

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

or

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

For the transition period from _____ to _____

Commission file number: 000-21724

FUEL-TECH N.V.

(Exact name of registrant as specified in its charter)

Netherlands Antilles
(State or other jurisdiction of incorporation of organization)

N/A
(I.R.S. Employer Identification Number)

Fuel-Tech N.V.
(Registrant)
Castorweg 22-24
Curaçao, Netherlands Antilles
(599) 9-461-3754

Fuel Tech, Inc.
(U.S. Operating Subsidiary)
695 East Main Street
Stamford, CT 06901
(203) 425-9830

(Address and telephone number of principal executive offices)

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

Yes No

As of July 20, 2006 there were outstanding 21,711,438 shares of Common Stock, par value \$0.01 per share, of the registrant.

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FUEL-TECH N.V.

Form 10-Q for the six-month period ended June 30, 2006

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FUEL-TECH N.V.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars, except share data)

	June 30, 2006 <u>(Unaudited)</u>	December 31, 2005 <u></u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,876	\$ 10,375
Short-term investments	16,200	6,000
Accounts receivable, net of allowances for doubtful accounts of \$150 and \$150, respectively	17,065	12,184
Inventories	181	358
Deferred income taxes	2,799	3,043
Prepaid expenses and other current assets	711	1,072
Total current assets	<u>40,832</u>	<u>33,032</u>
Equipment, net of accumulated depreciation of \$8,840 and \$7,900, respectively	4,424	4,045
Goodwill	2,119	2,119
Other intangible assets, net of accumulated amortization of \$1,147 and \$1,087, respectively	1,179	1,224
Deferred income taxes	2,146	1,579
Other assets	983	1,027
Total assets	<u>\$ 51,683</u>	<u>\$ 43,026</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 7,571	\$ 6,493
Accrued liabilities	4,386	6,949
Total current liabilities	<u>11,957</u>	<u>13,442</u>
Other liabilities	475	448
Total liabilities	<u>12,432</u>	<u>13,890</u>
Shareholders' equity:		
Common stock, \$.01 par value, 40,000,000 shares authorized, 21,711,438 and 20,424,133 shares issued, respectively	217	204
Additional paid-in capital	98,284	91,559
Accumulated deficit	(59,562)	(62,870)
Accumulated other comprehensive loss	35	(39)
Nil coupon perpetual loan notes	277	282
Total shareholders' equity	<u>39,251</u>	<u>29,136</u>
Total liabilities and shareholders' equity	<u>\$ 51,683</u>	<u>\$ 43,026</u>

See notes to condensed consolidated financial statements.

FUEL-TECH N.V.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(in thousands of U.S. dollars, except share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Net sales	\$ 19,759	\$ 11,780	\$ 36,880	\$ 23,831
Costs and expenses:				
Cost of sales	10,112	6,053	19,168	12,450
Selling, general and administrative	6,039	3,753	11,463	7,809
Research and development	499	326	850	660
	<u>16,650</u>	<u>10,132</u>	<u>31,481</u>	<u>20,919</u>
Operating income	3,109	1,648	5,399	2,912
Other income (expense), net	246	(64)	378	(92)
Income before taxes	3,355	1,584	5,777	2,820
Income tax (expense) benefit	(1,397)	1,588	(2,469)	1,105
Net income	<u>\$ 1,958</u>	<u>\$ 3,172</u>	<u>\$ 3,308</u>	<u>\$ 3,925</u>
Net income per Common Share:				
Basic	<u>\$ 0.09</u>	<u>\$ 0.16</u>	<u>\$ 0.16</u>	<u>\$ 0.20</u>
Diluted	<u>\$ 0.08</u>	<u>\$ 0.14</u>	<u>\$ 0.14</u>	<u>\$ 0.17</u>
Average number of Common Shares outstanding:				
Basic	<u>21,697,000</u>	<u>19,994,000</u>	<u>21,158,000</u>	<u>19,838,000</u>
Diluted	<u>24,230,000</u>	<u>22,750,000</u>	<u>24,004,000</u>	<u>22,672,000</u>

See notes to condensed consolidated financial statements.

FUEL-TECH N.V.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006
(Unaudited)

Note A: Basis of Presentation

The accompanying unaudited, condensed, consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results of operations for the periods covered have been included. Operating results for the six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in Fuel-Tech N.V.'s Annual Report on Form 10-K for the year ended December 31, 2005.

Fuel-Tech N.V., through its subsidiaries ("Fuel Tech"), is a technology company that provides advanced engineering solutions for the optimization of combustion systems in utility and industrial applications. Fuel Tech, incorporated in 1987 under the laws of the Netherlands Antilles, is registered at Castorweg 22-24 in Curaçao under No. 1334/N.V.

Note B: Earnings Per Share Data

Basic earnings per share excludes the dilutive effects of stock options and warrants and of the nil coupon non-redeemable convertible unsecured loan notes. Diluted earnings per share includes the dilutive effect of stock options and warrants and of the nil coupon non-redeemable convertible unsecured loan notes. The following table sets forth the weighted-average shares (in thousands) used in calculating the earnings per share for the three and six-month-periods ended June 30, 2006 and 2005:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2006	2005	2006	2005
Basic weighted-average shares	21,697	19,994	21,158	19,838
Conversion of unsecured loan notes	46	59	46	72
Unexercised options and warrants	2,487	2,697	2,800	2,762
Diluted weighted-average shares	24,230	22,750	24,004	22,672

Note C: Total Comprehensive Income

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

in thousands of U.S. dollars	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2006	2005	2006	2005
Comprehensive income:				
Net income	\$ 1,958	\$ 3,172	\$ 3,308	\$ 3,925
Foreign currency translation	51	(73)	74	(118)
	<u>\$ 2,009</u>	<u>\$ 3,099</u>	<u>\$ 3,382</u>	<u>\$ 3,807</u>

Note D: Derivative Financial Instruments

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.

Note E: Stock-Based Compensation

Fuel Tech has one stock-based employee compensation plan, referred to as the 1993 Incentive Plan (1993 Plan), under which awards may be granted to participants in the form of Non-Qualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Awards, Bonuses or other forms of share-based or non-share-based awards or combinations thereof. Participants in the 1993 Plan may be Fuel Tech's directors, officers, employees, consultants or advisors (except consultants or advisors in capital-raising transactions) as the directors determine are key to the success of Fuel Tech's business. The amount of shares that may be issued or reserved for awards to participants under a 2004 amendment to the 1993 Plan is 12.5% of outstanding shares calculated on a diluted basis. At June 30, 2006, Fuel Tech has 1,343,000 stock options available for issuance under the 1993 Plan.

Prior to January 1, 2006, Fuel Tech accounted for the stock options granted under the 1993 Plan under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" (Opinion 25) and related Interpretations, as permitted by FASB Statement No. 123, "Accounting for Stock-Based Compensation" (Statement 123). No stock-based employee compensation cost was recognized in Fuel Tech's historical Statements of Income as all options granted under the 1993 Plan had an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective January 1, 2006, Fuel Tech adopted the fair value recognition provisions of FASB Statement No. 123(R), "Share-Based Payment" (Statement 123(R)) using the modified-prospective transition method. Under that transition method, compensation cost recognized in the six-month period ended June 30, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated.

As a result of adopting Statement 123(R) on January 1, 2006, Fuel Tech's income before income taxes for the quarter ended June 30, 2006 is \$839,000 lower than if it had continued to account for share-based compensation under Opinion 25. Net income for the quarter ended June 30, 2006 is \$556,000 lower than if it had continued to account for share-based compensation under Opinion 25. Basic and diluted earnings per share for the quarter ended June 30, 2006 would have been \$0.12 and \$0.10, respectively, if Fuel Tech had not adopted Statement 123(R), compared to reported basic and diluted earnings per share of \$0.09 and \$0.08, respectively.

For the six-month period ended June 30, 2006, income before income taxes is \$1,066,000 lower than if it had continued to account for share-based compensation under Opinion 25. Net income for the six-month period ended June 30, 2006 is \$743,000 lower than if it had continued to account for share-based compensation under Opinion 25. Basic and diluted earnings per share for the six months ended June 30, 2006 would have been \$0.19 and \$0.17, respectively, if Fuel Tech had not adopted Statement 123(R), compared to reported basic and diluted earnings per share of \$0.16 and \$0.14, respectively.

Prior to the adoption of Statement 123(R), Fuel Tech presented all tax benefits resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. Statement 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The \$2,788,000 excess tax benefit classified as a financing cash inflow on the Statement of Cash Flows for the six months ended June 30, 2006 would have been classified as an operating cash inflow if Fuel Tech had not adopted Statement 123(R).

The awards granted under the 1993 Plan have a 10-year life and they vest as follows: 50% after the second anniversary of the award date, 25% after the third anniversary, and the final 25% after the fourth anniversary of the award date. Fuel Tech calculates stock compensation expense based on the grant date fair value of the award and recognizes expense on a straight-line basis over the four-year service period of the award.

Prior to January 1, 2006, Fuel Tech used the Black-Scholes option-pricing model to estimate the fair value of employee stock options for the required pro forma disclosure under Statement 123. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. With the adoption of Statement 123(R) as of January 1, 2006, Fuel Tech has continued to use the Black-Scholes option-pricing model to estimate the fair value of stock option grants.

The principal variable assumptions utilized in valuing options and the methodology for estimating such model inputs include: (1) risk-free interest rate - an estimate based on the yield of zero-coupon treasury securities with a maturity equal to the expected life of the option; (2) expected volatility - an estimate based on the historical volatility of Fuel Tech's Common Stock for a period equal to the expected life of the option; and (3) expected life of the option - an estimate based on historical experience including the effect of employee terminations.

Based on the results of the model, the weighted-average fair value of the stock options granted during the six-month period ended June 30, 2006 was \$8.19 per share using the following assumptions:

	2006	2005
Expected dividend yield	0.00%	0.00%
Risk-free interest rate	4.90%	4.26%
Expected volatility	64.0%	48.7%
Expected life of option	5.3 years	4.0 years

The following table illustrates the effect on net income and earnings per share if Fuel Tech had applied the fair value recognition provisions of Statement 123(R) to options granted under Fuel Tech's stock option plans in all periods presented. For purposes of this pro forma disclosure, as noted above, the value of the options is estimated using a Black-Scholes option pricing model.

	For the three months ended June 30 2005	For the six months ended June 30 2005
Net income as reported	\$3,172	\$3,925
Deduct:		
Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	341	532
Pro forma net income	<u>\$2,831</u>	<u>\$3,393</u>
Basic and diluted income per share:		
Basic - as reported	\$0.16	\$0.20
Basic - pro forma	\$0.14	\$0.17
Diluted - as reported	\$0.14	\$0.17
Diluted - pro forma	\$0.12	\$0.15

Stock option activity for Fuel Tech's 1993 Plan for the six months ended June 30, 2006 was as follows:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding on January 1, 2006	2,799,000	\$ 4.29		
Granted	269,500	13.75		
Exercised	(1,089,425)	2.66		\$11,918
Expired or forfeited	(142,625)	5.96		
Outstanding on June 30, 2006	<u>1,836,450</u>	<u>\$ 6.51</u>	<u>7.68 years</u>	<u>\$10,486</u>
Exercisable on June 30, 2006	716,075	\$ 5.02	5.86 years	\$ 5,174
Weighted-average fair value of options granted during the first half of 2006		\$ 8.19		

The weighted-average price per nonvested stock award at grant date was \$13.11 for the nonvested stock awards granted in 2006. Nonvested stock award activity for all plans for the six months ended June 30, 2006 was as follows:

	<u>Nonvested Stock Outstanding</u>
Outstanding on January 1, 2006	1,111,625
Granted	269,500
Released	(122,625)
Expired or forfeited	(138,125)
Outstanding on June 30, 2006	<u>1,120,375</u>

As of June 30, 2006, there was \$3.1 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the 1993 Plan. That cost is expected to be recognized over a period of four years.

Note F: Debt

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

FTI can choose which rate to apply to borrowings. At June 30, 2006, there were no borrowings outstanding on the facility.

Effective July 31, 2006, this revolving credit facility was terminated. FTI entered into a new agreement with a different financial institution for a revolving credit facility expiring July 31, 2009. The facility was issued in the amount of \$25.0 million, is unsecured and bears interest at a rate of LIBOR plus 75 basis points. FTI can use this facility for cash advances and standby letters of credit.

Note G: Discontinuation of ACUITIV™ Business

Effective March 1, 2005, Fuel Tech announced that it would discontinue commercialization activities associated with its ACUITIV visualization software business. 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 Nitrogen Oxide (NOx) reduction and FUEL CHEM® product applications.

As part of the cessation of activities, Fuel Tech terminated three individuals, and a charge of \$31,000 for severance obligations was recorded in the "Selling, general and administrative" expense line item in the condensed consolidated statement of income for the three-month period ended March 31, 2005.

Note H: Business Segment and Geographic Disclosures

Fuel Tech segregates its financial results into two reportable segments representing two broad technology segments as follows:

- The NOx reduction technology segment, which includes the NOxOUT[®], NOxOUT CASCADE[®], NOxOUT ULTRA[®] and NOxOUT-SCR[®] processes for the reduction of NOx emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources, and
- The fuel treatment chemicals technology 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 using TIFI[™] Targeted In-Furnace Injection[™] technology.

As described in Note G above, commercialization activities associated with ACUITIV were discontinued effective March 1, 2005. These activities do not meet the materiality test for disclosure and are 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 of U.S. dollars.

Three months ended June 30, 2006	Nitrogen Oxide Reduction	Fuel Treatment Chemical	Other	Total
Net sales from external customers	\$ 13,155	\$ 6,604	\$ -	\$ 19,759
Cost of sales	7,260	2,810	42	10,112
Gross margin	5,895	3,794	(42)	9,647
Selling, general and administrative	-	-	6,039	6,039
Research and development	-	-	499	499
Operating income (loss)	\$ 5,895	\$ 3,794	\$ (6,580)	\$ 3,109

Three months ended June 30, 2005	Nitrogen Oxide Reduction	Fuel Treatment Chemical	Other	Total
Net sales from external customers	\$ 8,000	\$ 3,779	\$ 1	\$ 11,780
Cost of sales	4,024	1,948	81	6,053
Gross margin	3,976	1,831	(80)	5,727
Selling, general and administrative	-	-	3,753	3,753
Research and development	-	-	326	326
Operating income (loss)	\$ 3,976	\$ 1,831	\$ (4,159)	\$ 1,648

Six months ended June 30, 2006	Nitrogen Oxide Reduction	Fuel Treatment Chemical	Other	Total
Net sales from external customers	\$ 25,520	\$ 11,360	\$ -	\$ 36,880
Cost of sales	14,148	4,928	92	19,168
Gross margin	11,372	6,432	(92)	17,712
Selling, general and administrative	-	-	11,463	11,463
Research and development	-	-	850	850
Operating income (loss)	\$ 11,372	\$ 6,432	\$ (12,405)	\$ 5,399

Six months ended June 30, 2005	Nitrogen Oxide Reduction	Fuel Treatment Chemical	Other	Total
Net sales from external customers	\$ 16,320	\$ 7,506	\$ 5	\$ 23,831
Cost of sales	8,316	3,956	178	12,450
Gross margin	8,004	3,550	(173)	11,381
Selling, general and administrative	-	-	7,809	7,809
Research and development	-	-	660	660
Operating income (loss)	\$ 8,004	\$ 3,550	\$ (8,642)	\$ 2,912

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

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Net sales:				
United States	\$13,293	\$ 9,664	\$26,199	\$19,715
Foreign	6,466	2,116	10,681	4,116
	<u>\$19,759</u>	<u>\$11,780</u>	<u>\$36,880</u>	<u>\$23,831</u>
	June 30,	December 31,		
	2006	2005		
Assets:				
United States	\$47,417	\$39,006		
Foreign	4,266	4,020		
	<u>\$51,683</u>	<u>\$43,026</u>		

Note I: Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that Fuel Tech recognize in its financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of Fuel Tech's 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. Fuel Tech is currently evaluating the impact, if any, of adopting FIN 48 on its financial statements.

FUEL-TECH N.V.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net sales for the second quarter ended June 30, 2006 and 2005 were \$19,759,000 and \$11,780,000, respectively, while net sales for the six months ended June 30, 2006 and 2005 were \$36,880,000 and \$23,831,000, respectively. The 55% year-to-date increase is due to a \$9,200,000 increase in revenues derived from the nitrogen oxide (NOx) reduction technology segment and to a \$3,854,000 increase in revenues derived from the fuel treatment technology segment.

The NOx reduction technology segment generated revenues of \$25,520,000 for the six months ended June 30, 2006, an increase of 56% over the prior year. This segment continues to experience a high level of order activity as utilities and industrial facilities that are impacted by the Environmental Protection Agency's (EPA) State Implementation Plan (SIP) Call regulation continue to utilize Fuel Tech's technology as an important element of their ongoing regulatory compliance strategy. Fuel Tech continues to work towards developing alliance agreements with selected customers.

The fuel treatment chemical technology segment generated revenues of \$11,360,000 for the six months ended June 30, 2006, an increase of 51% over the prior year. This segment's growth is indicative of the continued market acceptance of Fuel Tech's patented TIFI™ Targeted In-Furnace Injection™ technology, particularly on coal-fired units. This segment's revenues would have been further enhanced had they not been hampered by the high price of oil. Fuel Tech's oil-fired business was negatively impacted by this market dynamic in the first six months of the year.

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. Powder River Basin (PRB) coal accounts for approximately 40% of the coal burned in the United States today to generate electricity, and this coal has high levels of low-melting-point ash constituents. Due to its lower cost and lower pollutant content relative to Eastern coals, it is anticipated that PRB coal will be burned in larger quantities and in an increasing number of facilities.

Additionally, in 2005 and 2006, demonstrations were performed on utility units that burn higher sulfur, Illinois Basin coal. This coal, whose high iron content also can create slagging and fouling issues, represents an additional market opportunity, particularly as environmental regulations require coal-fired utility units to install sulfur reduction technologies. When high-sulfur coals are used on a unit that has a Selective Catalytic Reduction (SCR) system, sulfur trioxide (SO₃) and plume abatement issues are created, which are a key concern in many utility and industrial operations today. Fuel Tech's TIFI Targeted In-Furnace Injection technology provides a solution for these issues.

Cost of sales as a percentage of net sales for Fuel Tech for the three months ended June 30, 2006 and 2005 was 51%. The cost of sales percentage for the second quarter for the NOx reduction business increased to 55% from 50% in the comparable prior-year period, resulting from the mix of project business. For the fuel treatment chemical business the cost of sales percentage decreased to 43% in the second quarter of 2006 from 52% in 2005. The decrease is due to the timing of revenue recognition on cost-share demonstrations.

Cost of sales as a percentage of net sales for Fuel Tech for the six months ended June 30, 2006 and 2005 was 52%. The cost of sales percentage for the NOx reduction business increased to 55% for this period versus 51% in the comparable prior-year period, again resulting from project mix. For the fuel treatment chemical business,

the cost of sales percentage decreased to 43% for this period versus 53% in the comparable period of the prior year. The decrease is due to the timing of revenue recognition on cost-share demonstrations.

Selling, general and administrative expenses for the three months ended June 30, 2006 and 2005 were \$6,039,000 and \$3,753,000, respectively, while these expenses for the six months ended June 30, 2006 and 2005 were \$11,463,000 and \$7,809,000, respectively.

The \$3,654,000 increase for the six-month period ended June 30, 2006 is attributable to the following:

- Fuel Tech recorded \$1,066,000 in stock compensation expense in accordance with Statement 123(R), as discussed in Note E above.
- Fuel Tech realized an increase in revenue-related expenses in the amount of \$900,000 as both technology segments had significantly improved revenue growth versus the comparable prior-year period.
- Fuel Tech recorded an increase in human resource-related expenses of approximately \$1,500,000 as staffing levels were increased in several areas in anticipation of overall business growth.
- Finally, Fuel Tech realized incremental expenses related to audit, tax, consulting and recruiting fees, all in support of achieving business growth.

Research and development expenses for the three months ended June 30, 2006 and 2005 were \$499,000 and \$326,000, respectively, while these expenses for the six months ended June 30, 2006 and 2005 were \$850,000 and \$660,000, respectively. Fuel Tech has established a more focused approach in the pursuit of commercial applications for its technologies outside of its traditional markets, and in the development and analysis of new technologies that could represent incremental market opportunities.

The \$470,000 increase in other income and expense for the six months ended June 30, 2006 versus the comparable prior-year period is due principally to the benefit of an increase in interest income. The increase has been driven by higher average cash and short-term investment balances, and market interest rates, than those experienced in the prior year.

For the three months ended June 30, 2006, Fuel Tech recorded tax expense of \$1,397,000. This amount represents deferred tax expense related to taxable income recognized in the second quarter of 2006. For the three months ended June 30, 2005, Fuel Tech recorded a tax benefit of \$1,588,000. The tax benefit included a \$2,200,000 reduction in the deferred tax asset valuation allowance, which represented the anticipated utilization of net operating loss carryforwards in subsequent periods. Partially offsetting this amount was \$570,000 in deferred tax expense and \$42,000 in current state income tax expense.

On a year-to-date basis, Fuel Tech recorded tax expense of \$2,469,000. This amount represents deferred tax expense related to taxable income recognized in the first six months of 2006. For the six months ended June 30, 2005, Fuel Tech recorded a tax benefit of \$1,105,000. The tax benefit was comprised of the \$2,200,000 reduction in the deferred tax asset valuation allowance, partially offset by \$1,044,000 in deferred tax expense and \$51,000 in current state income tax expense.

Liquidity and Sources of Capital

At June 30, 2006, Fuel Tech had cash and cash equivalents and short-term investments of \$20,076,000 and working capital of \$28,875,000 versus \$16,375,000 and \$19,590,000 at the end of 2005, respectively. Operating activities used \$708,000 of cash during the six-month period ended June 30, 2006, primarily due to the change in working capital from year end. Investing activities used cash of \$11,533,000 during the six months ended June 30, 2006 as short-term investments were increased by \$10,200,000 while \$1,333,000 was utilized to support and enhance the operations of the business, principally for equipment related to the fuel treatment chemical technology segment. Fuel Tech generated cash related to the exercise of stock options in the amount of \$5,668,000. Of this amount, \$2,880,000 represents proceeds derived from the exercise price of

options exercised in the first six months of 2006, while \$2,788,000 represents the excess tax benefits realized from the exercise of stock options in the first six months of 2006.

Forward-Looking Statements

Statements in this Form 10-Q 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, “Business,” and also Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Fuel Tech’s Form 10-K for the year ended December 31, 2005.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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.

Item 4. Controls and Procedures

Fuel Tech maintains disclosure controls and procedures and internal controls designed to ensure that information required to be disclosed in Fuel Tech’s filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Fuel Tech’s management, with the participation of its principal executive and financial officers, has evaluated the effectiveness of Fuel Tech’s disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Fuel Tech’s principal executive and financial officers have concluded, based on such evaluation, that such disclosure controls and procedures were effective as of the end of such period.

There was no change in Fuel Tech’s internal control over financial reporting that was identified in connection with such evaluation that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, Fuel Tech’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings
None

Item 1A. Risk Factors

The following risk factors have been updated from those set out in the Issuer's Annual Report on Form 10-K for the year ended 2005:

Risks Relating to Fuel Tech's Common Stock:

The price of Fuel Tech's Common Stock may fluctuate substantially, which could negatively affect the Company and the holders of Fuel Tech's Common Stock.

The price of Fuel Tech's Common Stock has been volatile. Since May 2, 2005, the high and low bid quotations of Fuel Tech's Common Stock have ranged from a low of \$5.33 to a high of \$18.80. The trading price of Fuel Tech's Common Stock may continue to be volatile in response to a number of factors, many of which are beyond the Company's control including, among others, negative news about other publicly traded companies in our industry and the industries of our customers, general economic or stock market conditions unrelated to the Company's operating performance, quarterly variations in the Company's operating results, changes in earnings estimates by analysts, and announcements of new clients or service offerings by our competitors. In addition, the Company's financial results may be below the expectations of securities analysts and investors. If this were to occur, the market price of Fuel Tech's Common Stock could decrease, perhaps significantly.

In addition, the U.S. securities markets have from time to time experienced significant price and volume fluctuations. These fluctuations often have been unrelated to the operating performance of companies in these markets. Broad market and industry factors may negatively affect the price of Fuel Tech's Common Stock, regardless of the Company's operating performance. Further, if the Company were to be the object of securities class action litigation as a result of volatility in Fuel Tech's Common Stock price or for other reasons, such litigation could result in substantial costs and divert the Company's management's attention and resources, which could negatively affect the Company's financial results. In addition, if the Company decides to settle any class action litigation against it, Fuel Tech's decision to settle may not necessarily be related to the merits of the claim.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
None

Item 3. Defaults upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security Holders

At the Fuel-Tech N.V. annual meeting on June 1, 2006, with a total number of 17,283,648 shares (81.16% of those outstanding) present by proxy, all of the nominees were elected as Managing Directors, the Report of Management and Financial Statements for the year 2005 were approved, and the appointment of Ernst & Young LLP as auditors for the year 2006 was ratified.

The details are:

1. Elect the Managing Directors:

	For	Withheld
Douglas G. Bailey	16,931,217	352,431
Ralph E. Bailey	17,046,254	237,394
Miguel Espinosa	17,046,252	237,396
Charles W. Grinnell	17,020,838	262,810
Thomas L. Jones	17,044,488	239,160
Samer S. Khanachet	17,041,802	241,846
John D. Morrow	17,044,922	238,726
John F. Norris Jr.	17,047,888	235,760
Thomas S. Shaw, Jr.	17,042,882	240,766

2. Approve the Report of Management and Financial Statements for 2006:

For: 17,255,818 Against: 7,470 Abstain: 20,360

3. Ratify the Appointment of Ernst & Young LLP as 2006 Auditors:

For: 17,260,531 Against: 12,407 Abstain: 10,710

Item 5. Other Information

On June 5, 2006, Fuel-Tech N.V. filed with the Securities and Exchange Commission a Registration Statement on Form S-4 (File No. 333-134742) in connection with its plan to domesticate in Delaware and continue as a Delaware corporation rather than a Netherlands Antilles limited liability company.

Item 6. Exhibits

a. Exhibits

Exhibit 31.1 and 31.2 are filed herewith

Exhibit 32 is furnished herewith

FUEL-TECH N.V.

Signatures

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: August 7, 2006

By: /s/ John F. Norris Jr.

John F. Norris Jr.

Chief Executive Officer and President

Date: August 7, 2006

By: /s/ Vincent J. Arnone

Vincent J. Arnone

Chief Financial Officer,

Sr. Vice President and

Treasurer

Exhibit 31.1

I, John F. Norris Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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 August 7, 2006

By: /s/ John F. Norris Jr.
John F. Norris Jr.
Chief Executive Officer and President

Exhibit 31.2

I, Vincent J. Arnone, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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 August 7, 2006

By: /s/ Vincent J. Arnone
Vincent J. Arnone
Chief Financial Officer,
Sr. 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: August 7, 2006

By: /s/ John F. Norris Jr.
John F. Norris Jr.
Chief Executive Officer and President

Date: August 7, 2006

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

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.