

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, 2005

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

N/A

(State or other jurisdiction of incorporation of organization)

(I.R.S. Employer Identification Number)

Fuel-Tech N.V.

Fuel Tech, Inc.

(Registrant)

(U.S. Operating Subsidiary)

Castorweg 22-24

695 East Main 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

The NASDAQ Stock Market, Inc

(Title of Class)

(Name of Exchange on Which Registered)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant based on the average bid and asked prices of June 30, 2005 was \$92,282,000. The aggregate market value of the voting stock held by non-affiliates of the registrant based on the average bid and asked prices of February 17, 2006 was \$181,367,000.

Indicate number of shares outstanding of each of the registered classes of Common Stock at February 17, 2006: 20,505,000 shares of 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 2006 are incorporated by reference in Parts II, III, and IV hereof.

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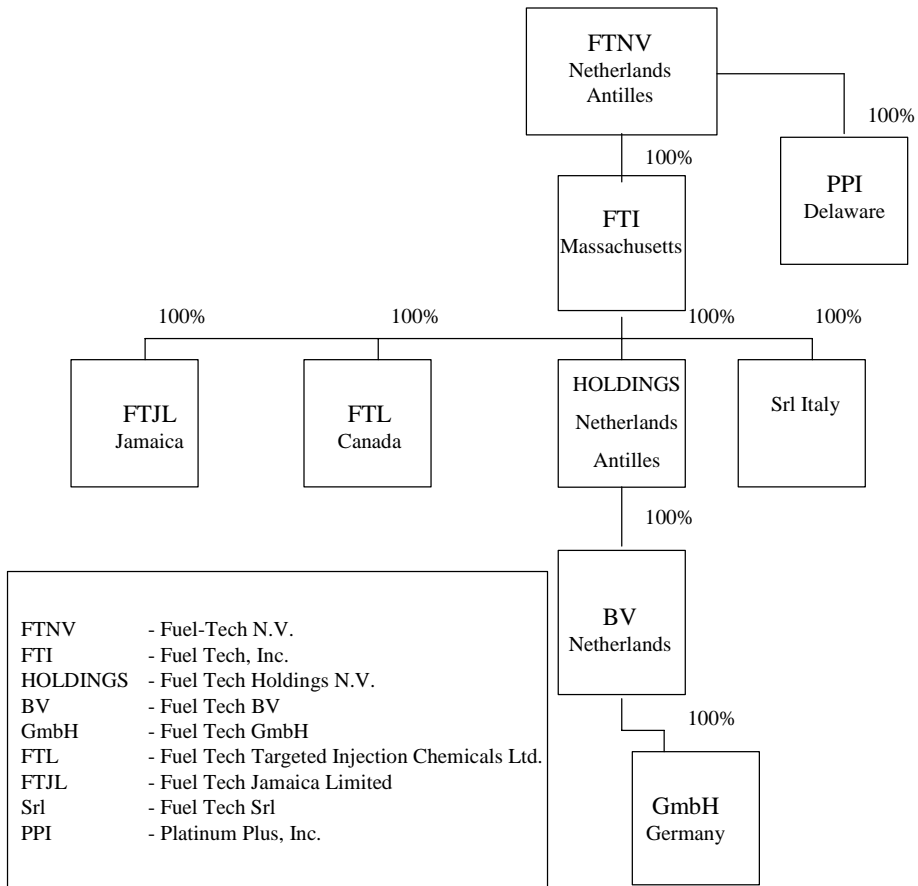
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TABLE OF DEFINED TERMS

<u>Term</u>	<u>Definition</u>
ABC	American Bailey Corporation
ACUITIV™	A trademark used to describe Fuel Tech's advanced visualization software
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 Fuel Tech
Common Stock	Common Stock of Fuel Tech
EPA	Environmental Protection Agency
EPRI	Electric Power Research Institute
FTI	Fuel Tech, Inc.
FUEL CHEM®	A trademark used to describe Fuel Tech's fuel and flue gas treatment processes, including its TIFI™ Targeted In-Furnace Injection™ programs for slagging, fouling and corrosion control and plume abatement
Fuel Tech	Fuel-Tech N.V. and its subsidiaries and affiliates
Investors	The purchasers of Fuel Tech securities pursuant to a Securities Purchase Agreement as of March 23, 1998
Loan Notes	Nil Coupon Non-redeemable Convertible Unsecured Loan Notes of Fuel Tech
NOx	Oxides of nitrogen
NOxOUT CASCADE®	A trademark used to describe Fuel Tech's combination of NOxOUT and SCR
NOxOUT® Process	A trademark used to describe Fuel Tech's SNCR process for the reduction of NOx
NOxOUT-SCR®	A trademark used to describe Fuel Tech's use of urea used as a catalyst reagent
NOxOUT ULTRA®	A trademark used to describe Fuel Tech's process for generating ammonia for use as SCR reagent
Rich Reagent Injection Technology (RRI)	An SNCR-type process that broadens the NOx reduction capability of the NOxOUT Process at a cost similar to NOxOUT. RRI can also be applied on a stand-alone basis.
SCR	Selective Catalytic Reduction
SIP Call	State Implementation Plan Regulation
SNCR	Selective Non-Catalytic Reduction
TDI™ Targeted Duct Injection™	FUEL CHEM's programs for mitigating formation of sulfur trioxide
TIFI™ Targeted In-Furnace Injection™	FUEL CHEM's programs for slagging, fouling and corrosion control and plume abatement

Fuel-Tech N.V. Subsidiaries and Affiliates

December 31, 2005



PART I

Forward Looking Statements

Statements in this Form 10-K that 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 Fuel Tech'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

Fuel Tech

Fuel-Tech N.V., including its subsidiaries ("Fuel Tech"), is a technology company active in the air pollution control and specialty chemical businesses through its wholly owned subsidiary Fuel Tech, Inc. ("FTI"). 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 maintains an Internet web site at www.fueltechnv.com.

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[®], and NOxOUT-SCR[®] processes, reduce NOx emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources. The FUEL CHEM product line uses chemical processes for the control of slagging, fouling, and corrosion and for plume abatement in furnaces and boilers through the addition of chemicals into the fuel or via TIFI[™] Targeted In-Furnace Injection[™] programs. FTI has a number of other technologies, both commercial and in the development stage, that are related 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.

American Bailey Corporation

Ralph E. Bailey, Executive Chairman, Chief Executive Officer and Managing Director of Fuel Tech, and Douglas G. Bailey, Deputy Chairman of Fuel Tech, are shareholders of American Bailey Corporation ("ABC"). Please refer to Note 8 to the consolidated financial statements in this document. Additionally, see the more detailed information relating to this subject under the caption "Certain Relationships and Related Transactions" in Fuel Tech's Proxy Statement, to be distributed in connection with Fuel Tech's 2006 Annual Meeting of Shareholders, which information is incorporated by reference.

NOx Reduction

Regulations and Markets

The domestic U.S. air pollution control market is the primary driver in Fuel Tech's NOx reduction business. 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, a regulation promulgated under the Amendments (discussed further below), over 1,000 utility and large industrial boilers in 19 states were required to achieve NOx reduction targets by May 31, 2004. Also, under European Union Directives, over 100 industrial units in Europe were required to achieve NOx reductions by the end of 2005.

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

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

In February 2001, the U.S. Supreme Court, in a unanimous decision, upheld EPA's authority to revise the National Ambient Air Quality Standard 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.

On December 23, 2003, the EPA proposed a new regulation that affects the SIP Call states by calling for more NOx reductions in 2010 and 2015. Also, deep NOx reductions are called for in 10 additional states outside the current SIP Call region. The proposed rule allows a cap and trade format similar to the SIP Call. This rule, under the name "Clean Air Interstate Rule," became final on March 10, 2005.

Products

Fuel Tech'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 total annualized operating costs ranging from \$1,000 - \$2,000/ton of NOx removed.

Fuel Tech's NOxOUT CASCADE Process uses catalyst as an addition 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.

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

Fuel Tech's NOxOUT ULTRA[®] system is designed to convert urea to ammonia safely and economically for use as a reagent in the SCR process for NOx reduction. In this fashion, Fuel Tech intends to participate in the SCR segment of the SIP Call driven market. Recent local hurdles in the ammonia permitting process have raised concerns regarding the safety of ammonia storage in quantities sufficient to supply SCR.

Fuel Tech has sublicensed the Rich Reagent Injection Technology from Reaction Engineering International, which has a direct license 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 process, whose applicability is outside the temperature range of NOxOUT. The technology is seen as an add-on to Fuel Tech'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 \$32.6 million, \$14.6 million and \$25.4 million for the years ended December 31, 2005, 2004, and 2003, respectively.

NOx Reduction Competition

Competition with Fuel Tech's NOx reduction products can 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 levelized total costs ranging from \$300 - \$1,500/ton of NOx removed. Such companies as Alstom, Foster Wheeler Corporation, The Babcock & Wilcox Company and Steam Sales Corporation 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 - \$250/kw on retrofit coal applications. Such companies as Alstom, 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, or providers of the catalyst itself.

The use of ammonia as the reagent for the SNCR process was developed by the ExxonMobil Corporation. Fuel Tech 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 ranging 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

Fuel Tech's fireside and fuel additive programs, FUEL CHEM, help improve furnace and boiler performance and reduce customer operating costs. The technology offered by FUEL CHEM, through unique chemistries and application approaches, offers the customer significant value and return on their investment. FUEL CHEM offers in-fuel technologies and FTI's multi-patented, TIFI™ Targeted In-Furnace Injection™ technology. This latter approach, the key FUEL CHEM technology, is a uniquely engineered and economical solution for the control of slagging, fouling, and corrosion and for plume abatement. FUEL CHEM also markets a family of combustion catalysts, which can offer customers the benefit of reducing unburned carbon, lowering excess air and improving combustion efficiency. The FUEL CHEM technology is rapidly gaining credibility in the coal-fired electric utility industry, especially within the segment fired by slag-forming coal, as a viable, cost-effective approach to the prevention of problems that can have a significant negative financial impact on a plant's operation. Electric utilities, the pulp and paper industry and municipal solid waste incinerator facilities make up the principal markets for the program.

New technical markets being explored and pursued by the FUEL CHEM Group include the SO₃/plume abatement market, which is a key concern in many utility and industrial operations today. FTI has developed a TIFI derivative product, TDI™ Targeted Duct Injection, to address this market. In addition, the corrosion reduction market for the municipal solid waste incineration industry is being assessed as a potential new market opportunity for Fuel Tech.

Sales of the FUEL CHEM products were \$20.3 million, \$16.2 million and \$10.3 million for the years ended December 31, 2005, 2004, and 2003, respectively.

Competition

Competition for Fuel Tech's FUEL CHEM product line includes chemicals sold by specialty chemical companies, such as GE Betz, Inc., primarily in the traditional heavy-fuel-oil treatment area. No substantive competition currently exists for Fuel Tech's technology for the TIFI of additives for the 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 and ACUITIV™

Fuel Tech uses its advanced engineering services ("AES") to support the sale of its NO_x 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 Fuel Tech's NO_x reduction systems and the application of its FUEL CHEM slag and corrosion control processes. To further aid the accuracy and expediency with which process solutions could be designed and delivered to a customer, Fuel Tech internally developed a visualization software product called ACUITIV™.

In 2001 and 2002, Fuel Tech augmented its AES staff and equipment with a view toward not only better serving Fuel Tech's own customers, but also seeking other commercial applications for its services. Toward this goal, the ACUITIV software product was commercially introduced in the second quarter of 2002. The ACUITIV product offering was designed to provide customers in several industries including automotive, aerospace and defense, chemical processing and energy, with the ability to uncover new opportunities, improve designs, accelerate decision-making and shorten product development time to market. In early 2005, ACUITIV was discontinued as a commercial venture. The software will continue to be maintained and utilized internally on a prospective basis because it is an essential tool in the design, marketing and sale of Fuel Tech's NO_x reduction and FUEL CHEM product applications.

Intellectual Property

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

Employees

Fuel Tech has 104 full-time employees, 95 in North America and 9 in Europe. Fuel Tech enjoys good relations with its employees and is not a party to any labor management agreements.

Risk Factors of the Business

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

(i) Lack of Diversification

Fuel Tech has two business segments that provide advanced engineering solutions for the optimization of combustion systems in utility and industrial applications. They are as follows:

- The nitrogen oxide reduction technology segment, which includes the NOxOUT, NOxOUT CASCADE, and NOxOUT-SCR processes for the reduction of nitrogen oxide emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources, and
- The fuel treatment chemical segment, which uses chemical processes for the control of slagging, fouling, and corrosion and for plume abatement in furnaces and boilers through the addition of chemicals into the fuel or by Targeted In-Furnace Injection.

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

(ii) Competition

Competition in the NOx control market will come from processes utilizing low-NOx burners, over-fire air, flue gas recirculation, ammonia SNCR, SCR and, with respect to particular uses of urea not infringing Fuel Tech'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 Fuel Tech's pricing and participation in the NOx control market if customers elect to comply with regulations by methods other than Fuel Tech's NOxOUT or NOxOUT CASCADE Processes. See above text under the captions "Products" and "NOx Reduction Competition."

Competition in the FUEL CHEM markets includes chemicals sold by specialty chemical companies, such as GE Betz, Inc., primarily in the traditional heavy-fuel-oil treatment area. As noted previously, no substantive competition currently exists for Fuel Tech's technology for the TIFI of additives for the control of slagging, fouling, and corrosion and for plume abatement. However, there can be no assurance that such lack of substantive competition will continue.

(iii) Dependence on Regulations and Enforcement

Fuel Tech's business is significantly impacted by the regulatory environment surrounding the markets in which it serves. Fuel Tech's 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."

(iv) Protection of Patents and Proprietary Rights

Fuel Tech holds licenses to or owns a number of patents and also 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 Fuel Tech's products is protected by trademark and trade secret laws and by confidentiality and licensing agreements. There can be no assurance that such protection will prove adequate or that Fuel Tech 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

Fuel Tech's products are generally protected by U.S. and non-U.S. patents. Fuel Tech owns 94 granted patents worldwide and has four patent applications pending in the United States and 11 pending in non-U.S. jurisdictions. These patents cover some 33 inventions, 23 associated with the NOx reduction business; five associated with the FUEL CHEM business; and five associated with non-commercialized technologies. These inventions represent significant enhancements of the application and performance of the technologies. Further, Fuel Tech believes that the protection provided by the numerous claims in the above referenced patents or patent applications is substantial, and affords Fuel Tech a significant competitive advantage in its business. Accordingly, any significant reduction in the protection afforded by these patents or any significant development in competing technologies could have a material adverse effect on Fuel Tech's business.

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

Fuel Tech and its subsidiaries operate from leased office and engineering facilities in Curacao, Netherlands Antilles; Batavia, Illinois; Stamford, Connecticut; and Gallarate, Italy.

ITEM 3. LEGAL PROCEEDINGS

Fuel Tech has no pending litigation material to its business.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

During the fourth quarter of 2005, 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

Fuel Tech's Common Shares have been traded since September 1993 on The NASDAQ Stock Market, Inc.

Prices

The table below sets forth the high and low sales prices during each calendar quarter since January 2004.

	<u>2005</u>	<u>High</u>	<u>Low</u>
Fourth Quarter		\$10.12	\$7.24
Third Quarter		10.13	5.75
Second Quarter		7.20	5.10
First Quarter		6.85	4.60
	<u>2004</u>		
Fourth Quarter		\$5.45	\$4.15
Third Quarter		5.24	3.94
Second Quarter		5.30	3.79
First Quarter		5.60	3.40

Dividends

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

Holders

Based on information from Fuel Tech's Transfer Agent, as of March 6, 2006, there were 339 registered holders of Fuel Tech's Common Shares. Management believes that, on such date, there were approximately 5,943 beneficial holders of Fuel Tech's Common Shares.

Transfer Agent

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

Exchange Controls

Fuel Tech 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. Fuel Tech also received a business license of unlimited duration that allows the securities of Fuel Tech 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 Fuel Tech are maintained in U.S. dollars, however, there are transactions in other currencies.

Taxation

Under the Netherlands Antilles tax code applicable to Fuel Tech until at least the fiscal year 2019, Fuel Tech'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 Fuel Tech. Based on a tax ruling received by Fuel Tech, Dutch dividends received will be taxed to Fuel Tech 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 Fuel Tech 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 Fuel Tech to U.S. 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 U.S. person from the sale or exchange of Fuel Tech's Common Shares is exempt from Netherlands Antilles income tax. The tax treaty between the United States and the Netherlands Antilles was terminated effective December 31, 1987.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information for all equity compensation plans as of the fiscal year ended December 31, 2005, under which the securities of Fuel Tech were authorized for issuance:

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans excluding securities listed in column (a)
	(a)	(b)	(c)
Equity compensation plans approved by security holders (1)	2,799,000	\$4.29	367,000

(1) Includes Common Shares of Fuel Tech authorized for awards under Fuel Tech's 1993 Incentive Plan, as amended through June 3, 2004.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data are presented below as of the end of and for each of the fiscal years in the five-year period ended December 31, 2005. The selected financial data should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2005, 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				
	2005	2004	2003	2002	2001
Net sales	\$52,928	\$30,832	\$ 35,736	\$ 32,627	\$ 17,672
Selling, general and administrative and other costs and expenses	18,625	14,017	12,946	11,687	9,873
Net income (loss)	7,588	1,572	1,120	3,057	(1,633)
Basic income (loss) per Common Share	\$ 0.38	\$ 0.08	\$ 0.06	\$ 0.16	\$ (0.09)
Diluted income (loss) per Common Share	\$ 0.33	\$ 0.07	\$ 0.05	\$ 0.14	\$ (0.09)
Weighted-average basic shares outstanding	20,043,000	19,517,000	19,637,000	19,350,000	18,592,000
Weighted-average diluted shares outstanding	23,066,000	22,155,000	22,412,000	22,437,000	18,592,000

BALANCE SHEET DATA (in thousands of U.S. dollars, except for share data)	December 31				
	2005	2004	2003	2002	2001
Working capital	\$ 19,590	\$ 11,292	\$ 10,973	\$ 13,930	\$ 8,844
Total assets	43,026	23,828	21,598	25,869	20,328
Long-term obligations	448	505	299	2,059	491
Total liabilities	13,890	4,873	4,287	9,064	7,193
Shareholders' equity	29,136	18,955	17,311	16,805	13,135
Net tangible book value per share	\$ 1.12	\$ 0.70	\$ 0.61	\$ 0.64	\$ 0.56

Notes:

- (1) Shareholders' equity includes \$282,000 principal amount of nil coupon non-redeemable perpetual loan notes. See Note 4 to the consolidated financial statements.
- (2) Net tangible book value per share assumes full conversion of Fuel Tech's nil coupon non-redeemable perpetual loan notes into shares of Fuel Tech's Common Shares.
- (3) Effective January 1, 2002, Fuel Tech adopted FASB (Financial Accounting Standards Board) Statement No. 142, "Goodwill and Other Intangible Assets." Under the guidance of this statement, goodwill and indefinite-lived intangible assets are no longer amortized but will be reviewed annually, or more frequently if indicators arise, for impairment. For the 12 months ended December 31, the following table depicts the impact on the prior year noted, had the non-amortization policy been applied.

	2001
Reported net loss	\$ (1,633,000)
Add back: Goodwill amortization	334,000
Adjusted net loss	<u>\$ (1,299,000)</u>
Basic earnings per share:	
Reported net loss	\$ (0.09)
Add back: Goodwill amortization	0.02
Adjusted net loss	<u>\$ (.07)</u>
Diluted earnings per share:	
Reported net loss	\$ (0.09)
Add back: Goodwill amortization	0.02
Adjusted net loss	<u>\$ (0.07)</u>

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

Background

Fuel-Tech N.V. ("Fuel Tech") is a technology company that provides advanced engineering solutions for the optimization of combustion systems in utility and industrial applications. Fuel Tech currently generates revenues from the following product lines:

Nitrogen Oxide ("NOx") Reduction Technologies

Fuel Tech markets a suite of nitrogen oxide (NOx) reduction technologies. These include the NOxOUT, NOxOUT CASCADE, and NOxOUT-SCR Processes, which use the injection of chemicals to reduce NOx emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources to meet statutory NOx reduction requirements worldwide. Fuel Tech distributes its products through its direct sales force, licensees and agents. The current driver for growth in this business is the Ozone Transport SIP (State Implementation Plan) Call, which required 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 Tech believes that the implementation of the SIP Call will extend well beyond the May 31, 2004 implementation date.

Fuel Treatment Chemicals

Fuel Tech's proprietary TIFI Targeted In-Furnace Injection technology centers on the unique application of specialty chemicals to improve the performance of combustion units. Specifically, this technology is used to address slagging, fouling, corrosion and plume abatement in furnaces and boilers through the injection of chemicals into the fuel or via TIFI. Fuel Tech sells its fuel treatment chemicals through its direct sales force and agents to industrial and utility power-generation facilities. Although coal sourced from a variety of geographic areas have proven to provide utility units with operational difficulty, Fuel Tech believes the largest market opportunity for this product line to be those units burning Western coals, many of which have significant operational issues related to the formation of slag.

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 Fuel Tech to make estimates and assumptions. Fuel Tech believes that of its accounting policies (see Note 1 to the consolidated financial statements) the following involves a higher degree of judgment and complexity and are deemed critical. Fuel Tech discusses its critical accounting policies with the Audit Committee.

Revenue Recognition

Fuel Tech uses the percentage of completion method of accounting for certain long-term equipment construction and license contracts that are sold within the nitrogen oxide reduction business segment. Under the percentage of completion method, sales and gross profit are recognized as work is performed based on the relationship between actual construction costs incurred and total estimated costs at completion. Since the financial reporting of these contracts depends on estimates that 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. Different results are possible when using different assumptions.

Fuel Tech's construction contracts are typically six to twelve months in length. A typical contract will have three or four critical milestones that serve as the basis for Fuel Tech to invoice the customer. At a minimum, the milestones will include the generation of engineering drawings, the shipment of equipment and the completion of a system performance test.

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

Fuel Tech has installed over 350 units with the technology and has never failed to meet a performance guarantee when the customer has provided the required operating conditions for the project. As part of the project implementation process, Fuel Tech will perform system start-up and optimization services that effectively serve as a test of actual project performance. Fuel Tech believes that this test, combined with the accuracy of the modeling that is performed, enables revenue to be recognized prior to the receipt of formal customer acceptance.

Allowance for doubtful accounts

Fuel Tech, in order to control and monitor the credit risk associated with its customer base, reviews the credit worthiness of customers on a recurring basis. Factors influencing the level of scrutiny include the level of business the customer has with Fuel Tech, the customer's payment history and the customer's financial stability. Representatives of Fuel Tech's Management team review all past due

accounts on a weekly basis to assess collectibility. At the end of each reporting period, the allowance for doubtful accounts balance is reviewed relative to management's collectibility assessment and is adjusted if deemed necessary. Fuel Tech's historical credit loss has been insignificant.

Assessment of potential impairments of goodwill and intangible assets

Effective January 1, 2002, Fuel Tech adopted FASB (Financial Accounting Standards Board) Statement No. 142, "Goodwill and Other Intangible Assets." Under the guidance of this statement, goodwill and indefinite-lived intangible assets are no longer amortized, but rather, are required to be reviewed annually or more frequently if indicators arise, for impairment. The evaluation of impairment involves comparing the current fair value of the business to the recorded value. Fuel Tech uses a discounted cash flow model (DCF) to determine the current fair value of its two reporting units. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market share, sales volumes and prices, costs to produce and working capital changes. Management considers historical experience and all available information at the time the fair values of its reporting units are estimated. However, actual fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of goodwill.

Fuel Tech reviews other intangible assets, which include a customer list, a covenant not to compete and patent assets, for impairment on a recurring basis or when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. In the event the sum of the expected undiscounted future cash flows resulting from the use of the asset is less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Management considers historical experience and all available information at the time the estimates of future cash flows are made, however, the actual cash values that could be realized may differ from those that are estimated.

Valuation allowance for deferred income taxes

Deferred tax assets represent deductible temporary differences and net operating loss and tax credit carryforwards. A valuation allowance is recognized if it is more likely than not that some portion of the deferred tax asset will not be realized.

Upon review of its potential sources of taxable income, Fuel Tech has concluded that it is more likely than not that some portion of the deferred tax asset will not be realized. Fuel Tech considers if there are taxable temporary differences that could generate taxable income in the future, if there is the ability to carryback the net operating losses or credits, if there is a projection of future taxable income, and if there are any tax planning strategies which can be readily implemented. Fuel Tech is a company whose revenues are generated from a customer base that is heavily regulated. This fact lends some uncertainty to the ability of the Company to project forward-looking income with precision.

2005 versus 2004

Net sales for the year ended December 31, 2005 and 2004 were \$52,928,000 and \$30,832,000, respectively. The year on year increase of \$22,096,000, or 72%, reflects gains from both the Nitrogen Oxide reduction (NOx) and Fuel Treatment Chemical business segments.

Revenues for the NOx product line were \$32,650,000 in 2005, an increase of 124% over 2004. This business segment, which began to show increased strength in the second half of 2004, continues to experience a surge in order activity. Utilities and industrial facilities that are impacted by the Environmental Protection Agency's (EPA) State Implementation Plan (SIP) Call regulation, which became effective on May 31, 2004, continue to prove that Fuel Tech's technology is a viable tool in their ongoing regulatory compliance planning. Fuel Tech's strategy in addressing this market has involved the development of alliance agreements with critical customers looking to finalize their compliance plans.

The SIP Call, introduced in 1998, is the federal mandate that required 22 states to reduce NOx emissions by May 2003. 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. Although the NOx reduction requirement date was moved back thirteen months to May 31, 2004, 19 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 industrial units. Although the SIP Call was the subject of litigation, an appellate court of the D.C. Circuit upheld the validity of this regulation. This court's ruling was later affirmed by the U.S. Supreme Court.

In February 2001, the U.S. Supreme Court, in a unanimous decision, upheld EPA's authority to revise the National Ambient Air Quality Standard 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.

On December 23, 2003, the EPA proposed a new regulation that affects the SIP Call states by calling for more NOx reductions in 2010 and 2015. Also, deep NOx reductions are called for in 10 additional states outside the current SIP Call region. The proposed rule allows a cap and trade format similar to the SIP Call. This rule, under the name "Clean Air Interstate Rule," became final on March 10, 2005.

Revenues for the Fuel Treatment Chemical business segment were \$20,272,000 in 2005, an increase of 25% over 2004. This segment's growth, although indicative of the continued market acceptance of Fuel Tech's patented TIFI Targeted In-Furnace Injection technology, would have been enhanced had revenues not been hampered by the following circumstances during 2005:

- Demonstration programs - there were several demonstration programs during 2005, five of which have not yielded commercial revenues at December 31, 2005. One was a no-cost demonstration at a critical coal-fired utility and one was a demonstration at a large coal-fired utility offered at 50% of commercial value. These two successful demonstrations had the impact of reducing revenue by approximately \$500,000 and this revenue is non-recoverable. The other three demonstrations were structured on a cost-share basis and all were on coal-fired units. Under cost-share arrangements, during the demonstration period, Fuel Tech will invoice the customer at a specified percentage of the commercial price. At the end of the demonstration, if Fuel Tech meets the criteria for success that were established for the program, Fuel Tech will invoice the customer for the remaining percentage of the commercial price. These latter three demonstrations are expected to reach their evaluation date in the first quarter of 2006. If revenue was recognized at commercial pricing for these latter demonstrations, an incremental \$600,000 in revenue would have been realized in 2005.
- Coal supply chain issues - rail disruptions in the Powder River Basin during 2005 impacted several utilities' ability to receive and burn Powder River Basin coal. The required repair and maintenance work on several rail lines is expected to impact coal shipments in several parts of the country well into 2006. This market dynamic negatively impacted Fuel Tech's revenue generating capability in 2005 as more than one critical Western-coal fired utility unit was forced to reduce capacity for an extended period of time due to transportation related shortages of Western coal deliveries. New sales initiatives were also negatively influenced by these issues as potential new customers were forced to delay their evaluation and implementation of the Fuel Chem technology.
- Oil pricing - the high price of oil has resulted in reduced oil-fired electricity generation in the United States. Fuel Tech's oil-fired business was negatively impacted by this market dynamic in 2005.

Fuel Tech's TIFI technology alleviates the slagging and fouling issues associated with burning coals that are high in low-melting-point ash constituents, such as sodium. More than half of the coal burned in the United States today to generate electricity is Western coal and it is Western coal that has higher levels of low-melting-point ash constituents. Due to its lower cost and lower pollutant content relative to Eastern coals, and despite the rail issues noted above, it is anticipated that Western coals will be burned in larger quantities and in an increasing number of facilities. The penetration of the Western coal-fired utility market remains the top priority for this business segment.

During 2005, demonstrations were performed on utility units that burn Illinois Basin Coal. The utilization of this coal, whose high iron content also can create slagging and fouling issues, is likely to provide the Fuel Chem product line with an additional market niche.

In addition to the above, new technical markets being explored and pursued by FUEL CHEM include the SO₃/plume abatement market, which is a key concern in many utility and industrial operations today, as well as the corrosion reduction market for the municipal solid waste incineration industry. Both areas represent market opportunities for Fuel Tech.

Cost of sales as a percentage of net sales for the year ended December 31, 2005 declined to 51% from 54% in the prior year. This improvement is primarily attributable to the nitrogen oxide business, where the percentage decreased to 51% in 2005 from 58% in 2004. The decrease is attributable to the mix of project business. The cost of sales percentage for the fuel treatment chemical business increased to 50% in 2005 from 48% in 2004. The increase is due to the impact of the demonstration programs discussed above.

Selling, general and administrative expenses were \$17,414,000 and \$12,775,000 for the years ended December 31, 2005 and 2004, respectively. Of the \$4,639,000 variance with 2004, almost \$2,800,000 was due to employee-related costs including the wages and benefits resulting from the addition of new personnel; recruiting costs; and incentive compensation. Revenue-related internal and external commission accounted for \$1,100,000 of the increase. The remainder of the variance is attributable to audit and audit-related fees for Sarbanes Oxley compliance and legal and consulting fees derived from Fuel Tech's strategic desire to engage in business in new geographies.

Research and development expenses were \$1,211,000 and \$1,242,000 for the years ended December 31, 2005 and 2004, respectively. Fuel Tech continues to pursue commercial applications for technologies related to its core businesses, with a particular focus on its FUEL CHEM technologies.

Other expense was \$16,000 for the year ended December 31, 2005 versus \$83,000 for the year ended December 31, 2004. The year on year reduction in expense is comprised of an \$180,000 increase in interest income resulting from a higher average cash balance in 2005 versus 2004 and an increase in market interest rates. This increase was offset by transaction losses related to balances denominated in foreign currencies.

Fuel Tech's income tax benefit of \$419,000 for 2005 predominantly represents the recording of the reduction in the deferred tax asset valuation allowance representing the anticipated utilization of net operating loss and research and development tax credit carryforwards. Based on a review of both historical and projected taxable income, Fuel Tech concluded that it was more likely than not that the net operating losses and the research and development tax credits would be utilized in subsequent periods and the valuation allowance was no longer required.

At December 31, 2004, Fuel Tech recorded a \$1,500,000 reduction in the deferred tax asset valuation allowance, which represented the anticipated utilization of net operating loss carryforwards in subsequent periods. Based on a review of both historical and projected taxable income, Fuel Tech had concluded that it was more likely than not that some portion of the net operating losses would be utilized in subsequent periods and that a reduction in the deferred tax valuation allowance was required.

2004 versus 2003

Net sales for the years ended December 31, 2004 and 2003 were \$30,832,000 and \$35,736,000, respectively. The year on year decline reflects a reduction in revenues derived from the NOx reduction project product line. Revenues for this product line were \$14.6 million in 2004 versus \$25.4 million in 2003. As referred to in previous filings, although the Environmental Protection Agency's (EPA) SIP (State Implementation Plan) Call regulation became effective as of May 31, 2004, there were several factors that led to a slowing of equipment orders in the air pollution control business late in 2003 and during the first half of 2004. NOx allowance prices for 2004 were depressed as a result of weak demand for power, the existence of a shortened ozone season and due to the allocation of supplemental NOx allowances. Consequently, some utilities were able to delay capital spending related to NOx control and they met their emissions reduction requirements on a short-term basis through the purchase of allowances and other temporary means. In addition, many utilities continued to experience significant capital constraints. Based on these market factors, the air pollution control business weakened during the latter portion of 2003 and the first half of 2004. As expected, the second half of 2004 began to show improvement with the receipt of several air pollution control project orders.

The decline in NOx reduction project revenues was partially offset by record fuel treatment chemical revenues. Revenues for the Fuel Chem product line increased to \$16.2 million from \$10.3 million in 2003, an increase of almost 60%. Revenues derived from Western coal-fired utility boilers had the largest year on year impact, and contributions from the customer contracts acquired from Martin Marietta Magnesia Specialties, LLC on September 30, 2003, also contributed to the increase.

Fuel Tech believes that attaining success on additional Western coal-fired utility boilers will lead to more expedient penetration of the Western coal-fired utility market. Sales and marketing efforts are intensely focused on penetrating this market as it represents the largest opportunity for the fuel treatment chemical business.

Cost of sales as a percentage of net sales for the year ended December 31, 2004 declined to 54% from 61% in the prior year due to two primary reasons. First, a significantly larger percentage of the revenues for the 12-month period ended December 31, 2004 were generated by the fuel treatment chemical product line. The gross margins realized by the fuel treatment chemical product line are typically higher than the NOx reduction project business. Secondly, a larger percentage of the NOx reduction project revenues generated for the year ended December 31, 2003 were generated by NOx reduction turnkey projects than in 2004. When Fuel Tech receives a NOx reduction project order from a customer, the scope of the project can include two components. First, there is the Fuel Tech equipment scope for a project and second, there is an installation scope for a project. Due to its patented technology, Fuel Tech's equipment scope for a project generates a higher gross margin than does the installation scope for a project. Historically, most NOx reduction projects undertaken by Fuel Tech have not included the installation scope of a project and this portion of the work has been the responsibility of the end customer. When Fuel Tech is responsible for both components of the project scope, the overall project margin is reduced.

Selling, general and administrative expenses were \$12,775,000 and \$11,659,000 for the years ended December 31, 2004 and 2003, respectively. Of the \$1,116,000 increase, \$400,000 was due to employment-related costs for sales and marketing personnel related to the fuel treatment chemical business. Market penetration of Fuel Tech's TIFI technology in the coal-fired utility market remains a strategic priority. The remainder of the variance was due primarily to an increase in engineering expenses which was driven by the reduction in NOx reduction project activity. When engineering employees are specifically working on NOx reduction projects their costs are classified as cost of sales.

Research and development expenses were \$1,242,000 and \$1,287,000 for the years ended December 31, 2004 and 2003, respectively. Fuel Tech continues to pursue commercial applications for technologies related to its core businesses, with a particular focus on its FUEL CHEM technologies.

There was no interest expense recorded for the year ended December 31, 2004, while \$25,000 was recorded during 2003. Fuel Tech paid off the entirety of its outstanding debt balance in the second quarter of 2003.

Other expense was \$83,000 for the year ended December 31, 2004 versus other income of \$144,000 for the year ended December 31, 2003. The decline is principally due to recording an impairment loss for certain patent assets in the amount of \$113,000 in 2004. Additionally, Fuel Tech had lower interest income in 2004 resulting from a lower average outstanding cash balance in 2004 versus 2003.

Fuel Tech's income tax benefit of \$1,406,000 for 2004 predominantly represents the recording of a \$1,500,000 reduction in the deferred tax asset valuation allowance representing the anticipated utilization of net operating loss carryforwards in subsequent years. Based on a review of both historical and projected taxable income Fuel Tech concluded that it was more likely than not that some portion of the net operating losses would be utilized in subsequent years and that a reduction in the deferred tax valuation allowance was required. The \$94,000 in tax expense that offsets this amount primarily represents state income tax expense. Fuel Tech did not record a financial impact from income taxes in 2003.

Liquidity and Sources of Capital

At December 31, 2005, Fuel Tech had cash and cash equivalents and short-term investments of \$16,375,000 and working capital of \$19,590,000 versus \$6,531,000 and \$11,292,000 at the end of 2004, respectively. Operating activities provided \$11,531,000 of cash in 2005 primarily due to Fuel Tech's operating profit plus depreciation and amortization. Investing activities used cash of \$6,292,000 during the year. Of this amount, \$3,500,000 was an increase in short-term investments. The remaining \$2,792,000 was used in the purchase of equipment and patents, primarily related to the fuel treatment chemical business. Lastly, Fuel Tech generated cash from the exercise of stock options in the amount of \$1,230,000.

Fuel Tech, Inc. (FTI) has a \$15.0 million revolving credit facility expiring July 31, 2006, 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 based on the following:

- The Bank Prime Rate reduced by a range of zero to 50 basis points, or
- The Bank Interbank Offering Rate increased by a range of 200 to 250 basis points

The Company can choose which rate to apply to borrowings.

At December 31, 2005, the bank had provided standby letters of credit, predominantly to customers, totaling approximately \$2,704,000 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, 2005, there were no cash borrowings under the revolving credit facility and approximately \$12,296,000 was available.

There were no interest payments for the years ended December 31, 2005 or 2004. Interest payments of \$39,000 were made during the year ended December 31, 2003.

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

Contractual Obligations and Commitments

In its normal course of business, Fuel Tech enters into agreements that obligate Fuel Tech to make future payments. The operating lease obligations noted below are primarily related to supporting the normal operations of the business and are not recognized as liabilities in Fuel Tech's consolidated balance sheet in accordance with generally accepted accounting principles.

Payments due by period in thousands of U.S. dollars					
Contractual Cash Obligations	Total	Less than 1 year	2-3 years	4-5 years	Thereafter
Operating Leases	\$ 1,787	\$ 504	\$ 907	\$ 370	\$ 6

Fuel Tech has a sublease agreement that obligates the lessee to make future payments to FTI. The sublease obligations noted below are related to a sublease agreement between FTI and American Bailey Corporation (ABC). ABC will reimburse FTI for its share of lease and lease-related expenses under FTI's January 29, 2004 lease of its executive offices in Stamford, Connecticut. Please refer to Note 8 to the consolidated financial statements for a discussion of the relation between FTI and ABC.

Rental payments due to FTI by period in thousands of U.S. dollars					
Contractual Cash Obligations	Total	Less than 1 year	2-3 years	4-5 years	Thereafter
Sublease	\$ 394	\$ 96	\$ 193	\$ 105	\$ -

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

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

In addition, Fuel Tech uses letters of credit as security for other obligations as needed in the normal course of business. As of December 31, 2005, Fuel Tech has outstanding bank performance guarantees and letters of credit as noted in the table below:

Commitment expiration by period in thousands of U.S. dollars					
Commercial Commitments	Total	Less than 1 year	2-3 years	4-5 years	Thereafter
Standby letters of credit and bank guarantees	\$ 2,704	\$ 2,150	\$ 554	\$ -	\$ -

Forward-Looking Information

From time to time, information provided by Fuel Tech, 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. Fuel Tech'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 the text under the caption "Risk Factors of the Business" in Item 1 "Business" above Part I of this Annual Report and in Fuel Tech's Securities and Exchange Commission filings.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Fuel Tech's earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates. Fuel Tech 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.

Fuel Tech is also exposed to changes in interest rates primarily due to its long-term debt arrangement (refer to Note 7 to the consolidated financial statements). A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not have a materially adverse effect on interest expense during the upcoming year ended December 31, 2006.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control Over Financial Reporting

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

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

Based on its assessment, management has concluded that Fuel Tech maintained effective internal control over financial reporting as of December 31, 2005, based on criteria in "Internal Control—Integrated Framework" issued by the COSO.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Shareholders of Fuel-Tech N.V.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Fuel-Tech N.V. maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Fuel-Tech N.V.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, management's assessment that Fuel-Tech N.V. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Fuel-Tech N.V. has maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Fuel-Tech N.V. as of December 31, 2005 and 2004 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005 of Fuel-Tech N.V. and our report dated March 8, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
March 8, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Fuel-Tech N.V.

We have audited the accompanying consolidated balance sheets of Fuel-Tech N.V. as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fuel-Tech N.V. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Fuel-Tech N.V.'s internal control over financial reporting as of December 31, 2005, based on criteria established in internal control-integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
March 8, 2006

Fuel-Tech N.V.
Consolidated Balance Sheets

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

	2005	2004
December 31		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,375	\$ 4,031
Short-term investments	6,000	2,500
Accounts receivable, net of allowances for doubtful accounts of \$150 and \$74, respectively	12,184	7,358
Inventories	358	311
Deferred income taxes	3,043	500
Prepaid expenses and other current assets	1,072	960
Total current assets	33,032	15,660
Equipment, net of accumulated depreciation of \$7,900 and \$7,209, respectively	4,045	2,863
Goodwill	2,119	2,119
Other intangible assets, net of accumulated amortization of \$1,087 and \$968, respectively	1,224	1,342
Deferred income taxes	1,579	1,144
Other assets	1,027	700
Total assets	\$43,026	\$23,828
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,493	\$ 2,705
Accrued liabilities:		
Employee compensation	2,005	706
Other accrued liabilities	4,944	957
Total current liabilities	13,442	4,368
Other liabilities	448	505
Total liabilities	13,890	4,873
Shareholders' equity:		
Common stock, \$.01 par value, 40,000,000 shares authorized, 20,424,133 and 19,529,952 shares issued, respectively	204	195
Additional paid-in capital	91,559	88,600
Accumulated deficit	(62,870)	(70,458)
Accumulated other comprehensive (loss) income	(39)	86
Nil coupon perpetual loan notes	282	532
Total shareholders' equity	29,136	18,955
Total liabilities and shareholders' equity	\$43,026	\$23,828

See notes to consolidated financial statements.

Fuel-Tech N.V.
Consolidated Statements of Income

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

	2005	2004	2003
For the years ended December 31			
Net sales	\$52,928	\$30,832	\$35,736
Costs and expenses:			
Cost of sales	27,118	16,566	21,789
Selling, general and administrative	17,414	12,775	11,659
Research and development	1,211	1,242	1,287
	45,743	30,583	34,735
Operating income	7,185	249	1,001
Interest expense	-	-	(25)
Other (expense) income, net	(16)	(83)	144
Income before taxes	7,169	166	1,120
Income tax benefit	419	1,406	-
Net income	\$ 7,588	\$ 1,572	\$ 1,120
Net income per Common Share			
Basic	\$ 0.38	\$ 0.08	\$ 0.06
Diluted	\$ 0.33	\$ 0.07	\$ 0.05
Average number of Common Shares outstanding			
Basic	20,043,000	19,517,000	19,637,000
Diluted	23,066,000	22,155,000	22,412,000

See notes to consolidated financial statements.

Fuel-Tech N.V.

Consolidated Statements of Shareholders' Equity

(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		
Balance at January 1, 2003	19,614	\$ 196	\$90,315	\$(73,150)	\$ 10	110	\$(1,098)	\$ 532	\$16,805
Comprehensive income:									
Net income				1,120					1,120
Foreign currency translation adjustments					38				38
Comprehensive income									1,158
Exercise of stock options and warrants	282	3	320						323
Purchase of shares for retirement	(274)	(3)	(937)						(940)
Other						8	(35)		(35)
Balance at December 31, 2003	19,622	196	89,698	(72,030)	48	118	(1,133)	532	17,311
Comprehensive income:									
Net income				1,572					1,572
Foreign currency translation adjustments					38				38
Comprehensive income									1,610
Exercise of stock options and warrants	26		34						34
Share retirement	(118)	(1)	(1,132)			(118)	1,133		-
Balance at December 31, 2004	19,530	195	88,600	(70,458)	86	-	-	532	18,955
Comprehensive income:									
Net income				7,588					7,588
Foreign currency translation adjustments					(125)				(125)
Comprehensive income									7,463
Exercise of stock options and warrants	856	9	1,221						1,230
Conversion of nil coupon perpetual loan notes into Common Shares	38		250					(250)	-
Tax benefit from stock compensation expense			1,488						1,488
Balance at December 31, 2005	20,424	\$204	\$91,559	\$(62,870)	\$ (39)	-	\$ -	\$282	\$29,136

See notes to consolidated financial statements.

Fuel-Tech N.V.
Consolidated Statements of Cash Flows
(in thousands of U.S. dollars)

	2005	2004	2003
For the years ended December 31			
OPERATING ACTIVITIES			
Net income	\$ 7,588	\$ 1,572	\$ 1,120
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,566	1,225	1,047
Amortization	127	137	65
Provision for doubtful accounts	26	92	425
Loss on equipment disposals/impaired assets	32	109	32
Deferred income tax	(2,978)	(1,520)	(36)
Tax benefit from stock compensation expense	1,488	-	-
Changes in operating assets and liabilities:			
Accounts receivable	(4,852)	(1,355)	2,329
Inventories	(47)	-	108
Prepaid expenses, other current assets and other noncurrent assets	(439)	(197)	(454)
Accounts payable	3,788	461	(2,821)
Accrued liabilities and other noncurrent liabilities	5,229	125	(156)
Other	3	65	-
Net cash provided by operating activities	11,531	714	1,659
INVESTING ACTIVITIES			
Proceeds from sale of equipment	-	13	-
Acquisition of fuel additive business	-	-	(1,348)
Purchases and sales of short-term investments	(3,500)	-	2,900
Purchases of equipment and patents	(2,792)	(2,080)	(1,024)
Net cash (used in) provided by investing activities	(6,292)	(2,067)	528
FINANCING ACTIVITIES			
Proceeds from exercise of stock options and warrants	1,230	34	323
Purchase of treasury shares	-	-	(35)
Purchase of shares to be retired	-	-	(940)
Repayment of borrowings	-	-	(1,800)
Net cash provided by (used in) financing activities	1,230	34	(2,452)
Effect of exchange rate fluctuations on cash	(125)	38	38
Net increase (decrease) in cash and cash equivalents	6,344	(1,281)	(227)
Cash and cash equivalents at beginning of year	4,031	5,312	5,539
Cash and cash equivalents at end of year	\$ 10,375	\$ 4,031	\$ 5,312

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Fuel-Tech N.V. ("Fuel Tech") is a holding company that provides advanced engineering solutions for the optimization of combustion systems in utility and industrial applications. Fuel Tech'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. FTI's FUEL CHEM program is based on proprietary TIFI[™] Targeted In-Furnace Injection[™] technology in the unique application of specialty chemicals to improve the performance of combustion units. Fuel Tech's business is materially dependent on the continued existence and enforcement of air quality regulations, particularly in the United States. Fuel Tech 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.

International revenues were \$11.2 million, \$4.7 million and \$4.8 million for the years ended December 31, 2005, 2004 and 2003, respectively. These amounts represented 21%, 15% and 13% of Fuel Tech's total revenues for the respective periods of time. Foreign currency changes did not have a material impact on the calculation of these percentages.

Basis of Presentation

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

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 Fuel Tech'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

Fuel Tech includes cash and investments having a maturity of three months or less at the time of acquisition in cash and cash equivalents. Short-term investments consist of highly-liquid, available-for-sale, municipal variable rate demand notes, which are recorded at cost, and may be redeemed at par upon twenty-eight days notice. The cost of these securities closely approximates their fair market value due to their variable interest rates, which typically reset every twenty-eight days. All securities held had maturities of greater than 10 years. Fuel Tech has never incurred realized or unrealized holding gains or losses on these securities. Income resulting from short-term investments is recorded as interest income. Fuel Tech reclassified short-term investments from 2004 and 2003 to conform to the current year presentation.

At December 31, 2005, substantially all of Fuel Tech's cash, cash equivalents and short-term investments are on deposit with two financial institutions.

Foreign Currency Risk Management

Fuel Tech's earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates. Fuel Tech 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, 2005 and 2004, unbilled receivables were approximately \$1,229,000 and \$93,000, respectively. The allowance for doubtful accounts is established based on Fuel Tech's historical level of write-off activity and management's review of specific accounts at each reporting date.

Goodwill and Other Intangibles

Effective January 1, 2002, Fuel Tech adopted Financial Accounting Standards Board (FASB) Statement No. 142, "Goodwill and Other Intangible Assets." Under the guidance of this statement, goodwill and indefinite-lived intangible assets are no longer amortized, but rather, are required to be reviewed annually or more frequently if indicators arise for impairment. The evaluation of impairment involves comparing the current fair value of the business to the recorded value. Fuel Tech uses a discounted cash flow model (DCF) to determine the current fair value of its reporting units. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market share, sales volumes and prices, costs to produce and working capital changes. Management considers historical experience and all available information at the time the fair values of its reporting units are estimated. However, actual fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of goodwill.

Fuel Tech allocates goodwill to reporting units based on the relative excess of fair value over carrying value of the reporting units. Fair value is determined as noted above. The ratio of each reporting unit's excess of fair value over carrying value, to the total excess of fair value over carrying value, is used as the basis for the allocation of the goodwill balance. Fuel Tech's annual fair value measurement test revealed no evidence of impairment.

On September 30, 2003, FTI, acquired the fuel additive business of Martin Marietta Magnesia Specialties, LLC (MMMS). The aggregate purchase price was \$1,348,000, paid in cash. The following table summarizes the estimated fair values of the assets acquired.

Equipment	\$ 50,000
Customer list	1,198,000
Covenant not to compete	100,000
Total	\$1,348,000

The amount of \$1,298,000, representing the value of the customer list and the covenant not to compete, was recorded in other intangible assets on the consolidated balance sheet. The customer list is being amortized over a period of 15 years while the covenant not to compete is being amortized over six years. The estimated amortization expense related to these intangible assets is expected to approximate \$100,000 per year for the four-year period ending December 31, 2009, and then \$80,000 in 2010.

Included with other intangible assets on the consolidated balance sheet are third-party costs related to the development of patents. As of December 31, 2005 and 2004, the net patent asset balance was \$144,000 and \$165,000, respectively. The third-party costs capitalized during the years ended December 31, 2005 and 2004 were \$38,000 and \$47,000, respectively. Third-party costs are comprised of legal fees that relate to the review and preparation of patent disclosures and filing fees incurred to present the patents to the required governing body.

Fuel Tech's intellectual property has been the primary building block for the Air Pollution Control and Fuel treatment chemical product lines. The patents are essential to the generation of revenue for Fuel Tech's businesses and are essential to protect Fuel Tech from competition in the markets in which it serves. These costs are being amortized on 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. Further, the estimated amortization expense related to Fuel Tech's intangible patent assets is expected to approximate \$20,000 per year for the five-year period ending December 31, 2010.

Fuel Tech reviews other intangible assets, which include a customer list, a covenant not to compete and patent assets, for impairment on a recurring basis or when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. In the event the sum of the expected undiscounted future cash flows resulting from the use of the asset is less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Management considers historical experience and all available information at the time the estimates of future cash flows are made, however, the actual cash values that could be realized may differ from those that are estimated. The impact of impairment losses on Fuel Tech was \$30,000 and \$113,000 for the years ended December 31, 2005 and 2004, respectively, and such amounts are recorded in the "Other income, net," line item in the Consolidated Statements of Income.

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
Field equipment	3-4 years
Vehicles	3 years
Computer equipment and software	2-3 years

Revenue Recognition

Fuel Tech 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 construction costs incurred and total estimated 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

Fuel Tech classifies shipping and handling costs in cost of sales in the consolidated statement of income.

Income Taxes

Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

At each reporting period, for financial statement purposes, Fuel Tech reviews the valuation allowance that has historically been recorded to offset the tax benefit of deductible temporary differences and net operating loss and tax credit carryforwards. Fuel Tech considers the following when reviewing the requirement for a valuation allowance: taxable temporary differences that generate taxable income in the future; the ability to carryback the net operating losses or credits; projections of future taxable income; and tax planning strategies that can be readily implemented. Fuel Tech is a company whose revenues are generated from a customer base that is heavily regulated. This fact lends some uncertainty to the ability of the Company to project forward-looking income with precision.

Stock-Based Compensation

Fuel Tech accounts for stock option grants in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees (APB No.25)." Under Fuel Tech'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.

If compensation expense for Fuel Tech'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 Statement of Financial Accounting Standards (SFAS) No. 123, "Share-Based Payment," Fuel Tech's net income and income per share would have been adjusted as follows for the years ended December 31:

(in thousands, except share data)		2005	2004	2003
Net income:				
	As reported	\$ 7,588	\$ 1,572	\$1,120
	As adjusted	6,636	807	363
Basic and diluted income per share:				
	Basic - as reported	\$ 0.38	\$ 0.08	\$ 0.06
	Basic - as adjusted	\$ 0.33	\$ 0.04	\$ 0.02
	Diluted - as reported	\$ 0.33	\$ 0.07	\$ 0.05
	Diluted - as adjusted	\$ 0.29	\$ 0.04	\$ 0.02

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 four years.

In December 2004, the Securities and Exchange Commission issued SFAS No. 123 (revised 2004), "Share-Based Payment," (SFAS No. 123R). SFAS No. 123R eliminates the intrinsic value method under APB No. 25, and requires Fuel Tech to use a fair-value based method of accounting for share-based payments. Under APB No. 25, no compensation cost related to stock options is recognized in the Consolidated Statements of Income. SFAS No. 123R requires that compensation cost for employee services received in exchange for an award of equity instruments be recognized in the Consolidated Statements of Income based on the grant-date fair value of that award. That cost recognized at the grant date will be amortized in the Consolidated Statements of Income over the period during which an employee is required to provide service in exchange for that award (requisite service period). The provisions of SFAS No. 123R are effective as of the first interim period that begins after June 15, 2005. On April 14, 2005, the Securities and Exchange Commission announced that it would permit companies to delay implementation of SFAS No. 123R. Fuel Tech will implement the revised standard on January 1, 2006 and will begin expensing stock options in the first quarter of 2006 using the modified prospective transition method. The modified prospective method requires that compensation expense be recorded for both new awards and awards previously granted but not fully vested as of the adoption date. Fuel Tech anticipates that it will continue to use the Black-Scholes option-pricing model to determine the fair value of options granted to employees. Fuel Tech expects the adoption of SFAS 123R will have a material impact on the consolidated statements of income and earnings per share. Fuel Tech has no reason to believe that the amounts reported as a result of the adoptions will be materially different from our currently disclosed pro forma amounts.

Basic and Diluted Earnings Per Common Share

Basic earnings per share exclude the dilutive effects of stock options and of the nil coupon non-redeemable convertible unsecured loan notes (see Note 4). Diluted earnings per share include 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):

	2005	2004	2003
Basic weighted-average shares	20,043	19,517	19,637
Conversion of unsecured loan notes	59	85	85
Unexercised options and warrants	2,964	2,553	2,690
Diluted weighted-average shares	23,066	22,155	22,412

2. TAXATION

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

Origin of income (loss) before taxes	2005	2004	2003
United States	\$7,823	\$1,218	\$2,210
Foreign	(654)	(1,052)	(1,090)
Income before taxes	\$7,169	\$ 166	\$1,120

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

	2005	2004	2003
Current:			
Federal	\$ 582	\$ 20	\$ 36
State	455	94	-
Other	34	-	-
Total current	1,071	114	36
Deferred:			
Federal	2,179	1,512	5,072
State	630	204	725
Change in valuation allowance	(4,299)	(3,236)	(5,833)
Total deferred	(1,490)	(1,520)	(36)
Income tax benefit	\$ (419)	\$(1,406)	\$ -

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

	2005	2004	2003
Provision at the U.S. federal statutory rate	\$ 2,509	\$ 58	\$ 392
State taxes, net of federal benefit	303	94	-
Foreign losses without tax benefit	263	368	382
Other	805	-	-
Valuation allowance adjustment	(4,299)	(1,926)	(774)
Income tax benefit	\$ (419)	\$(1,406)	\$ -

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

	2005	2004
Deferred tax assets:		
Net operating loss carryforwards	2,268,000	5,140,000
Research and development credit	1,663,000	813,000
Accrued liability for compensation	344,000	-
Alternative minimum tax credit	261,000	144,000
Equipment	159,000	-
Warranty reserve	94,000	55,000
Accounts receivable	57,000	30,000
Deferred rent liability	42,000	-
Vacation accrual	28,000	-
Charitable contribution	8,000	-
Total deferred tax assets	4,924,000	6,182,000
Valuation allowances for deferred tax assets	(45,000)	(4,344,000)
Deferred tax assets net of valuation allowances	4,879,000	1,838,000
Deferred tax liabilities:		
Patents	\$ (54,000)	\$ (66,000)
Goodwill	(203,000)	(128,000)
Total deferred tax liabilities	(257,000)	(194,000)
Net deferred tax asset	\$ 4,622,000	\$ 1,644,000

Fuel Tech's income tax benefit of \$419,000 for 2005 predominantly represents the recording of the reduction in the deferred tax asset valuation allowance representing the anticipated utilization of net operating loss and research and development tax credit carryforwards. Based on a review of both historical and projected taxable income, Fuel Tech concluded that it was more likely than not that the net operating losses and the research and development tax credits would be utilized in subsequent periods and the valuation allowance was no longer required.

Fuel Tech's income tax benefit of \$1,406,000 for 2004 predominantly represents the recording of a reduction in the deferred tax asset valuation allowance representing the anticipated utilization of net operating loss carryforwards in subsequent years as noted above. Based on a review of both historical and projected taxable income, Fuel Tech concluded that it is more likely than not that some portion of the net operating losses will be utilized in subsequent years and that a reduction in the deferred tax asset valuation allowance needed to be recorded. The \$94,000 in tax expense that offsets this amount primarily represents state income tax expense.

Fuel Tech did not record a financial impact from income taxes in 2003.

The \$4,299,000 reduction in the valuation allowance from December 31, 2004 to December 31, 2005 is primarily due to the anticipated utilization of net operating loss and research and development tax credit carryforwards. The remaining valuation allowance at December 31, 2005 represents research and development tax credit carryforwards at the state level that more likely than not will not be utilized in subsequent periods.

State and Federal Tax payments during the years ended December 31, 2005, 2004 and 2003 were \$326,000, \$76,000, and \$142,000, respectively.

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

At December 31, 2005, FTI had tax losses available for offset against future years' earnings of \$6,479,000 in the United States. In 2004, approximately \$3.7 million in tax losses expired while \$.9 million were utilized. Under the provisions of the U.S. Tax Reform Act of 1986, utilization of Fuel Tech's U.S. federal income tax loss carryforwards may be limited should ownership changes exceed 50% within a three-year period. The remaining U.S. federal tax loss carryforwards expire as follows (in thousands):

2006	\$1,104
2007	2,325
2008	1,480
2009	220
2010	309
2011	884
2012	40
2021	117
	\$6,479

3. COMMON SHARES

At December 31, 2005, Fuel Tech had 20,424,133 Common Shares issued, with an additional 46,326 shares reserved for issuance upon conversion of the nil coupon non-redeemable convertible unsecured loan notes (see Note 4) and 2,799,000 shares reserved for issuance upon the exercise of stock options, 1,687,375 of which are currently exercisable (see Note 5).

4. NIL COUPON NON-REDEEMABLE CONVERTIBLE UNSECURED LOAN NOTES

At December 31, 2005, 2004 and 2003, Fuel Tech had \$282,000, \$532,000 and \$532,000 principal amount of nil coupon non-redeemable convertible unsecured perpetual loan notes (the "Loan Notes") outstanding. The Loan Notes are convertible at any time into Common Shares 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 Fuel Tech's dissolution and, accordingly, have been classified within shareholders' equity in the accompanying balance sheet.

In 2005, Loan Notes in the principal amount of \$250,000 were converted into 38,461 Common Shares. There were no conversions in 2004 or 2003.

5. STOCK OPTIONS AND WARRANTS

Fuel Tech 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 Fuel Tech's directors, officers, employees, consultants or advisors (except consultants or advisors in capital-raising transactions) as the directors determine are key to the success of Fuel Tech's business. The amount of shares that may be issued or reserved for awards to participants under a 2004 amendment to the 1993 Plan is 12.5% of outstanding shares calculated on a fully-diluted basis. In 2005, 2004 and 2003, 557,000, 408,000 and 475,500 options, respectively, were granted to employees and directors. These awards have a 10-year life and they vest as follows: 50% after the second anniversary of the award date, 25% after the third anniversary, and the final 25% after the fourth anniversary of the award date. Fuel Tech calculates stock compensation expense on a straight-line basis over the four-year vesting period of the option.

The modified Black-Scholes option-pricing model was used to estimate the fair value of employee stock options for the SFAS No. 123 proforma disclosure in Note 1. This 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 Fuel Tech'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 in Note 1, was estimated on the date of grant using the modified Black-Scholes option pricing model with the following weighted-average assumptions:

	2005	2004	2003
Expected dividend yield	0.00%	0.00%	0.00%
Risk-free interest rate	4.38%	3.60%	2.80%
Expected volatility	48.0%	62.3%	59.1%
Expected life of option	4 years	4 years	4 years

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

	2005		2004		2003	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding at beginning of year	2,810,000	\$ 3.24	2,447,050	\$ 3.00	2,207,000	\$ 2.71
Granted	557,000	7.84	408,000	4.67	475,500	3.93
Exercised	(529,250)	2.32	(19,425)	1.74	(207,950)	2.16
Expired or forfeited	(38,750)	5.97	(25,625)	4.82	(27,500)	3.99
Outstanding at end of year	2,799,000	\$ 4.29	2,810,000	\$ 3.24	2,447,050	\$ 3.00
Exercisable at end of year	1,687,375	\$ 2.87	1,806,125	\$ 2.65	1,436,050	\$ 2.28
Weighted-average fair value of options granted during the year		\$ 3.35		\$ 2.31		\$ 1.89

The following table summarizes information about stock options outstanding at December 31, 2005:

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number of Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
\$1.47 - \$4.20	1,497,000	4.92 years	\$ 2.50	1,314,250	\$ 2.31
\$4.39 - \$8.46	1,302,000	8.57 years	\$ 6.35	373,125	\$ 4.81
\$1.47 - \$8.46	2,799,000	6.62 years	\$ 4.29	1,687,375	\$ 2.87

In addition to the above, Fuel Tech has 2,107,000 warrants outstanding to purchase Common Shares at an exercise price of \$1.75. The warrants expire on April 30, 2008.

6. COMMITMENTS

Operating Leases

Fuel Tech leases office space, autos and certain equipment under agreements expiring on various dates through 2011. Future minimum lease payments under noncancellable operating leases that have initial or remaining lease terms in excess of one year as of December 31, 2005 are as follows (in thousands):

Year of Payment	Amount
2006	\$504
2007	463
2008	444
2009	337
2010	33
Thereafter	6

For the years ended December 31, 2005, 2004 and 2003, rent expense approximated \$778,000, \$640,000 and \$618,000, respectively.

Fuel Tech has a sublease agreement that obligates the lessee to make future payments. The sublease obligations noted below are related to a sublease agreement between FTI and American Bailey Corporation (ABC). ABC will reimburse FTI for its share of lease and

lease-related expenses under FTI's January 29, 2004 lease of its executive offices in Stamford, Connecticut. Please refer to Note 8 to the consolidated financial statements for a discussion of the relation between FTI and ABC. The future minimum lease payments under this noncancellable sublease as of December 31, 2005 are as follows (in thousands):

Year of Payment	Amount
2006	\$96
2007	97
2008	96
2009	97
2010	8
Thereafter	-

The terms of the two primary lease arrangements are as follows:

- The Batavia, Illinois building lease term runs from June 1, 1999 to May 31, 2009. Fuel Tech has the option to extend the lease term for two successive terms of five years each at market rates to be agreed upon between Fuel Tech and the lessor.
- The current Stamford, Connecticut building lease term runs from February 1, 2004 to January 31, 2010. Fuel Tech has the option to extend the lease term for one successive term of five years at a market rate to be agreed upon between Fuel Tech and the lessor. Fuel Tech was provided with a 10 month "free rent" period under this lease, and the total minimum lease payments are being amortized over the lease term. The deferred rent liability is \$177,000 at December 31, 2005, of which \$20,000 and \$157,000 are recorded in current "Other accrued liabilities" and long-term "Other liabilities," respectively, on the consolidated balance sheet. Under the sublease noted above, ABC was also provided with a 10-month "free rent" period, and the total minimum lease rentals are also being amortized over the lease term. The deferred rent receivable is \$67,000 at December 31, 2005, of which \$8,000 and \$59,000 are recorded in current "Prepaid expenses and other current assets" and long-term "Other assets", respectively, on the consolidated balance sheet.

None of Fuel Tech's lease arrangements are adjusted based on an index feature.

Performance Guarantees

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

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

As of December 31, 2005, Fuel Tech has outstanding bank performance guarantees and letters of credit in the amount of \$2,604,000 in support of equipment construction contracts that have not completed their final acceptance test or that are still operating under a warranty period. Management of Fuel Tech believes that these projects will be successfully completed and that there will not be a materially adverse impact on Fuel Tech's operations from these bank performance guarantees and letters of credit.

7. DEBT FINANCING

FTI had a \$10.0 million revolving credit facility expiring July 31, 2004, which was collateralized by all personal property owned by FTI. Effective June 30, 2004, FTI amended the facility to increase the line to \$15.0 million, and extend the expiration date until July 31, 2006. FTI can use this facility for cash advances and standby letters of credit. Cash advances under this facility bear interest based on the following:

- The Bank Prime Rate reduced by a range of zero to 50 basis points, or
- The Bank Interbank Offering Rate increased by a range of 200 to 250 basis points

The Company can choose which rate to apply to borrowings.

At December 31, 2005, the bank had provided standby letters of credit, predominantly to customers, totaling approximately \$2,704,000 in connection with contracts in process. This amount includes the \$2,604,000 in bank performance guarantees and letters of credit as referred to in Note 6 to the consolidated financial statements. FTI is committed to reimbursing the issuing bank for any payments made by the bank under these letters of credit. At December 31, 2005 and 2004, there were no cash borrowings under the revolving credit facility and approximately \$12,296,000 was available.

There were no required interest payments in 2005 or 2004, and interest payments were \$39,000 for the year ended December 31, 2003.

8. RELATED PARTY TRANSACTIONS

As of December 31, 2005, Fuel Tech has a 7% common stock ownership interest in Clean Diesel Technologies, Inc. (CDT), which is being accounted for using the cost method. Fuel Tech is precluded from selling its interest in CDT except pursuant to a registration statement, or in a broker/dealer transaction within the limitations of Rule 144 of the Securities and Exchange Commission (SEC), or in an exempt private placement within the limitations of Rule 144 of the SEC. Fuel Tech's investment in CDT, whose shares are publicly traded on the OTC Bulletin Board and the Alternative Investment Market of the London Stock Exchange, had a market value of \$1.8 million at December 31, 2005, which is not reflected on Fuel Tech's balance sheet. Fuel Tech also owns 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 the warrants on the consolidated balance sheet at December 31, 2005 and 2004 is not significant.

On August 3, 1995, Fuel Tech signed a Management and Services Agreement with CDT. According to the agreement, CDT is to reimburse Fuel Tech for management, services and administrative expenses incurred by Fuel Tech on behalf of CDT. Additionally, Fuel Tech charges CDT an additional 3% of such costs annually. For the years ended December 31, 2005, 2004 and 2003, \$71,000, \$70,000 and \$69,000, respectively, was charged to CDT as a management fee.

Pursuant to an assignment agreement of certain technology to CDT, Fuel Tech 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 Fuel Tech 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, Fuel Tech has received approximately \$21,000 in royalties. Fuel Tech intends to record royalties from CDT on a cash basis.

On April 30, 1998, FTI entered into an agreement with ABC for it to provide certain management and consulting services to FTI. Persons now or formerly associated with ABC currently own 24% of Fuel Tech's Common Shares and warrants to purchase an additional 2.1 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. The agreement was further amended effective May 1, 2002 to increase the management fee to \$29,167 per month until the termination of the agreement as of April 30, 2004. Effective January 1, 2004, this agreement was terminated.

As of January 1, 2004, two former employees of ABC who were Directors of Fuel Tech became employees of FTI. Concurrently, in early 2004, a new agreement was put in place between FTI and ABC. Effective January 1, 2004, a compensation agreement was established whereby ABC will reimburse FTI for certain services that employees of FTI will provide to ABC. In addition, ABC is a sublessee under FTI's January 29, 2004 lease of its executive offices in Stamford, Connecticut. ABC will reimburse FTI for its share of lease and lease-related expenses under the sublease agreement. Please refer to Note 6 to the consolidated financial statements for a further discussion of this topic. \$37,000 is due from ABC at December 31, 2005 related to the compensation and sublease agreements.

9. DEFINED CONTRIBUTION PLAN

Fuel Tech has a retirement savings plan available for all U.S. employees who have met minimum length-of-service requirements. Fuel Tech's contributions are determined based upon amounts contributed by Fuel Tech's employees with additional contributions made at the discretion of Fuel Tech's Board of Directors. Costs related to this plan were \$285,000, \$300,000 and \$341,000 in 2005, 2004 and 2003, respectively.

10. BUSINESS SEGMENT, GEOGRAPHIC AND QUARTERLY FINANCIAL DATA

BUSINESS SEGMENT FINANCIAL DATA

Fuel Tech is organized into three reportable segments, two that provide advanced engineering solutions for the optimization of combustion systems in utility and industrial applications, and one that markets and sells visualization software.

The two segments that comprise the advanced engineering solutions product offerings are as follows:

- The nitrogen oxide reduction technology segment, which includes the NOxOUT, NOxOUT CASCADE, and NOxOUT-SCR processes for the reduction of nitrogen oxide emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources, and
- The fuel treatment chemical segment, which uses chemical processes for the control of slagging, fouling, and corrosion and for plume abatement in furnaces and boilers through the addition of chemicals into the fuel or via a TIFI Targeted In-Furnace Injection program.

The visualization software segment was discontinued in the first quarter of 2005 and it does not meet the materiality test for disclosure. This segment is aggregated in "Other" below. In addition, "Other" also includes those profit and loss items not allocated by Fuel Tech to each reportable segment. Lastly, there are no intersegment sales that require elimination.

Fuel Tech evaluates performance and allocates resources based on reviewing gross margin by reportable segment. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Fuel Tech does not review assets by reportable segment, but rather, in aggregate for Fuel Tech as a whole.

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

(in thousands)

For the year ended December 31, 2005	Nitrogen Oxide Reduction	Fuel Treatment Chemical	Other	Total
Net sales from external customers	\$32,650	\$20,272	\$ 6	\$52,928
Cost of sales	16,744	10,096	278	27,118
Gross margin	15,906	10,176	(272)	25,810
Selling, general and administrative	-	-	17,414	17,414
Research and development	-	-	1,211	1,211
Operating income (loss)	\$15,906	\$10,176	\$(18,897)	\$ 7,185
For the year ended December 31, 2004	Nitrogen Oxide Reduction	Fuel Treatment Chemical	Other	Total
Net sales from external customers	\$14,602	\$16,216	\$ 14	\$30,832
Cost of sales	8,458	7,797	311	16,566
Gross margin	6,144	8,419	(297)	14,266
Selling, general and administrative	-	-	12,775	12,775
Research and development	-	-	1,242	1,242
Operating income (loss)	\$ 6,144	\$ 8,419	\$(14,314)	\$ 249
For the year ended December 31, 2003	Nitrogen Oxide Reduction	Fuel Treatment Chemical	Other	Total
Net sales from external customers	\$25,404	\$10,315	\$ 17	\$35,736
Cost of sales	16,886	4,672	231	21,789
Gross margin	8,518	5,643	(214)	13,947
Selling, general and administrative	-	-	11,659	11,659
Research and development	-	-	1,287	1,287
Operating income (loss)	\$ 8,518	\$ 5,643	\$(13,160)	\$ 1,001

GEOGRAPHIC SEGMENT FINANCIAL DATA

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

For the years ended December 31 (in thousands)	2005	2004	2003
Net sales:			
United States	\$ 41,721	\$ 26,093	\$ 30,965
Foreign	11,207	4,739	4,771
	<u>\$ 52,928</u>	<u>\$ 30,832</u>	<u>\$ 35,736</u>
December 31	2005	2004	2003
Assets:			
United States	\$ 39,006	\$ 21,641	\$ 19,487
Foreign	4,020	2,187	2,111
	<u>\$ 43,026</u>	<u>\$ 23,828</u>	<u>\$ 21,598</u>

During 2005, Fuel Tech realized 13.1% of its revenues from one customer. This customer utilized the product line offered by Fuel Tech's Nitrogen Oxide Reduction business segment.

QUARTERLY FINANCIAL DATA

Set forth below are the unaudited quarterly financial data for the fiscal years ended December 31, 2005 and 2004.

For the quarters ended:	March 31	June 30	September 30	December 31
(in thousands, except share data)				
2005 (b)				
Net sales	\$ 12,051	\$ 11,780	\$ 12,821	\$ 16,276
Cost of sales	6,397	6,053	6,467	8,201
Net income	753	3,172	1,048	2,615
Net income per Common Share:				
Basic	\$0.04	\$0.16	\$0.05	\$0.13
Diluted	\$0.03	\$0.14	\$0.05	\$0.11
2004 (a)				
Net sales	\$ 6,152	\$ 7,352	\$ 9,577	\$ 7,751
Cost of sales	3,216	4,196	4,813	4,341
Net (loss) income	(531)	(308)	1,001	1,410
Net (loss) income per Common Share:				
Basic	\$(0.03)	\$(0.02)	\$0.05	\$0.07
Diluted	\$(0.03)	\$(0.02)	\$0.05	\$0.06

(a) Based on a review of both historical and projected taxable income, Fuel Tech concluded that it is more likely than not that some portion of its net operating losses would be utilized in subsequent years and that a reduction in the deferred tax asset valuation allowance needed to be recorded. Fuel Tech recorded a reduction in the deferred tax asset valuation allowance of \$1,500,000 in the fourth quarter of 2004, representing the anticipated utilization of net operating loss carryforwards in subsequent years.

(b) Based on a review of both historical and projected taxable income, at June 30, 2005 Fuel Tech concluded that it is more likely than not that some portion of its net operating losses would be utilized in subsequent years and that a reduction in the deferred tax asset valuation allowance needed to be recorded. Fuel Tech recorded a reduction in the deferred tax asset valuation allowance of \$2,200,000 in the second quarter of 2005 representing the anticipated utilization of net operating loss carryforwards in subsequent years.

In the fourth quarter ended December 31, 2005, Fuel Tech recorded a \$2,099,000 reduction in the deferred tax asset valuation allowance primarily due to the anticipated utilization of net operating loss and research and development tax credit carryforwards. Based on a review of both historical and projected taxable income at the end of December 31, 2005, Fuel Tech concluded that it was more likely than not that carryforwards would be utilized in subsequent periods and that a reduction in the deferred tax valuation allowance was required.

The total of the basic and diluted net (loss) income amounts per share for the four quarters ending December 31, 2004 does not sum to the amounts presented on the Consolidated Statement of Income for the year ending December 31, 2004.

11. PARENT COMPANY FINANCIAL STATEMENTS

Balance Sheets at December 31 (in thousands)	2005	2004	
Assets:			
Receivable and other current assets	\$ 116	\$ 145	
Investments in subsidiaries	29,359	18,958	
Total assets	<u>\$29,475</u>	<u>\$19,103</u>	
Liabilities and shareholders' equity:			
Liabilities:			
Accounts payable and accrued expenses	\$ 339	\$ 148	
Shareholders' equity	29,136	18,955	
Total liabilities and shareholders' equity	<u>\$29,475</u>	<u>\$19,103</u>	
Statements of Income for the years ended December 31 (in thousands)	2005	2004	2003
Loss from operations	\$(1,024)	\$(772)	\$ (763)
Income from equity investment in subsidiary	8,612	2,344	1,883
Net income	<u>\$ 7,588</u>	<u>\$1,572</u>	<u>\$ 1,120</u>
Statements of Cash Flow for the years ended December 31 (in thousands)	2005	2004	2003
Operating activities:			
Net cash used in operating activities	<u>\$ (804)</u>	<u>\$ (764)</u>	<u>\$ (880)</u>
Investing activities:			
Net cash provided by investing activities	-	-	-
Financing activities:			
Repayments from FTI	(426)	730	1,532
Exercise of stock options	1,230	34	323
Purchase of treasury stock/other	-	-	(35)
Purchase of shares to be retired	-	-	(940)
Net cash provided by investing activities	<u>804</u>	<u>764</u>	<u>880</u>
Net decrease in cash and cash equivalents	-	-	-
Cash and cash equivalents at beginning of period	-	-	-
Cash and cash equivalents at end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Basis of Presentation:

In the parent company financial statements, Fuel Tech's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries since the date of acquisition. Fuel Tech'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 Fuel Tech's consolidated financial statements.

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

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Fuel Tech's management carried out an evaluation, with the participation of Fuel Tech's Chief Executive Officer and Chief Financial Officer, of the effectiveness of Fuel Tech's disclosure controls and procedures, as of the end of the last fiscal quarter.

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2005, Fuel Tech's disclosure controls and procedures were operating effectively to ensure that information required to be disclosed by Fuel Tech in the reports that Fuel Tech files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Internal Control Over Financial Reporting

Management's Report on Internal Control over Financial Reporting and our Independent Registered Public Accounting Firm's Attestation Report are included at Item 8.

Change in Internal Control Over Financial Reporting

There were no significant changes in internal controls or in other factors that could significantly affect these controls during the quarter ended December 31, 2005.

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," "Directors and Executive Officers of Fuel Tech," "Compensation Committee," "Audit Committee," and "Financial Experts" in Fuel Tech's Proxy Statement related to the 2006 Annual Meeting of Shareholders (the "Proxy Statement") and is incorporated by reference.

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

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.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this Item will be set forth under the caption "Approval of Appointment of Auditors" in the Proxy Statement and is incorporated by reference.

PART IV

ITEM 15. 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.

Management's Report on Internal Control Over Financial Reporting
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2005 and 2004
Consolidated Statements of Income for Years Ended December 31, 2005, 2004 and 2003
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2005, 2004 and 2003
Consolidated Statements of Cash Flows for the Years Ended December 31, 2005, 2004 and 2003
Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts

Fuel-Tech N.V.
Allowance for Doubtful Accounts:

Year	Balance at January 1	Charged to costs and expenses	(Deductions)/Other	Balance at December 31
2003	\$107,000	\$425,000	\$(221,000)	\$311,000
2004	311,000	92,000	(329,000)	74,000
2005	74,000	26,000	50,000	150,000

All other 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 Fuel Tech, Inc. Form of 1992 Substitute Stock Option Agreement
- * 3.2 Fuel-Tech N.V. Form of 1992 Substitute Stock Option Agreement
- * 3.3 Fuel-Tech N.V. Form of 1993 Stock Option Agreement as amended through August 3, 1999
- & 3.4 The 1993 Incentive Plan of Fuel-Tech N.V. as amended through August 3, 1999
- * 3.5 License Implementation Agreement dated June 10, 1991 among NFT, Nalco Fuel Tech, B.V., and Foster Wheeler Energy Corporation
- * 3.6 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.
- * 3.7 License Implementation Agreement dated May 22, 1991 among NFT, Nalco Fuel Tech, B.V., and Wheelabrator Air Pollution Control, Inc.
- * 3.8 Agreement dated July 3, 1990 between NFT and Arcadian Corporation
- * 3.9 License Agreement dated September 12, 1991 between NFT and BP Chemicals Inc.
- * 3.10 Agreement dated November 5, 1990 between NFT and Cargill, Incorporated
- * 3.11 Agreement dated August 30, 1990 between NFT and Nitrochem, Inc.
- * 3.12 License Agreement dated December 27, 1990 between NFT and Union Oil Company of California dba Unocal
- * 3.13 Agreement dated September 30, 1990 between NFT and W.H. Shurtleff Company
- ** 3.14 Securities Purchase Agreement dated as of March 23, 1998, between Fuel-Tech N.V., and the several Investors signatory thereto, including exhibits.
- #& 3.15 License Agreement dated November 18, 1998 between The Gas Technology Institute and Fuel Tech, Inc. relating to the FLGR Process
- #& 3.16 Amendment No. 1, dated February 28, 2000, to License Agreement of November 18, 1998 between The Gas Technology Institute and Fuel Tech, Inc.
- 3.17 The Amended and Restated Business Loan Agreement dated as of August 31, 1999 between Bank of America, National Association and FTI; as amended through June 30, 2004
- 3.18 Employment Agreement as of February 28, 2006 between John (Johnny) F. Norris, Jr. and Fuel Tech, Inc.
- 19.2 Those portions of the Proxy Statement to be distributed to Shareholders of Fuel Tech for the 2006 Annual Meeting of Shareholders of Fuel-Tech N.V. specifically incorporated by reference into this Annual Report on Form 10-K.
- 23.1 Consent of Independent Registered Public Accounting Firm
- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- * 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
- Filed herewith
- To be filed with the Registrant's definitive proxy material for its 2006 Annual Meeting
- Filed with Registrant's report on Form 10-K for the year 2002
- # 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

- The Company filed form 8-K on November 2, 2005. This filing included the Company's earnings press release for the third quarter ended September 30, 2005.

SIGNATURES AND CERTIFICATIONS

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

Date: March 10, 2006 By: /s/ Ralph E. Bailey
Ralph E. Bailey
Executive Chairman, Managing Director
and Chief Executive Officer

Date: March 10, 2006 By: /s/ Vincent J. Arnone
Vincent J. Arnone
Chief Financial Officer,
Senior Vice President and
Treasurer

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.

Date: March 10, 2006

<u>/s/ Ralph E. Bailey</u> Ralph E. Bailey	Executive Chairman, Managing Director and Chief Executive Officer (Principal Executive Officer)
<u>/s/ Vincent J. Arnone</u> Vincent J. Arnone	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial and Accounting Officer)
<u>/s/ Douglas G. Bailey</u> Douglas G. Bailey	Managing Director
<u>/s/ Thomas J. Shaw</u> Thomas J. Shaw	Managing Director
<u>/s/ Miguel Espinosa</u> Miguel Espinosa	Managing Director
<u>/s/ Samer S. Khanachet</u> Samer S. Khanachet	Managing Director
<u>/s/ John D. Morrow</u> John D. Morrow	Managing Director
<u>/s/ Thomas L. Jones</u> Thomas L. Jones	Managing Director
<u>/s/ Charles W. Grinnell</u> Charles W. Grinnell	Managing Director, Vice President, General Counsel and Corporate Secretary

Exhibit 31.1

I, Ralph E. Bailey, certify that:

1. I have reviewed this Annual Report on Form 10-K of Fuel-Tech N.V.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: as of March 10, 2006

By: /s/ Ralph E. Bailey
Ralph E. Bailey
Executive Chairman, Managing Director
and Chief Executive Officer

Exhibit 31.2

I, Vincent J. Arnone, certify that:

1. I have reviewed this Annual Report on Form 10-K of Fuel-Tech N.V.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: as of March 10, 2006

By: /s/ Vincent J. Arnone

Vincent J. Arnone
Chief Financial Officer,
Senior Vice President and
Treasurer

Exhibit 32

The undersigned in their capacities as Chief Executive Officer and Chief Financial Officer of the Registrant do hereby certify that:

(i) this report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Registrant as of, and for, the periods presented in the report.

Date: March 10, 2006

By: /s/ Ralph E. Bailey
Ralph E. Bailey
Executive Chairman, Managing Director
and Chief Executive Officer

Date: March 10, 2006

By: /s/ Vincent J. Arnone
Vincent J. Arnone
Senior Vice President, Treasurer and
Chief Financial Officer

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (the "Act") this certification accompanies the Report and shall not, except to the extent required by the Act, be deemed filed by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Fuel-Tech N.V. and will be retained by Fuel-Tech N.V. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Forms S-8 No. 83068, dated August 16, 1994 and No. 333-36390 dated May 5, 2000), pertaining to the 1993 Incentive Plan of Fuel-Tech N.V. of our reports dated March 8, 2006, with respect to the consolidated financial statements and schedule of Fuel-Tech N.V., Fuel-Tech N.V. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Fuel-Tech N.V., included in this Annual Report (Form 10-K) for the year ended December 31, 2005.

Chicago, Illinois
March 8, 2006

FUEL TECH, INC.
EMPLOYMENT AGREEMENT

Agreement made as of the 28th day of February, 2006 between Fuel Tech, Inc., a Massachusetts corporation (the "Company") with a place of business at 512 Kingsland Drive, Batavia, IL 60510-2299, and John (Johnny) F Norris, Jr. of 2140 Wingate Drive, Delaware Ohio 43015 ("Employee").

In consideration of the Company's employment of Employee and the compensation to be paid to the Employee, the Company and the Employee agree, as follows:

1. Employment. (a) Employment with the Company is contingent on Employee signing this agreement, subject to the provisions regarding legal advice and rescission in Section 13 below. Employee shall also be entitled to participate in such benefits as the Company provides to its employees generally.

No statement in this Employment Agreement shall be construed to grant any Employee an employment contract of fixed duration. Nothing contained in any provision of this Employment Agreement shall be interpreted as altering the at-will employment relationship or as a limitation, either express or implied, on the Company's right to discipline or discharge an Employee. Either the Employee or the Company may terminate the employment relationship at any time, for any reason, with or without notice and with or without cause.

(b) Position. The Employee is employed as the President and Chief Executive Officer of the Company and the Management of the Company shall recommend to the Board of Directors of the Company that Employee be elected to that position.

(c) Base Salary. The Employee shall have initially a base salary of \$375,000 per year payable in twenty four installments.

(d) Annual Bonus. The Employee shall be entitled to participate in the Company's Management Incentive Plan ("MIP") with a Target Participation Percentage of 50% of base salary, subject to the terms of each annual plan as approved by the Compensation and Nominating Committee of the Board of Directors of Fuel-Tech N.V.

(e) Stock Options. Management shall recommend to the Board of Directors of Fuel-Tech N.V. that the Employee be awarded a non-qualified stock option to acquire 100,000 shares of Fuel-Tech N.V. common stock. The exercise price of that option will be the fair market value per share on the date of the award.

(f) Vacation. Employee shall be entitled to five weeks (25 days) of vacation in the first year of employment and six weeks (30 days) of vacation annually thereafter, exclusive of national holidays.

(g) Apartment Allowance. Prior to Employee's move to a permanent residence in the Chicago/Batavia area, the Company shall pay Employee an apartment rental allowance of up to \$1,200 per month through June 30, 2007 but not thereafter. Employee shall himself pay for the costs of furnishing such apartment.

(h) Moving Expenses. The Company shall reimburse Employee for his reasonable moving expenses from his home address above to the Chicago/Batavia area if such expenses are incurred on or before July 1, 2007, and, if incurred thereafter, reimbursement of such expenses shall be subject to the approval of the Compensation Committee of the Board of Directors of Fuel-Tech N.V. or any successor to such company.

(i) Commuting Expenses. The Company shall reimburse Employee for his weekly round trip cabin class air fare between Columbus Ohio and Chicago and weekly auto rental in the Chicago area (or mileage for personal vehicle if personal vehicle is used for the commute) until Employee's permanent move to the Chicago/Batavia area but not later than July 1, 2007.

(j) Salary Continuation/Change of Control. If Employee's employment is involuntarily terminated not for cause within a year after an event of "Change of Control" as defined in the Fuel-Tech N.V. 1993 Incentive Plan, Employee shall be entitled to continuation of base salary and benefits for up to one year after such termination or until Employee shall attain comparable employment with an equivalent salary. "Benefits" for this purpose shall include Medical and Dental coverage, 401(K) Plan participation and other plans or programs in which the officers of the Company generally are entitled to participate, and, with respect to MIP payouts, such amount for a prior year as is earned but unpaid under the terms of that prior year plan and, for a current year, such amount as the Compensation Committee of the Board of Directors of Fuel-Tech N.V., or any successor company, shall approve. "Cause" shall mean conviction of Employee under or a plea of guilty by Employee to any state or Federal felony charge (or the equivalent thereof outside of the United States); any instance of fraud, embezzlement, self-dealing, insider trading or similar malfeasance with respect to the Company regardless of amount; substance or alcohol abuse; or other conduct for which dismissal has been identified in the Fuel Tech, Inc. Employee Handbook, or any successor manual, or the Company's Code of Business Conduct and Ethics from time to time in effect, as a potential disciplinary measure.

2. Best Efforts. The Employee while employed by the Company shall devote all of Employee's best efforts, and all of Employee's time and attention to the interests of the Company during reasonable business hours and shall faithfully perform all duties from time to time assigned to Employee and shall conform to all of the Company's requirements for proper business conduct.
3. Disclosure. Employee shall disclose promptly and completely to the Company in writing, and shall respond to all inquiries made by the Company whether during or after employment about, all inventions, programs, processes, software, data, formulae, trade secrets, ideas, concepts, discoveries and developments ("Developments"), whether patentable or not, which during employment the Employee may make, conceive, reduce to writing or other storage media, or with respect to which Employee shall acquire the right to grant licenses or to become licensed, either solely or jointly with others, which:
 - (a) Relates to any subject matter with which Employee's work for the Company may be concerned; or
 - (b) Relates to or is concerned with the business, products or projects of the Company or that of its customers; or
 - (c) Involves the use of the Company's time, material or facilities.

Employee agrees that all such Developments are and shall remain the sole and absolute property of the Company or its nominees. Employee will not withhold Developments from the Company for the use or benefit of Employee or any other person or Company after Employee's employment terminates.

4. Copyrights. Employee agrees that all writings, illustrations, models, pictures, software, and other such materials and original works of authorship created or produced by Employee during the term of his employment with the Company and relating to his employment with the Company shall be work made for hire under U.S. copyright laws and shall be at all times the sole and absolute property of the Company or its nominees. To the extent that such works are not works made for hire under the U.S. copyright laws, then Employee grants, assigns, and transfers to the Company any and all rights (including but not limited to copyrights) in all to all such works.
5. Assignment. At all times during and after Employee's employment with the Company and at no expense to Employee, Employee shall execute and deliver such assignments and other documents as may be reasonably requested by the Company to obtain or uphold for the benefit of the Company, patents, trademarks, and copyrights in any and all countries for Developments, whether or not Employee is the inventor or creator thereof. The Company shall be the sole and absolute owner of any resulting patents, trademarks, and copyrights for Developments.
6. Development Exclusions. This Employment Agreement does not apply to a Development or an original work of authorship that was developed entirely on the Employees' own time and that used no equipment or facility or trade secret information of the Company and (a) that does not result from any work performed by the Employee for the Company or (b) that does not relate to the business of the Company.
7. Development Compensation. Employee shall receive no compensation for actions required of the Employee under the requirements of Sections 3 and 4 and 5 above whether during or after termination of employment, provided, however, that Employee shall be reimbursed by the Company for any of Employee's reasonable out of pocket expenses necessarily arising out of such actions and such expenses are approved in advance by the Company.
8. Confidentiality; Non-Use. At all times during and after Employee's employment by the Company, Employee shall hold in strictest confidence, and, without the express written authorization of the officer of the Company to whom Employee reports or of the Board of Directors of the Company, Employee shall not disclose or transfer to any third party or use for relating to research and development programs, products, customer information, customer lists, personnel information, marketing plans, and business, operations, and sales plans.
9. Company Property. Employee shall carefully preserve the Company's property and not convert it to personal use. At the termination of Employee's employment, Employee shall return to the Company any and all Company property entrusted to Employee, including without limiting the generality of the foregoing, all notes, correspondence, books, laboratory logs, computer disks and tapes or other data storage media, engineering records, drawings; and also any keys, key cards, credit cards, telephone cards, computers, equipment and vehicles.
10. Employee Disputes. Employee agrees that in any claim related to the employment relationship which he may bring against the Company or which the Company may bring against the Employee, the Employee now and will in the future agree and consent that, at the Company's sole election and in its absolute discretion, any such claim may be determined in arbitration or, once initiated in any court by the Employee, may be removed by the Company from that court to arbitration. This agreement to arbitrate includes, but is not limited to, all claims under federal, state, and local statutory or common law, such as Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Older Workers Benefits Protection Act, the Fair Labor Standards Act, the Employee Retirement Income Security Act, the Consolidated Omnibus Budget Reconciliation Act, the Occupational Safety and Health Act, all federal, state, and local laws against discrimination, the law of contract, and the law of tort, but excluding workers' compensation claims, unemployment claims, and claims by the Company for unfair competition or disclosure of trade secrets.
11. Arbitration. Employee agrees that any arbitration between Employee and the Company shall be conducted under the Employment Dispute Resolution Rules of the American arbitration Association ("AAA") then in effect before a single neutral arbitrator in the

municipality of Employee's then or last location of employment with the Company. The Company shall pay all of the fees of the AAA and the arbitrator. Employee does not in any such arbitration waive any statutory remedies available to Employee. The arbitrator shall base any award on the applicable law, setting forth in writing the basis of the award. Any award in arbitration shall be final and binding and may be entered in, or an order of enforcement may be obtained from, any court having jurisdiction.

12. Waiver of Jury Trial. In the event that either party files, and is allowed by the courts to prosecute, a court action on a dispute between the Employee and the Company, the plaintiff in such an action agrees not to request, and hereby waives his, her, or its right to, a trial by jury.
13. Legal Advice; Rescission. Employee agrees that this agreement involves Employee's waiver of certain legal rights. Employee may, if Employee so chooses, consult with an attorney about the terms of this agreement before signing it. Employee further acknowledges that (a) the Company has given Employee twenty-one (21) day period in which to consider the terms and binding effect of this agreement, and (b) that, if Employee does sign this agreement, Employee shall have seven days thereafter to change Employee's mind and revoke it. Employee agrees that if Employee decides to revoke this agreement, Employee will inform the Company in writing within that seven (7) day period and obtain a written acknowledgment of receipt by the Company of the revocation. Employee understands that revocation of this agreement will affect Employee's employment status. Employee states that Employee has carefully read this agreement; that Employee understands its final and binding effect and agrees to be bound by its terms; and that Employee has signed this agreement voluntarily.
14. Law. This agreement and any disputes arising between the Company and Employee shall be interpreted and governed by the law of the state of Illinois, excluding its choice of laws rules.
15. No Oral Modifications. This written Employment Agreement is the only employment agreement between the Company and the Employee. This Employment Agreement, including this provision, may not be modified by any oral statements made by any person. This Employment Agreement, including this provision, may be modified only by a written agreement signed both by the Employee and by an authorized officer of the Company.
16. Severability. Company and Employee agree that if any of the agreements, covenants, restrictions and waivers by Employee in this agreement are held invalid by a court of competent jurisdiction, such provisions shall be stricken or modified by the Court and the remaining and modified provisions shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have signed this agreement as of the day and year first written above.

/s/ John Norris
Employee

/s/ Susan Trapani -Clements
Witness

Susan Trapani - Clements
Name (Please print or type)

FUEL TECH, INC.

By: /s/ C. W. Grinnell
Title: Vice President