

FUEL TECH, INC.  
Form PRE 14A  
March 16, 2017

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

**SCHEDULE 14A**  
**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**Fuel Tech, Inc.**  
**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**FUEL TECH, INC.**

**27601 Bella Vista Parkway**

**Warrenville, Illinois 60555**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To be Held May 18, 2017**

To the Stockholders of Fuel Tech, Inc.:

The annual meeting of stockholders of Fuel Tech, Inc., a Delaware corporation (Fuel Tech), will be held Thursday, May 18, 2017, at 10:00 a.m. local time at the offices of Fuel Tech, Inc., 27601 Bella Vista Parkway, Warrenville, Illinois 60555 (Annual Meeting), to consider and vote on the following items, each of which is explained in the attached proxy statement (Proxy Statement). We have enclosed a proxy card or a voting instruction form for your use in voting.

1. To elect five directors;
2. To approve a proposal to adopt an amendment to the Company's Certificate of Incorporation to: (i) effect a reverse stock split of our outstanding Common Stock at a ratio of not less than one-for-five (1:5) and not more than one-for-ten (1:10), and (ii) to reduce proportionately the shares of Common Stock authorized for issuance;
3. To ratify the appointment of RSM US LLP as Fuel Tech's independent registered public accounting firm;
4. To conduct an advisory vote to approve executive compensation;
5. To conduct an advisory vote on the frequency of the executive compensation advisory vote; and

6. To transact any other business that may properly come before the meeting or at any adjournment thereof. Only stockholders of record at the close of business on March 22, 2017 are entitled to vote at the Annual Meeting. A list of stockholders entitled to vote at the Annual Meeting will be available ten days before the meeting for examination by any stockholder, for any purpose relevant to the meeting, during ordinary business hours at 27601 Bella Vista Parkway, Warrenville, Illinois 60555. That list will also be available for inspection at the Annual Meeting.

Fuel Tech's Annual Report on Form 10-K for the year ended December 31, 2016 (referred to in this proxy statement as the Annual Report on Form 10-K or Annual Report) is enclosed with this Notice of Annual Meeting and Proxy Statement.

**FUEL TECH, INC.**

Albert G. Grigonis

Secretary

[ ]

**IMPORTANT**

Whether or not you expect to attend the Annual Meeting in person, we urge you to vote your shares at your earliest convenience. An addressed envelope for which no postage is required if mailed in the United States is enclosed if you wish to vote by mail. Submitting your proxy now will not prevent you from voting your shares at the Annual Meeting if you desire to do so, as your proxy is revocable at your option.

For Internet or telephone voting, please refer to the instructions on the proxy card or voting instruction form.

**Important Notice Regarding the Availability of Proxy Materials for the Stockholder Annual Meeting to be Held on May 18, 2017.** Fuel Tech's Proxy Statement and Annual Report to Stockholders are available at: [www.envisionreports.com/ftk](http://www.envisionreports.com/ftk).

This Proxy Statement contains forward-looking statements as defined in Section 21E of the Securities Exchange Act of 1934, as amended, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and reflect Fuel Tech's current expectations regarding future growth, results of operations, cash flows, performance and business prospects, and opportunities, as well as assumptions made by, and information currently available to, our management. Fuel Tech has tried to identify forward-looking statements by using words such as anticipate, believe, plan, expect, estimate, intend, will, and similar expressions, but these words are not exclusive means of identifying forward-looking statements. These statements are based on information currently available to Fuel Tech and are subject to various risks, uncertainties, and other factors, including, but not limited to, those discussed in Fuel Tech's Annual Report on Form 10-K in Item 1A under the caption Risk Factors, which could cause Fuel Tech's actual growth, results of operations, financial condition, cash flows, performance and business prospects and opportunities to differ materially from those expressed in, or implied by, these statements. Fuel Tech undertakes no obligation to update such factors or to publicly announce the results of any of the forward-looking statements contained herein to reflect future events, developments, or changed circumstances or for any other reason. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including those detailed in Fuel Tech's filings with the Securities and Exchange Commission.

**FUEL TECH, INC.**

**Proxy Statement**

**FUEL TECH ANNUAL MEETING**

**The Meeting**

The Board of Directors (Board) of Fuel Tech, Inc., a Delaware corporation (Company or Fuel Tech or Registrant), is soliciting your votes on the enclosed form of proxy. The proxy is for use in voting your Fuel Tech shares at the 2017 annual meeting of stockholders (Annual Meeting). Any one of the persons you appoint on the form of proxy will be your representative to vote your shares at the Annual Meeting according to your instructions. The Annual Meeting will be at the offices of Fuel Tech, 27601 Bella Vista Parkway, Warrenville, Illinois 60555 on Thursday, May 18, 2017, at 10:00 a.m. local time. The proxy may also be used at an adjournment of the Annual Meeting.

**Shares Eligible to Vote; Quorum**

The record date for the Annual Meeting is March 22, 2017. You may vote at the Annual Meeting in person or by a proxy, but only if you were a stockholder of Fuel Tech common stock (Common Stock) at the close of business on the record date. At the record date, according to the records of Computershare Shareowner Services LLC (Computershare), Fuel Tech's transfer agent, Fuel Tech had [ ] shares of Common Stock outstanding, which represents the total number of shares of Common Stock that stockholders may vote at the Annual Meeting. You may cast one vote for each share you hold. You may also vote via telephone or the Internet according to the instructions on the proxy card or the voting instruction form enclosed. Stockholders who execute proxies retain the right to revoke them at any time before the shares are voted by proxy at the Annual Meeting. You may revoke a proxy by delivering a signed statement to Fuel Tech's Corporate Secretary at or prior to the Annual Meeting or by timely executing and delivering, by mail, Internet, telephone, or in person at the Annual Meeting, another proxy dated as of a later date.

The quorum for the Annual Meeting, *i.e.*, the number of shares of Common Stock that must be present in order to have a legally constituted meeting of stockholders, is one-third of the number of shares of Common Stock entitled to vote, or [ ] shares of Common Stock.

**The Form of Proxy; Revocability; Voting**

You may appoint a proxy, or representative, at the Annual Meeting other than the persons named in Fuel Tech's enclosed form of proxy. If you do wish to appoint some other person, who need not be a stockholder, you may do so by completing another form of proxy for use at the Annual Meeting. Completed forms of proxy should be mailed promptly to Computershare in the enclosed return envelope.

You may revoke your proxy at any time before it is voted, including at the Annual Meeting. If you sign and send a proxy to Computershare, or send a proxy by the Internet or telephonically, and do not revoke it, the proxy holders will vote the shares of Common Stock it represents at the Annual Meeting in accordance with your instructions. Abstentions and broker non-votes are counted as present in determining whether there is a quorum, but are not counted in the calculation of the vote. If the proxy is signed and returned without specifying choices, the shares of Common Stock will be voted in favor of each item on the agenda in accordance with the recommendations of the Board.

**Proxy Solicitation; Distribution**

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Directors and executive officers of Fuel Tech may solicit stockholders' proxies by mail, telephone or facsimile. Fuel Tech will bear the cost of proxy solicitation, if any.

Fuel Tech first distributed this Proxy Statement and the accompanying Annual Report on Form 10-K on or about [ ], 2017.



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## AGENDA ITEM NO. 1 ELECTION OF DIRECTORS

### *The Nominees*

Fuel Tech's stockholders elect the Company's Board members annually. Messrs. Vincent J. Arnone, Douglas G. Bailey, W. Grant Gregory, Thomas S. Shaw, Jr., and Dennis L. Zeitler were each Fuel Tech's directors for its then five member Board of Directors and were elected by our stockholders at the Company's 2016 Annual Meeting of Stockholders to serve for a one year term expiring at the 2017 Annual Meeting. On February 6, 2017, on the recommendation of the Nominating and Corporate Governance Committee, the Board expanded to six directors. On that same date, the Board, on the recommendation of the Nominating and Corporate Governance Committee, elected James J. Markowsky to fill the vacant directorship for the remainder of that directorship term which expires at the 2017 Annual Meeting. W. Grant Gregory is not seeking re-election to the Fuel Tech Board effective as of the 2017 Annual Meeting. We thank Mr. Gregory for his contributions and dedicated years of service to Fuel Tech. In connection with Mr. Gregory's departure, effective upon the commencement of the 2017 Annual Meeting, the Board has voted to reduce its size to five directors.

We are asking you to vote for the election of five nominees as directors of Fuel Tech. The nominees were recommended by the Nominating and Corporate Governance Committee of the Board. The term of office of each director is until the next annual meeting or until a successor is duly elected or if before then a director resigns, retires or is removed by the stockholders. The nominees are Vincent J. Arnone, Douglas G. Bailey, James J. Markowsky, Thomas S. Shaw, Jr., and Dennis L. Zeitler.

In the opinion of the Board, with the exception of Messrs. Arnone and Bailey, all director nominees satisfy the independence requirements of NASD Rule 5605(a)(2). Detail concerning directors' compensation is set out below under the captions **Executive Compensation** and **Director Compensation**. The following table sets forth certain additional information with respect to the nominees.

<b>Name</b>	<b>Age</b>	<b>Director Since</b>
Vincent J. Arnone	53	2016
Douglas G. Bailey	66	1998
James J. Markowsky	72	2017
Thomas S. Shaw, Jr.	69	2001
Dennis L. Zeitler	68	2013

Each of the nominees identified above are the nominees of the Board for election as directors at the Annual Meeting. Biographical information, including qualifications, regarding each of the nominees is set forth below.

### *Availability*

The nominees have all consented to stand for election and to serve, if elected. Should one or more of these nominees become unavailable or decline to accept election, votes will be cast for a substitute nominee, if any, designated by the Board on recommendation of the Nominating and Corporate Governance Committee. If no substitute nominee is designated prior to the Annual Meeting, the individuals named as proxies on the enclosed proxy card will exercise their discretion in voting the shares of Common Stock that they represent. That discretion may also include reducing the size of the Board and not electing a substitute.

### **Plurality Voting**

A motion will be made at the Annual Meeting for the election as directors of the five nominees. Under Delaware law and Fuel Tech's bylaws, a vote for a plurality of the shares of Common Stock voting is required for the election of directors. Under plurality voting, directors who receive the most for votes are elected; there is no against option, and votes that are withheld or simply not cast are disregarded in the count. If a nominee receives a plurality of votes but does not, however, receive a majority of votes, that fact will be considered by the Nominating and Corporate Governance Committee in any future decision on nominations.

**The affirmative vote of a plurality of the votes cast is required for the election of directors. The Board recommends a vote *FOR* each of the nominees.**

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## DIRECTORS AND EXECUTIVE OFFICERS OF FUEL TECH

Biographical information is presented below concerning Fuel Tech's directors and the Named Executive Officers (or NEOs) as described below. Messrs. V.J. Arnone, D.G. Bailey and D.S. Collins are the Executive Officers of the Company. Each of the Company's Executive Officers is also a NEO. Information about each NEO is provided below in the NEO section.

### Directors

**Vincent J. Arnone** has been President and Chief Executive Officer and a director of the Company since April 1, 2015; previously he was Executive Vice President and Chief Operating Officer from January 2014 through March 2015; Executive Vice President, Worldwide Operations since September 2010; a consultant to Fuel Tech from time to time from June 2008 through August 2010; Senior Vice President, Treasurer and Chief Financial Officer of Fuel Tech from February 2006 through May 2008; Vice President, Treasurer and Chief Financial Officer from December 2003 through January 2006; and Controller and Financial Director from May, 1999 through November 2003. Mr. Arnone's key leadership roles in the management of Fuel Tech and long experience with Fuel Tech, his depth of experience regarding the establishment and execution of strategies and operational programs in a multi-national environment along with his experiential knowledge regarding financial matters contribute to the Board's deliberations regarding the business of the Company.

**Douglas G. Bailey** was appointed Executive Chairman of the Board of Directors of Fuel Tech, Inc. April 1, 2015. Previously he was President and Chief Executive Officer of Fuel Tech from April 2010 through March 2015, Chairman of the Board of Fuel Tech since January 2010, director of Fuel Tech since April 1998, and Deputy Chairman from 2002 through December 2009. He also previously served as an employee of Fuel Tech from January 1, 2004 through December 31, 2009. Mr. Bailey has been the President of American Bailey Corporation (ABC), a closely held private equity firm, since 1984 and its Chief Executive Officer (CEO) since 1996.

Mr. Bailey, as Executive Chairman, continues to perform the duties of Chairman of the Board. Mr. Bailey, who remains as an officer and employee of Fuel Tech, also is active in certain of Fuel Tech's operations concentrating his efforts on strategic opportunities for Fuel Tech assigned by and under the direction of the Board including participation in the development of Fuel Tech's Fuel Conversion business segment. His current duties and past leadership and management responsibilities as President and Chief Executive Officer of Fuel Tech informs his judgment and participation as a member of Fuel Tech's Board. His early career began as an engineer with Foster-Miller, Inc. and at Corning, Inc. in a variety of manufacturing and marketing positions. During his subsequent business career, following the founding of ABC, Mr. Bailey, in addition to being ABC's CEO, served as the CEO of a number of its affiliated companies, bringing to the Fuel Tech Board management ability at senior and executive management levels in a variety of industrial markets. Over the span of more than 35 years, Mr. Bailey has provided board service to a number of other companies including, for example, from 2001 to 2013, serving as a director and chairman of the compensation committee for Endocyte, Inc., a public biotechnology company, along with being a member of its nominating and corporate governance committee. Also, since 2013, Mr. Bailey has served as a director of Nemucore Medical Innovations, Inc. and since mid-2014, has been chairman of its compensation committee. Mr. Bailey also has previous service on the audit committee and as chairman of the compensation committee for Atlantis Components, Inc. This gives him a broad based understanding of the role of a board of directors and its committees, and positions him well to serve as Fuel Tech's Executive Chairman of the Board.

**James J. Markowsky, Ph.D.** is currently a member of the Board of Directors for Energy Corporation of America since 2011, and Chair of their Audit Committee since July 2016. Previously, Dr. Markowsky served as Assistant Secretary for Fossil Energy, US Department of Energy, in 2009 and 2010. He served as President of Research and Development Solutions, LLC (RDS), in 2004 and 2005. Prior to RDS, Dr. Markowsky served as Executive Vice President, Power Generation, at American Electric Power Service Corporation (AEP) from 1996



to 2000. In 2000, he retired from AEP. Earlier positions of Dr. Markowsky at AEP included Executive Vice President, Engineering and Construction (1993-1996), Senior Vice President and Chief Engineer (1988-1993), Vice President, Mechanical and Environmental Engineering (1988), Vice President, Mechanical Engineering (1987-1988), Assistant Vice President, Mechanical Engineering (1984-1987), AEP Sloan Fellow at Massachusetts Institute of Technology (1980-1981), Manager, Analytical and R&D Section (1977-1984), and Senior Engineer, Mechanical Engineering Division (1971-1977).

Dr. Markowsky's professional affiliations include membership in the National Academy of Engineering and he is an American Society of Mechanical Engineers Fellow. He holds a Bachelor's degree in Mechanical Engineering from Pratt Institute, Master of Science and doctoral degrees in Mechanical Engineering from Cornell University and a Master of Science degree in Management from Massachusetts Institute of Technology.

Dr. Markowsky has extensive experience related to power generation including, during his long and successful AEP career, the management along with the engineering, design, construction and operation of AEP's then fleet of 21,000 MW of coal-fired power generation, and the management and implementation of R&D activities related to both the environmental and operational performance of fossil power plants. Dr. Markowsky's combined experience in management and corporate governance makes him an excellent advisor to help inform the Board's judgment on a variety of matters.

**Thomas S. Shaw, Jr.** has been a director of Fuel Tech since 2001 and Lead Director since February 2011. In September 2010 Mr. Shaw was elected to serve as Vice Chairman and as a member of the compensation committee of the Board of Trustees of Wilmington University. He also continues to serve as a Trustee and Treasurer and Chairman of the Finance and Audit Committee of Wilmington University. In June 2010 he was appointed to the Delaware Board of Pension Trustees. Mr. Shaw retired in September 2007 from his position as Executive Vice President and Chief Operating Officer of Pepco Holdings, Inc.

With 36 years of managerial experience in the utility industry with Pepco Holdings, Inc. and two of its predecessor companies—Delmarva Power and Conectiv, Mr. Shaw brings to the Fuel Tech Board demonstrated managerial experience at senior and executive levels that includes over 30 years of responsibility for the management, operation, maintenance, engineering and construction of fossil fueled electricity generating plants and their related equipment. He held a variety of positions with the Pepco companies including Power Plant Engineer, Plant Superintendent/Manager, General Manager of Production, Vice President of Production, and President and Chief Operating Officer. Mr. Shaw's experiential base provides Fuel Tech's Board with a broad based viewpoint from a utility customer perspective. In addition, during the last 17 years of his career, Mr. Shaw was also responsible for the management and oversight of numerous unregulated, non-utility businesses, including serving as the initial President of Conectiv Energy, the power generation and trading subsidiary of Pepco Holdings, Inc. This business experience has provided Mr. Shaw insights into the operational requirements of a large company and more specifically, a utility, in an array of areas including finance, commercial transactions, corporate governance, executive compensation, human resource matters, merger and acquisition activities, and environmental regulations, all of which makes him a skilled advisor to the Fuel Tech Board.

**Dennis L. Zeitler** has been a director of Fuel Tech since 2013. Mr. Dennis L. Zeitler served as Senior Vice President and Special Advisor of MSA Safety, Inc. (MSA) from September 4, 2013 to January 1, 2014. Mr. Zeitler served as Senior Vice President, Chief Financial Officer and Treasurer of MSA from June 2007 to September 4, 2013. In his tenure at MSA, Mr. Zeitler held ever increasing positions of responsibility. His earlier positions included Treasurer; Assistant Treasurer; and Manager, Financial Services (1989-1998), Vice President and Treasurer (1998-2000), and Vice President, Chief Financial Officer and Treasurer (2000-2007).

Mr. Zeitler is a highly accomplished Chief Financial Officer and executive manager, serving as MSA's Chief Financial Officer and Treasurer for thirteen years. MSA is a global leader in the development, manufacture and supply of

products that protect people's health and safety. Mr. Zeitler has a deep understanding of all aspects of global finance for a publicly traded company. During his career with MSA, its global sales volume

dramatically increased and the number of countries in which MSA operated expanded substantially. This provided Mr. Zeitler a sophisticated experiential knowledge base regarding financial and Treasury operations and business requirements in a broad array of markets and countries worldwide. In addition to his duties as Chief Financial Officer for MSA, Mr. Zeitler led MSA's Global Pricing Strategy and Business Development teams, devising and implementing global strategies across all of MSA's operating elements. He has significant experience dealing with the issues of growing businesses around the world. These experiences and qualifications make Mr. Zeitler an excellent addition to the Fuel Tech Board to help inform the Board's judgment in these areas.

#### **Named Executive Officers**

*Vincent J. Arnone*, See director entry above.

*Douglas G. Bailey*, See director entry above.

*David S. Collins*, 52, has been Senior Vice President, Chief Financial Officer and Treasurer of Fuel Tech since August 2010. Prior to joining Fuel Tech, Inc. Mr. Collins was Audit Partner with Grant Thornton LLP.

There are no family relationships between any of the directors or executive officers.

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**PRINCIPAL STOCKHOLDERS AND STOCK OWNERSHIP OF MANAGEMENT**

The following table sets forth information regarding the beneficial ownership of Common Stock known to Fuel Tech as of March 13, 2017 by (i) each person known to own beneficially more than five percent of the outstanding Common Stock; (ii) each director or nominee of Fuel Tech; (iii) each of Fuel Tech's Named Executive Officers; and (iv) all directors and all officers as a group.

<b>Name and Address(1)</b>	<b>No. of Shares</b>	<b>Percentage(2)</b>
<i>Beneficial Owners</i>		
Bettye J. Bailey(3)	2,929,356	12.5
Estate of Ralph E. Bailey(4)	1,399,617	6.0
<i>Directors and Named Executive Officers</i>		
Vincent J. Arnone(5)	326,959	1.3
Douglas G. Bailey(5)(6)	1,958,438	8.3
David S. Collins(5)	103,260	*
W. Grant Gregory(5)	81,500	*
James J. Markowsky	0	*
Thomas S. Shaw, Jr.(5)	151,500	*
Dennis L. Zeitler (5)	71,500	*
<i>All Directors and Officers as a Group (22 persons)(5)</i>	3,401,258	13.9

\* Less than one percent (1.0%)

- (1) The address of each of the above beneficial owners, directors and Named Executive Officers is c/o Fuel Tech, Inc., 27601 Bella Vista Parkway, Warrenville, Illinois 60555.
- (2) The percentages in each case are of the outstanding common stock at March 13, 2017 and all RSUs vesting or options exercisable within 60 days thereafter.
- (3) The shares listed in the table for Bettye J. Bailey are held as follows: 2,282,222 shares are held directly and 647,134 shares are held by a grantor retained annuity trust established by Bettye J. Bailey, and 10,000 shares (formerly held jointly with Mr. R.E. Bailey) are held directly. Does not include 245,000 shares held in a family trust.
- (4) The Estate of Ralph E. Bailey is expected to be administered by Douglas G. Bailey and JPMorgan Chase Bank, N.A., as co-executors, who are expected to share the power to vote the shares held by the estate.
- (5) Includes shares subject to options exercisable presently and within 60 days: for Mr. Arnone, 40,000 shares; for Mr. D. G. Bailey, 20,000 shares; Mr. Gregory, 81,500 shares; Mr. Shaw, 131,500 shares; Mr. Zeitler, 71,500 shares; and, for all directors and officers as a group, 524,500 shares.
- (6) Excludes the shares held by the Estate of Ralph E. Bailey. See footnote (4).



## DIRECTOR COMPENSATION

Fuel Tech uses a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on its Board. In setting director compensation, Fuel Tech considers the role of the directors, the amount of time that directors expend in fulfilling their duties as well as the expertise required of Board members as well as, in the case of stock-based incentive compensation, the availability of shares under the Fuel Tech, Inc. 2014 Long-Term Incentive Plan.

### Cash Compensation for Directors

Each non-employee director receives an annual cash retainer of \$40,000 for Board service, payable in arrears. There are no meeting fees. In addition, annual cash retainer fees, payable in arrears, for service as Lead Director and Board committee chairperson are: Lead Director-\$10,000; Audit Committee Chair-\$10,000; Compensation Chair-\$7,500; and Nominating & Corporate Governance Chair-\$5,000. A day of service by a director at the request of the Chairman is \$1,200. Under the Deferred Compensation Plan for Directors, non-employee directors are entitled to defer fees in either cash with interest or share equivalent Units until fixed dates, including the date of retirement from the Board, when the deferred amounts will be distributed either in Fuel Tech stock or in cash in a lump sum or over a period of five years, as the director elects.

### Equity Compensation for Directors

For each non-employee director there is: (a) a target annual equity award dollar value amount of \$30,000, and (b) as of the first business day following each annual meeting of stockholders, an annual equity award to each then incumbent non-employee director by the Board in the form of either:

restricted stock units, with all such RSUs awarded vesting upon the earlier of the first anniversary of the award date or the day prior to the first regularly-scheduled annual meeting of the Company's stockholders following the award date except that the RSUs shall be fully vested upon a change-in-control, or

a non-qualified stock option grant of Fuel Tech Common Stock for a term of 10 years, vesting immediately. As noted in the table below, on May 20, 2016, a non-qualified stock option to purchase 27,000 shares of Fuel Tech Common Stock was awarded to each then seated non-employee director at the exercise price of \$1.56 per share, the fair market value of Fuel Tech Common Stock on that date.

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**DIRECTOR COMPENSATION IN FISCAL YEAR 2016**

The following table shows for the Fuel Tech non-employee directors all compensation paid in 2016 on account of fees and equity awards. Directors employed by Fuel Tech or its subsidiaries receive no compensation for their service as directors, and accordingly, during any time they have been employed by Fuel Tech, Messrs. Arnone and Bailey have not received any cash fees or equity awards for their participation on the Board. Disclosure regarding the compensation of Messrs. Arnone and Bailey for fiscal 2016 is contained under the caption **Summary of NEO Compensation** below.

(a) Name	(b) Fees Earned or Paid in Cash (\$)	(d) Option Awards \$(1)	(h) Total (\$)
W. Grant Gregory	44,277	30,078	74,355
Thomas S. Shaw, Jr.	57,738	30,078	87,816
Dennis L. Zeitler	51,438	30,078	81,516

- (1) The amount of \$1.114 is the fair value of each option on the grant date calculated in accordance with FASB ASC Topic No. 718. The amounts shown do not represent cash paid to the directors.

**NON-EMPLOYEE DIRECTORS OUTSTANDING STOCK OPTIONS AT 2016 FISCAL YEAR END**

The following table shows the outstanding stock options as of December 31, 2016 for non-employee directors as of such date, all of which are fully vested except as noted below.

<b>Name</b>	<b>Grant Date</b>	<b>Number of Securities Underlying Unexercised Options # (Exercisable)</b>	<b>Option Exercise Price (\$)</b>
W. Grant Gregory	05/25/2012	10,000	3.550
	05/24/2013	10,000	3.850
	05/23/2014	13,500	5.220
	05/22/2015	21,000	2.450
	05/20/2016	27,000	1.58
Thomas S. Shaw, Jr.	05/24/2007	10,000	26.255
	05/23/2008	10,000	22.920
	05/22/2009	10,000	9.965
	05/21/2010	10,000	5.495
	05/20/2011	10,000	8.160
	05/25/2012	10,000	3.550
	05/24/2013	10,000	3.850
	05/23/2014	13,500	5.220
Dennis L. Zeitler	05/22/2015	21,000	2.450
	05/20/2016	27,000	1.580
	05/24/2013	10,000	3.850
	05/23/2014	13,500	5.220

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## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Relationships and transactions in which Fuel Tech and its directors and executive officers or their immediate family members are participants or have other conflicts of interest are reviewed and approved by the Audit Committee. Although our Audit Committee has not adopted a written policy for the review and approval of related party transactions, in determining whether to approve or ratify any such transaction, the Audit Committee considers, in addition to such other factors it may deem appropriate in the circumstances, whether (i) the transaction is fair and reasonable to the Company, (ii) under all of the circumstances the transaction is in, or not inconsistent with, the Company's best interests, and (iii) the transaction will be on terms no less favorable to the Company than could have been obtained in an arms-length transaction with an unrelated third party. The Audit Committee, in its discretion, may request information from any party to facilitate its consideration of a matter. However, the Audit Committee does not allow a director to participate in any review, approval or ratification of any transaction if he or she, or his or her immediate family member, has a direct or indirect material interest in the transaction.

### **Relationships with American Bailey Corporation**

Douglas G. Bailey is President and Chief Executive Officer of ABC; he is a director and stockholder of ABC. ABC is a sub-lessee under Fuel Tech's November 2009 lease of its Stamford, Connecticut offices, and was previously the sub-lessee under Fuel Tech's September 2004 lease for a separate office location. The current lease expires in 2019. In 2016, 2015 and 2014, ABC paid or reimbursed Fuel Tech \$165,000, \$155,000, and \$144,000 for rent and certain lease related and administrative expenses.

### **Committees of the Board**

The Board has three committees: Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. Each of the Board committee charters is available for viewing on the Fuel Tech web site at [www.ftek.com](http://www.ftek.com).

#### *Audit Committee*

From February 3, 2016 and up to May 19, 2016, the Audit Committee was a three-member committee comprised of Mr. Miguel Espinosa (then an independent director of the Company and Chair of the Audit Committee and Messrs. Gregory and Shaw, each a member of the Audit Committee. Since May 19, 2016 the Audit Committee is a three-member committee comprised of Messrs. Zeitler (Chair), Gregory, and Shaw. The Board has determined that each director who served or is currently serving on the Audit Committee, as described above, was an independent director under NASD Rule 5605(a)(2) and also Rule 10A-3(b)(1) under the Securities Exchange Act of 1934. The Board has also determined that Mr. Zeitler, in light of his significant experience in positions requiring financial oversight responsibility, is an audit committee member who possesses financial sophistication as described in NASD Rule 5605(c)(2)(A). The Board has determined that Mr. Zeitler is an audit committee financial expert as defined by Securities and Exchange Commission rules.

The Audit Committee is responsible for review of audits, financial reporting and compliance, and accounting and internal controls policy. For audit services, the Audit Committee is responsible for the engagement and compensation of independent auditors, oversight of their activities and evaluation of their independence. The Audit Committee has instituted procedures for receiving reports of improper recordkeeping, accounting or disclosure. The Board has also constituted the Audit Committee as a Qualified Legal Compliance Committee in accordance with Securities and Exchange Commission regulations. You may view the Audit Committee Charter on the Fuel Tech web site at [www.ftek.com](http://www.ftek.com).

#### *Compensation Committee*

Until May 19, 2016, the Compensation Committee was a three-member committee comprised of Messrs. Zeitler (Chair), Shaw and Delbert L. Williamson (then an independent director of the Company). Since May 19, 2016 the

Compensation Committee is a three-member committee comprised of Messrs. Shaw (Chair), Gregory and Zeitler, each of whom the Board has determined is an independent director under NASD Rule 5605(a)(2).

Upon assessing the independence of Compensation Committee members as set forth by Nasdaq Exchange Listing Standards approved by the SEC effective January 11, 2013, the Board made a determination that each director who served or is serving as a Compensation Committee member satisfies the following member independence criteria:

No committee member has received compensation from the Company for any consulting or advisory services nor has any committee member received any other compensatory fees paid by the Company (other than directors' fees); and

No committee member has an affiliate relationship with the Company, a subsidiary of the Company or an affiliate of a subsidiary of the Company.

Upon assessing the Compensation Committee advisor independence and potential conflicts of interest as set forth by the Nasdaq Exchange Listing Standards approved by the SEC effective January 1, 2013, the Compensation Committee made a determination February 21, 2017 that the Compensation Committee's compensation advisor, Frederick W. Cook & Co., Inc. (Advisor), satisfied the following independence criteria:

The Advisor had not provided in the last completed fiscal year ending December 31, 2016 or any subsequent interim period, any other services to Fuel Tech or its affiliated companies other than the Advisor's work as a compensation advisor to the Company's Compensation Committee.

Less than 1% of the Advisor's total revenue was derived from fees paid by the Company in the last completed fiscal year ending December 31, 2016 or any subsequent interim period for work on behalf of the Company's Compensation Committee.

The Advisor had implemented policies and procedures designed to prevent conflicts of interest.

Neither the Advisor nor any of its employees serving the Company's Compensation Committee had any business or personal relationships with any members of the Company's Compensation Committee or any of the Company's Executive Officers.

Neither the Advisor nor any of its employees serving the Company's Compensation Committee owned Fuel Tech securities (other than through a mutual fund or similar externally managed investment vehicle).

The Advisor was unaware of a relationship by employees of the Advisor serving the Company's Compensation Committee that could create an actual potential conflict of interest with the Company or its affiliated entities, any members of the Company's Compensation Committee or any of the Company's Executive Officers.

The Compensation Committee reviews and approves executive compensation, equity awards, restricted stock units and similar awards, and adoption or revision of benefit, welfare and executive compensation plans in accordance with the Compensation Committee's Charter. You may view the Compensation Committee Charter on the Fuel Tech web site at [www.ftek.com](http://www.ftek.com).

*Nominating and Corporate Governance Committee*

From March 10, 2016 up to May 19, 2016, the Nominating and Corporate Governance Committee was a three-member committee comprised of Messrs. Shaw (Chair), Gregory and Zeitler. Since May 19, 2016, the Nominating and Corporate Governance Committee is a three-member committee comprised of Messrs. Gregory (Chair), Shaw, and Zeitler. The Board has determined that each director who served or is currently serving on the Nominating and Corporate Governance Committee, as described above, was an independent director under NASD Rule 5605(a)(2). The Committee determines the identity of director nominees for recommendation to the

Board for election to the Board and assists the Board in discharging the Board's responsibilities in the area of corporate governance in accordance with the provisions of the Committee's Charter. You may view the Nominating and Corporate Governance Committee Charter on the Fuel Tech web site at [www.ftek.com](http://www.ftek.com).

In evaluating nominees, the Nominating and Corporate Governance Committee (Committee) particularly seeks candidates of high ethical character with significant business experience at the senior management or Board level who have the time and energy to attend to Board responsibilities. The Committee does not have a diversity policy. When evaluating nominees, the Committee takes into account the extent to which a candidate's viewpoints, professional experience, education, skill or other individual qualities or attributes could contribute to Board heterogeneity in Board discussions and decisions within the framework of what the Committee may consider important to Fuel Tech's business at the time. Candidates should also satisfy such other particular requirements that the Committee may consider important to Fuel Tech's business at the time. When a vacancy occurs on the Board and the number of directors is not reduced to eliminate the vacancy, the Committee, in consultation with the Chairman of the Board, will consider nominees from all sources, including stockholders, nominees recommended by other parties, and candidates known to the directors or to Fuel Tech management. The Committee may, if appropriate, make use of a search firm and pay a fee for services in identifying candidates. The best candidate from all evaluated, in the opinion of the Committee, will be recommended to the Board to be considered for nomination.

Stockholders who wish to recommend candidates for consideration as nominees should furnish in writing detailed biographical information concerning the candidate to the Committee addressed in care of the Corporate Secretary, Fuel Tech, Inc. before the applicable date and at the address set forth below in the **Stockholder Proposals** section and in accordance with the applicable other requirements of that section.

## **Corporate Governance**

### ***Meetings***

During 2016, there were nineteen meetings of the Board of Fuel Tech, eight meetings of the Audit Committee, four meetings of the Compensation Committee, and four meetings of the Nominating and Corporate Governance Committee. Each director of Fuel Tech attended at least 90 % of Board and committee meetings of which he was a member during the period of his directorship. Each of the then nominated directors attended the annual meeting of stockholders in 2016. Fuel Tech does not have a policy on director attendance at stockholders' meetings, but each of the nominated directors is encouraged to attend the 2017 Annual Meeting.

### ***Executive Sessions***

In 2016 the independent Fuel Tech directors held four executive sessions in connection with scheduled Board meetings. The independent directors who make up the membership of each of the Board's current committees, Audit, Compensation, and Nominating and Corporate Governance held executive sessions in connection with committee meetings as follows: Audit-four, Compensation-three, and Nominating and Corporate Governance-one. The policy of the Board on executive sessions is that the Board will hold not less than two executive sessions of the independent directors annually in connection with scheduled meetings. The committees of the Board will hold executive sessions when appropriate. Members of management and non-independent directors do not attend such executive sessions, except when invited to provide information.

### ***Code of Business Ethics and Conduct***

On the recommendation of the Audit Committee, the Board adopted a Code of Business Ethics and Conduct that is available for viewing on the Fuel Tech web site at [www.ftek.com](http://www.ftek.com). Changes to or waivers of the requirements of the Code will be posted to the web site.





### ***Board Leadership Structure***

The business judgments the Board makes regarding what leadership structure it views to be appropriate for Fuel Tech are informed by the facts and circumstances within which it makes those decisions from time to time and, consequently, are subject to change.

From April 1998 to June 2006, the positions of Chairman of the Board (Chairman) and Chief Executive Officer (CEO) of a predecessor Fuel Tech entity that was merged into Fuel Tech in 2006 were held by the same person, Ralph E. Bailey. In 2006, the Board, in light of its continuing oversight responsibilities and relative unfamiliarity with the then newly hired CEO, concluded that it was appropriate to have a separate person serve as the leader of the corporate body in charge of overseeing the CEO's management of the Company. From June 2006 through March 2010, the positions of Chairman and CEO were held by separate people.

In April 2010, the Board concluded that, given the Company's circumstance at that time, and, in light of Mr. Douglas G. Bailey's then over twelve years of experience with Fuel Tech as a director and employee and the enhanced efficiencies that could be achievable by the Company by a single person filling both roles, it was appropriate to have Mr. Bailey serve as both Chairman of the Board, and, on an interim basis, as President and CEO. In December 2010, after completing a lengthy CEO executive search wherein the then Compensation and Nominating Committee and the Board had considered both internal and external candidates, that committee recommended to the Board and the Board then determined that it was in the Company's interest to have Mr. Bailey serve as both Chairman of the Board and as President and CEO on a continuing basis.

On April 1, 2015, the Board appointed Mr. Douglas G. Bailey as Executive Chairman and Mr. Vincent J. Arnone as President and Chief Executive Officer. As such, currently, the positions of Chairman and CEO are held by separate people. In connection with his appointment as Executive Chairman, Mr. Bailey continues to perform the duties of Chairman of the Board. Mr. Bailey, who remains an officer and employee of Fuel Tech, continues to be active in certain of the Company's operations concentrating his efforts on strategic opportunities of the Company assigned by and under the direction of the Board. In his capacity as President and Chief Executive Officer, Mr. Arnone has responsibility for general management and control of Fuel Tech's affairs and business.

Given the Board's December 2010 decision to have Mr. Bailey serve as both Chairman and as President and CEO, in February 2011, the Board determined it useful and appropriate to appoint Mr. Shaw, an incumbent non-employee independent director to be Lead Director. Even though as of April 1, 2015 the positions of Chairman and CEO were held by separate people, in May, 2016, consistent with the requirement in the charter of the Lead Director position to annually review the propriety of retaining the Lead Director position, after Board deliberation, the Board took action to retain the position of Lead Director including the retention of Mr. Shaw, the then incumbent Lead Director, in that position.

Among other things, the current Charter of the Lead Director provides that as the Lead Director, Mr. Shaw shall: (a) facilitate the activities of the other non-employee/independent directors; (b) advise the Chairman as to an appropriate schedule of Board meetings seeking to ensure that the non-employee/independent directors can perform their duties responsibly while not interfering with the flow of Company operations; (c) advise the Chairman and the Corporate Secretary with input as to: the preparation of the agendas for Board and Board committee meetings, the information sent to the Board pertaining to those meetings, and approval of Board meeting agendas; (d) make recommendations to the Chairman regarding the retention of consultants who report directly to the Board; (e) interview along with the Chair of the Nominating and Corporate Governance Committee and make recommendations to that committee and the Board regarding Board director candidates; (f) co-ordinate, develop the agenda for, and moderate executive sessions of the Board's independent directors, as well as plenary sessions of the Board where the Chairman is not present; (g) act as principal liaison between the independent directors and the Chairman; and (h) coordinate any performance evaluation of the Chairman deemed appropriate by the Board. That

charter also provides that each year, no later than the day following the annual stockholder meeting, the Board will review the Lead Director charter for recommended changes and the propriety of continuing the Lead Director role.

### ***Risk Oversight***

The Board's risk oversight approach is intended to support management's achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance and enhance stockholder value. A fundamental part of risk oversight is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for a company. The involvement of all directors in setting the Company's business strategy is a key part of its assessment of management's approach to risk taking to achieve its organizational objectives, and also a determination of what makes up an appropriate level of risk for the Company. The Board regularly reviews information regarding the Company's credit, liquidity, operations, and strategic initiatives as well as the risks associated with each.

While the Board has the ultimate risk oversight responsibility, various committees of the Board also have responsibility for risk oversight. The Audit Committee oversees financial risk (see **Report of Audit Committee** below). The Audit Committee also reviews and approves all related party transactions and reviews potential conflict of interest matters. In addition, the Audit Committee acts as the Company's Qualified Legal Compliance Committee to receive reports of material violations of the securities laws, breaches of fiduciary duty or similar material violations from legal counsel representing the Company and practicing before the Securities and Exchange Commission. The Company's Compensation Committee, is responsible for overseeing the management of risks relating to the Company's compensation plans and arrangements. It strives to consider and approve compensation programs that encourage a level of risk-taking behavior under those programs that are consistent with the Company's business strategy (see **Report of Compensation Committee** below). The Nominating and Corporate Governance Committee oversees the management of risks relating to Board and executive succession planning and the composition of the Board. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board of Directors is regularly informed through committee reports about such risks.

## **EXECUTIVE COMPENSATION**

### **Report of Compensation Committee**

The Compensation Committee (the Committee) has reviewed and discussed with management the Compensation Discussion and Analysis appearing immediately below in this Proxy Statement. Based on this review and discussion, the Committee has recommended to the Board that the Compensation Discussion and Analysis set forth below be included in this Proxy Statement. The Committee reviewed its charter and determined that no changes were required to the charter.

By the Compensation Committee:

*T.S. Shaw, Chair*

*W.G. Gregory and D.L. Zeitler*

### **Compensation Committee Interlocks and Insider Participation**

During 2016, all members of the Compensation Committee were independent directors, and no member was an employee or former employee of Fuel Tech. During 2016, none of Fuel Tech's executive officers served on the Compensation Committee (or its equivalent) or board of directors of another entity whose executive officer served on the Committee.

### **Compensation Discussion and Analysis**

The Committee is responsible for reviewing and, to the extent provided for in the Committee's Charter, approving in advance of implementation, all incentive plans, sales commission plans and salary actions and

bonuses for Vice President level and above officers of Fuel Tech or new or incumbent employees that have base salaries in excess of \$175,000 per year including the Named Executive Officers (NEOs) listed in the **Summary Compensation Table** below. In the case of the salary actions described above, the Committee makes recommendations to the Board and the Board approves such salary actions. The Committee periodically reviews Fuel Tech compensation practices, including the methodologies for setting total compensation for those employees, including NEOs. As discussed in more detail below, from time to time the Committee also may supplement its exercise of business judgment in compensation matters with market information pertaining to Fuel Tech's compensation levels against comparable companies in its industry and across multiple industries including the use of peer group data (also see **Use of Peer Group** section below). However, the Committee exercises its independent judgment when making decisions on compensation matters, including when rewarding individual performance. The responsibilities of the Committee are described more fully in its charter at [www.ftek.com](http://www.ftek.com).

### **Compensation Philosophy and Objectives**

Fuel Tech's compensation philosophy is to promote long-term, sustainable stockholder value by incentivizing individual performance, as well as promoting overall financial performance of the Company on an annual and long-term basis.

With that compensation philosophy in mind, Fuel Tech's compensation programs are designed to achieve the following objectives:

to ensure Fuel Tech remains a market leader in the development of innovative solutions;

to provide stockholders with a superior rate of return;

to attract, motivate, and retain top talent to advance the achievement of business goals, strategies and objectives; and

to support an integrated team-oriented philosophy.

### **Compensation Elements**

Fuel Tech's executive compensation program has as a primary purpose to attract, retain and motivate the highly talented individuals whose enterprise will enable Fuel Tech to succeed. Typically, the key components of that program include three elements: base salary, short-term incentives and long-term incentives, as more fully described below. Among those three elements, from year to year, when considering its goal of promoting the overall financial performance of the Company on an annual and long-term basis, the use by the Committee of any or the extent of use of the short-term and long-term incentives described below may vary, but when used in the compensation packages for NEOs retain the pay-for-performance characteristics described below.

#### **Base Salary**

Base salaries requiring review by the Committee under its Charter are reviewed by the Committee on recommendation of the Chief Executive Officer and approved by the Board, except that the base salary of the Chief Executive Officer and Executive Chairman is reviewed and recommended by the Committee itself without the Chief Executive Officer or Executive Chairman being present during such deliberations or Committee voting and approved by the Board. In its

performance of these activities the Committee acts in its business judgment on what it understands to be fair, reasonable and equitable compensation in view of Fuel Tech's requirements for recruiting and retention in a highly competitive market. To assist in that determination, the Committee may refer to compensation consultant reports as to general market information and benchmarking data from a peer group of companies approved by the Committee and also:

the executive's compensation relative to other officers;

recent and expected performance of the executive;

Fuel Tech's recent and expected overall performance; and

Fuel Tech's overall budget for base salary increases.

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Text of letter sent to the Airgas Board, dated November 2, 2010 (incorporated by reference to the Schedule 14A filed with the SEC by Air Products and Chemicals, Inc. and Air Products Distribution, Inc. on November 2, 2010).\*

(b)(1)

- Commitment letter described in Section 10, "Source and Amount of Funds" of the Offer to Purchase.\*

(b)(2)

- Amended and Restated Commitment Letter dated March 3, 2010 among Air Products and Chemicals, Inc., JPMorgan Chase Bank, N.A. and J.P. Morgan Securities Inc.\*

(b)(3)

- Accession Letter dated March 3, 2010 among Air Products and Chemicals, Inc., The Royal Bank of Scotland plc and RBS Securities Inc.\*

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- (b)(4) Accession Letter dated March 3, 2010 among Air Products and Chemicals, Inc., Deutsche Bank AG Cayman Island Branch and Deutsche Bank Securities Inc.\*
  - (b)(5) Accession Letter dated March 3, 2010 among Air Products and Chemicals, Inc., BNP Paribas and BNP Paribas Securities Corp.\*
  - (b)(6) Accession Letter dated March 3, 2010 among Air Products and Chemicals, Inc., HSBC Securities (USA) Inc. and HSBC Bank USA, N.A.\*
  - (b)(7) Accession Letter dated March 3, 2010 between Air Products and Chemicals, Inc. and The Bank of Tokyo-Mitsubishi UFJ, Ltd.\*
  - (b)(8) Credit Agreement dated March 31, 2010 among Air Products and Chemicals, Inc., the lenders parties thereto and JPMorgan Chase Bank, N.A., as administrative agent.\*
  - (d) Not applicable.
  - (g) Not applicable.
  - (h) Not applicable.

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\* Previously filed