

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 10-K

(Mark One)

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, 2001

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. 000-21724

### FUEL-TECH N.V.

(Exact name of registrant as specified in its charter)

Netherlands Antilles

(State or other jurisdiction of incorporation of organization)

N/A

(I.R.S. Employer Identification Number)

Fuel-Tech N.V.

(Registrant)

Fuel Tech, Inc.

(U.S. Operating Subsidiary)

Castorweg 22-24

Suite 703, 300 Atlantic Street

Curaçao, Netherlands Antilles

Stamford, CT 06901

(599) 9-461-3754

(203) 425-9830

(Address and telephone number of principal executive offices)

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

Securities registered pursuant to Section 12(g) 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)

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

Yes  No

Indicate by check mark 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.

Aggregate market value of the voting stock held by non-affiliates of the registrant based on the average bid and asked prices of March 20, 2002: \$91,366,000

Indicate number of shares outstanding of each of the registered classes of Common Stock at March 20, 2002: 19,252,534 shares Common Stock, \$0.01 par value.

Documents incorporated by reference:

Certain portions of the Proxy Statement for the annual meeting of stockholders to be held in 2002 described in Parts II, III, and IV hereof are incorporated by reference in this report.

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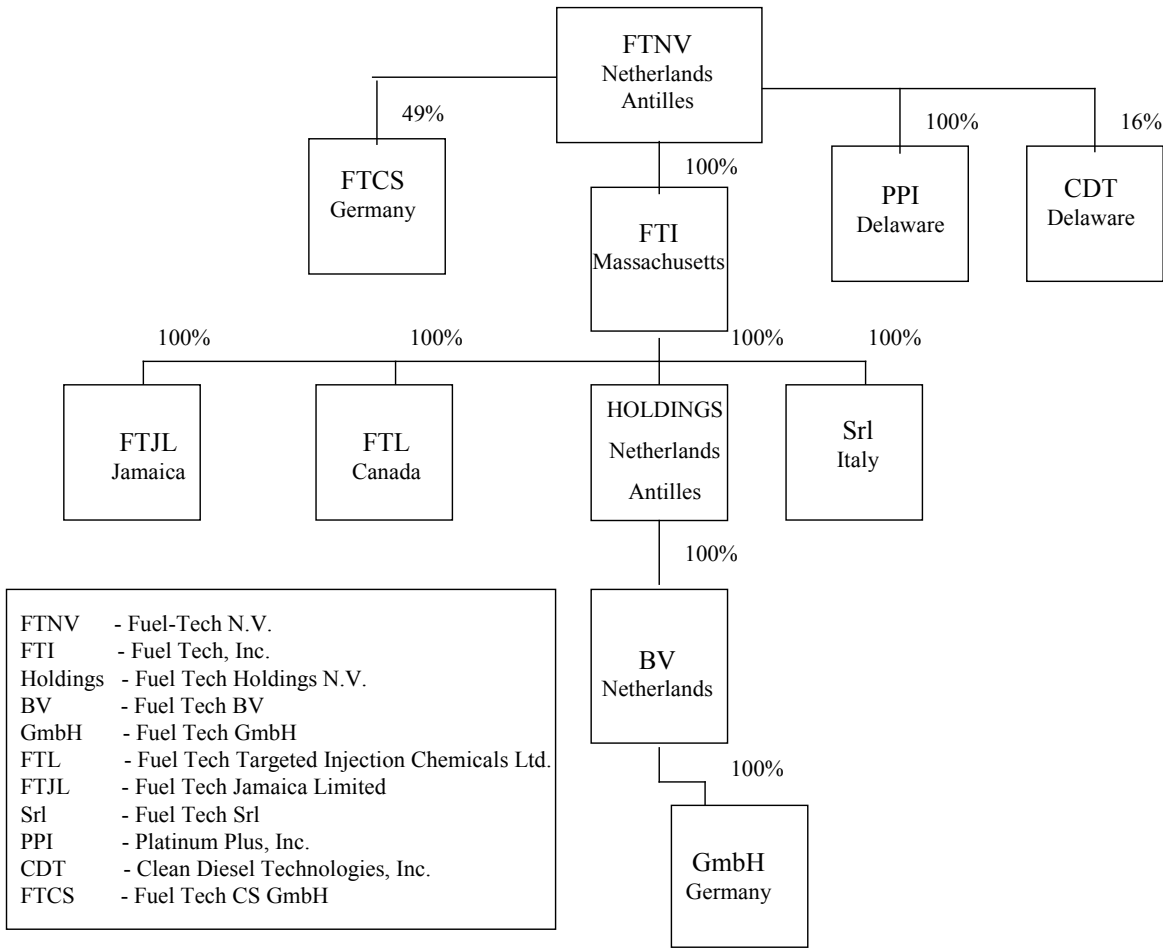
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## TABLE OF DEFINED TERMS

<b><u>Term</u></b>	<b><u>Definition</u></b>
ABC	American Bailey Corporation
AES	Advanced Engineering Services
CAAA	Clean Air Act Amendments of 1990
CDT	Clean Diesel Technologies, Inc.
CFD	Computational Fluid Dynamics
Common Shares	Shares of the common stock of the Company
Company	Fuel-Tech N.V. and its subsidiaries and affiliates
EPRI	Electric Power Research Institute
FTI	Fuel Tech, Inc.
FUEL CHEM®	FTI's fuel and flue gas treatment processes, including its Targeted-In-Furnace-Injection programs for slagging, fouling and corrosion control and plume abatement
FLGR™	Fuel Lean Gas Reburn
Investors	The purchasers of Company securities pursuant to a Securities Purchase Agreement of March 23, 1998
Loan Notes	Nil Coupon Non-redeemable Convertible Unsecured Loan Notes of the Company
NO <sub>x</sub>	Oxides of nitrogen
NO <sub>x</sub> OUT CASCADE®	Combination of NO <sub>x</sub> OUT and SCR
NO <sub>x</sub> OUT® Process	The Company's SNCR process for the reduction of NO <sub>x</sub>
NO <sub>x</sub> OUT SCR®	Urea used as a catalyst reagent
Rich Reagent Injection Technology (RRI)	An SNCR-type process that broadens the NO <sub>x</sub> reduction capability of the NO <sub>x</sub> OUT Process at a cost similar to NO <sub>x</sub> OUT. RRI can also be applied on a stand-alone basis.
SCR	Selective Catalytic Reduction
SIP Call	State Implementation Plan Rulemaking Procedure
SNCR	Selective Non-Catalytic Reduction
SO <sub>2</sub>	Sulfur dioxide
SO <sub>x</sub> OUT CASCADE®	The Company's process for the reduction of SO <sub>2</sub>
ULTRA™	The Company's process for generating ammonia for use as SCR reagent
Virtual Vantage™	The Company's advanced visualization services

# Fuel-Tech N.V. Subsidiaries and Affiliates

December 31, 2001



# PART I

## Forward Looking Statements

Statements in this Form 10-K which are not historical facts, so-called "forward-looking statements," are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including those detailed in the Company's filings with the Securities and Exchange Commission. See "Risk Factors of the Business" in Item 1 and also Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## ITEM 1. BUSINESS

### The Company

Fuel-Tech N.V., including its subsidiaries (the "Company"), is a technology company active in the air pollution control and specialty chemical businesses through its wholly owned subsidiary Fuel Tech, Inc. ("FTI") and its affiliate Clean Diesel Technologies, Inc. ("CDT"). Fuel-Tech N.V., incorporated in 1987 under the laws of the Netherlands Antilles, is registered at Castorweg 22-24 in Curacao under No. 1334/N.V.

#### *Fuel Tech, Inc.*

FTI's special focus is the worldwide marketing of its nitrogen oxide ("NOx") reduction and FUEL CHEM® Processes. The NOx reduction technologies, which include the NOxOUT®, NOxOUT CASCADE®, NOxOUT SCR®, and FLGR™ processes, reduce NOx emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources. The FUEL CHEM business uses chemical processes for slagging, fouling, and corrosion control and plume abatement in furnaces and boilers through the addition of chemicals into the fuel or by Targeted-In-Furnace-Injection. FTI has a number of other technologies, such as NOxOUT ULTRA™, both commercial and in the development stage, that are for the most part add-ons to the NOxOUT Process or similar in their technological base. FTI's business is materially dependent on the continued existence and enforcement of worldwide air quality regulations.

#### *Clean Diesel Technologies, Inc.*

CDT, a Delaware corporation, is a specialty chemical company supplying fuel additives and systems that reduce harmful emissions from internal combustion engines while improving fuel economy. CDT's two main technology areas are Platinum Fuel Catalysts ("PFC's") for emission control and fuel economy improvement in diesel and gasoline-fueled engines and NOx reduction systems for control of NOx emissions from stationary and mobile diesel engines. CDT was formed in 1994 as a wholly owned subsidiary of the Company, which had conducted fundamental work regarding the Company's technologies. CDT was spun off by the Company in a 1995 rights offering. At December 31, 2001, the Company held 16% of the equity of CDT in the form of CDT common stock. CDT is a public company registered under the Securities Act of 1934. CDT's technology was in part acquired by assignment from the Company, which assignment obligates CDT until 2008 to pay to the Company royalties of 2.5% of gross revenues derived from sale of the PFC's.

#### *American Bailey Corporation*

American Bailey Corporation ("ABC") performs management services for the Company under an Agreement dated April 30, 1998, as amended. Ralph E. Bailey, Chairman, Chief Executive Officer and Managing Director of the Company, and Douglas G. Bailey, Managing Director of the Company, are shareholders of ABC. See the more detailed information relating to this subject under the caption "Certain Relationships and Related Transactions" in the Company's Proxy Statement to be distributed in connection with the Company's 2002 Annual General Meeting of Shareholders, which information is incorporated by reference. Also, refer to Note 2 to the consolidated financial statements.

### NOx Reduction

#### *Regulations and Markets*

The domestic U.S. air pollution control market is the primary driver in the Company's NOx reduction business. The Company estimates the domestic market to be \$2 billion in revenues per year over the next three to four years. This market is dependant 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 SIP (State Implementation Plan ) Call, an extension of Phase II of Title I - Ozone Non-Attainment (Ozone Transport) of the CAAA (discussed further below) over 1000 utility and large industrial boilers in 19 states are required to achieve certain NOx reduction targets by May 31, 2004. Under Title III - Air Toxics of the CAAA, 80 municipal solid waste facilities in the U.S. had to achieve certain NOx reduction targets by December 2000. Also, in Europe under European Union Directives, over 100 industrial units must achieve NOx reductions by 2005.

In 1994, governors of eleven 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 EPA announced more stringent regulations. The Ozone Transport State Implementation Plan (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, requires, following the litigation described below, 19 states to make even deeper reductions of 85% from 1990 levels by May 31, 2004. Over 1,000 utility and large industrial boilers are affected by these mandates. Additionally, most other states with non-attainment areas are also required to meet ambient air quality standards for ozone by 2007.

As noted above, the original SIP Call is the federal mandate introduced in 1998 to further reduce NOx in 22 states by May 2003. This mandate was an extension of Phase II of Title I of the Clean Air Act Amendments of 1990 (CAAA). On May 14, 1999, the U.S. Circuit Court of Appeals for the District of Columbia Circuit issued a decision and opinion in American Trucking Association, Inc. et al v. Environmental Protection Agency et al (No. 97-1440), in which the Court found that the 1997 EPA adoption of primary and secondary national ambient air quality standards for particulate matter and ozone involved an unconstitutional delegation of Congressional power and remanded the case to the EPA for action. Also, on May 25, 1999 in a separate case, State of Michigan et al v. Environmental Protection Agency (No. 98-1497), the same Court ordered a partial stay of implementation of the SIP Call regulation until further order of the Court. This order was in response to a motion of the plaintiffs to delay implementation of the SIP Call regulation until resolution of their suit challenging that regulation. On March 3, 2000, an appellate court of the D.C. Circuit upheld the validity of the SIP Call for 19 of the 22 states and, on June 22, 2000, the same court made a final ruling upholding the EPA's SIP Call regulation and denying the appeal of the states and utilities. Subsequent to this court ruling, the stay in the SIP Call was lifted. Although the NOx reduction requirement date was moved back one year to May of 2004, 19 states were required to complete and issue their State Implementation Plans for NOx reduction by late October of 2000. These plans, which the EPA had until October 2001 to approve, impacted 700 to 800 utility boilers and 400 to 500 industrial units.

In February 2001, the Federal Supreme Court, in a unanimous decision, upheld EPA's authority to revise the National Ambient Air Quality Standard for ozone to 0.080 parts per million averaged through an eight-hour period from the current 0.120 parts per million for a one-hour period. This more stringent standard provides clarity and impetus for air pollution control efforts well beyond the 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. Based on these regulatory developments, the Company is enjoying accelerated interest in its programs that have led to significant project bookings late in 2001 and early in 2002.

### *Products*

The Company's NOxOUT Process is a Selective Non-Catalytic Reduction ("SNCR") process that uses non-hazardous urea as the reagent rather than ammonia. The NOxOUT Process on its own is capable of reducing NOx by up to 40% for utilities and by potentially significantly greater amounts for industrial units in many types of plants with capital costs ranging from \$6 - \$20/kw for utility boilers and with annualized operating costs ranging from \$1,000 - \$1,500/ton of NOx removed.

The Company's NOxOUT CASCADE Process provides for the addition of catalyst as an add-on to the NOxOUT Process to achieve performance similar to Selective Catalytic Reduction ("SCR"). Based on demonstrations, NOxOUT CASCADE's capital cost is less than that of SCR, while operating costs are competitive with those experienced by SCR.

The Company's NOxOUT SCR Process utilizes urea as a catalyst reagent to achieve NOx reductions of up to 90% from stationary combustion sources with capital and operating costs competitive with equivalently sized, standard SCR systems.

Fuel Lean Gas Reburn (FLGR), licensed from the Gas Technology Institute on a co-exclusive basis, utilizes injection of natural gas to react with and reduce NOx by 25-40%.

The Company is currently in the process of commercially offering its NOxOUT ULTRA system. The system is designed to safely and economically convert urea to ammonia for use as a reagent in the selective catalytic reduction process (SCR) for NOx reduction. In this fashion, the Company intends to participate in the SCR segment of the SIP Call driven market. Recent local hurdles encountered in the ammonia permitting process have raised concerns regarding the safety of ammonia storage in quantities sufficient to supply SCR.

The Company has recently licensed Rich Reagent Injection Technology from the Electric Power Research Institute. The technology has been proven in full-scale field studies on cyclone-fired units to reduce NOx by 25-30%. The technology is a generic SNCR whose applicability is outside the temperature range of NOxOUT. The technology is envisioned as an add-on to the Company's NOxOUT systems, thus potentially broadening the NOx reduction of the combined system to almost 50% with a minimal additional capital requirement.

Sales of the NOx reduction technologies were \$10.4 million, \$17.4 million, and \$27.5 million for the years ended December 31, 2001, 2000, and 1999, respectively.

### *NOx Reduction Competition*

Processes competitive with the Company's NOx reduction products may be expected from combustion modifications, SCR and ammonia SNCR, among others.

Combustion modifications, including low NOx burners, can be fitted to most types of boilers with cost and effectiveness varying with specific boilers. Combustion modifications may effect 20-50% NOx reduction economically with capital costs ranging from \$5 - \$40/kw and annualized operating costs ranging from \$300 - \$1,000/ton of NOx removed. Such companies as ABB Ltd., Foster Wheeler Corporation, The Babcock & Wilcox Company, Steam Sales Corporation, and Todd Combustion Ltd. are active competitors in the low-NOx burner business.

SCR is an effective and proven method of control for the removal of up to 90% of NOx. SCR has a high capital cost ranging from \$55 - \$150/kw on retrofit coal applications. Such companies as ABB Ltd., The Babcock & Wilcox Company, Cormetech, Inc., Engelhard Corporation, Foster Wheeler Corporation, Peerless Manufacturing Company, and the Siemens Westinghouse Power Corporation are active SCR system providers.

The use of ammonia as the reagent for the SNCR process was developed by the ExxonMobil Corporation. The Company understands that the ExxonMobil patents on this process have expired. This process can reduce NOx by 30% to 70% on incinerators, but has limited applicability in the utility industry. Ammonia system capital costs range from \$15 - \$22/kw, with annualized operating costs range from \$1,000 - \$3,000/ton of NOx removed. These systems require the use of stored ammonia, a hazardous substance.

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

### **FUEL CHEM**

#### *Product and Markets*

The Company's fireside and fuel additive programs, FUEL CHEM, help improve unit performance and reduce customer operating costs. Through the program, customers have enjoyed returns on their investments of up to 500%. The Targeted-In-Furnace-Injection approach, a key FUEL CHEM technology on which two patents have been issued, is a uniquely engineered and economical solution to furnace fouling and corrosion problems. Electric utilities, the pulp and paper industry and municipal solid waste incinerator facilities make up the principal markets for the program.

Sales of the FUEL CHEM products were \$7.2 million, \$4.5 million, and \$5.8 million for the years ended December 31, 2001, 2000, and 1999, respectively.

#### *Competition*

During 2001, the Company placed a significant focus on penetration of the coal-fired utility industry. A successful demonstration at a Western U.S. utility led to the attainment of the first commercial contract in this market. For the majority of the year, parity existed between the price of oil and natural gas, which served to support the utilization of Fuel Chem programs (which are dependent on the utilization of oil). However, favorable natural gas pricing vis a vis oil, combined with an overall downturn in the economy and normal maintenance outages, negatively impacted revenues in the latter portion of the fourth quarter.

Competition for the Company's FUEL CHEM product line includes chemicals sold by specialty chemical companies, such as Hercules Incorporated, primarily in the traditional heavy-fuel-oil treatment area. No substantive competition currently exists for the Company's technology for Targeted-In-Furnace-Injection of additives for control of slagging, fouling, and corrosion and for plume abatement, but there can be no assurance that such lack of substantive competition will continue.

### **Advanced Engineering Services**

The Company's Advanced Engineering Services ("AES") continued in 2001 to support the sale of the Company's NOx reduction and FUEL CHEM systems, particularly through the use of computational fluid dynamics ("CFD") tools. These CFD tools assist in the prediction of the behavior of gas flows, thereby enhancing the implementation of the Company's NOx reduction systems and the application of its FUEL CHEM slag and corrosion control processes. Also, in 2001, the Company augmented its AES staff and equipment with a view toward not only better serving the Company's customers but also to seek other applications for its services. Toward this goal, the Company has made progress in the commercialization of Virtual Vantage™, which allows users to visualize complex data sets in a virtual reality environment. The Company expects to release Version 1.0 of this software in the first half of 2002.

### **Intellectual Property**

See Item 2 "Description of Property" for information on the Company's intellectual property and proprietary position, which are material to its business.

## **Employees**

The Company has 73 full-time employees, 68 in North America and 5 in Europe. The Company enjoys good relations with its employees and is not a party to any labor management agreements.

## **Risk Factors of the Business**

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

### **(i) Lack of Diversification**

The Company is engaged in only one principal business, involving the marketing of products to reduce air pollution. An adverse development in the Company's business as a result of competition, technological change, government regulation, or any other factor could have a significantly greater impact than if the Company maintained diverse operations.

### **(ii) Common Shareholders Subordinate to Nil Coupon Loan Note Holders**

In the event of a liquidation of the Company, the holders of the Common Shares of the Company will be subordinate to the prior claims of the holders of the Company's Nil Coupon Loan Notes in principal amount at the date of this report of approximately \$2.6 million.

### **(iii) No Dividends**

The Company has not to date paid dividends on its common stock and does not intend to pay any dividends in the foreseeable future.

### **(iv) Possible Volatility of Stock Price**

There has been significant volatility in the market prices of publicly traded shares of emerging growth technology companies. Economic trends and factors such as announcements of technical developments, establishment of strategic alliances, changes in governmental regulations, and developments in patent or proprietary rights may have a significant effect on the market price of the Company's Common Shares.

### **(v) Competition**

Competition in the NOx control market will come from processes utilizing low-NOx burners, over-fired air, flue gas recirculation, ammonia SNCR, SCR and, with respect to particular uses of urea not infringing the Company's patents, urea (see Item 2 "Description of Property"). Competition will also come from business practices such as the purchase rather than the generation of electricity, fuel switching, closure or derating of units, and sale or trade of pollution credits. Utilization by customers of such processes or business practices or combinations thereof may adversely affect the Company's pricing and participation in the Title I, Phase II NOx Control market if customers elect to comply with regulations by methods other than the Company's NOxOUT, NOxOUT CASCADE or FLGR processes. See above under this Item I the text under the captions "*Products*" and "*NOx Reduction Competition*."

### **(vi) Dependence on Regulations and Enforcement**

The Company's business is primarily regulatory driven. That 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 minimize enforcement. See also the text above under the caption "*Regulations and Markets*."

### **(vii) Protection of Patents and Proprietary Rights**

The Company holds licenses to or owns a number of patents and has 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. Certain critical technology relating to the Company's products is protected by trademark and trade secret laws and confidentiality and licensing agreements. There can be no assurance that such protection will prove adequate or that the Company will have adequate remedies for disclosure of its trade secrets or violations of its intellectual property rights. See Item 2 "*Description of Property*."

## **ITEM 2. DESCRIPTION OF PROPERTY**

The Company's NOxOUT Process is based on the Electric Power Research Institute (EPRI) urea technology embodied in two patents licensed to the Company ("EPRI patents"). One of these patents expired in 1997 and the other expired in 1999. In addition to these, the Company owns 105 patents worldwide, with 3 patent applications pending in the U.S. and 21 pending in non-U.S. jurisdictions. These patents cover some 43 inventions, 31 associated with the NOxOUT Process; 2 associated with FUEL CHEM, 1 associated with Virtual Vantage and 9 associated with non-commercialized technologies. These inventions represent significant enhancements of the application and performance of the technologies. Although the EPRI patents and license have expired, the Company believes that the protection provided by the numerous claims in the above referenced patents or patent applications of the Company is substantial and, regardless of the expired EPRI urea patents, affords the Company a significant competitive advantage in the SNCR field. 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 the Company's business.

The Company's most recent NOx reduction technology is Fuel Lean Gas Reburn (FLGR) which is licensed through November 2003 from the Gas Technology Institute in Chicago. The Company has an option to extend the agreement for a seven-year period of time.

Apart from its intellectual property, the property of the Company is not material.

The Company and its subsidiaries operate from leased office and engineering facilities in Curacao, Netherlands Antilles; Batavia, Illinois; Stamford, Connecticut; and Milan, Italy.

## **ITEM 3. LEGAL PROCEEDINGS**

The Company has no pending litigation material to its business.

## **ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS**

During the fourth quarter of 2001, no matters were submitted to a vote of security holders.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### *Market*

The Company's Common Shares have been traded since September 1993 on The NASDAQ Stock Market, Inc. (Small Capitalization) and the Berlin Stock Exchange.

#### *Prices*

The table below sets forth the high and low sales prices during each calendar quarter since January, 2000.

	<u>High</u>	<u>Low</u>
<b>2001</b>		
Fourth Quarter	6.070	2.190
Third Quarter	3.700	2.010
Second Quarter	3.840	2.000
First Quarter	2.781	1.250
<b>2000</b>		
Fourth Quarter	2.375	1.250
Third Quarter	2.625	1.875
Second Quarter	2.813	1.844
First Quarter	3.500	1.844

#### *Dividends*

The Company has not to date paid dividends on its Common Shares and is not expected to do so in the foreseeable future.

#### *Restricted Subsidiary Assets*

Refer to Note 8 to the consolidated financial statements for a discussion of restrictions between the Company and its wholly owned subsidiary, FTI.

#### *Holdings*

Based on information from the Company's Transfer Agent, as of March 15, 2002, there were 408 registered holders of the Company's common stock. Management believes that, on such date, there were approximately 2,300 beneficial holders of the Company's common stock.

#### *Transfer Agent*

The Transfer Agent and Registrar for the Common Shares is Mellon Investor Services, LLC, 85 Challenger Road, Overpeck Centre, Ridgefield Park, New Jersey 07660.

#### *Exchange Controls*

The Company received a license of unlimited duration from the Central Bank of the Netherlands Antilles to exempt it from foreign exchange controls in dealings with parties outside of the Netherlands Antilles or with parties in the Netherlands Antilles holding a similar license. The Company also received a business license of unlimited duration that allows the securities of the Company to be held by non-residents of the Netherlands Antilles. There are no other restrictions on the rights of such non-residents as shareholders. The books of the Company are maintained in United States dollars, however, there are transactions in other currencies.

#### *Taxation*

Under the Netherlands Antilles tax code applicable to the Company until at least the fiscal year 2019, the Company's income taxes in the Netherlands Antilles, which are based on profits exclusive of Dutch dividends received, are computed at a rate of 2.4% on the first 100,000 Netherlands Antilles Guilders (approximately \$60,000) and 3% on the excess. Also, capital gains and losses are not included in the taxable profit of the Company. Based on a tax ruling received by the Company, Dutch dividends received will be taxed to the Company at a rate of 5.0% at source, and at 5.5% of the net Dutch dividends in the Netherlands Antilles until at least the fiscal year 2005. Fuel-Tech N.V. is not now liable for tax in any jurisdiction other than the Netherlands Antilles. The subsidiaries of the Company are generally subject to the tax regimes of the jurisdictions where they are incorporated and conduct operations but not in the Netherlands Antilles.

Dividends paid by the Company to United States persons who are not engaged in a trade or business through a permanent establishment in the Netherlands Antilles are currently not subject to tax in the Netherlands Antilles. Gain or loss derived by a United

States person from the sale or exchange of the Company's Common Shares are exempt from Netherlands Antilles income tax. The tax treaty between the United States and the Netherlands Antilles was terminated effective December 31, 1987.

## ITEM 6. SELECTED FINANCIAL DATA

Selected financial data is presented below as of the end of and for each of the fiscal years in the five-year period ended December 31, 2001. The selected financial data should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2001, and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

STATEMENT of OPERATIONS DATA (in thousands of U.S. dollars, except for share data)	For the years ended December 31				
	2001	2000	1999	1998	1997
Net sales	\$ 17,672	\$ 21,906	\$ 33,325	\$ 25,864	\$ -
Royalty income from NFT	-	-	-	-	148
Loss from equity interest in joint venture	-	-	-	-	853
Selling, general and administrative and other costs and expenses	9,873	9,305	9,691	8,927	2,064
Net (loss) income	(1,633)	415	3,008	539	(2,571)
Basic (loss) income per common share	\$ (0.09)	\$ 0.02	\$ 0.17	\$ 0.03	\$ (0.21)
Diluted (loss) income per common share	\$ (0.09)	\$ 0.02	\$ 0.16	\$ 0.03	\$ (0.21)
Weighted-average basic shares outstanding	18,592,000	18,396,000	17,752,000	15,680,000	12,387,000
Weighted-average diluted shares outstanding	18,592,000	19,621,000	19,335,000	17,437,000	12,387,000

BALANCE SHEET DATA (in thousands of U.S. dollars, except for per share data)	December 31				
	2001	2000	1999	1998	1997
Working capital	\$ 8,861	\$ 12,542	\$ 12,126	\$ 9,047	\$ 1,766
Total assets	20,328	23,089	24,464	19,153	5,947
Total liabilities	7,193	8,522	10,773	8,837	701
Shareholders' equity	13,135	14,567	13,691	10,316	5,246
Net tangible book value per share	\$ 0.56	\$ 0.59	\$ 0.52	\$ 0.45	\$ 0.37

### Notes:

- (1) Effective April 30, 1998, Fuel Tech, Inc., a wholly owned subsidiary of Fuel-Tech N.V. (the "Company"), purchased Nalco Chemical Company's 50% interest in the Nalco Fuel Tech (NFT) joint venture. As a result of this transaction, the Company owns 100% of the assets and liabilities of NFT. The 1998 operations of NFT have been consolidated with those of the Company for the entire year. The Company's operating results for 1997 reflect the Company's 50% share of NFT's operating results on the equity basis of accounting. Refer to Note 2 to the consolidated financial statements.
- (2) Shareholders' equity includes outstanding nominal nil coupon non-redeemable perpetual loan notes. See Note 5 to the consolidated financial statements.
- (3) Net tangible book value per share assumes full conversion of the Company's nil coupon non-redeemable perpetual loan notes into shares of the Company's common stock.
- (4) Effective March 31, 1985, FTI effected a quasi-reorganization and reduced the value of certain of its assets. Tax benefits resulting from the utilization of the United States federal tax loss carryforwards existing as of the date of the quasi-reorganization have been excluded from the results of operations and credited to additional paid-in capital when realized. Tax benefits from the utilization of such carryforwards of \$722,000 and \$1,363,000 were realized in 1999 and 1998, respectively. As such, a non-cash charge was recorded as income tax expense, and additional paid-in capital was increased accordingly for the amounts noted above in both years. There are no remaining tax loss carryforwards from years prior to the date of the quasi-reorganization.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Background

Fuel-Tech N.V. (the "Company") operates primarily in the air pollution control business. It distributes its products through its direct sales force, licensees and agents. Principal markets for its products are stationary combustion sources that produce nitrogen oxide (NOx) and other emissions. The Company sells its fuel treatment chemicals through its direct sales force and agents to industrial and utility power-generation facilities.

The Company currently generates revenues from the following two product lines:

#### *Nitrogen Oxide ("NOx") Reduction Technologies*

The Company markets several NOx reduction technologies to meet statutory NOx reduction requirements worldwide. The near-term driver for growth in this business is the Ozone Transport SIP (State Implementation Plan) Call, which requires 19 states to decrease their NOx emissions by May 31, 2004. This regulation impacts 700-800 utility boilers and 400-500 large industrial boilers (see below for more detail on the SIP Call).

#### *Fuel Treatment Chemicals*

The Company's proprietary Targeted-In-Furnace-Injection technology centers around the unique application of specialty chemicals to improve the performance of combustion units. Specifically, this technology is used to reduce slag formation, corrosion and opacity in boilers, furnaces and incinerators. The Company believes its largest market opportunity for this product line is those units burning Western coals, many of which have significant operational issues related to the formation of slag. Fuel Tech first penetrated this market in 2001 through the successful demonstration of this technology on a large utility boiler burning Western coal and, based on this success, expects to further penetrate this market in 2002.

### 2001 versus 2000

Net sales in 2001 totaled \$17,672,000 versus net sales of \$21,906,000 in 2000, a decline of 19%. This overall decline is due to a \$9,100,000 year on year reduction in domestic NOx reduction industrial project revenues, the basis of which is discussed further below. This result was partially offset by two favorable factors. First, the Company experienced a \$2,776,000 increase in fuel treatment chemical revenues in 2001 versus 2000, to a record level of \$7,209,000. Second, the Company realized revenues from temperature mapping and modeling activities predominantly for the domestic NOx reduction utility project business in the amount of approximately \$1,700,000 in 2001 versus an immaterial amount in 2000.

The year on year decline in domestic NOx reduction industrial project revenues is attributable to a NOx reduction regulation, as mandated in Title III of the Clean Air Act Amendments of 1990 (CAAA), requiring municipal solid waste incinerators to significantly reduce their NOx emissions by December 1, 2000. This regulation had a significant positive impact on industrial project revenues in 2000, and it was expected that these revenues would not repeat in 2001. NOx reduction utility revenue had been negatively impacted by the delay in obtaining a final ruling on the Environmental Protection Agency's (EPA) SIP Call regulation. As discussed further below, the uncertainty regarding this regulation has been lifted and the Company expects demand for its NOx reduction technologies to increase significantly during the next few years.

The increase in fuel treatment chemical revenues is attributable to the Company's success in penetrating the market for utility units burning Western coals, and to customers' conversion from existing suppliers to Fuel Tech. Significant focus has been placed on marketing the Company's patented Targeted-In-Furnace-Injection approach to reducing the operating costs of customers' units. The successful penetration of the market for utility units burning western coals will serve as the primary driver for revenue growth in this business in the upcoming years.

The "SIP Call" is the federal mandate that, when introduced in 1998, required 22 states to reduce NOx emissions by May 2003. This mandate was an extension of Phase II of Title I of the CAAA. In May 1999 a stay was imposed on this regulation. On March 3, 2000, an appellate court of the D.C. Circuit upheld the validity of the SIP Call for 19 of the 22 states and, on June 22, 2000, the same court made a final ruling upholding the EPA's SIP call regulation and denying the appeal of the states and utilities. Subsequent to this court ruling, the stay on the SIP Call was lifted. Although the NOx reduction requirement date was moved back one year to May of 2004, nineteen states were required to complete and issue their State Implementation Plans for NOx reduction by October of 2000. These plans, which the EPA had until October 2001 to approve, will potentially impact 700 to 800 utility boilers and 400 to 500 large industrial units.

In February 2001, the United States Supreme Court, in a unanimous decision, upheld EPA's authority to revise the National Ambient Air Quality Standard for ozone to 0.080 parts per million averaged through an eight-hour period from the current 0.120 parts per million for a one-hour period. This more stringent standard provides clarity and impetus for air pollution control efforts well beyond the current ozone

attainment requirement of 2007. In keeping with this trend, the Supreme Court, only days later, denied industry's attempt to again stay the SIP Call, effectively exhausting all means of appeal.

Based on these regulatory developments, the Company is enjoying accelerated interest in its programs that have led to significant project bookings late in 2001 and early 2002.

In 2001, the Company realized approximately \$1,700,000 in revenues from temperature mapping and modeling orders received on 40 boilers predominantly for the domestic NOx reduction utility project business. The Company's performance of temperature mapping and modeling work for a customer is the precursor to performing NOx reduction project installations on the units for which the mapping and modeling has been performed. It is the Company's belief that project orders will be received from the majority of customers for whom temperature mapping and modeling work has been performed.

The gross margin percentage on an overall basis across all products was 49.1% in 2001, compared with 46.3% in 2000. The improvement was realized primarily due to the increase in revenues in the fuel treatment chemical business. As NOx reduction revenues from utility companies in the United States increase due to the above-mentioned regulations, this business will comprise a much larger percentage of the Company's overall revenues. As a result, the Company expects that the overall gross margin percentages will decline over the next several years, reflecting the change in product mix. It should be noted, however, that gross margin dollars are expected to increase significantly in 2002 due to the expected increase in revenues in both the NOx control and fuel treatment chemical businesses.

Selling, general and administrative expenses were \$8,708,000 for the twelve months ended December 31, 2001, an increase of \$774,000 from the prior year. The increase is due primarily to a higher level of selling and service expenses resulting from the increased agents fees and commissions for the U.S. fuel treatment chemical business, and to a lesser extent to an increase in expenses related to the enhancement and expansion of the Company's European business.

Research and development expenses for the twelve months ended December 31, 2001 and 2000 were \$1,165,000 and \$843,000, respectively. The Company continues to aggressively pursue commercial applications for its technologies outside of its traditional markets, with a particular focus on its NOxOUT ULTRA™ process and its Virtual Vantage™ advanced visualization software. The Company sold its first commercial demonstration of NOxOUT ULTRA late in 2001, and expects additional demonstration orders in 2002. Version 1.0 of the Virtual Vantage software is expected to be released late in the second quarter of 2002, but the Company does not expect to realize significant revenues from this product before 2003.

The Company recorded a net loss from its equity interest in affiliates during the year 2001 of \$342,000. This amount consists of a \$250,000 loss recognized on its equity investment in Clean Diesel Technologies, Inc. (CDT), and a \$92,000 loss on its investment in Fuel Tech CS GmbH. The Company has a 16% common stock ownership interest in CDT as of December 31, 2001, while the Company has a 49% ownership interest in Fuel Tech CS GmbH as noted above. Please refer to Note 9 of the consolidated financial statements for a further discussion of related party transactions.

Interest expense decreased to \$245,000 for the twelve-month period ended December 31, 2001 from \$354,000 for the same period in 2000. The favorable variance is due solely to the decrease in the average outstanding principal debt balance during the year, and to a decrease in short-term interest rates.

Other income and expense for the twelve-month period ended December 31, 2001 was \$37,000 versus \$82,000 for the same period in 2000. The decrease is due to a lower level of interest income that was driven by the decrease in short-term interest rates noted above, and to the write down of impaired assets. Partially offsetting these factors was a gain in the amount of approximately \$180,000 related to the dissolution of the wholly owned subsidiaries in Poland and Taiwan. The entity in Poland has not been operational since 1997, and the entity in Taiwan operated only as a sales agency office.

The Company recorded a tax benefit of \$114,000 in 2001 related to the Italian subsidiary. There were no domestic income taxes recorded in 2001 as the Company recorded a net loss for the year. The Company has \$39.9 million in United States federal income tax loss carryforwards as of December 31, 2001, the deferred tax benefit of which has been offset by a valuation allowance in the Company's balance sheet.

In the opinion of management, the Company's expected near-term revenue growth in its NOx reduction business will be directly related to the implementation of the requirements of the CAAA. The Company's implementor and alliance strategies will enable the Company to provide the NOxOUT Process to an increasing number of customers without significantly adding technical and support staff. Customers purchase the NOxOUT Process and related technologies from either the Company or its implementors. If customers purchase the NOxOUT Process from implementors, the per contract revenues to the Company may be lower, but more installations may be handled.

## 2000 versus 1999

Net sales in 2000 totaled \$21,906,000 versus net sales of \$33,325,000 in 1999, a decline of 34%. This overall decline was due primarily to a \$13,337,000 year on year reduction in domestic NOx reduction project revenue from utilities. This result was somewhat offset by a 28% increase in domestic NOx reduction industrial project revenue, as particular emphasis was placed on this market segment while awaiting resolution of litigation concerning regulations affecting the domestic utility segment. International NOx reduction industrial project revenues in 2000 were behind 1999 by 51%, with the decline being attributable to the closure of Fuel Tech GmbH, a wholly owned subsidiary of the Company (discussed further below) and to the completion of a major project in Asia in 1999. International project revenues were, however, supported by the continued maturation of the Western European market, with new business attained in France and Italy. Lastly, revenues derived from the sale of fuel treatment chemicals domestically and internationally fell short of 1999 levels by 9% and 58%, respectively. Domestically, the negative impact of high crude oil prices early in the year could not be completely overcome by year-end gains resulting from the high price of natural gas (causing boiler operators to switch fuels back to oil), and the penetration of the Company's patented Targeted-In-Furnace-Injection technology. The decline in International fuel treatment chemical revenues was primarily attributable to a large customer's change in fuels, thus eliminating their requirement for treatment chemicals.

The Company believes that the delay in obtaining a final ruling on the Environmental Protection Agency's (EPA) SIP Call regulation, as discussed previously, was the primary reason for the decline in domestic NOx reduction utility project revenue experienced in 2000.

As noted above, sales in the domestic fuel treatment chemical segment increased during the latter part of 2000, which resulted from the increase in the cost of natural gas that has caused customers to switch back to using fuel oil. Additionally, significant effort was being expended to further penetrate and enter the potentially lucrative pulp and paper and Western coals markets. The Company directed its sales and marketing efforts toward the penetration of its patented Targeted-In-Furnace-Injection technology into these segments of the market, where the return on investment to the Company's customers can reach in excess of 500% per year.

The gross margin percentage on an overall basis across all products was 46.3% in 2000, compared with 43.6% in 1999. The improvement was realized primarily due to the reduction in revenues realized from lower margin NOx reduction utility projects in the United States in 2000 versus 1999, and to the improved margin performance on NOx reduction industrial projects.

The Company's net income on a consolidated basis for the 12 months ended December 31, 2000 included a net charge of \$490,000 related to the restructure of its European operations in an effort to consolidate its business and enhance profitability. In the second quarter of 2000, the Company announced that it would concentrate its European resources in its Italian company, Fuel Tech Srl, and shut down Fuel Tech GmbH, a wholly owned subsidiary, in Germany. The restructuring consisted of the following transactions, which were recorded at June 30, 2000:

- Fuel Tech GmbH's NOxOUT chemical business was sold to a new entity in Germany (Fuel Tech CS GmbH) in which the Company holds a 49% ownership interest that was acquired for \$116,000. The selling price is dependent on future results of the chemical business, but will not be less than 1,250,000 deutsche marks (approximately \$600,000), paid out over three years. A gain on this transaction of \$269,000 was recorded in other income and expense in the consolidated statement of operations.
- Fuel Tech GmbH recorded a charge of \$528,000 related to the closure of the entity. The charge included accruals of \$343,000 primarily for severance obligations for four employees, lease termination costs and other costs related to the closure of the entity. This charge was recorded as a reduction to operating income in the consolidated statement of operations. As of December 31, 2001, the Company made payments of approximately \$311,000 related to this charge.
- The cumulative foreign currency translation loss related to Fuel Tech GmbH of \$231,000 was recognized as other income and expense in the consolidated statement of operations.

Selling, general and administrative costs decreased by \$953,000 from 1999. The decrease is due primarily to a reduction in revenue-based expenses, such as sales commissions to employees and agents, and to a lesser extent, to reductions in controllable expenses.

The Company recorded a net loss from its equity interest in affiliates during the year 2000 of \$195,000. This amount consists of a \$225,000 loss recognized on its equity investment in Clean Diesel Technologies, Inc. (CDT), offset by a \$30,000 gain on its investment in Fuel Tech CS GmbH. The Company had a 21.6% common stock ownership interest in CDT as of December 31, 2000, while the Company had a 49% ownership interest in Fuel Tech CS GmbH as noted above. Please refer to Note 9 of the consolidated financial statements for a further discussion of related party transactions.

Interest expense increased to \$354,000 for the twelve-month period ended December 31, 2000 from \$309,000 for the same period in 1999. The unfavorable variance is due solely to the increase in the average outstanding principal debt balance during the year. A \$4.5 million term loan was received on September 1, 1999, and was used to retire a note held by Nalco Chemical Company ("Nalco"), the Company's former joint venture partner in Nalco Fuel Tech ("NFT"), with a remaining principal balance of \$2.5 million and for the buyout of a contingent payment obligation held by Nalco which had a maximum remaining obligation of \$5.4 million. Both obligations relate to the Company's purchase of Nalco's interest in NFT in April 1998.

Other income and expense for the twelve-month period ended December 31, 2000 was favorable versus the prior year by \$333,000. Higher levels of interest income driven by favorable cash balances and higher interest rates, as well as the impact of the German transactions discussed above provided the positive variance.

The Company did not record the impact of income taxes in 2000, while income tax expense of \$1,299,000 was recorded in 1999. The Company had \$46.0 million in United States federal income tax loss carryforwards as of December 31, 2000 (the deferred tax benefit of which has been offset by a valuation allowance in the Company's balance sheet). There was no income tax impact recorded in the 2000 results primarily due to recording the benefit of the net operating losses generated in prior years, which were carried forward and applied at the state level.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents were approximately \$9.3 million at December 31, 2001 versus \$9.0 million at December 31, 2000. Operating activities, which provided \$2.1 million of cash in 2001, were driven by the continued improvement in working capital management. Investing activities, which used cash of \$1.1 million during the year, were primarily comprised of a loan to CDT of \$125,000 and to the continued investment in equipment and intellectual property of \$1,016,000. Financing activities, which used cash of \$534,000 during the year, were comprised primarily of debt repayments of \$900,000, which were offset by cash received from the exercise of stock options.

Historically, the Company has financed its operations principally through the private placement of its Common Shares and the private placement of nil coupon non-redeemable convertible unsecured loan notes (the "Loan Notes"). The Loan Notes are convertible at any time into the Company's common stock. They bear no interest, have no maturity date and are repayable generally only in the event of the winding up of the Company. The Company has therefore classified the Loan Notes within shareholders' equity in its balance sheet.

At December 31, 2001, the Company had cash and cash equivalents of \$9,338,000 and working capital of \$8,861,000 versus \$8,987,000 and \$12,542,000 at the end of 2000, respectively.

On September 1, 1999, FTI entered into a \$3.0 million revolving credit facility expiring August 31, 2002, which is collateralized by all personal property owned by FTI. FTI can use this facility for cash advances and standby letters of credit. Cash advances under this facility bear interest at the bank's prime rate, or at an optional rate that can be selected by FTI which is based on the bank's Interbank Offering Rate plus 2.25%.

Also, on September 1, 1999, FTI entered into a term loan agreement with the same bank for a total principal balance of \$4.5 million. The principal balance was to be repaid in quarterly installments of \$225,000 commencing on December 31, 1999, with a final principal payment of \$2,025,000 due on August 31, 2002. Further, FTI entered into an interest rate swap transaction that fixes the rate of interest at 8.91% on approximately 50% of the outstanding principal balance during the term of the loan. The remaining principal balance bears interest at the bank's prime rate, or at an optional rate that can be selected by FTI which is based on the bank's Interbank Offering Rate plus 2.25%. The borrowings under this facility are collateralized by all personal property owned by FTI.

In 2001, amendments to this debt agreement were approved to increase the line of credit to \$6,000,000, and to extend the expiration date of both the line of credit and the term loan to January 31, 2003. Further, on March 7, 2002 an additional amendment to the agreement required FTI to maintain a \$6,500,000 compensating balance in support of the debt facility, so long as credit is available and until the bank is repaid in full. At December 31, 2001, the full outstanding balance of the term loan is classified as short term to reflect FTI's intent to repay or refinance this balance during the first six months of 2002 on favorable terms to the Company, and also, uncertainty concerning FTI's ability to comply with a debt covenant at September 30, 2002. The covenant for the period ended September 30, 2002 and beyond, which was negotiated in 1999, does not reflect the deferral in NOx reduction revenues the Company experienced due to the delay in obtaining a final ruling on the SIP Call regulation.

Under the terms of this agreement, FTI is not allowed to make loans or advances, or remit annual dividends in excess of \$900,000 to the Company as long as the facility is outstanding. At December 31, 2001, FTI net assets subject to this restriction are \$13,264,000. This restriction does not adversely impact the Company's ability to meet its cash obligations.

At December 31, 2001, the bank had provided standby letters of credit, predominantly to customers, totaling approximately \$1,423,000 in connection with contracts in process. The Company is committed to reimbursing the issuing bank for any payments made by the bank under these letters of credit. At December 31, 2001, there were no cash borrowings against this facility and approximately \$4,577,000 was available for utilization.

The carrying amount of debt approximates fair value at December 31, 2001. The fair value of the interest rate swap, based on quoted market prices, is a liability of \$42,000 at December 31, 2001. The notional value of the swap is \$1,350,000 at December 31, 2001.

As a result of the aforementioned transactions, the pending regulatory deadlines in the United States and the current cash and working capital positions, the Company believes that it will have sufficient resources to fund its growth and operations going forward.

## 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 the Company to make estimates and assumptions. The Company believes that of its significant accounting policies (see Note 1 to the consolidated financial statements), the following involves a higher degree of judgment and complexity:

The Company uses the percentage of completion method of accounting for certain long-term equipment construction and license contracts. Under the percentage of completion method, sales and gross profit are recognized as work is performed based on the relationship between actual engineering hours and equipment construction costs incurred and total estimated hours and costs at completion. Since the

financial reporting of these contracts depends on estimates, which are assessed continually during the term of the contract, recognized sales and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are reflected in the period in which the facts that give rise to the revision become known.

## **FORWARD-LOOKING INFORMATION**

From time to time, information provided by the Company, statements made by its employees or information included in its filings with the Securities and Exchange Commission (including this Annual Report) may contain statements that are not historical facts, so-called “forward-looking statements.” These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company’s actual future results may differ significantly from those stated in any forward-looking statements. Forward-looking statements involve a number of risks and uncertainties, including, but not limited to, product demand, pricing, market acceptance, litigation, risk of dependence on significant customers, third-party suppliers and intellectual property rights, risks in product and technology development and other risk factors detailed in this Annual Report and in the Company’s Securities and Exchange Commission filings.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates. The Company does 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.

The Company is also exposed to changes in interest rates primarily due to its long-term debt arrangement (refer to Note 8 to the consolidated financial statements). The Company uses an interest rate derivative instrument (an interest rate swap) to manage exposure to interest rate changes. The Company has entered into an interest rate swap transaction that fixes the rate of interest at 8.91% on approximately 50% of the outstanding principal balance during the term of the loan. 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, 2001.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

### **REPORT OF INDEPENDENT AUDITORS**

#### **THE BOARD OF DIRECTORS OF FUEL-TECH N.V.**

We have audited the accompanying consolidated balance sheets of Fuel-Tech N.V. as of December 31, 2001 and 2000, and the related consolidated statements of operations, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fuel-Tech N.V. at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2001, the Company changed its method of accounting for derivative financial instruments to conform with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

Ernst & Young LLP

Chicago, Illinois

February 22, 2002, except for Note 8 as to which the date is March 7, 2002

## Consolidated Balance Sheets

(in thousands of U.S. dollars, except share data)

<b>December 31</b>	2001	2000
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 9,338	\$ 8,987
Accounts receivable, net of allowances for doubtful accounts of \$162 and \$192, respectively	5,368	7,550
Inventories	274	162
Prepaid expenses and other current assets	583	1,019
Total current assets	15,563	17,718
Equipment, net of accumulated depreciation of \$4,222 and \$4,489, respectively	1,756	1,584
Goodwill, net of accumulated amortization of \$924 and \$590, respectively	2,126	2,450
Other intangibles, net of accumulated amortization of \$786 and \$809, respectively	411	458
Other assets	472	879
Total assets	\$20,328	\$23,089
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of note payable	\$ 2,700	\$ 900
Accounts payable	1,978	2,480
Accrued liabilities:		
Employee compensation	513	714
Deferred revenue	319	-
Other accrued liabilities	1,192	1,082
Total current liabilities	6,702	5,176
Note payable	-	2,700
Other liabilities	491	646
Total liabilities	7,193	8,522
Shareholders' equity:		
Common stock, \$.01 par value, 40,000,000 shares authorized, 18,984,097 and 18,526,972 shares issued, respectively	190	185
Additional paid-in capital	87,720	86,097
Accumulated deficit	(76,207)	(74,574)
Accumulated other comprehensive (loss) income	(68)	97
Treasury stock	(1,098)	(1,058)
Nil coupon perpetual loan notes	2,598	3,820
Total shareholders' equity	13,135	14,567
Total liabilities and shareholders' equity	\$20,328	\$23,089

See notes to consolidated financial statements.

**Consolidated Statements of Operations**  
(in thousands of U.S. dollars, except share data)

	2001	2000	1999
<b>For the years ended December 31</b>			
<b>Net revenues</b>	\$17,672	\$21,906	\$33,325
<b>Costs and expenses</b>			
Cost of sales	8,996	11,757	18,805
Selling, general and administrative	8,708	7,934	8,887
Research and development	1,165	843	804
Closing costs of German subsidiary	-	528	-
	<u>18,869</u>	<u>21,062</u>	<u>28,496</u>
<b>Operating (loss) income</b>	(1,197)	844	4,829
Loss from equity interest in affiliates	(342)	(195)	-
Interest expense	(245)	(354)	(309)
Other income (expense):			
Gain on sale of German subsidiary chemical business	-	269	-
Cumulative translation loss of German subsidiary	-	(231)	-
Other income (expense), net	37	82	(213)
<b>(Loss) income before taxes</b>	(1,747)	415	4,307
Income tax benefit (expense)	114	-	(1,299)
<b>Net (loss) income</b>	<u><u>\$(1,633)</u></u>	<u><u>\$ 415</u></u>	<u><u>\$ 3,008</u></u>
<b>Net (loss) income per common share</b>			
Basic	\$ (0.09)	\$ 0.02	\$ 0.17
Diluted	(0.09)	0.02	0.16
<b>Average number of common shares outstanding</b>			
Basic	18,592,000	18,396,000	17,752,000
Diluted	18,592,000	19,621,000	19,335,000

See notes to consolidated financial statements.

## Consolidated Statements of Shareholders' Equity

(in thousands of U.S. dollars, except share data in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Nil Coupon Perpetual Loan Notes	Total
	Shares	Amount				Shares	Amount		
<b>Balance at January 1, 1999</b>	<b>17,236</b>	<b>\$ 172</b>	<b>\$ 71,898</b>	<b>\$ (77,997)</b>	<b>\$ 52</b>	<b>94</b>	<b>\$ (1,058)</b>	<b>\$ 17,249</b>	<b>\$ 10,316</b>
Comprehensive income:									
Net income				3,008					3,008
Foreign currency translation adjustments					(77)				(77)
Comprehensive income									2,931
Conversion of nil coupon perpetual loan notes into common stock	963	10	10,372					(10,382)	-
Purchase of nil coupon perpetual Loan notes			2,535					(2,979)	(444)
Tax benefit from years prior to quasi-reorganization			722						722
Exercise of stock options	129	1	211						212
Other			(46)						(46)
<b>Balance at December 31, 1999</b>	<b>18,328</b>	<b>\$ 183</b>	<b>\$85,692</b>	<b>\$ (74,989)</b>	<b>\$ (25)</b>	<b>94</b>	<b>\$ (1,058)</b>	<b>\$3,888</b>	<b>\$ 13,691</b>
Comprehensive income:									
Net income				415					415
Foreign currency translation adjustments					122				122
Comprehensive income									537
Conversion of nil coupon perpetual loan notes into common stock	7	-	68					(68)	-
Exercise of stock options	192	2	337						339
<b>Balance at December 31, 2000</b>	<b>18,527</b>	<b>\$ 185</b>	<b>\$86,097</b>	<b>\$ (74,574)</b>	<b>\$ 97</b>	<b>94</b>	<b>\$ (1,058)</b>	<b>\$3,820</b>	<b>\$ 14,567</b>
Comprehensive loss:									
Net loss				(1,633)					(1,633)
Adjustment for fair value of derivative					(42)				(42)
Foreign currency translation adjustments					(123)				(123)
Comprehensive loss									(1,798)
Conversion of nil coupon perpetual loan notes into common stock	200	2	1,220					(1,222)	-
Exercise of stock options	216	3	403						406
Other	41					(30)	(40)		(40)
<b>Balance at December 31, 2001</b>	<b>18,984</b>	<b>\$ 190</b>	<b>\$87,720</b>	<b>\$ (76,207)</b>	<b>\$ (68)</b>	<b>64</b>	<b>\$ (1,098)</b>	<b>\$2,598</b>	<b>\$13,135</b>

See notes to consolidated financial statements.

**Consolidated Statements of Cash Flows**  
(in thousands of U.S. dollars)

	2001	2000	1999
<b>For the years ended December 31</b>			
<b>OPERATING ACTIVITIES</b>			
Net (loss) income	\$ (1,633)	\$ 415	\$ 3,008
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation	769	601	519
Amortization	375	382	261
Provision for doubtful accounts	44	233	134
Loss on equipment disposals/impaired assets	156	82	246
Loss from equity interest in affiliates	342	195	-
Income taxes	-	-	722
Closing reserve for German subsidiary	-	528	-
Cash payments against German subsidiary closing reserve	(26)	(277)	-
Gain on sale of German subsidiary chemical business	-	(269)	-
Cumulative translation (gain) loss	(90)	231	-
Changes in operating assets and liabilities:			
Accounts receivable	2,110	1,758	(759)
Inventories, prepaid expenses, other current assets and other noncurrent assets	422	(334)	139
Accounts payable, accrued liabilities, deferred revenue and other noncurrent liabilities	(417)	(1,957)	661
Other	8	3	69
Net cash provided by operating activities	2,060	1,591	5,000
<b>INVESTING ACTIVITIES</b>			
Investment in and loans to CDT	(125)	(350)	-
Investment in Fuel Tech CS GmbH	-	(116)	-
Proceeds from sale of German subsidiary's chemical business	-	122	-
Purchase of 50% of NFT Joint Venture	-	-	(1,958)
Purchases of equipment and patents	(1,016)	(774)	(795)
Net cash used in investing activities	(1,141)	(1,118)	(2,753)
<b>FINANCING ACTIVITIES</b>			
Issuance of common shares	-	-	(46)
Exercise of stock options	406	339	212
Purchase and retirement of nil coupon loan notes	-	-	(444)
Purchase of treasury shares	(40)	-	-
Repayment of borrowings	(900)	(675)	(3,225)
Proceeds from borrowings	-	-	4,500
Net cash (used in) provided by financing activities	(534)	(336)	997
Effect of exchange rate fluctuations on cash	(34)	(109)	(77)
Net increase in cash and cash equivalents	351	28	3,167
Cash and cash equivalents at beginning of year	8,987	8,959	5,792
Cash and cash equivalents at end of year	\$ 9,338	\$ 8,987	\$ 8,959

See notes to consolidated financial statements.

## **Notes to Consolidated Financial Statements**

### **1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

#### **Organization**

Fuel-Tech N.V. (the "Company") is a holding company active in the business of air pollution control. The Company's primary focus, through its wholly owned subsidiary, Fuel Tech, Inc. (FTI), is on the worldwide marketing and sale of its NOxOUT® Process and related technologies as well as its FUEL CHEM fuel treatment chemical product line. The NOxOUT Process reduces nitrogen oxide ("NOx") emissions from boilers, furnaces and other stationary combustion sources. FUEL CHEM is based on the Company's proprietary Targeted-In-Furnace-Injection technology in the unique application of specialty chemicals to improve the performance of combustion units. The Company's business is materially dependent on the continued existence and enforcement of air quality regulations, particularly in the United States. The Company has expended significant resources in the research and development of new technologies in building its proprietary portfolio of air pollution control, fuel treatment chemicals, computer modeling and advanced visualization technologies.

For the years ended December 31, 2001, 2000, and 1999, 25%, 20%, and 25% of the Company's revenues, respectively, were derived from international markets, principally in Europe and Asia.

#### **Basis of Presentation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions have been eliminated. As discussed in Note 9, effective as of June 30, 2000, the Company sold its German chemicals business to Fuel Tech CS GmbH, an entity in which the Company holds a 49% ownership interest that is accounted for using the equity method. In 2001, the Company completely dissolved the following wholly owned subsidiaries: Fuel Tech Poland Sp.zo.o and Fuel Tech BV Taiwan Branch. The entity in Poland has not been operational since 1997, and the entity in Taiwan operated only as a sales agency office.

#### **Reclassifications**

Certain amounts included in prior year financial statements have been reclassified to conform to the current year presentation.

#### **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. Actual results could differ from those estimates.

#### **Foreign Currency Translation**

The functional currency for the Company's foreign subsidiaries is the respective local currency. Accordingly, assets and liabilities are translated into U.S. dollars at current exchange rates, and revenues and expenses are translated using average rates of exchange prevailing during the year. Adjustments resulting from translation of financial statements denominated in currencies other than the U.S. dollar are included in accumulated other comprehensive income or loss. Foreign currency transaction gains and losses are included in the determination of net income.

#### **Cash Equivalents and Financial Instruments**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At December 31, 2001, substantially all of the Company's cash and cash equivalents are on deposit with three financial institutions. All financial instruments are reflected in the accompanying balance sheets at amounts that approximate fair market value.

## Derivative Financial Instruments

Effective January 1, 2001, the Company adopted SFAS 133, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in accumulated other comprehensive income or loss, and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

### Interest Rate Risk Management:

The Company is exposed to interest rate risk due to its long-term debt arrangement. The Company uses an interest rate derivative instrument (an interest rate swap) to manage exposure to interest rate changes. The Company has entered into an interest rate swap transaction that fixes the rate of interest at 8.91% on approximately 50% of the outstanding principal balance during the term of the loan. The term of the swap is from October 22, 1999 until October 22, 2002. At the date of adoption, January 1, 2001, the Company recorded the fair value of the interest rate swap, a credit of approximately \$20,000, as an "other liability" with a corresponding decrease to "accumulated other comprehensive income". During 2001, the fair value of the interest rate swap changed by approximately \$22,000, thus increasing the "other liability" with a corresponding decrease to "accumulated other comprehensive income" for this amount. The impact of the ineffectiveness calculation was immaterial.

### Foreign Currency Risk Management:

The Company's earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates. The Company does 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 includes unbilled receivables, representing costs and estimated earnings in excess of billings on contracts under the percentage of completion method. At December 31, 2001 and 2000, unbilled receivables were approximately \$2,057,000 and \$2,256,000, respectively.

## Goodwill and Other Intangibles

The goodwill recognized as a result of the transactions described in Note 2 has been amortized by the straight-line method over periods of nine and ten years, which represent the estimated remaining useful life of the Company's intellectual property. Effective January 1, 2002, the Company will adopt FASB (Financial Accounting Standards Board) Statement No. 142, "Goodwill and Other Intangible Assets" which was approved on September 29, 2001. Under the guidance of this statement, goodwill and indefinite-lived intangible assets will no longer be amortized but will be reviewed annually, or more frequently if indicators arise, for impairment. For the twelve months ended December 31, 2001 and 2000, the Company recorded goodwill amortization of \$334,000. During 2002, the Company will perform the first of the newly-required impairment tests of goodwill and indefinite-lived intangible assets as of January 1, 2002 and has not yet determined the effects these tests will have, if any, on earnings and financial position.

Other intangibles consist principally of third-party costs related to the development of patent rights. These costs are being amortized by the straight-line method over a period of 10 years from the date of patent issuance. Patent maintenance fees are charged to operations as incurred.

## Equipment

Equipment is stated on the basis of cost. Provisions for depreciation are computed by the straight-line method, using estimated useful lives as follows:

Laboratory equipment.....	5-10 years
Furniture and fixtures.....	3-10 years
Computer equipment and software .....	3-5 years
Field equipment.....	3-4 years
Vehicles .....	3 years

## Accounting for the Impairment of Long-Lived Assets

The Company reviews long-lived assets and certain intangible assets for impairment when events or changes in circumstances indicate

the carrying amount of an asset may not be recoverable. In the event the sum of the expected undiscounted future cash flows resulting from the use of the asset is less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. The impact of such losses on the Company was \$139,000 and \$82,000 for the years ended December 31, 2001 and 2000, respectively.

### Revenue Recognition

The Company uses the percentage of completion method of accounting for certain long-term equipment construction and license contracts. Under the percentage of completion method, sales and gross profit are recognized as work is performed based on the relationship between actual engineering hours and equipment construction costs incurred and total estimated hours and costs at completion. Sales and gross profit are adjusted for revisions in completion estimates and contract values in the period in which the facts giving rise to the revisions become known. 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.

### Distribution Costs

The Company classifies shipping and handling costs in cost of sales in the consolidated statement of operations.

### Stock-Based Compensation

The Company accounts for stock option grants in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Under the Company's current plans, options may be granted at not less than the fair market value on the date of grant, and therefore, no compensation expense is recognized for the stock options granted.

### Basic and Diluted Earnings Per Common Share

Basic earnings per share excludes the dilutive effects of stock options and of the nil coupon non-redeemable convertible unsecured loan notes (see Note 5). Diluted earnings per share includes the dilutive effect of the nil coupon non-redeemable convertible unsecured loan notes and of stock options and warrants. The following table sets forth the weighted-average shares used at December 31 in calculating earnings per share (in thousands):

	2001	2000	1999
Basic weighted-average shares	18,592	18,396	17,752
Conversion of unsecured loan note	-	483	591
Unexercised options and warrants	-	742	992
Diluted weighted-average shares	18,592	19,621	19,335

## 2. THE NALCO AND AMERICAN BAILEY CORPORATION TRANSACTIONS

Effective April 30, 1998, FTI purchased Nalco's 50% interest in NFT for \$1.1 million cash, the issuance of a \$3.0 million note and up to \$5.5 million in contingent payments based upon FTI's future earnings. The acquisition was accounted for as a purchase. The notes bore interest at 10% per annum, payable quarterly, with principal payments of \$250,000, payable quarterly, beginning on March 31, 1999. The note and contingent payment obligations were secured by substantially all of the Company's assets. Goodwill, net of amortization, resulting from this acquisition totaled \$1,025,000, including the contingent payment obligation, at December 31, 1998.

Simultaneously with this transaction, principals of American Bailey Corporation (ABC) invested \$3.35 million in the Company in exchange for 4.75 million shares of the Company's common stock, and warrants to purchase an additional 3.0 million shares of the Company's common stock at an exercise price of \$1.75. The warrants expire on April 30, 2008. Such shares (and shares underlying the warrants) were restricted from sale by the holders for a period of three years from the date of transaction, and give the holders certain registration rights.

On September 1, 1999, the Company satisfied its remaining obligations to Nalco by paying Nalco approximately \$4.5 million, representing the \$2.5 million remaining balance on the note, plus accrued interest, and a buyout of the balance of the contingent payment obligation for approximately \$2.0 million. At the time of the transaction, a maximum of approximately \$5.4 million remained outstanding under the contingent payment obligation. This transaction was financed by a \$4.5 million term loan from the Company's existing bank (see Note 8 to the consolidated financial statements). As a result of this transaction, the Company recorded approximately \$2.0 million of additional goodwill.

### 3. TAXATION

At December 31, 2001, FTI had tax losses available for offset against future years' earnings of approximately \$39.9 million in the United States. For financial statement purposes, a valuation allowance has been recorded to offset the tax benefit of these carryforwards. Under the provisions of the United States Tax Reform Act of 1986, utilization of the Company's United States federal income tax loss carryforwards may be limited should ownership changes exceed 50% within a three-year period. The United States federal tax loss carryforwards expire as follows (in thousands):

2002	\$ 7,520
2003	14,925
2004	4,639
2005	5,467
2006	1,987
2007	2,325
2008	1,480
2009	220
2010	309
2011	884
2012	40
2016	122
	<u>\$39,918</u>

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>
United States of America	\$ (9)	\$1,211	\$5,167
Foreign	(1,738)	(796)	(860)
(Loss) income before taxes	<u>\$ (1,747)</u>	<u>\$ 415</u>	<u>\$4,307</u>

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

	2001	2000	1999
(Benefit) provision at the U.S. federal statutory rate	\$ (611)	\$ 145	\$1,507
Foreign losses without tax benefit	608	444	301
Valuation allowance adjustment	-	(424)	(1,052)
State income taxes	-	(207)	576
Foreign (benefit) income taxes	(114)	25	-
Other	3	17	(33)
(Benefit) provision for income taxes	\$ (114)	\$ -	\$1,299

The Company recorded a tax benefit of \$114,000 in 2001 related to its Italian subsidiary. There were no domestic income taxes recorded in 2001 as the Company recorded a taxable loss for the year.

The reduction in the valuation allowance in 2000 and 1999 results primarily from the utilization of tax loss carryforwards where a valuation allowance had previously been provided. The state income tax credit in 2000 results from recording the benefit of net operating losses generated in prior years, which were carried forward and applied at the state level.

Temporary differences arising from treating income and expense items for financial reporting purposes differently than for tax return purposes are not material.

Effective March 31, 1985, FTI effected a quasi-reorganization and reduced the value of certain of its assets. Tax benefits resulting from the utilization of the U.S. federal tax loss carryforwards existing as of the date of the quasi-reorganization have been excluded from the results of operations and credited to additional paid-in capital when realized. A tax benefit of \$722,000 was realized in 1999. As such, a non-cash charge was recorded as deferred income tax expense, and additional paid-in capital was increased accordingly for the amounts noted above in both years. There are no remaining tax loss carryforwards from years prior to the date of the quasi-reorganization.

#### 4. COMMON STOCK

At December 31, 2001, the Company had 18,984,097 Common Shares outstanding, with an additional 270,724 shares reserved for issuance upon conversion of the nil coupon non-redeemable convertible unsecured loan notes (see Note 5) and 2,155,500 shares reserved for issuance upon the exercise of stock options, 1,086,250 of which are currently exercisable (see Note 6).

#### 5. NIL COUPON NON-REDEEMABLE CONVERTIBLE UNSECURED LOAN NOTES

At December 31, 2001 and 2000, the Company had \$2,658,500 and \$3,958,500 principal amount of nil coupon non-redeemable convertible unsecured perpetual loan notes (the "Loan Notes") outstanding, respectively. The Loan Notes are convertible at any time into shares of the Company's common stock at rates of \$6.50 or \$11.43 per share. The Loan Notes bear no interest and have no maturity date. They are generally repayable only in the event of the Company's dissolution and, accordingly, have been classified within shareholders' equity in the accompanying balance sheet. In 1989 and 1993, the Company incurred approximately \$1.1 million and \$100,000, respectively, in expenses related to Loan Note issuances. The Loan Notes are shown net of the residual portion of these expenses, which approximates \$59,000 and \$137,000 at December 31, 2001 and 2000, respectively.

During 2001 and 2000, approximately \$1,300,000 and \$72,000 principal amount of Loan Notes were converted into 200,000 and 6,299 shares of the Company's common stock, respectively.

#### 6. STOCK OPTIONS AND WARRANTS

The Company has granted stock options under the 1993 Incentive Plan ("1993 Plan"). Under the 1993 Plan, awards may be granted to participants in the form of Non-Qualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Awards, Bonuses or other forms of share-based or non-share-based awards or combinations thereof. Participants in the 1993 Plan may be such of the Company's directors, officers, employees, consultants or advisors (except consultants or advisors in capital-raising transactions) as the directors determine are key to the success of the Company's business. The amount of shares that may be issued or reserved for awards to participants under a 1998 amendment to the 1993 Plan is 12.5% of outstanding shares. In 2001, 2000 and 1999, 472,500, 406,000 and 513,500 options, respectively, were granted to employees and directors.

If compensation expense for the Company's plans had been determined based on the fair value at the grant dates for awards under its plans, consistent with the method described in SFAS No. 123, the Company's net income (loss) and income (loss) per share would have been adjusted as follows for the years ended December 31:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net (loss) income (in thousands):			
As reported	\$(1,633)	\$415	\$3,008
As adjusted	(2,329)	(103)	2,714
Basic and diluted (loss) income per share:			
Basic—			
As reported	\$(.09)	\$.02	\$.17
As adjusted	(.13)	(.01)	.15
Diluted—			
As reported	\$(.09)	\$.02	\$.16
As adjusted	(.13)	(.01)	.14

In accordance with the provisions of SFAS No. 123, the “As adjusted” disclosures include only the effect of stock options granted after 1994. The application of the “As adjusted” disclosures presented above are not representative of the effects SFAS No. 123 may have on such operating results in future years due to the timing of stock option grants and considering that options vest over a period of immediately to five years.

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

The fair value of each option grant, for “As adjusted” disclosure purposes, was estimated on the date of grant using the modified Black-Scholes option pricing model with the following weighted-average assumptions:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Expected dividend yield	0.00%	0.00%	0.00%
Risk-free interest rate	4.40%	5.10%	6.68%
Expected volatility	115.1%	96.2%	108.4%
Expected life of option	4 years	4 years	4 years

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

	2001		2000		1999	
	Number of Options	Weighted- Average Exercise Price	Number of Options	Weighted- Average Exercise Price	Number of Options	Weighted- Average Exercise Price
<b>Outstanding at beginning of year</b>	2,052,000	\$ 2.34	1,874,500	\$ 2.39	1,728,493	\$ 3.18
<b>Granted</b>	472,500	2.15	406,000	2.10	513,500	2.13
<b>Exercised</b>	(215,500)	1.89	(192,000)	1.75	(129,085)	1.63
<b>Expired or forfeited</b>	(153,500)	2.71	(36,500)	5.38	(238,408)	7.48
<b>Outstanding at end of year</b>	<u>2,155,500</u>	<u>\$ 2.34</u>	<u>2,052,000</u>	<u>\$ 2.34</u>	<u>1,874,500</u>	<u>\$ 2.39</u>
<b>Exercisable at end of year</b>	1,086,250	\$ 2.66	965,500	\$ 2.73	802,000	\$ 3.05
<b>Weighted -average fair value of options granted during the year</b>		\$ 1.66		\$ 1.47		\$ 1.59

The following table summarizes information about stock options outstanding at December 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options	Weighted-Average Remaining Contractual Life	Weighted- Average Exercise Price	Number of Options	Weighted- Average Exercise Price
\$1.375 - \$3.38	1,920,500	6.97 years	\$ 1.93	881,250	\$ 2.00
\$3.595 - \$8.00	235,000	4.80 years	\$ 5.37	205,000	\$ 5.49
\$1.375 - \$8.00	<u>2,155,500</u>	6.74 years	\$ 2.31	<u>1,086,250</u>	\$ 2.66

Lastly, as mentioned in Note 2, the principals of ABC were issued warrants to purchase an additional 3.0 million shares of the Company’s common stock at an exercise price of \$1.75. The warrants expire on April 30, 2008.

## 7. COMMITMENTS

### Operating Leases

The Company leases office space, autos and certain equipment under agreements expiring on various dates through 2009. Future minimum lease payments at December 31, 2001, are as follows (in thousands):

2002	\$344
2003	341
2004	245
2005	182
2006	186
Thereafter	404

For the years ended December 31, 2001, 2000 and 1999, rent expense approximated \$581,000, \$556,000 and \$493,000, respectively.

### Performance Guarantees

The Company's long-term equipment construction and license contracts typically contain performance guarantees. The Company has outstanding performance guarantees of \$288,000 for projects that have not completed their final acceptance test or that are still operating under a warranty period. Management of the Company believes that these projects will be successfully completed and that there will not be a materially adverse impact on the Company's operations from these guarantees.

## 8. DEBT FINANCING

On September 1, 1999, FTI entered into a \$3.0 million revolving credit facility expiring August 31, 2002, which is collateralized by all personal property owned by FTI. FTI can use this facility for cash advances and standby letters of credit. Cash advances under this facility bear interest at the bank's prime rate, or at an optional rate that can be selected by FTI which is based on the bank's Interbank Offering Rate plus 2.25%.

Also, on September 1, 1999, FTI entered into a term loan agreement with the same bank for a total principal balance of \$4.5 million. The principal balance was to be repaid in quarterly installments of \$225,000 commencing on December 31, 1999, with a final principal payment of \$2,025,000 due on August 31, 2002. Further, FTI entered into an interest rate swap transaction that fixes the rate of interest at 8.91% on approximately 50% of the outstanding principal balance during the term of the loan. The remaining principal balance bears interest at the bank's prime rate, or an optional rate that can be selected by FTI, and is based on the bank's Interbank Offering Rate plus 2.25%. The borrowings under this facility are collateralized by all personal property owned by FTI.

In 2001, amendments to this debt agreement were approved to increase the line of credit to \$6,000,000, and to extend the expiration date of both the line of credit and the term loan to January 31, 2003. Further, on March 7, 2002 an additional amendment to the agreement required FTI to maintain a \$6,500,000 compensating balance in support of the debt facility, so long as credit is available and until the bank is repaid in full. At December 31, 2001, the full outstanding balance of the term loan is classified as short term to reflect FTI's intent to repay or refinance this balance during the first six months of 2002 on favorable terms to the Company, and also, uncertainty concerning FTI's ability to comply with a debt covenant at September 30, 2002. The covenant for the period ended September 30, 2002 and beyond, negotiated in 1999, does not reflect the deferral in NOx reduction revenues the Company experienced due to the delay in obtaining a final ruling on the SIP Call regulation.

Under the terms of this agreement, FTI is not allowed to make loans or advances, or remit annual dividends in excess of \$900,000 to the Company as long as the facility is outstanding. At December 31, 2001, FTI net assets subject to this restriction are \$13,264,000.

At December 31, 2001, the bank had provided standby letters of credit, predominantly to customers, totaling approximately \$1,423,000 in connection with contracts in process. FTI is committed to reimbursing the issuing bank for any payments made by the bank under these letters of credit. At December 31, 2001, there were no cash borrowings against this facility and approximately \$4,577,000 was available for utilization.

The carrying amount of debt approximates fair value at December 31, 2001. The fair value of the interest rate swap, based on quoted market prices, is a liability of \$42,000 at December 31, 2001. The notional value of the swap is \$1,350,000 at December 31, 2001.

Interest payments were \$250,000, \$373,000 and \$327,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

## 9. RELATED PARTY TRANSACTIONS

The Company has a 16% common stock ownership interest in Clean Diesel Technologies, Inc. (CDT), at December 31, 2001. The Company is precluded from selling its interest in CDT except pursuant to a registration statement in an exempt private placement or within the limitations of Rule 144 of the Securities and Exchange Commission.

On August 3, 1995, the Company signed a Management and Services Agreement with CDT. According to the agreement, CDT is to reimburse the Company for management, services and administrative expenses incurred by the Company on behalf of CDT. Additionally, the Company charges CDT an additional 3% of such costs annually.

For the years ended December 31, 2001, 2000 and 1999, \$73,000, \$78,000 and \$106,000, respectively, was charged to CDT as a management fee.

On November 11, 1998, a pre-existing \$495,000 demand note, with interest at 8%, and the \$500,000 bridge loan and interest thereon of \$20,000 were converted into 2,029 shares of Series A Convertible Preferred stock in CDT. Each preferred share is convertible into 333.33 shares of CDT common stock. In April of 2000, the Company purchased 300 additional convertible preferred shares of CDT for \$225,000, which have the same convertible provisions noted above. As a result of the continuing losses incurred by CDT, the Company recorded a loss of \$225,000 in 2000 based on its pro-rata share of CDT's operating results for the year. The CDT common and preferred stock has no carrying value in the Company's balance sheet as of December 31, 2001 and 2000.

In November 2000, the Company committed to lend CDT \$250,000 as part of a \$1.0 million loan facility between CDT, the Company and other entities. In December 2000, the Company loaned CDT \$125,000 as its share of the first \$500,000 draw down under the terms of the loan facility. This amount was included in the prepaid expenses and other current assets line item on the consolidated balance sheet as of December 31, 2000. In March 2001, the Company loaned CDT \$125,000 as its share of the second \$500,000 draw down under the terms of the loan facility. The principal balance on both loan installments, with accrued interest at 10% per annum, is payable on May 14, 2002. For its participation in the loan facility and for its \$250,000 contribution, the Company received 25,000 warrants to purchase CDT common stock. The warrants have an exercise price of \$2.00 and can be exercised on or before November 14, 2010. The value assigned to these warrants on the consolidated balance sheet at December 31, 2001, is not significant. Because of the continuing losses incurred by CDT, the carrying value of the loans was reduced to \$0 as of December 31, 2001 based on the Company's pro-rata share of the losses incurred. Consequently, a \$250,000 loss was recorded during 2001. Subsequent to December 31, 2001, CDT repaid the entire amount of the loans plus interest. The \$250,000 principal value of the loan will be recorded as income in the first quarter of 2002, along with the interest.

CDT's summary financial information for the years ended December 31, 2001, 2000 and 1999 is as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Current assets	\$4,612	\$ 965	\$1,311
Other assets	46	92	35
Current liabilities	808	400	494
Long-term debt	-	500	-
Net revenues	1,600	582	142
Loss from operations	(936)	(2,036)	(2,485)
Net loss attributable to common shareholders	(3,003)	(2,713)	(4,584)

Pursuant to an assignment agreement of certain technology to CDT, the Company is due royalties from CDT of 2.5% of CDT's annual revenue from sales of CDT's Platinum Fuel Catalyst, commencing in 1998. The royalty obligation expires in 2008. CDT may terminate the royalty obligation to the Company by payment of \$12 million commencing in 1998 and declining annually to \$1,090,910 in 2008. CDT as assignee and owner will maintain the technology at its own expense. To date, the Company has received approximately \$6,000 in royalties. The report of independent auditors pertaining to CDT's financial statements for the year ended December 31, 2001 was unqualified, while the years 2000 and 1999 contained a going concern qualification. The Company intends to record royalties from CDT on a cash basis.

On April 30, 1998, the Company entered into an agreement with American Bailey Corporation for it to provide certain management and consulting services to the Company. Principals of ABC currently own 25% of the Company's Common Shares and also own warrants to purchase an additional 3.0 million shares, which expire on April 30, 2008. No fees were to be payable under the agreement for the first 24 months. This agreement was amended in 1999 to extend its term to April 30, 2002, and provide for the payment of a management fee of \$10,417 per month commencing September 1, 1999, through May 1, 2000, and \$20,833 per month until the termination of the agreement. Ralph Bailey, Chairman and CEO of the Company, is Chairman of ABC.

As noted previously, in the second quarter of 2000 the Company announced that it would concentrate its European resources in its Italian company, Fuel Tech Srl, and shut down Fuel Tech GmbH, a wholly owned subsidiary, in Germany. As part of the restructure, Fuel Tech GmbH's NOxOUT chemical business was sold to a new entity in Germany (Fuel Tech CS GmbH) in which the Company holds a 49% ownership interest that was acquired for \$116,000. The selling price is dependent on the future results of the chemical business, but will not be less than 1,250,000 Deutchmarks (approximately \$600,000), paid out over three years. A gain on this transaction of \$269,000 was recorded in other income and expense in the 2000 consolidated statement of operations.

Also as part of the restructure, Fuel Tech GmbH recorded a charge in 2000 of \$528,000 related to the closure of the entity. The charge included accruals of \$343,000 primarily for severance obligations for four employees, lease termination costs and other costs related to the closure of the entity. This charge was recorded as a reduction to operating income in the consolidated statement of operations. As of December 31, 2001, the Company made payments of approximately \$311,000 related to this charge. The remaining amount is expected to be paid during the first quarter of 2002.

The Company has an option to require the majority shareholder of Fuel Tech CS GmbH to purchase up to 35% of Fuel Tech CS GmbH from the Company at fair value between three and five years from the date of the purchase agreement.

During 2001 the Company completely dissolved the following wholly owned entities: Fuel Tech Poland Sp.zo.o and Fuel Tech BV Taiwan Branch. The entity in Poland has not been operational since 1997, and the entity in Taiwan operated as a sales agency office. The Company recognized a gain of approximately \$180,000 related to the dissolution of these entities.

## 10. DEFINED CONTRIBUTION PLAN

The Company has a retirement savings plan available for all U.S. employees who have met minimum length-of-service requirements. The Company's contributions are determined based upon amounts contributed by the Company's employees with additional contributions made at the discretion of the Company's Board of Directors. Costs related to this plan were \$150,000, \$289,000 and \$276,000 in 2001, 2000 and 1999, respectively.

## 11. BUSINESS SEGMENT, GEOGRAPHIC AND QUARTERLY FINANCIAL DATA

### BUSINESS SEGMENT FINANCIAL DATA

The Company's business is organized into one operating segment providing air pollution control chemicals and equipment.

Information concerning the Company's operations by geographic area is provided below. Operating earnings represent sales less cost of products sold and operating expenses. Foreign operating expenses include direct expenses incurred outside of the United States of foreign corporations controlled by the Company plus an allocation of domestic selling and general expenses directly related to the foreign operations. Assets are those directly associated with operations of the geographic area.

<b>For the years ended December 31</b>	2001	2000	1999
Revenues:			
Domestic	\$ 13,246,000	\$ 17,550,000	\$ 25,127,000
Foreign	4,426,000	4,356,000	8,198,000
	<u>\$ 17,672,000</u>	<u>\$ 21,906,000</u>	<u>\$ 33,325,000</u>
Operating (Loss) Earnings:			
Domestic	\$ (1,143,000)	\$ 1,506,000	\$ 4,017,000
Foreign	(54,000)	(662,000)	812,000
	<u>\$ (1,197,000)</u>	<u>\$ 844,000</u>	<u>\$ 4,829,000</u>
<b>December 31</b>	2001	2000	1999
Assets:			
Domestic	\$ 18,952,000	\$ 19,640,000	\$ 22,020,000
Foreign	1,376,000	3,449,000	2,444,000
	<u>\$ 20,328,000</u>	<u>\$ 23,089,000</u>	<u>\$ 24,464,000</u>

## QUARTERLY FINANCIAL DATA

Set forth below is the unaudited quarterly financial data for the fiscal years ended December 31, 2001 and 2000.

<b>For the quarter ended:</b>	March 31	June 30	September 30	December 31
(in thousands, except share data)				
<b>2001:</b>				
Net sales	\$ 3,155	\$ 4,741	\$ 4,194	\$ 5,582
Cost of sales	1,717	2,225	1,984	3,070
Net (loss) income	(1,042)	71	(256)	(406)
Net (loss) income per common share:				
Basic	\$(.06)	\$-	\$(.01)	\$(.02)
Diluted	\$(.06)	\$-	\$(.01)	\$(.02)
<b>2000:</b>				
Net sales	\$ 4,455	\$ 5,851	\$ 5,981	\$ 5,619
Cost of sales	2,777	3,271	2,944	2,765
Net (loss) income	(296)	(325)	753	283
Net (loss) income per common share:				
Basic	\$(.02)	\$(.02)	\$.04	\$.02
Diluted	\$(.02)	\$(.02)	\$.04	\$.01

## 12. PARENT COMPANY FINANCIAL STATEMENTS

### Balance Sheets (at December 31)

	<u>2001</u>	<u>2000</u>
Assets:		
Receivable and other current assets	\$ 34,000	\$ 226,000
Investments in subsidiaries	13,319,000	14,539,000
Total assets	<u>\$13,353,000</u>	<u>\$14,765,000</u>
Liabilities and shareholders' equity		
Liabilities		
Accounts payable and accrued expenses	218,000	198,000
Shareholders' equity	13,135,000	14,567,000
Total liabilities and shareholders' equity	<u>\$13,353,000</u>	<u>\$14,765,000</u>

### Statements of Operations (for the years ended December 31)

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Loss from operations	\$ (952,000)	\$ (750,000)	\$ (524,000)
Interest and other income, net	129,000	-	-
(Loss) income from equity investment in subsidiary	(810,000)	335,000	3,532,000
Net (loss) income	<u>\$ (1,633,000)</u>	<u>\$ (415,000)</u>	<u>\$ 3,008,000</u>

### Statements of Cash Flow (for the years ended December 31)

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Operating activities:			
Net cash used in operating activities	<u>\$ (521,000)</u>	<u>\$ (511,000)</u>	<u>\$ (551,000)</u>
Investing activities:			
Investment in and loans to CDT	(125,000)	(350,000)	-
Investment in Fuel Tech CS GmbH	-	(116,000)	-
Net cash used in investing activities	<u>(125,000)</u>	<u>(466,000)</u>	<u>-</u>
Financing activities:			
Dividend from FTI	280,000	638,000	825,000
Exercise of stock options	406,000	339,000	212,000
Purchase of treasury stock/other	(40,000)	-	(46,000)
Purchase and retirement of nil coupon loan notes	-	-	(444,000)
Net cash provided by investing activities	<u>646,000</u>	<u>977,000</u>	<u>547,000</u>
Net decrease in cash and cash equivalents	-	-	(4,000)
Cash and cash equivalents at beginning of period	-	-	4,000
Cash and cash equivalents at end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

### Basis of Presentation:

In the parent company financial statements, the Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries since the date of acquisition. The Company's share of net income of its unconsolidated subsidiaries is included in consolidated income using the equity method. The parent company financial statements should be read in conjunction with the Company's consolidated financial statements.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE**

None

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information required by this Item will be set forth under the captions “Election of Directors” and “Directors and Executive Officers of the Company” in the Company’s Proxy Statement related to the 2002 Annual General Meeting of Shareholders (the ‘Proxy Statement’) and is incorporated by reference.

Although discussed further in the Company’s Proxy Statement, the following directors resigned subsequent to the balance sheet date: John A. de Havilland, Jeremy D. Peter-Hoblyn and James M. Valentine

**ITEM 11. EXECUTIVE COMPENSATION**

Information required by this Item will be set forth under the caption “Executive Compensation” in the Proxy Statement and is incorporated by reference excluding, however, the information under the captions “Report of the Board of Directors on Executive Compensation” and “Performance Graph,” which is not incorporated by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Information required by this Item will be set forth under the caption “Principal Shareholders and Stock Ownership of Management” in the Proxy Statement and is incorporated by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Information required by this Item will be set forth under the captions “Compensation Committee Interlocks and Insider Participation” and “Certain Relationships and Related Transactions” in the Proxy Statement and is incorporated by reference.

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENTS AND REPORTS ON FORM 8-K

#### (a) (1) Financial Statements

The financial statements identified below and required by Part II, Item 8 of this Form 10-K are set forth above.

Report of Independent Auditors  
Consolidated Balance Sheets as of December 31, 2001 and 2000  
Consolidated Statements of Operations for Years Ended December 31, 2001, 2000 and 1999  
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2001, 2000 and 1999  
Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999  
Notes to Consolidated Financial Statements

#### (2) Financial Statement Schedules

Schedules have been omitted because of the absence of the conditions under which they are required or because the required information where material is shown in the financial statements or the notes thereto.

#### (3) Exhibits

- † 1.0 Articles of Association of Fuel-Tech N.V. (in Dutch and English) as amended through April 27, 1998
- \* 2.1 Instrument Constituting US \$19,200,000 Nil Coupon Non-Redeemable Convertible Unsecured Loan Notes of Fuel-Tech N.V., dated December 21, 1989
- \* 2.2 First Supplemental Instrument Constituting US \$3,000,000 Nil Coupon Non-Redeemable Convertible Unsecured Loan Notes of Fuel-Tech N.V., dated July 10, 1990
- \*\* 2.3 Instrument Constituting US \$6,000,000 Nil Coupon Non-Redeemable Convertible Unsecured Loan Notes of Fuel-Tech N.V., dated March 12, 1993
- \*\* 2.4 Form of Warrants issued April 30, 1998 evidencing right to purchase 3 million shares of Fuel-Tech N.V. common stock.
- \* 3.1 Form of Indemnity Agreement between Fuel-Tech N.V. and directors and officers
- \* 3.2 Fuel Tech, Inc. Form of 1992 Substitute Stock Option Agreement
- \* 3.3 Fuel-Tech N.V. Form of 1992 Substitute Stock Option Agreement
- \* 3.4 Fuel-Tech N.V. Form of 1993 Stock Option Agreement as amended through August 3, 1999
- & 3.5 The 1993 Incentive Plan of Fuel-Tech N.V. as amended through August 3, 1999
- \* 3.6 License Implementation Agreement dated June 10, 1991 among NFT, Nalco Fuel Tech, B.V., and Foster Wheeler Energy Corporation
- \* 3.7 License Implementation Agreement dated April 23, 1991 among NFT, Nalco Fuel Tech, B.V., and R-C Environmental Services & Technologies, a division of Research Cottrell, Inc.
- \* 3.8 License Implementation Agreement dated December 20, 1990 between NFT and RJM Corporation
- \* 3.9 License Implementation Agreement dated May 22, 1991 among NFT, Nalco Fuel Tech, B.V., and Wheelabrator Air Pollution Control, Inc.
- \* 3.10 Agreement dated July 3, 1990 between NFT and Arcadian Corporation
- \* 3.11 License Agreement dated September 12, 1991 between NFT and BP Chemicals Inc.,
- \* 3.12 Agreement dated November 5, 1990 between NFT and Cargill, Incorporated
- \* 3.13 Agreement dated August 30, 1990 between NFT and Nitrochem, Inc.
- \* 3.14 License Agreement dated December 27, 1990 between NFT and Union Oil Company of California dba Unocal
- \* 3.15 Agreement dated September 30, 1990 between NFT and W.H. Shurtleff Company
- \*\* 3.16 Securities Purchase Agreement dated as of March 23, 1998, between Fuel-Tech N.V., and the several Investors signatory thereto, including exhibits.
- \*\* 3.17 Purchase Agreement dated as of March 23, 1998, between Nalco FT, Inc., Nalco Chemical Company and Fuel Tech, Inc., including exhibits
- #& 3.18 License Agreement dated November 18, 1998 between The Gas Technology Institute and Fuel Tech, Inc. relating to the FLGR Process
- #& 3.19 License Agreement dated December 8, 1998 between The Gas Technology Institute and Fuel Tech, Inc. relating to the AEFLGR Process
- #& 3.20 Amendment No. 1, dated February 28, 2000, to License Agreement of November 18, 1998 between The Gas Technology Institute and Fuel Tech, Inc.
- oo 19.2 Those portions of the Proxy Statement to be distributed to Shareholders of the Company for the 2002 Annual General Meeting of Shareholders of Fuel-Tech N.V. specifically incorporated by reference into this Annual Report on Form 10-K.
- o 23.1 Consent of Ernst & Young LLP

\* Filed with Registration Statement on Form 20-F, No. 000-21724 of August 26, 1993, as amended  
\*\* Filed with Registrant's Report on Form 6-K for the month of March 1998  
† Filed with Registrant's Report on Form 20-F for the year 1997  
o Filed herewith  
oo To be filed with the Registrant's definitive proxy material for its 2002 Annual General Meeting  
# Confidential information removed and filed separately  
& Filed with Registrant's report on Form 10-K for the year 1999

**(b) Reports on Form 8-K**

No reports on Form 8-K were filed by the Company during the fourth quarter of 2001.

## SIGNATURES

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

FUEL-TECH N.V.

Dated: March 26, 2002

By: /Ralph E. Bailey

Ralph E. Bailey  
Chairman, Managing Director and Chief Executive 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 N.V. and in the capacities and on the date indicated.

/s/ Ralph E. Bailey  
Ralph E. Bailey  
Chairman, Managing Director and Chief Executive Officer  
(Principal Executive Officer)

/s/ Scott M. Schecter  
Scott M. Schecter  
Chief Financial Officer, Vice President and Treasurer  
(Principal Financial and Accounting Officer)

/s/ Douglas G. Bailey  
Douglas G. Bailey  
Managing Director

/s/ Charles W. Grinnell  
Charles W. Grinnell  
Managing Director, Vice President, General Counsel and Corporate Secretary

/s/ John R. Selby  
John R. Selby  
Managing Director

Tarma Trust Management N.V.  
By: /s/ Robert W. Huyzen  
Robert W. Huyzen  
Managing Director