage of completion method, revenues are recognized as work is performed based on the relationship between actual construction costs incurred and total estimated costs at completion. Construction costs include all direct costs such as materials, labor, and subcontracting costs, and indirect costs allocable to the particular contract such as indirect labor, tools and equipment, and supplies. Revisions in completion estimates and contract values are made in the period in which the facts giving rise to the revisions become known and can influence the timing of when revenues are recognized under the percentage of completion method of accounting. Such revisions have historically not had a material effect on the amount of revenue recognized. Provisions are made for estimated losses on uncompleted contracts in the period in which such losses are determined. As of December 31, 2011, Fuel Tech had one construction contract in progress that was identified as loss contract in the amount of $201. As of December 31, 2010, Fuel Tech had no construction contracts in

progress that were identified as loss contracts.

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 December 31, 2011 and December 31, 2010, unbilled receivables were approximately $11,334 and $6,800, respectively, and are included in accounts receivable on the consolidated balance sheet. Billings in excess of costs and estimated earnings on uncompleted contracts were $3,895 and $650 at December 31, 2011 and December 31, 2010, respectively, and are included in other accrued liabilities on the consolidated balance sheet.

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.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is the Company's best estimate of the amount of credit losses in accounts receivable. In order to control and monitor the credit risk associated with our customer base, we review the credit worthiness of customers on a recurring basis. Factors influencing the level of scrutiny include the level of business the customer has with Fuel Tech, the customer's payment history and the customer's financial stability. Receivables are considered past due if payment is not received by the date agreed upon with the customer, which is normally 30 days. Representatives of our management team review all past due accounts on a weekly basis to assess collectability. At the end of each reporting period, the allowance for doubtful accounts balance is reviewed relative to management's collectability assessment and is adjusted if deemed necessary through a corresponding charge or credit to bad debts expense, which is included in selling, general, and administrative expenses in the consolidated statements of operations. Bad debt write-offs are made when management believes it is probable a receivable will not be recovered. Our historical credit loss has been insignificant.

Assessment of Potential Impairments of Goodwill and Intangible Assets

Goodwill and indefinite-lived intangible assets are no longer amortized, but rather are reviewed annually (in the fourth quarter) or more frequently if indicators arise, for impairment. The Company does not have any indefinite-lived intangible assets other than goodwill. Such indicators include a decline in expected cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition, a decrease in our market capitalization to an amount less than the carrying value of our assets, or slower growth rates, among others.

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 segment and the APC technology segment. As of December 31, 2011 and 2010, goodwill allocated to the FUEL CHEM technology segment was $1,723 and goodwill allocated to the APC technology segment was $19,328.

Our evaluation of goodwill impairment involves first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. We may bypass this qualitative assessment, or determine that based on our qualitative assessment considering the totality of events and circumstances including macroeconomic factors, industry and market considerations, current and projected financial performance, a sustained decrease in our share price, or other factors, that additional impairment analysis is necessary. This additional analysis involves comparing the current fair value of a reporting unit to its carrying value. Fuel Tech uses a discounted cash flow (DCF) model to determine the current fair value of its two reporting units as this methodology was deemed to best quantify the present values of the Company's expected future cash flows and yield a fair value that should be in line with the aggregate market value placed on the Company via the current stock price multiplied by the outstanding common shares. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market share, sales volumes and prices, costs to produce and working capital changes. Events outside the Company's control, specifically market conditions that impact revenue growth assumptions, could significantly impact the fair value calculated. Management considers historical experience

The application of our DCF model in estimating the fair value of each reporting segment is based on the 'income' approach to business valuation. In using this approach for each reportable segment, we forecast segment revenues and expenses out to perpetuity and then discount the resulting cash flows to their present value using an appropriate discount rate. The forecast considers, among other items, the current and expected business environment, expected changes in the fixed and variable cost structure as the business grows, and a revenue growth rate that we feel is both achievable and sustainable. The discount rate used is composed of a number of identifiable risk factors, including equity risk, company size, and certain company specific risk factors such as our debt-to-equity ratio, among other factors, that when added together, results in a total return that a prudent investor would demand for an investment in our company.

In the event the estimated fair value of a reporting unit per the DCF model is less than the carrying value, additional analysis would be required. The additional analysis would compare the carrying amount of the reporting unit's goodwill with the implied fair value of that goodwill, which may involve the use of valuation experts. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair values assigned to all of the assets and liabilities of that unit as if the reporting unit was acquired in a business combination and the fair value of the reporting unit represented the purchase price. If the carrying value of goodwill exceeds its implied fair value, an impairment loss equal to such excess would be recognized, which could significantly and adversely impact reported results of operations and stockholders' equity.

Based upon the nature of the goodwill recorded on the balance sheets as of December 31, 2011 and 2010, the Company believes that, in order for an impairment to occur, our actual revenue growth in future periods would need to differ materially from the projected revenue growth estimates included in our current cash flow forecasts, particularly as it relates to the APC reporting unit. In addition, other economic events may be indicators of impairment, such as suppressed consolidated revenues, a reduction in our market capitalization to an amount that is lower than our current enterprise value, reduced overall cash flows, or declining APC order backlog. Management does not believe that any of these events have resulted in any indications of asset impairment as it pertains to Fuel Tech's business.

Impairment of Long-Lived Assets and Amortizable Intangible Assets

Long-lived assets, including property, plant and equipment (PP&E) and intangible assets, are reviewed for impairment when events and circumstances indicate that the carrying amount of the assets (or asset groups) may not be recoverable. If impairment indicators exists, we perform a more detailed analysis and an impairment loss is recognized when estimated future undiscounted cash flows expected to result from the use of the asset (or asset group) and its eventual disposition are less than the carrying amount. This process of analyzing impairment involves examining the operating condition of individual assets (or asset groups) and estimating a fair value based upon current condition, relevant market factors and remaining estimated operational life compared to the asset's remaining depreciable life. Quoted market prices and other valuation techniques are used to determine expected cash flows. However, due to the nature of our PP&E, which is comprised mainly of assets related to our headquarters building and equipment deployed at customer locations for our FUEL CHEM programs, and the shorter-term duration over which FUEL CHEM equipment is depreciated, the likelihood of impairment is mitigated. The discontinuation of a FUEL CHEM program at a customer site would most likely result in the re-deployment of all or most of the affected assets to another customer location rather than an impairment.

Valuation Allowance for Deferred Income Taxes

Deferred tax assets represent deductible temporary differences and net operating loss and tax credit carryforwards. A valuation allowance is recognized if it is more likely than not that some portion of the deferred tax asset will not be realized. At the end of each reporting period, Fuel Tech reviews the realizability of the deferred tax assets. As part of this review, we consider if there are taxable temporary differences that could generate taxable income in the future, if there is the ability to carry back the net operating losses or credits, if there is a projection of future taxable income, and if there are any tax planning strategies that can be readily implemented.

Stock-Based Compensation

Fuel Tech recognizes compensation expense for employee equity awards ratably over the requisite service period of the award, adjusted for estimated forfeitures.

We utilize the Black-Scholes option-pricing model to estimate the fair value of stock option awards. Determining the fair value of stock options using the Black-Scholes model requires judgment, including estimates for (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.

In addition, Fuel Tech utilizes a Monte Carlo valuation pricing model to determine the fair value of certain restricted stock units (RSUs) that contain market conditions. Determining the fair value of these RSUs requires judgment and involves simulating potential future stock prices based on estimates for the risk-free interest rate, stock volatility, and correlations between our stock

price and the stock prices of a peer group of companies.

If any of these assumptions differ significantly from actual, stock-based compensation expense could be impacted.

Recently Adopted Accounting Standards

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. The changes are effective January 1, 2012 with earlier adoption permitted. 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. We adopted the provisions of this amendment on January 1, 2012, which will only affect our financial statement presentation and will have no impact to our consolidated financial results.

In May 2011, the FASB issued guidance titled "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standard" (IFRS), to converge fair value measurement and disclosure guidance in U.S. GAAP with the guidance in the International Accounting Standards Board's concurrently issued IFRS 13, Fair Value Measurement. This accounting guidance does not modify the requirements for when fair value measurements apply; rather, it generally provides clarifications on how to measure and disclose fair value under the Accounting Standards Codification 820, Fair Value Measurement. The amendments in this accounting guidance are effective prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted for public entities. We adopted the provisions of this amendment on January 1, 2012 and it is not expected to have a material impact on our financial statements.

In September 2011, the FASB issued new authoritative guidance titled "Testing Goodwill for Impairment". The guidance provides the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the results of the qualitative analysis indicate it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step impairment test, which was required under previous U.S. GAAP, would not be necessary. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. We early adopted this guidance in the period ended September 30, 2011 and it did not have an impact on our consolidated financial position or results of operations.

2011 versus 2010

Revenues for the years ended December 31, 2011 and 2010 were $93,668 and $81,795, respectively. The year-over-year increase of $11,873, or 15%, was predominantly driven by increased revenue in both the APC technology and FUEL CHEM segments. International revenues for the years ended December 31, 2011 and 2010 were $17,591 and $12,793, respectively. The increase of $4,798 in foreign revenues is attributed to our China operations.

Revenues for the APC technology segment were $50,930 for the year ended December 31, 2011, an increase of $10,013, or 25%, versus fiscal 2010. This increase is predominantly attributed to higher activity on capital projects driven by governmental regulations. Backlog for the years ended December 31, 2011 and 2010 was $30.8 million and $19.3 million, respectively.

Revenues for the FUEL CHEM technology segment for the year ended December 31, 2011 were $42,738, an increase of $1,860, or 5% versus fiscal 2010. During 2011, Fuel Tech added revenue from 9 new units to its existing customer base. Revenue from coal-fired units increased by $1,911 or 5%.

Cost of sales for the years ended December 31, 2011 and 2010 were $49,857 and $46,821, respectively. Cost of sales as a percentage of revenues for the years ended December 31, 2011 and 2010 were 53% and 57%, respectively. Cost of sales as a percentage of revenue for the APC technology segment decreased to 56% in 2011 from 66% in 2010. The decrease is attributed to the mix of higher margin project business. Cost of sales as a percentage of revenue for the FUEL CHEM technology segment increased to 50% in 2011 from 48% in 2010 due to the effect of a $2,000 successful demonstration fee recorded during 2010 without offsetting program costs and other costs normally associated with a foreign demonstration.

Selling, general and administrative expenses for the years ended December 31, 2011 and 2010 were $33,446 and $30,857, respectively. The increase of $2,589, or 8%, is primarily attributed to the following:

- Internal and external commissions and bonuses increased $2,048 as a result of increased revenue and profits from both of the product segments.
- Fees paid to outside service providers increased $1,118 as a result of strategic and operational activities.
- Costs associated with our international operations increased $706 due mainly to increased hiring and business expansion in our China subsidiary.

- Bad debt expense increased $460 due to the write-off of certain receivables no longer expected to be collected.
- Partially offsetting these amounts was a decrease in stock compensation expense of $1,455 due to the full vesting of options with a comparative higher value than more recent grants.

Research and development ("R&D") expenses were $1,474 and $948 for the years ended December 31, 2011 and 2010, respectively. The increase in R&D expenditures is aligned with the Company's increased emphasis on investing in new product design and innovation for our product lines. Fuel Tech has maintained its focused approach 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 domestically and abroad.

Interest income for the year ended December 31, 2011 increased by $24 to $35 versus 2010 predominantly due to a increase in the average return on the Company's interest-bearing accounts in which the cash is invested. Interest expense of $148 was recorded in 2011 on the debt incurred to start-up activities at Fuel Tech's office in Beijing, China, compared to $143 in the prior year. Finally, the modest change in other income/(expense) is due to the impact of foreign exchange rates as it relates to balances denominated in foreign currencies that are translated into U.S. dollars for reporting purposes.

For the year ended December 31, 2011, Fuel Tech recorded income tax expense of $3,109 on the Company's pre-tax income of $9,257. Our effective tax rate of 33.6% approximated the federal statutory rate of 34% as a result of increases from state taxes and the effect of our permanent items offset by the effect of income tax rate differences between the U.S and China and losses from our Italian subsidiary for which we were not able to record a tax benefit as a result of the valuation allowance placed on that entity's net operating losses. For the year end December 31, 2010, Fuel Tech recorded an income tax expense of $1,933 on the Company's pre-tax income of $3,686.

2010 versus 2009

- Personnel and other expenses related to the reduction and restructuring of the workforce decreased $1,012 for fiscal 2010.
- Stock compensation expense decreased $1,782 due to the full vesting of options with a comparative higher value than recent grants.
- Fees paid to outside service providers decreased $501 as a result of strategic hiring and cost containment measures.
- Depreciation decreased year over year $243 as a result of an accelerated leasehold improvement that was terminated in January 2010.
- Partially offsetting these amounts was an increase of $1,389 relating to the implementation of new incentive programs for domestic and international employees, and
- Internal and external commissions and bonuses increased $740 as a result of increased revenue from both of the product segments.

Research and development ("R&D") expenses were $948 and $542 for the years ended December 31, 2010 and 2009, respectively. The increase in R&D expenditures is aligned with the Company's increased emphasis on investing in new product design and innovation for our product lines. Fuel Tech has maintained its focused approach 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 domestically and abroad.

Interest income for the year ended December 31, 2010 decreased by $21 to $11 versus 2009 predominantly due to a decrease in the average return on the Company's interest-bearing accounts in which the cash is invested. Interest expense of $143 was recorded in 2010 on the debt incurred to start-up activities at Fuel Tech's office in Beijing, China, compared to $120 in the prior year. The increase is primarily related to differences in foreign exchange rates and not changes in the principal balance of the debt outstanding or changes in interest rates. Finally, the modest change in other income/(expense) is due to the impact of foreign exchange rates as it relates to balances denominated in foreign currencies that are translated into U.S. dollars for reporting purposes.

For the year ended December 31, 2010, Fuel Tech recorded income tax expense of $1,933 on the Company's pre-tax income of $3,686. Our effective tax rate of 52.4% was higher than our expected rate of approximately 46% due primarily to higher than expected losses in our Italian subsidiary for which we were not able to record a tax benefit as a result of the valuation allowance placed on that entity's net operating losses. For the year end December 31, 2009, Fuel Tech recorded an income tax benefit of $1,104 on the Company's pre-tax loss of ($3,410).

Liquidity and Sources of Capital

At December 31, 2011, Fuel Tech had cash and cash equivalents of $28,229 and working capital of $43,626 versus cash and cash equivalents of $30,524 and working capital of $36,645 at December 31, 2010. Operating activities provided $4,858 of cash for the year ended December 31, 2011, primarily due to the add back of non-cash items from our net income of $6,148 including stock compensation expense of $2,810 and depreciation and amortization of $3,720, as well as an increase in accounts payable, accrued expenses, and other non-current liabilities of $5,260 due to the timing of vendor invoices and related payments and a decrease in our inventory balance of $504 due to decreases in various inventory component parts. Partially offsetting these items were subtractions of non-cash items from our net income including an increase in our provision for doubtful accounts of $348, an increase in our deferred income tax provision of $793, and a gain from the revaluation of the earn-out related to our acquisition of Advanced Combustion Technology of $758, as well as an increase in accounts receivable of $13,279 due to the timing of customer receipts and progress billings on projects and an increase in our prepaid expense and other current assets of $723.

Operating activities provided $12,190 of cash for the year ended December 31, 2010, primarily due to the add back of non-cash items from our net income of $1,753 including stock compensation expense of $4,274 and depreciation and amortization of $4,081, as well as an increase in accounts payable, accrued expenses, and other non-current liabilities of $7,144 due to the timing of vendor invoices and related payments. Partially offsetting these items were subtractions of non-cash items from our net income including a gain from the revaluation of the earn-out related to our acquisition of Advanced Combustion Technology of $768 and the effect of changes in our deferred income tax provision of $588, as well as an increase in accounts receivable of $3,377 due to the timing of customer receipts and progress billings on projects and an increase in spare parts inventory of $354.

Investing activities used cash of $2,406 for the year ended December 31, 2011 related to the purchases of equipment and patents to support the operations of our business. Investing activities used cash of $2,006 for the year ended December 31, 2010 related to purchases of equipment and patents of $2,206 primarily to support and enhance the operations of our business offset by a decrease in the restricted cash balance of $200 described below.

Financing activities used cash of $4,820 for the year ended December 31, 2011 for the repayment of our debt in China of $1,162 and for the repurchase of our common stock of $4,111. These uses were offset by proceeds from stock option exercises totaling $376 and the excess tax benefits related to those stock option exercises in the amount of $77. The Company used cash from financing activities for the year ended December 31, 2010 of $732, primarily due to repayments of $737 for the debt obligation that has been used to support the growth of the Beijing office.

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 December 31, 2011 and 2010, there were no outstanding borrowings on the amended or previous credit facilities.

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 December 31, 2011, the Company was in compliance with all financial covenants specified by the Facility.

At December 31, 2011 and 2010, the Company had outstanding standby letters of credit and bank guarantees totaling approximately $1,374 and $1,265, 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 December 31, 2011 and 2010, there were no cash borrowings under the domestic revolving credit facility and approximately $13,626 and $23,735, 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 30, 2011, 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 $5,511), which expires on June 29, 2012. This new credit facility replaced the previous RMB 45 million facility that expired on June 30, 2011. 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 December 31, 2011 and 2010, Beijing Fuel Tech had borrowings outstanding in the amount of $1,181 and $2,269, respectively. These borrowings were subject to interest rates of approximately 7.6% and 5.8% at December 31, 2011 and December 31, 2010, respectively.

At December 31, 2011 and 2010, the Company had outstanding standby letters of credit and bank guarantees totaling approximately $750 and $348, respectively, on its Beijing Fuel Tech revolving credit facility in connection with contracts in process. At December 31, 2011 and 2010, approximately $3,580 and $3,983 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 $148 and $143 were made during the years ended December 31, 2011 and 2010, respectively.

In the opinion of management, Fuel Tech's expected near-term revenue growth will be driven by the timing of penetration of the coal-fired utility marketplace via utilization of its TIFI technology, by utility and industrial entities' adherence to the NOx reduction requirements of the various domestic environmental regulations, and by the expansion of both business segments in non-U.S. geographies. Fuel Tech expects its liquidity requirements to be met by the operating results generated from these activities.

Contractual Obligations and Commitments

In its normal course of business, Fuel Tech enters into agreements that obligate the Company to make future payments. The contractual cash obligations noted below are primarily related to supporting the ongoing operations of the business.

Payments due by period in thousands of dollars

Contractual Cash Obligations	**Total**	**2012**	**2013-2014**	**2015-2016**	**Thereafter**
Short-term debt obligations	$ 1,181	$ 1,181	$ -	$ -	$ -
Estimated interest payments on debt obligations*	90	90	-	-	-
Operating lease obligations	2,847	565	832	580	870
Total	$ 4,118	$ 1,836	$ 832	$ 580	$ 870

*Debt obligations consist solely of borrowings under the Company's Chinese revolving credit facility which bears interest at a rate of 125% of the People's Bank of China (PBOC) Base Rate, or 7.6%, at December 31, 2011.

Interest payments in the amount of $148, $143, and $120 were made during the years ended December 31, 2011, 2010 and 2009, respectively.

Fuel Tech, in the normal course of business, uses bank performance guarantees and letters of credit in support of construction contracts with customers as follows:

- in support of the warranty period defined in the contract; or
- in support of the system performance criteria that are defined in the contract.

In addition, Fuel Tech uses bank performance guarantees with standby letters of credit and performance surety bonds as security for contract performance and other obligations as needed in the normal course of business. As of December 31, 2011, Fuel Tech had outstanding bank performance obligations that may or may not result in cash obligations as follows:

Commitment expiration by period in thousands of dollars

Commercial Commitments	**Total**	**2012**	**2013-2014**	**2015-2016**	**Thereafter**
Standby letters of credit and bank guarantees	$ 2,124	$ 1,046	$ 835	$ 243	$ -
Performance Surety Bonds	$ 2,742	$ 2,708	$ 34	$ -	$ -
Total	$ 4,866	$ 3,754	$ 869	$ 243	$ -

Off-Balance-Sheet Transactions

There were no other off-balance-sheet transactions other than the obligations and commitments listed above during the three-year period ended December 31, 2011.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 or into foreign currency option contracts to manage this risk due to the immaterial nature of the transactions involved.

Fuel Tech is also exposed to changes in interest rates primarily due to its debt arrangement (refer to Note 8 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 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Fuel Tech, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Fuel Tech, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2011. We also have audited Fuel Tech, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Fuel Tech, Inc. and Subsidiaries' management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Managements Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that *(a)* pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; *(b)* provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and *(c)* provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fuel Tech, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Fuel Tech, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ McGladrey & Pullen, LLP

Schaumburg, Illinois
March 5, 2012

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Fuel Tech, Inc.

We have audited the accompanying consolidated statement of operations, stockholders' equity, and cash flows of Fuel Tech, Inc. and Subsidiaries (the "Company") for the year ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the operations and cash flows of Fuel Tech, Inc. and Subsidiaries for the year ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Chicago, Illinois
March 4, 2010

Fuel Tech, Inc.
Consolidated Balance Sheets
(*in thousands of dollars, except share and per-share data*)

	December 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28,229	$ 30,524
Marketable securities	57	-
Accounts receivable, net of allowance for doubtful accounts of $430 and $82, respectively	34,346	21,175
Inventories	311	807
Prepaid expenses and other current assets	2,026	1,861
Income taxes receivable	1,124	-
Deferred income taxes	163	89
Total current assets	66,256	54,456
Property and equipment, net of accumulated depreciation of $18,239 and $15,767, respectively	13,625	14,384
Goodwill	21,051	21,051
Other intangible assets, net of accumulated amortization of $3,385 and $3,203, respectively	5,442	6,050
Deferred income taxes	3,798	5,000
Other assets	2,818	2,262
Total assets	$ 112,990	$ 103,203
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 1,181	$ 2,269
Accounts payable	10,476	7,516
Accrued liabilities:		
Employee compensation	4,902	2,863
Income taxes payable	-	1,857
Other accrued liabilities	6,071	3,306
Total current liabilities	22,630	17,811
Other liabilities	1,347	1,482
Total liabilities	23,977	19,293
Stockholders' equity:		
Common stock, $.01 par value, 40,000,000 shares authorized, 23,644,301 and 24,213,467 shares issued and outstanding, respectively	237	242
Additional paid-in capital	132,350	129,424
Accumulated deficit	(44,031)	(46,075)
Accumulated other comprehensive income	381	243
Nil coupon perpetual loan notes	76	76
Total stockholders' equity	89,013	83,910
Total liabilities and stockholders' equity	$ 112,990	$ 103,203

See notes to consolidated financial statements.

Fuel Tech, Inc.
Consolidated Statements of Operations
(*in thousands of dollars, except share and per-share data*)

	For the years ended December 31,		
	2011	2010	2009
Revenues	$ 93,668	$ 81,795	$ 71,397
Costs and expenses:			
Cost of sales	49,857	46,821	42,444
Selling, general and administrative	33,446	30,857	32,273
Gain on revaluation of ACT liability	(758)	(768)	(781)
Research and development	1,474	948	542
	84,019	77,858	74,478
Operating income (loss)	9,649	3,937	(3,081)
Interest expense	(148)	(143)	(120)
Interest income	35	11	32
Other expense	(279)	(119)	(241)
Income (loss) before taxes	9,257	3,686	(3,410)
Income tax (expense) benefit	(3,109)	(1,933)	1,104
Net income (loss)	$ 6,148	$ 1,753	$ (2,306)
Net income (loss) per common share:			
Basic	$ 0.26	$ 0.07	$ (0.10)
Diluted	$ 0.25	$ 0.07	$ (0.10)
Weighted-average number of common shares outstanding:			
Basic	24,095,000	24,213,000	24,148,000
Diluted	24,633,000	24,405,000	24,148,000

See notes to consolidated financial statements.

Fuel Tech, Inc.
Consolidated Statements of Stockholders' Equity
(*in thousands of dollars or shares, as appropriate*)

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Nil Coupon Perpetual	
	Shares	Amount	Capital	Deficit	Income (Loss)	Loan Notes	Total
Balance at December 31, 2008	**24,111**	**$ 241**	**$ 118,588**	**$ (45,522)**	**$ 187**	**$ 81**	**$ 73,575**
Comprehensive loss:							
Net loss				(2,306)			(2,306)
Foreign currency translation adjustments					82		82
Comprehensive income							(2,224)
Exercise of stock options	101	1	605				606
Tax benefit from stock compensation expense			78				78
Stock compensation expense			6,097				6,097
Reclassification of liability award			90				90
Balance at December 31, 2009	**24,212**	**$ 242**	**$ 125,458**	**$ (47,828)**	**$ 269**	**$ 81**	**$ 78,222**
Comprehensive loss:							
Net income				1,753			1,753
Foreign currency translation adjustments					(26)		(26)
Comprehensive income							1,727
Exercise of stock options	1	-	10				10
Repurchase of nil coupon perpetual loan notes						(5)	(5)
Tax benefit from stock compensation expense			-				-
Stock compensation expense			4,274				4,274
Tax effect of expired vested options			(318)				(318)
Balance at December 31, 2010	**24,213**	**$ 242**	**$ 129,424**	**$ (46,075)**	**$ 243**	**$ 76**	**$ 83,910**
Comprehensive income:							
Net income				6,148			6,148
Foreign currency translation adjustments					103		103
Unrealized gain on marketable securities, net of tax					35		35
Comprehensive income							6,286
Exercise of stock options	81	1	375				376
Tax benefit from stock compensation expense			77				77
Stock compensation expense			2,810				2,810
Issuance of deferred shares of stock	51	1	(1)				-
Tax effect of expired vested options			(335)				(335)
Repurchases of common shares	(701)	(7)		(4,104)			(4,111)
Balance at December 31, 2011	**23,644**	**$ 237**	**$ 132,350**	**$ (44,031)**	**$ 381**	**$ 76**	**$ 89,013**

See notes to consolidated financial statements.

Fuel Tech, Inc.
Consolidated Statements of Cash Flows
(*in thousands of dollars*)

	For the years ended December 31,		
	2011	2010	2009
OPERATING ACTIVITIES			
Net income (loss)	$ 6,148	$ 1,753	$ (2,306)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,808	3,195	3,796
Amortization	912	886	1,312
Loss on equipment disposals/impaired assets	56	20	94
Gain on revaluation of ACT liability	(758)	(768)	(781)
Unrealized holding gain on marketable security	(21)	-	-
Allowance for doubtful accounts	348	12	(10)
Deferred income tax	793	(588)	(1,492)
Stock compensation expense	2,810	4,274	6,097
Changes in operating assets and liabilities:			
Accounts receivable	(13,279)	(3,377)	5,498
Inventories	504	(354)	563
Prepaid expenses, other current assets and other noncurrent assets	(723)	(27)	3,293
Accounts payable	2,914	1,765	(2,372)
Accrued liabilities and other noncurrent liabilities	2,346	5,379	(113)
Other	-	20	34
Net cash provided by operating activities	4,858	12,190	13,613
INVESTING ACTIVITIES			
Decrease (increase) in restricted cash	-	200	(200)
Purchases of property, equipment and patents	(2,408)	(2,206)	(2,004)
Proceeds from the sale of equipment	2	-	-
Acquisitions of businesses	-	-	(20,185)
Net cash used in investing activities	(2,406)	(2,006)	(22,389)
FINANCING ACTIVITIES			
(Payments) / proceeds from debt	(1,162)	(737)	737
Proceeds from exercises of stock options	376	10	605
Excess tax benefit from exercises of stock options	77	-	78
Reclassification of liability award	-	-	90
Repurchases of common stock	(4,111)	-	-
Other	-	(5)	-
Net cash (used in) provided by financing activities	(4,820)	(732)	1,510
Effect of exchange rate fluctuations on cash	73	107	82
Net increase (decrease) in cash and cash equivalents	(2,295)	9,559	(7,184)
Cash and cash equivalents at beginning of year	30,524	20,965	28,149
Cash and cash equivalents at end of year	$ 28,229	$ 30,524	$ 20,965
Supplemental Cash Flow Information:			
Non-cash activities:			
(Decrease) increase in contingent consideration payable	$ (758)	$ (768)	$ 2,307
Cash paid for:			
Interest	$ 148	$ 143	$ 120
Income taxes paid	$ 5,187	$ 297	$ 195

See notes to consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Fuel Tech is a company that provides advanced engineered solutions for the optimization of combustion systems in utility and industrial applications. Fuel Tech's primary focus is on the worldwide marketing and sale of its NOx reduction technologies as well as its FUEL CHEM program. The Company's NOx reduction technologies reduce nitrogen oxide emissions from boilers, furnaces and other stationary combustion sources.

Our FUEL CHEM program is based on proprietary TIFI® Targeted In-Furnace™ Injection technology, in combination with advanced Computational Fluid Dynamics (CFD) and Chemical Kinetics Modeling (CKM) boiler modeling, in the unique application of specialty chemicals to improve the efficiency, reliability and environmental status of combustion units by controlling slagging, fouling, corrosion, opacity and other sulfur trioxide-related issues in the boiler. Our business is materially dependent on the continued existence and enforcement of air quality regulations, particularly in the United States. 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.

International revenues were $17,591, $12,793, and $16,002 for the years ended December 31, 2011, 2010 and 2009, respectively. These amounts represented 19%, 16%, and 22% of Fuel Tech's total revenues for the respective periods of time. Foreign currency changes did not have a material impact on the calculation of these percentages. Fuel Tech has foreign offices in Beijing, China and Gallarate, Italy.

Basis of Presentation

The consolidated financial statements include the accounts of Fuel Tech and its wholly-owned subsidiaries. All intercompany transactions have been eliminated.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company uses estimates in accounting for, among other items, revenue recognition, allowance for doubtful accounts, income tax provisions and warranty expenses. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable are reasonable estimates of their fair value due to their short-term nature. The carrying amount of our short-term debt under our revolving line of credit facility approximates fair value due to its short-term nature and because the amount outstanding accrues interest at a variable market-based rate. Our marketable securities are carried at fair value based on quoted market prices in an active market.

Cash and Cash Equivalents

Fuel Tech includes cash and investments having an original maturity of three months or less at the time of acquisition in cash and cash equivalents. Fuel Tech has never incurred realized or unrealized holdings gains or losses on securities classified as cash equivalents. Income resulting from short-term investments is recorded as interest income. At December 31, 2011, the Company has cash on hand of approximately $867 at its Beijing, China subsidiary that is subject to certain local regulations that may limit the immediate availability of these funds outside of China.

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 or into foreign currency option contracts to manage this risk due to the immaterial nature of the transactions involved.

Accounts Receivable

Accounts receivable consist of amounts due to us in the normal course of our business, are not collateralized, and normally do not bear interest. Accounts receivable includes unbilled receivables, representing costs and estimated earnings in excess of billings on uncompleted contracts under the percentage of completion method. At December 31, 2011 and 2010, unbilled receivables were approximately $11,334 and $6,800, respectively.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is the Company's best estimate of the amount of credit losses in accounts receivable. In order to control and monitor the credit risk associated with our customer base, we review the credit worthiness of customers on a recurring basis. Factors influencing the level of scrutiny include the level of business the customer has with Fuel Tech, the customer's payment history and the customer's financial stability. Receivables are considered past due if payment is not received by the date agreed upon with the customer, which is normally 30 days. Representatives of our management team review all past due accounts on a weekly basis to assess collectability. At the end of each reporting period, the allowance for doubtful accounts balance is reviewed relative to management's collectability assessment and is adjusted if deemed necessary through a corresponding charge or credit to bad debts expense, which is included in selling, general, and administrative expenses in the consolidated statements of operations. Bad debt write-offs are made when management believes it is probable a receivable will not be recovered. The table below sets forth the components of the Allowance for Doubtful Accounts for the years ended December 31.

Year	Balance at January 1	Provision charged to expense	Write-offs / Recoveries	Balance at December 31
2009	$ 80	$ 41	$ (51)	$ 70
2010	$ 70	$ 50	$ (38)	$ 82
2011	$ 82	$ 510	$ (162)	$ 430

Inventories

Inventories consist primarily of spare parts and are stated at the lower of cost or market using the first-in, first-out method. Usage is recorded in cost of sales in the period that parts were issued to a project or used to service equipment. Inventories are periodically evaluated to identify obsolete or otherwise impaired parts and are written off when management determines usage is not probable.

Foreign Currency Translation and Transactions

Assets and liabilities of consolidated foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at year end. Revenues and expenses are translated at average exchange rates prevailing during the year. Gains or losses on foreign currency transactions and the related tax effects are reflected in net income. The resulting translation adjustments are included in stockholders' equity as part of accumulated other comprehensive income.

Comprehensive Income

Other comprehensive income is defined as the change in equity resulting from transactions from non-owner sources. Total comprehensive income differs from our net income due to the effects of foreign currency translation and unrealized gains from marketable securities that are available for sale.

	December 31,		
	2011	2010	2009
Net income	$ 6,148	$ 1,753	$ (2,306)
Foreign currency translation adjustments	103	(26)	82
Unrealized gain from marketable securities, net of tax	35	-	-
Comprehensive income	$ 6,286	$ 1,727	$ (2,224)

The components of accumulated other comprehensive income was as follows:

	December 31,	
	2011	2010
Foreign currency translation adjustments	$ 346	$ 243
Unrealized gain from marketable securities, net of tax	35	-
Accumulated Other Comprehensive Income, net of tax	$ 381	$ 243

Research and Development

Research and development costs are expensed as incurred. Research and development projects funded by customer contracts are reported as part of cost of goods sold. Internally funded research and development expenses are reported as operating expenses.

Product/System Warranty

Fuel Tech typically warrants its air pollution control products and systemarr [illegible]

The table below shows the estimated future amortization expense for intangible assets:

Year	Estimated Amortization Expense
2012	$ 865
2013	801
2014	737
2015	704
2016	685
Thereafter	1,650
Total	$ 5,442

Property and Equipment

Property and equipment is stated at historical cost. Provisions for depreciation are computed by the straight-line method, using estimated useful lives that range based on the nature of the asset. Leasehold improvements are depreciated over the shorter of the associated lease term or the estimated useful life of the asset. Depreciation expense was $2,808, $3,195, and $3,796 for the years ended December 31, 2011, 2010, and 2009, respectively. The table below shows the depreciable life and cost by asset class as of December 31, 2011 and 2010, and the accumulated depreciation and net book value in total for all classes of assets.

Description of Property and Equipment	Depreciable Life	2011	2010
Land		$ 1,440	$ 1,440
Building	39 years	4,535	4,535
Building and leasehold improvements	3-39 years	4,448	4,425
Field equipment	3-4 years	16,429	14,630
Computer equipment and software	2-3 years	3,529	3,663
Furniture and fixtures	3-10 years	1,451	1,436
Vehicles	5 years	32	22
Total cost		31,864	30,151
Less accumulated depreciation		(18,239)	(15,767)
Total net book value		$ 13,625	$ 14,384

Property and equipment is reviewed for impairment when events and circumstances indicate that the carrying amount of the assets (or asset groups) may not be recoverable. If impairment indicators exists, we perform a more detailed analysis and an impairment loss is recognized when estimated future undiscounted cash flows expected to result from the use of the asset (or asset group) and its eventual disposition are less than the carrying amount. This process of analyzing impairment involves examining the operating condition of individual assets (or asset groups) and estimating a fair value based upon current condition, relevant market factors and remaining estimated operational life compared to the asset's remaining depreciable life. Quoted market prices and other valuation techniques are used to determine expected cash flows. However, due to the nature of our property and equipment, which is comprised mainly of assets related to our headquarters building and equipment deployed at customer locations for our FUEL CHEM programs, and the shorter-term duration over which FUEL CHEM equipment is depreciated, the likelihood of impairment is mitigated. The discontinuation of a FUEL CHEM program at a customer site would most likely result in the re-deployment of all or most of the effected assets to another customer location rather than impairment.

Revenue Recognition

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

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

values are made in the period in which the facts giving rise to the revisions become known and can influence the timing of when revenues are recognized under the percentage of completion method of accounting. Such revisions have historically not had a material effect on the amount of revenue recognized. Provisions are made for estimated losses on uncompleted contracts in the period in which such losses are determined. The completed contract method is used for certain contracts when reasonably dependabl]ъ]i

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 December 31, 2011, 2010, and 2009.

Recently Issued and Adopted Accounting Standards

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. The changes are effective January 1, 2012 with earlier adoption permitted. 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. We adopted the provisions of this amendment on January 1, 2012, which will only affect our financial statement presentation and will have no impact to our consolidated financial results.

In May 2011, the FASB issued guidance titled "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standard" (IFRS), to converge fair value measurement and disclosure guidance in U.S. GAAP with the guidance in the International Accounting Standards Board's concurrently issued IFRS 13, Fair Value Measurement. This accounting guidance does not modify the requirements for when fair value measurements apply; rather, it generally provides clarifications on how to measure and disclose fair value under the Accounting Standards Codification 820, Fair Value Measurement. The amendments in this accounting guidance are effective prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted for public entities. We adopted the provisions of this amendment on January 1, 2012 and it is not expected to have a material impact on our financial statements.

In September 2011, the FASB issued new authoritative guidance titled "Testing Goodwill for Impairment". The guidance provides the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the results of the qualitative analysis indicate it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step impairment test, which was required under previous U.S. GAAP, would not be necessary. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. We early adopted this guidance in the period ended September 30, 2011 and it did not have an impact on our consolidated financial position or results of operations.

2. CONSTRUCTION CONTRACTS IN PROGRESS

The status of contracts in progress as of December 31, 2011 and 2010 is as follows:

	2011	2010
Costs incurred on uncompleted contracts	$ 17,673	$ 19,928
Estimated earnings	13,476	10,305
Earned revenue	31,149	30,233
Less billings to date	(27,782)	(24,083)
Total	$ 3,367	$ 6,150
Classified as follows:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 7,262	$ 6,800
Billings in excess of costs and estimated earnings on uncompleted contracts	(3,895)	(650)
Total	$ 3,367	$ 6,150

Costs and estimated earnings in excess of billings on uncompleted contracts are included in accounts receivable on the consolidated balance sheet, while billings in excess of costs and estimated earnings on uncompleted contracts are included in other accrued liabilities on the consolidated balance sheet. All billed and unbilled amounts outstanding as of December 31, 2011 are expected to be collected within the next 12 months.

As of December 31, 2011 Fuel Tech had one construction contract in progress that was identified as a loss contract in the amount of $201. As of December 31, 2010, Fuel Tech had no construction contracts in progress that were identified as loss contracts.

3. TAXATION

The components of income (loss) before taxes for the years ended December 31 are as follows:

Origin of income (loss) before taxes	2011	2010	2009
United States	$ 8,244	$ 4,144	$ (3,378)
Foreign	1,013	(458)	(32)
Income (loss) before taxes	$ 9,257	$ 3,686	$ (3,410)

Significant components of income tax expense (benefit) for the years ended December 31 are as follows:

	2011	2010	2009
Current:			
Federal	$ 1,456	$ 2,520	$ 195
State	402	414	28
Foreign	482	103	-
Total current	2,340	3,037	223
Deferred:			
Federal	674	(1,051)	(1,219)
State	95	(97)	(108)
Foreign	-	44	-
Total deferred	769	(1,104)	(1,327)
Income tax expense (benefit)	$ 3,109	$ 1,933	$ (1,104)

A reconciliation between the provision for income taxes calculated at the U.S. federal statutory income tax rate and the consolidated income tax expense (benefit) in the consolidated statements of operations for the years ended December 31 is as follows:

	2011	2010	2009
Provision at the U.S. federal statutory rate	34.0%	35.0%	(35.0)%
State taxes, net of federal benefit	3.2%	3.9%	(2.2)%
Foreign tax rate differential	(1.2%)	0.6%	0.3%
Valuation allowance	2.7%	6.5%	0.0%
Research credits	(6.5%)	0.0%	(1.8)%
Stock-based compensation	0.0%	4.4%	4.1%
Other	1.4%	2.0%	2.2%
Income tax expense (benefit) effective rate	33.6%	52.4%	(32.4)%

The deferred tax assets and liabilities at December 31 are as follows:

	2011	2010
Deferred tax assets:		
Stock compensation expense	$ 7,734	$ 7,442
Alternative minimum tax credit	71	-
Warranty reserve	118	82
Accounts receivable	161	31
Vacation accrual	118	80
Commissions and other accruals	-	177
Deferred rent liability	47	52
Intangible assets	603	403
Net operating loss carryforwards	1,327	1,102
Total deferred tax assets	10,179	9,369
Deferred tax liabilities:		
Equipment	(1,513)	(1,243)
Prepaid expenses	(285)	(110)
Patents	(384)	(195)
Goodwill	(2,689)	(1,630)
Other	(20)	-
Total deferred tax liabilities	(4,891)	(3,178)
Net deferred tax asset before valuation allowance	5,288	6,191
Valuation allowances for deferred tax assets	(1,327)	(1,102)
Net deferred tax asset	$ 3,961	$ 5,089

Net deferred tax assets and liabilities are recorded as follows within the consolidated balance sheets:

Current assets	$ 163	$ 89
Long-term assets	3,798	5,000
Net deferred tax asset	$ 3,961	$ 5,089

The change in the valuation allowance for deferred tax assets for the years ended December 31 is as follows:

Year	Balance at January 1	Charged to costs and expenses	(Deductions)/Other	Balance at December 31
2009	$ 1,421	-	(244)	$ 1,177
2010	$ 1,177	-	(75)	$ 1,102
2011	$ 1,102	-	225	$ 1,327

For the years ended December 31, 2011 and 2010, Fuel Tech recorded tax benefits from the exercise of stock options in the amount of $77 and $0, respectively. The amounts were recorded as an increase in additional paid-in capital on the consolidated balance sheets and as cash from financing activities on the consolidated statements of cash flows. Fuel Tech also reduced the deferred tax asset related to stock based compensation by $335 and $318 for fully vested options that expired unexercised during 2011 and 2010, respectively. This reduction in the deferred tax asset was recorded against additional paid-in capital and had no impact on our results from operations.

As required by ASC 740, Fuel Tech recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

The following table summarizes Fuel Tech's unrecognized tax benefit activity (excluding interest and penalties) during the years ended December 31, 2011, 2010, and 2009:

Description	2011	2010	2009
Balance at beginning of period	$ 664	$ 724	$ 713
Increases in positions taken in a prior period	-	-	11
Decreases in positions taken in a prior period	-	-	-
Increases in positions taken in a current period	117	60	-
Decreases in positions taken in a current period	-	-	-
Decreases due to settlements	-	-	-
Decreases due to lapse of statute of limitations	(276)	(120)	-
Balance at end of period	$ 505	$ 664	$ 724

The amount of interest and penalties that we recognized in income tax expense during the years ended December 31, 2011, 2010, and 2009 was $162, $206, and $146, respectively. The total amount of unrecognized tax benefits as of December 31, 2011, 2010, and 2009, including interest and penalties, was $667, $870 and $870, respectively, all of which if ultimately recognized will reduce Fuel Tech's annual effective tax rate. We estimate that $398 of this unrecognized tax benefit will be recognized into income in 2012 due to the lapsing of statute of limitations.

Fuel Tech recognizes interest and penalties related to unrecognized tax benefits in income tax expense for all periods presented. At December 31, 2011, 2010, and 2009, Fuel Tech had accrued approximately $162, $206, and $146, respectively, for the payment of interest and penalties.

Fuel Tech is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2008. The Company is currently undergoing examination in the U.S. for the 2009 and 2010 tax years with anticipated completion occurring in 2012.

The management of Fuel Tech periodically estimates the probable tax obligations of the Company using historical experience in tax jurisdictions and informed judgments. There are inherent uncertainties related to the interpretation of tax regulations in the jurisdictions in which we transact business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to or further interpretations of regulations. If such changes take place, there is a risk that the tax rate may increase or decrease in any period. Tax accruals for tax liabilities related to potential changes in judgments and estimates for both federal and state tax issues are included in current liabilities on the consolidated balance sheet.

At December 31, 2011, Fuel Tech has tax loss carry-forwards of approximately $4,825 available to offset future foreign income in Italy. We have recorded a full valuation allowance against the resulting $1,327 deferred tax asset because we cannot anticipate

when or if this entity will have taxable income sufficient to use the net operating losses in the future. There is no expiration of the net operating loss carry-forwards related to tax losses generated during the first three years of this entity's operations. The portion of the foreign loss carry-forwards related to periods subsequent to the first three years of operations have a five year carry-forward period and will begin to expire in 2012 if not used by that date.

4. COMMON SHARES

At December 31, 2011, Fuel Tech had 23,644,301 common shares issued and outstanding, with an additional 6,715 shares reserved for issuance upon conversion of the nil coupon non-redeemable convertible unsecured loan notes (see Note 5) and 2,309,165 shares reserved for issuance upon the exercise or vesting of equity awards, of which 1,718,062 are stock options that are currently exercisable (see Note 6).

At December 31, 2010, Fuel Tech had 24,213,467 common shares issued and outstanding, with an additional 6,715 shares reserved for issuance upon conversion of the nil coupon non-redeemable convertible unsecured loan notes and 3,005,125 shares reserved for issuance upon the exercise or vesting of equity awards, of which 2,277,625 are stock options that are currently exercisable.

5. NIL COUPON NON-REDEEMABLE CONVERTIBLE UNSECURED LOAN NOTES

At December 31, 2011 and 2010, respectively, Fuel Tech had a principal amount of $76 of nil coupon non-redeemable

Stock Option Exchange Program

On June 1, 2011, the Company commenced an exchange program 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 by 97 employees 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 additional stock compensation was determined by comparing the fair value of the options tendered immediately prior to the exchange to the intrinsic value of the RSUs granted immediately after the exchange. The fair value of the options was calculated using the Black-Scholes option pricing model. The Company recognized $63 of additional stock-based compensation during the year ended December 31, 2011 as a result of the stock option exchange program, which is included in the stock compensation related to RSUs in the table above. 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

The 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 12-month periods ended December 31, 2011, 2010, and 2009, respectively, were $4.08, $3.38, and $5.83 per share using the following weighted average assumptions:

	2011	2010	2009
Expected dividend yield	0.00%	0.00%	0.00%
Risk-free interest rate	1.80%	1.74%	2.46%
Expected volatility	57.2%	67.7%	68.0%
Expected life of option	5.0 years	5.5 years	5.1 years

The following table presents a summary of Fuel Tech's stock option activity and related information for the years ended December 31:

	2011		2010		2009	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding at beginning of year	2,856,125	$ 14.68	3,051,125	$ 15.28	2,905,325	$ 16.30
Granted	60,000	8.16	110,000	5.71	510,000	9.96
Exchanged for RSUs	(814,500)	22.06	-	-	-	-
Exercised	(81,500)	4.61	(1,500)	6.35	(101,000)	5.84
Expired or forfeited	(118,125)	18.48	(303,500)	17.51	(263,200)	18.82
Outstanding at end of year	1,902,000	$ 11.51	2,856,125	$ 14.68	3,051,125	$ 15.28
Exercisable at end of year	1,718,062	$ 11.72	2,277,625	$ 14.98	1,784,000	$ 14.28
Weighted-average fair value of options granted during the year		$ 4.08		$ 3.38		$ 5.83

The following table provides additional information regarding Fuel Tech's stock option activity for the 12 months ended December 31, 2011:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding on January 1, 2011	2,856,125	$ 14.68		
Granted	60,000	8.16		
Exchanged for RSUs	(814,500)	22.06		
Exercised	(81,500)	4.61		
Expired or forfeited	(118,125)	18.48		
Outstanding on December 31, 2011	1,902,000	11.51	4.9 years	$ 926
Exercisable on December 31, 2011	1,718,062	$ 11.72	4.6 years	$ 906

The following table summarizes information about stock options outstanding at December 31, 2011:

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices	**Number of Options**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price**	**Number of Options**	**Weighted-Average Exercise Price**
$ 2.76 - $ 5.51	409,000	3.5 years	$ 4.50	409,000	$ 4.50
$ 5.52 - $ 11.03	883,875	5.7 years	8.71	710,187	8.59
$ 11.04 - $ 22.06	272,250	4.2 years	14.63	262,000	14.55
$ 22.07 - $ 27.57	336,875	5.1 years	24.86	336,875	24.86
$ 2.76 - $ 27.57	1,902,000	4.9 years	$ 11.51	1,718,062	$ 11.72

Non-vested stock option activity for the 12 months ended December 31, 2011 was as follows:

	Non-Vested Stock Options Outstanding	**Weighted-Average Grant Date Fair Value**
Outstanding on January 1, 2011	578,500	$ 7.50
Granted	60,000	4.08
Vested	(328,187)	7.31
Exchanged for RSUs	(91,500)	10.07
Forfeited	(34,875)	8.19
Outstanding on December 31, 2011	183,938	$ 5.56

As of December 31, 2011, there was $1,131 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 1.2 years. Fuel Tech received proceeds from the exercise of stock options of $376, $10, and $605 in the years ended December 31, 2011, 2010, and 2009, respectively. The intrinsic value of options exercised in the years ended December 31, 2011, 2010, and 2009 was $256, $2, and $394, respectively. It is our policy to issue new shares upon option exercises, loan conversions, and vesting of restricted stock units. We have not used cash and do not anticipate any future use of cash to settle equity instruments granted under share-based payment arrangements.

Restricted Stock Units

Restricted stock units (RSUs) granted to employees vest over time based on continued service (typically vesting over a period between two and four years). Such time-vested RSUs are valued at the date of grant using the intrinsic value method based on the closing price of the Company's common stock on the grant date. 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, the Company entered into a performance-based RSU agreement (the Agreement) with each of the Company's President/Chief Executive Officer, Treasurer/Chief Financial Officer, Executive Vice President, Marketing & Sales and Executive Vice President, Worldwide Operations. The Agreement provides 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 and Nominating 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 2011 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.

- 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 the 2011 and 2012 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 the 2011 and 2012 calendar years. These awards vest 67% on the second anniversary of the Agreement date and 33% on the third anniversary of the Agreement date. We estimated the fair value of these market-based RSU awards on the Agreement date using a Monte Carlo valuation methodology and amortize the fair value over the requisite service period for each separately vesting tranche of the award. The principal variable assumptions utilized in valuing these RSUs under this valuation methodology include the risk-free interest rate, stock volatility, and correlations between our stock price and the stock prices of a peer group of companies.

The Company recorded expense of approximately $672 and $9 associated with its restricted stock unit awards in 2011 and 2010, respectively, and at December 31, 2011 there is $1,656 of unrecognized compensation costs related to restricted stock unit awards to be recognized over a weighted average period of 2.8 years.

A summary of restricted stock unit activity for the year ended December 31, 2011 and 2010 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock units at January 1, 2010	-	$ 0.00
Granted	149,000	8.63
Unvested restricted stock units at December 31, 2010	149,000	$ 8.63
Granted	80,000	9.14
Converted from stock options	267,372	6.53
Forfeited	(9,207)	6.76
Vested	-	-
Unvested restricted stock units at December 31, 2011	487,165	$ 7.59

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 2011, 2010, and 2009, Fuel Tech recorded $ 61, $95, and $86, respectively, of stock-based compensation expense under the Deferred Plan.

7. COMMITMENTS AND CONTINGENCIES

Operating Leases

Fuel Tech leases office space, automobiles and certain equipment under agreements expiring on various dates through 2019. Future minimum lease payments under non-cancellable operating leases that have initial or remaining lease terms in excess of one year as of December 31, 2011 are as follows:

Year of Payment	Amount
2012	$ 565
2013	499
2014	333
2015	290
2016	290
Thereafter	870
Total	$ 2,847

For the years ended December 31, 2011, 2010 and 2009, rent expense approximated $879, $897, and $1,025, respectively.

Fuel Tech has a sublease agreement with American Bailey Corporation (ABC) that obligates the sub-lessee to make future payments to the Company. ABC will reimburse Fuel Tech for its share of lease and lease-related expenses under Fuel Tech's February 1, 2010 lease of its executive offices in Stamford, Connecticut. Please refer to Note 9 to the consolidated financial statements for a discussion of the relationship between Fuel Tech and ABC. The future minimum lease income under this non-cancellable sublease as of December 31, 2011 is as follows:

Year of Payment	Amount
2012	$ 124
2013	124
2014	124
2015	133
2016	133
Thereafter	399
Total	$1,037

The terms of the Company's four primary lease arrangements are as follows:

- The Stamford, Connecticut building lease term, for approximately 6,440 square feet, runs from February 1, 2010 to December 31, 2019. The facility houses certain administrative functions such as Investor Relations and certain APC sales functions.

- The Beijing, China building lease term, for approximately 5,800 square feet, runs from September 1, 2011 to August 31, 2012. This facility serves as the operating headquarters for our Beijing Fuel Tech operation. Fuel Tech has the option to extend the lease term at a market rate to be agreed upon between Fuel Tech and the lessor.

- The Durham, North Carolina building lease term, for approximately 16,000 square feet, runs from November 1, 2005 to April 30, 2014. Fuel Tech has no option to extend the lease.

- The Gallarate, Italy building lease term, for approximately 1,300 square feet, runs from July 1, 2005 to April 30, 2013. This facility serves as the operating headquarters for our Italy operations.

Performance Guarantees

The majority of Fuel Tech's long-term equipment construction contracts contain language guaranteeing that the performance of the system that is being sold to the customer will meet specific criteria. On occasion, performance surety bonds and bank performance guarantees/letters of credit are issued to the customer in support of the construction contracts as follows:

- in support of the warranty period defined in the contract; or
- in support of the system performance criteria that are defined in the contract.

As of December 31, 2011, Fuel Tech had outstanding performance surety bonds in the amount of $2,742 and bank performance guarantees and letters of credit in the amount of $2,124 in support of equipment construction contracts that have not completed their final acceptance test or that are still operating under a warranty period. The performance guarantees expire in dates ranging from January 2012 through January 2015. The expiration dates may be extended if the project completion dates are extended. Fuel Tech's management believes it is probable that these projects will be successfully completed and that there will not be a materially adverse impact on Fuel Tech's operations from these bank performance guarantees and letters of credit. As a result, no liability has been recorded for these performance guarantees.

Product Warranties

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 experience 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 in 2011, 2010 and 2009 are summarized below:

	2011	2010	2009
Aggregate product warranty liability at beginning of year	$ 215	$ 199	$ 265
Net aggregate expense related to product warranties	650	170	60
Aggregate reductions for payments	(552)	(154)	(126)

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 December 31, 2011, the Company was in compliance with all financial covenants specified by the Facility.

At December 31, 2011 and 2010, the Company had outstanding standby letters of credit and bank guarantees totaling approximately $1,374 and $1,265, 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 December 31, 2011 and 2010, there were no cash borrowings under the domestic revolving credit facility and approximately $13,626 and $23,735, 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 30, 2011, 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 $5,511), which expires on June 29, 2012. This new credit facility replaced the previous RMB 45 million facility that expired on June 30, 2011. 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 December 31, 2011 and 2010, Beijing Fuel Tech had borrowings outstanding in the amount of $1,181 and $2,269, respectively. These borrowings were subject to interest rates of approximately 7.6% and 5.8% at December 31, 2011 and December 31, 2010, respectively.

At December 31, 2011 and 2010, the Company had outstanding standby letters of credit and bank guarantees totaling approximately $750 and $348, respectively, on its Beijing Fuel Tech revolving credit facility in connection with contracts in process. At December 31, 2011 and 2010, approximately $3,580 and $3,983 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 $148 and $143 were made during the years ended December 31, 2011 and 2010, respectively.

9. RELATED PARTY TRANSACTIONS

Persons now or formerly associated with American Bailey Corporation (ABC) currently own approximately 25% of Fuel Tech's Common Shares. On January 1, 2004, Fuel Tech entered into an agreement whereby ABC reimburses Fuel Tech for services that certain employees of Fuel Tech provide to ABC. In addition, ABC is a sub-lessee under Fuel Tech's February 1, 2010 lease of its offices in Stamford, Connecticut, which runs through December 31, 2019. ABC reimburses Fuel Tech for its share of lease and lease-related expenses under the sublease agreement. The Stamford facility houses certain administrative functions including Investor Relations. The amount due from ABC related to both compensation and the sublease agreement was $27, $217, and $24 at December 31, 2011, 2010, and 2009, respectively.

10. DEFINED CONTRIBUTION PLAN

Fuel Tech has a retirement savings plan available for all U.S. employees who have met minimum length-of-service requirements. Our contributions are determined based upon amounts contributed by Fuel Tech's employees with additional contributions made at the discretion of Fuel Tech's Board of Directors. Costs related to this plan were $757, $536, and $377 in 2011, 2010, and 2009, respectively.

11. BUSINESS SEGMENT, GEOGRAPHIC AND QUARTERLY FINANCIAL DATA

Business Segment Financial Data

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 NOx emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources. These include Low and Ultra Low NOx Burners (LNB and ULNB), Over-Fire Air (OFA) systems, NOxOUT® 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 NOx reductions at significantly lower capital and operating costs than conventional SCR systems. The NOxOUT CASCADE® and NOxOUT-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 CFD and 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. Fuel Tech does not review assets by reportable segment, but rather, in aggregate for Fuel Tech as a whole.

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

For the year ended December 31, 2011	Air Pollution Control Segment	FUEL CHEM Segment	Other	Total
Revenues from external customers	$ 50,930	$ 42,738	$ -	$ 93,668
Cost of sales	(28,467)	(21,390)	-	(49,857)
Gross margin	22,463	21,348	-	43,811
Selling, general and administrative	-	-	(33,446)	(33,446)
Gain from revaluation of ACT liability	-	-	758	758
Research and development	-	-	(1,474)	(1,474)
Operating income (loss)	$ 22,463	$ 21,348	$ (34,162)	$ 9,649

For the year ended December 31, 2010	Air Pollution Control Segment	FUEL CHEM Segment	Other	Total
Revenues from external customers	$ 40,917	$ 40,878	$ -	$ 81,795
Cost of sales	(27,024)	(19,797)	-	(46,821)
Gross margin	13,893	21,081	-	34,974
Selling, general and administrative	-	-	(30,857)	(30,857)
Gain from revaluation of ACT liability	-	-	768	768
Research and development	-	-	(948)	(948)
Operating income (loss)	$ 13,893	$ 21,081	$ (31,037)	$ 3,937

For the year ended December 31, 2009	Air Pollution Control Segment	FUEL CHEM Segment	Other	Total
Revenues from external customers	$ 34,721	$ 36,676	$ -	$ 71,397
Cost of sales	(21,518)	(20,926)	-	(42,444)
Gross margin	13,203	15,750	-	28,953
Selling, general and administrative	-	-	(32,273)	(32,273)
Gain from revaluation of ACT liability	-	-	781	781
Research and development	-	-	(542)	(542)
Operating income (loss)	$ 13,203	$ 15,750	$ (32,034)	$ (3,081)

Geographic Segment Financial Data

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.

For the years ended December 31,	2011	2010	2009
Revenues:			
United States	$ 76,077	$ 69,002	$ 55,395
Foreign	17,591	12,793	16,002
	$ 93,668	$ 81,795	$ 71,397

As of December 31,	2011	2010	2009
Assets:			
United States	$ 99,601	$ 92,485	$ 82,261
Foreign	13,389	10,718	10,001
	$ 112,990	$ 103,203	$ 92,262

Quarterly Financial Data

Set forth below are the unaudited quarterly financial data for the fiscal years ended December 31, 2011 and 2010.

For the quarters ended	March 31	June 30	September 30	December 31
2011				
Revenues	$ 22,622	$ 19,021	$ 24,023	$ 28,002
Cost of sales	11,466	10,553	13,050	14,788
Net income	1,339	430	2,655	1,724
Net income per common share:				
Basic	$ 0.06	$ 0.02	$ 0.11	$ 0.07
Diluted	$ 0.05	$ 0.02	$ 0.11	$ 0.07
2010				
Revenues	$ 17,617	$ 18,902	$ 20,279	$ 24,997
Cost of sales	9,500	11,067	11,496	14,758
Net income (loss)	214	(309)	817	1,031
Net income (loss) per common share:				
Basic	$ 0.01	$ (0.01)	$ 0.03	$ 0.04
Diluted	$ 0.01	$ (0.01)	$ 0.03	$ 0.04

12. FAIR VALUE

The Company applies authoritative accounting guidance for fair value measurements of financial and nonfinancial assets and liabilities. This guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the standard establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs to the valuation methodology such as quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs to the valuation methodology including quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means
- Level 3 – Significant unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own estimates and assumptions or those expected to be used by market participants. Generally, these fair value measures are model-based valuation techniques such as discounted cash flows, option pricing models, and other commonly used valuation techniques

The fair value of our marketable securities was $57 and $0 at December 31, 2011 and 2010, respectively, and was determined using quoted prices in active markets for identical assets (level 1 fair value measurements). Transfers between levels of the fair

value hierarchy are recognized based on the actual date of the event or change in circumstances that caused the transfer. We had no assets or liabilities that were valued using level 2 or level 3 inputs and therefore there were no transfers between levels of the fair value hierarchy during the periods ended December 31, 2011 and 2010.

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.

13. SHARE REPURCHASE PROGRAM

In August 2011, Fuel Tech's Board of Directors authorized the repurchase of up to $6 million dollars of its outstanding common shares through December 31, 2012. The share repurchase program will be funded through the Company's existing cash on hand. Purchases made pursuant to the program will be made in either the open market or in privately negotiated transactions from time to time as permitted by federal securities laws and other legal requirements. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements, and other factors. The program may be suspended or discontinued at any time.

For the year ended December 31, 2011, Fuel Tech repurchased an aggregate of 701,714 common shares for a total cost of approximately $4,111, including commissions of approximately $28. These acquired shares have been retired and are no longer shown as issued or outstanding shares. As of December 31, 2011, the Company is authorized to repurchase additional shares with a cost up to approximately $1,889 under its share repurchase program. The following table summarizes our share repurchase program since its inception:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
August 25, 2011 through September 30, 2011	571,554	$ 5.89	$ 2,633
October 1, 2011 through December 31, 2011	130,160	5.71	1,889
Total	701,714	$ 5.86	$ 1,889

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A - CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act), as of the end of the period covered by this Annual Report on Form 10-K (the "Evaluation Date"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Change in Internal Controls

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Fuel Tech's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. As required by Rule 13a-15(c) under the Exchange Act, Fuel Tech's management carried out an evaluation, with the participation of Fuel Tech's Chief Executive Officer and Chief Financial Officer, of the effectiveness of its internal control over financial reporting as of the end of the last fiscal year. The framework on which such evaluation was based is contained in the report entitled "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Report").

Fuel Tech's system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on its assessment, management has concluded that Fuel Tech maintained effective internal control over financial reporting as of December 31, 2011, based on criteria in "Internal Control - Integrated Framework" issued by the COSO.

McGladrey & Pullen, LLP, our independent registered public accounting firm, who audited and reported on the consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of our internal control over financial reporting. This attestation report is included in Item 8 to this Annual Report on Form 10-K.

ITEM 9B - OTHER INFORMATION

None

PART III

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item will be set forth under the captions "Election of Directors," "Directors and Executive Officers of Fuel Tech," "Compensation Committee," "Audit Committee," and "Financial Experts" in Fuel Tech's definitive Proxy Statement related to the 2012 Annual Meeting of Stockholders (the "Proxy Statement") and is incorporated by reference.

Fuel Tech has adopted a Code of Ethics and Business Conduct (the "Code") that applies to all employees, officers and directors, including the Chief Executive Officer, Chief Financial Officer and Controller. A copy of the Code is available free of charge to any person on written or telephone request to Fuel Tech's Investor Relations at the address or telephone number set out in Fuel Tech's Annual Report to Stockholders. The Code is also available on Fuel Tech's website at www.ftek.com.

4.10*	Fuel Tech, Inc. Form of 2011 Executive Performance RSU Award Agreement		8-K		10.1	03/28/11
10.1**	License Agreement dated November 18, 1998 between The Gas Technology Institute and Fuel Tech, Inc. relating to the FLGR Process.		10-K	12/31/99	3.28	03/30/00
10.2**	Amendment No. 1, dated February 28, 2000, to License Agreement dated November 18, 1998 between The Gas Technology Institute and Fuel Tech, Inc. relating to the FLGR Process.		10-K	12/31/99	3.29	03/30/00
10.3	Form of Indemnity Agreement between Fuel Tech, Inc. and its Directors and Officers.		8-K		99.1	02/07/07
10.4**	Restated Supply Agreement, dated March 4, 2009, between Fuel Tech, Inc. and Martin Marietta Magnesia Specialties, LLC.		10-K	12/31/08	10.7	03/05/09
10.5	Asset Purchase Agreement, dated December 5, 2008, among Fuel Tech, Inc., Advanced Combustion Technology, Inc., Peter D. Marx, Robert W. Pickering and Charles E. Trippel.		10-K	12/31/08	10.8	03/05/09
10.6*	Employment Agreement, dated February 1, 1998, between Stephen P. Brady and Fuel Tech, Inc.		10-Q	09/30/09	10.2	11/04/09
10.7*	Employment Agreement, dated 10/31/1998, between William E. Cummings, Jr. and Fuel Tech, Inc.		10-K	12/31/09	10.10	03/04/10
10.8	Credit Agreement, dated as of June 30, 2009, between JPMorgan Chase Bank, N.A. and Fuel Tech, Inc.		10-Q	09/30/09	10.5	11/04/09
10.9	First Amendment to Credit Agreement, dated as of October 5, 2009, between JPMorgan Chase Bank, N.A. and Fuel Tech, Inc.		10-Q	09/30/09	10.6	11/04/09
10.10	Second Amendment to Credit Agreement, dated as of November 4, 2009, between JPMorgan Chase Bank, N.A. and Fuel Tech, Inc.		10-Q	09/30/09	10.7	11/04/09
10.11	Third Amendment to Credit Agreement, dated as of June 30, 2011, between JPMorgan Chase Bank, N.A. and Fuel Tech, Inc.		10-Q	06/30/11	4.1	08/08/11
10.12	Sublease Agreement, dated December 9, 2009, between Fuel Tech, Inc. and American Bailey Corporation		10-K	12/31/09	10.14	03/04/10
10.13*	2011 Executive Officer Incentive Plan of Fuel Tech, Inc.		10-K	12/31/10	10.15	03/09/11
10.14*	Fuel Tech, Inc. 2011 FUEL CHEM® Officer Commission Plan		10-K	12/31/10	10.16	03/09/11
10.15*	Fuel Tech, Inc. 2012 FUEL CHEM® Officer Commission Plan	X				
10.16*	Fuel Tech, Inc. 2011 APC Officer and GSM Commission Plan		10-K	12/31/10	10.17	03/09/11
10.17*	Fuel Tech, Inc. 2012 APC Officer and GSM Commission Plan	X				
10.18*	Employment Agreement, dated August 2, 2010, between David S. Collins and Fuel Tech, Inc.		10-Q	06/30/10	10.1	08/09/10

10.19*	Employment Agreement, dated April 1, 2010, between Douglas G. Bailey and Fuel Tech, Inc.		10-K	12/31/10	10.19	03/09/11
10.20*	Employment Agreement, dated August 31, 2009, between Robert E. Puissant and Fuel Tech, Inc.		10-K	12/31/10	10.20	03/09/11
10.21*	Employment Agreement, dated September 20, 2010 between Vincent J. Arnone and Fuel Tech, Inc.	X				
23.1	Consent of Independent Registered Public Accounting Firm.	X				
23.2	Consent of Independent Registered Public Accounting Firm.	X				
31.1	Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
31.2	Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
32.0	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X				

101.1 INS XBRL Instance Document.

101.2 SCH XBRL Taxonomy Extension Schema Document.

101.3 CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.4 DEF XBRL Taxonomy Extension Definition Linkbase Document.

101.5 LAB XBRL Taxonomy Extension Label Linkbase Document.

101.6 PRE XBRL Taxonomy Extension Presentation Linkbase Document.

* Indicates a management contract or compensatory plan or arrangement.

** Portions of this document have been omitted pursuant to a request for confidential treatment and the omitted information has been filed separately with the Securities and Exchange Commission.

SIGNATURES AND CERTIFICATIONS

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.

FUEL TECH, INC.

Date: March 5, 2012

By: /s/ Douglas G. Bailey
Douglas G. Bailey
Chief Executive Officer
(Principal Executive Officer)

Date: March 5, 2012

By: /s/ David S. Collins
David S. Collins
Chief Financial Officer
(Principal Financial Officer)

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been duly signed below by the following persons on behalf of Fuel Tech, Inc. and in the capacities and on the date indicated.

Date: March 5, 2012

Signature	Title
/s/ Douglas G. Bailey Douglas G. Bailey	Chairman and Director, President and Chief Executive Officer (Principal Executive Officer)
/s/ Miguel Espinosa Miguel Espinosa	Director
/s/ W. Grant Gregory W. Grant Gregory	Director
/s/ Charles W. Grinnell Charles W. Grinnell	Director
/s/ Thomas L. Jones Thomas L. Jones	Director
/s/ George F. MacCormack George F. MacCormack	Director
_____ John D. Morrow	Director
/s/ Thomas S. Shaw, Jr. Thomas S. Shaw, Jr.	Director
/s/ Delbert L. Williamson Delbert L. Williamson	Director
/s/ David S. Collins David S. Collins	Sr. Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)

Exhibit 31.1

I, Douglas G. Bailey, certify that:

1. I have reviewed this Annual Report on Form 10-K of Fuel Tech, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules l3a-15 (e) and 15d-15 (e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2012

By: /s/ Douglas G. Bailey
Douglas G. Bailey
Chief Executive Officer

Exhibit 31.2

I, David S. Collins, certify that:

1. I have reviewed this Annual Report on Form 10-K of Fuel Tech, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement (No. 333-137735 and 333-36390) on Form S-8 of Fuel Tech, Inc. and Subsidiaries of our report dated March 5, 2012, relating to our audits of the consolidated financial statements and internal control over financial reporting, which appear in this Annual Report on Form 10-K of Fuel Tech, Inc. and Subsidiaries for the year ended December 31, 2011.

/s/ McGladrey & Pullen, LLP

Schaumburg, Illinois
March 5, 2012

Corporate Information

Principal Locations

Fuel Tech, Inc.
27601 Bella Vista Parkway
Warrenville, Illinois 60555
630-845-4500
630-845-4501 (Fax)
www.ftek.com

120 Long Ridge Road
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203-425-9830
203-425-9823 (Fax)

2300 Englert Drive, Suite C
Durham, North Carolina 27713
919-405-2299
919-405-2276 (Fax)

Beijing Fuel Tech Environmental
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Room 1912, Tower B,
Peking Times Square
103 Huizhongli, Chaoyang District
Beijing 100101, P.R. China
86-10-8487 1472-1477
86-10-8487 1470 (Fax)

Fuel Tech Srl
Centro Direzionale "Le Torri"
Via Marsala, 34/A
21013 Gallarate (Varese)
Italy
39-0331-701110
39-0331-701099 (Fax)

Annual Stockholders' Meeting

The Annual Stockholders' Meeting will be held on May 24, 2012 at 10:00 A.M. local time in Warrenville, Illinois. A formal notice of the meeting, together with a proxy statement and form of proxy, will be mailed to stockholders on or about April 16, 2012.

Independent Auditors

McGladrey & Pullen LLP
Chicago, Illinois

Transfer Agent and Registrar

Computershare Shareowner
Services LLP
480 Washington Boulevard
Jersey City, New Jersey 07310-1900
800-288-9541
201-680-6578 (International)
www.computershare.com

Investor Relations

Stockholder inquiries should be directed to:

Tracy H. Krumme
Vice President, Investor Relations and
Corporate Communications
203-425-9830
800-887-3835
tkrumme@ftek.com

Management

Douglas G. Bailey
Chairman, President and
Chief Executive Officer

Vincent J. Arnone
Executive Vice President,
Worldwide Operations

Robert E. Puissant
Executive Vice President,
Marketing and Sales

David S. Collins
Senior Vice President, Treasurer and
Chief Financial Officer

Vincent M. Albanese
Senior Vice President,
Regulatory Affairs

Stephen P. Brady
Senior Vice President,
Fuel Chem Sales

William E. Cummings
Senior Vice President,
Air Pollution Control Sales

Timothy J. Eibes
Senior Vice President,
Project Execution

Albert G. Grigonis
Senior Vice President,
General Counsel and Secretary

Ellen T. Albrecht
Vice President and Controller

Paul G. Carmignani
Vice President,
New Product Development

Kevin R. Dougherty
Vice President, Business Development
and Marketing

Zhaojun Guan
Managing Director
China/Pacific Rim

Tracy H. Krumme
Vice President, Investor Relations and
Corporate Communications

Michael F. Petrak
Vice President, Human Resources

Pierangelo Ponzoni
Managing Director
Europe/Western Asia

Volker Rummenhohl
Vice President,
Catalyst Technologies

Christopher R. Smyrniotis
Vice President,
Fuel Chem Technologies

William H. Sun
Vice President, International Business
and Technologies

Fuel Tech, the stylized Fuel Tech logo, FUEL CHEM®, the stylized FUEL CHEM logo, NO_xOUT®, NO_xOUT CASCADE®, ULTRA™, ASCR™, NO_xOUT-SCR®, HERT™, TCI® Targeted Corrosion Inhibition™, TIFI® Targeted In-Furnace Injection™, TIFI MG™, TIFI XP™, TIFI MP™, TIFI Flux™, TIFI BlueCat™ and TIFI Hybrid™ are registered trademarks of Fuel Tech, Inc. All other trademarks, brands and names are the property of their respective owners.

Back Cover: KCP&L Sibley Generating Station, where Fuel Tech's SNCR/RRI and ULTRA™ systems are in operation.

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