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THE NEW AMERICA

FUEL TECH INC. *Batavia, Illinois*

Fuel Tech Clears The Air While Making Power Plants More Efficient

BY BEN STEVERMAN
INVESTOR'S BUSINESS DAILY

John Norris thinks his company has great products that can help thousands of power plants run more efficiently and produce less pollution.

But Norris, an energy industry veteran, wouldn't blame utility companies for being a little suspicious. In the past, "very few solutions have ever worked," said Norris, president and chief executive of **Fuel Tech**^{FTEK}. "We certainly believe we are the exception to that."

Fuel Tech's first clients seem to agree.

The company, started in 1987, offers products in two categories. The first helps power plants and other fuel burners control air pollution. The second helps plants burn fuel more efficiently.

Both rely on patented technology that creates a 3-D computer model of the conditions inside an operating power plant. The model helps determine the best times and places to inject chemicals into the combustion process.

Fuel Tech's air pollution control products, which account for 60% of the company's business, focus on nitrogen oxides, or NOx.



Fuel Tech makes products to help power plants run more efficiently and cut nitrogen oxide emissions. It has barely penetrated its potential market.

NOx emissions cause a range of health problems and contribute to acid rain and ground-level ozone. The U.S. and other governments have placed increasingly strict limits on NOx.

Fuel Tech's NOxOUT systems cost \$1 million to \$3 million each. By spraying chemicals during the combustion process, the systems allow power plants, municipal waste burners and others to reduce NOx emissions by 30% to 70%.

It's a "very cheap way to get some percentage of nitrogen oxides out of the atmosphere," said John Quealy, an analyst at Canaccord Adams, which has various business relationships with Fuel Tech.

Competing systems to fight NOx emissions are more effective, but they can cost \$100 million or more, far more than small coal power plants, many 40 or 50 years old, can afford.

Fuel Tech
fuel-tech.com

Ticker	FTEK
Share price	Near 20
12-month sales	\$65 mil
5-year profit growth rate	n.a.

IBD SmartSelect Corporate Ratings

Earnings Per Share	75
Relative Price Strength	99
Industry Group Relative Strength	A
Sales+Profit Margins+ROE	A
cumulation/Distribution	A

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The approach is catching on. Four hundred systems have been installed worldwide. Fuel Tech recently made a big move in China with projects totaling over \$15 million.

China, already the world's biggest producer and consumer of coal, is building more and more coal-fired plants. At the same time, Chinese officials are getting concerned about air pollution, especially in preparation for the 2008 Olympics in Beijing.

Fuel Tech's newer product line, called Fuel Chem, has some environmental benefits, but its main selling point is its efficiency, particularly at coal-fired plants.

The burning of coal or other fossil fuels can create residue that sticks to the walls of boilers and crystallizes there, a process known as slagging.

(Continued)

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Slagging makes a boiler less efficient. The formation of large slag boulders in the boiler can be dangerous and destructive.

“They get these boulders way up in the boiler,” some the size of small cars, said Jesse Herrick, an analyst at Merriam Curhan Ford. They “can come crashing down to the boiler floor.”

Power plants shut down occasionally to remove the slag — often using buckshot and dynamite at a cost of millions.

By spraying chemicals into boilers, the Fuel Chem process makes the burning more efficient and eliminates the slag problem.

Slag is getting to be more of a problem as utilities switch from more expensive and pure Appalachian coal to cheaper and

dirtier coal from Montana, Wyoming and Illinois. Western coal contains more impurities and is more likely to cause slagging.

Analysts like the Fuel Chem process because, unlike air pollution control installations, it provides Fuel Tech with recurring revenue. Fuel Tech sells the Fuel Chem chemicals, so every boiler that signs up represents \$1 million per year in revenue.

Jackson Robinson, who runs the Winslow Green Growth Fund^{WGGFX}, which invests in environmentally friendly businesses, notes that Fuel Chem is used in only two dozen of the 1,600 coal boilers in the U.S.

“There is no bona fide competition” for the Fuel Chem product, Robinson said. His fund has held

Fuel Chem for four years. “There is no reason this can’t be a billion-dollar company in this market alone.”

Norris says the potential market for Fuel Tech’s products is worldwide, but the firm has decided to focus on a few markets. An office in Milan, Italy, serves the European market, where product demand could be spurred by stricter environmental regulations, especially new rules on greenhouse gas emissions said to contribute to global warming.

In addition to China, Fuel Tech has tried to break into India, another fast-growing economy and a big producer and consumer of coal energy. Already a presence in Canada and the U.S., Fuel Tech also focuses on Mexico, where the Fuel Chem process can be useful in oil-burning power plants.

“They are starting to gain more traction with the existing technology,” Herrick said.

He notes that the company also is using its technological prowess to come up with products to further increase the efficiency of power plant boilers.

One risk for Fuel Tech would be competition. Though Fuel Tech appears to have the technological lead, especially in its Fuel Chem area, it has formidable competitors. Large companies like **General Electric**^{GE} are also looking for ways to increase power plant efficiency and fight pollution.

CEO Norris said, “Being a smaller company is somewhat advantageous. We don’t have a lot of bureaucracy. If we see an opportunity, we can move on it pretty quickly.”