FUEL TECH, INC.
Form 10-K
March 05, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the fiscal year ended: December 31, 2008

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission File No. 001-33059

Fuel Tech, Inc.
(Exact name of registrant as specified in its charter)

Delaware	20-5657551
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification Number)

Fuel Tech, Inc.
27601 Bella Vista Parkway
Warrenville, IL 60555-1617
630-845-4500
(Address and telephone number of principal executive offices)

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

Securities registered pursuant to Section 12(g) of the Act:

Common Stock $0.01 par value per share	The NASDAQ Stock Market, Inc
(Title of Class)	(Name of Exchange on Which Registered)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No x

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

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 x No ¨

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

Large Accelerated Filer ¨ Accelerated Filer x

Non-accelerated Filer (Do not check if a smaller reporting company) ¨ Smaller reporting company ¨

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

Yes ¨ No x

The aggregate market value of the voting stock held by non-affiliates of the registrant based on the average bid and asked prices of June 30, 2008 was $331,257,000. The aggregate market value of the voting stock held by non-affiliates of the registrant based on the average bid and asked prices of February 10, 2008 was $196,181,000.

Indicate number of shares outstanding of each of the registered classes of Common Stock at February 10, 2009: 24,110,967 shares of Common Stock, $0.01 par value.

Documents incorporated by reference:

Certain portions of the Proxy Statement for the annual meeting of stockholders to be held in 2009 are incorporated by reference in Parts II, III, and IV hereof.

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TABLE OF DEFINED TERMS

Term	Definition
ABC	American Bailey Corporation
AIG	Ammonia Injection Grid
CAAA	Clean Air Act Amendments of 1990
CAIR	Clean Air Interstate Rule
CAVR	Clean Air Visibility Rule
CDT	Clean Diesel Technologies, Inc.
CFD	Computational Fluid Dynamics
Common Shares	Shares of the Common Stock of Fuel Tech
Common Stock	Common Stock of Fuel Tech
EPA	Environmental Protection Agency
EPRI	Electric Power Research Institute
FUEL CHEM®	A trademark used to describe Fuel Tech's fuel and flue gas treatment processes, including its TIFI™ Targeted In-Furnace Injection™ technology to control slagging, fouling, corrosion and a variety of sulfur trioxide-related issues.
GSG	Graduated Straightening Grid
Investors	The purchasers of Fuel Tech securities pursuant to a Securities Purchase Agreement as of March 23, 1998.
Loan Notes	Nil-coupon, non-redeemable convertible unsecured loan notes of Fuel Tech
NOx	Oxides of nitrogen
NOxOUT CASCADE®	A trademark used to describe Fuel Tech's combination of NOxOUT and SCR.
NOxOUT® Process	A trademark used to describe Fuel Tech's SNCR process for the reduction of NOx.
NOxOUT-SCR®	A trademark used to describe Fuel Tech's direct injection of urea as a catalyst reagent.

NOxOUT ULTRA®	A trademark used to describe Fuel Tech's process for generating ammonia for use as SCR reagent.
Rich Reagent Injection Technology (RRI)	An SNCR-type process that broadens the NOx reduction capability of the NOxOUT Process at a cost similar to NOxOUT. RRI can also be applied on a stand-alone basis.
SCR	Selective Catalytic Reduction
SIP Call	State Implementation Plan Regulation
SNCR	Selective Non-Catalytic Reduction
TCI™ Targeted Corrosion Inhibition™	A FUEL CHEM program designed for high-temperature slag and corrosion control, principally in waste-to-energy boilers.
TIFI™ Targeted In-Furnace Injection™	A proprietary technology that enables the precise injection of a chemical reagent into a boiler or furnace as part of a FUEL CHEM program.

PART I

Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements,” as defined in Section 21E of the Securities Exchange Act of 1934, as amended, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and reflect our current expectations regarding our 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. We have tried to identify forward-looking statements by using words such as “anticipate,” “believe,” “plan,” “expect,” “intend,” “will,” and similar expressions, but these words are not the exclusive mea identifying forward-looking statements. These statements are based on information currently available to us and are subject to various risks, uncertainties, and other factors, including, but not limited to, those discussed herein under the caption “Risk Factors” that could cause our 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. Except as expressly required by the federal securities laws, we undertake 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. See "Risk Factors" in Item 1A.

ITEM 1 - BUSINESS

As used in this Annual Report on Form 10-K, the terms “we,” “us,” “our,” “the Company,” and “Fuel Tech” refer to Fuel Tech Inc. and our wholly-owned subsidiaries.

Fuel Tech

Fuel Tech, Inc. (Fuel Tech) is a fully integrated company that uses a suite of advanced technologies to provide boiler optimization, efficiency improvement and air pollution reduction and control solutions to utility and industrial customers worldwide. Originally incorporated in 1987 under the laws of the Netherlands Antilles as Fuel-Tech N.V., Fuel Tech became domesticated in the United States on September 30, 2006, and continues as a Delaware corporation with its corporate headquarters at 27601 Bella Vista Parkway, Warrenville, Illinois, 60555-1617. Fuel Tech maintains an Internet website at www.ftek.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 are made available through our website as soon as reasonably practical after we electronically file or furnish the reports to the Securities and Exchange Commission. Also available on the Corporation’s website are the Company’s Corporate Governance Guidelines and Code of Ethics and Business Conduct, as well as the charters of the audit, compensation and nominating committees of the Board of Directors. All of these documents are available in print without charge to stockholders who request them. Information on our website is not incorporated into this report.

Fuel Tech's special focus is the worldwide marketing of its nitrogen oxide (NOx) reduction and FUEL CHEM® processes. The Air Pollution Control (APC) technology segment reduces NOx emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources by utilizing combustion optimization techniques and Low-NOx and Ultra Low-NOx burners; NOxOUT® and HERT™ High Energy Reagent Technology™ SNCR systems; systems that incorporate NOxOUT CASCADE®, NOxOUT ULTRA® and NOxOUT-SCR® processes; and Ammonia Injection Grids and the Graduated Straightening Grid (GSG). The FUEL CHEM technology segment improves the efficiency, reliability and environmental status of combustion units by controlling slagging, fouling and corrosion, as well as the formation of sulfur trioxide, ammonium bisulfate, particulate matter (PM2.5), carbon dioxide, NOx and unburned carbon in fly ash through the addition of chemicals into the fuel or via TIFI™ Targeted In-Furnace Injection™ programs. Fuel Tech has other technologies, both commercially available and in the development stage, all of which are related to APC and FUEL CHEM processes or are similar in their technological base. Fuel Tech's business is materially dependent on the continued existence and enforcement of worldwide air quality regulations.

American Bailey Corporation

Ralph E. Bailey, Executive Chairman and Director of Fuel Tech, and Douglas G. Bailey, Deputy Chairman and Director of Fuel Tech, are stockholders of American Bailey Corporation (ABC), which is a related party. Please refer to Note 9 to the consolidated financial statements in this document for information about transactions between Fuel Tech and ABC. Additionally, see the more detailed information relating to this subject under the caption “Certain Relationships and Related Transactions” in Fuel Tech’s Proxy Statement, to be distributed in connection with Fuel Tech’s 2009 Annual Meeting of Stockholders, which information is incorporated by reference.

Air Pollution Control

Regulations and Markets

The U.S. air pollution control market is currently the primary driver in Fuel Tech’s NOx reduction technology segment. This market is dependent on air pollution regulations and their continued enforcement. These regulations are based on the Clean Air Act Amendments of 1990 (the “CAAA”), which require reductions in NOx emissions on varying timetables with respect to various sources of emissions. Under the State Implementation Plan (SIP) Call, a regulation promulgated under the Amendments (discussed further below), over 1,000 utility and large industrial boilers in 19 states were required to achieve NOx reduction targets by May 31, 2004.

In 1994, governors of 11 Northeastern states, known collectively as the Ozone Transport Region, signed a Memorandum of Understanding requiring utilities to reduce their NOx emissions by 55% to 65% from 1990 levels by May 1999. In 1998, the Environmental Protection Agency (EPA) announced more stringent regulations. The Ozone Transport SIP Call regulation, designed to mitigate the effects of wind-aided ozone transported from the Midwestern and Southeastern U.S. into the Northeastern non-attainment areas, required, following the litigation described below, 19 states to make even deeper aggregate reductions of 85% from 1990 levels by May 31, 2004. Over 1,000 utility and large industrial boilers are affected by these mandates. Additionally, most other states with non-attainment areas were also required to meet ambient air quality standards for ozone by 2007.

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

In February 2001, the U.S. Supreme Court, in a unanimous decision, upheld EPA’s authority to revise the National Ambient Air Quality Standard for ozone to 0.080 parts per million averaged through an eight-hour period from the current 0.120 parts per million for a one-hour period. This more stringent standard provided clarity and impetus for air pollution control efforts well beyond the then current ozone attainment requirement of 2007. In keeping with this trend, the Supreme Court, only days later, denied industry’s attempt to stay the SIP Call, effectively exhausting all

means of appeal.

On December 23, 2003, the EPA proposed a new regulation affecting the SIP Call states by specifying more expansive NOx reduction. This rule, under the name Clean Air Interstate Rule (CAIR), was issued by the EPA on March 10, 2005. Commencing in 2009, CAIR specifies that additional annual NOx reduction requirements be extended to most SIP-affected units in 28 eastern states, while permitting a cap and trade format similar to the SIP Call. The Company expects an additional 1,300 electric generating units using coal and other fuels to be affected by this rule. In an action related to CAIR, on June 15, 2005, the EPA issued the Clean Air Visibility Rule (CAVR), which is a nationwide initiative to improve federally preserved areas through reduction of NOx and other pollutants. CAVR expands the NOx reduction market to Western states unaffected by CAIR or the SIP Call. Compliance begins in 2013 and CAVR will potentially affect an additional 230 western coal-fired electric-generating units. In addition, CAVR, along with the EPA rule for revised eight-hour ozone attainment, which was proposed on June 20, 2007, have the potential to impact thousands of boilers and industrial units in multiple industries nationwide for units burning coal and other fuels starting in 2013.

On July 11, 2008, the U.S. District Court of Appeals for the District of Columbia Circuit vacated the CAIR regulations under the CAAA under the premise that the EPA exceeded its authority when the rule was created in 2005. The court found "more than several fatal flaws in the rule" but neither took issue with the concept that NOx emissions are to be controlled nor over the limits and thresholds established by CAIR. In vacating the rule in its entirety, the court remanded to EPA to promulgate a rule consistent with the court's opinion. On September 24, 2008, the EPA filed a petition for the case to be reviewed by the full Court of Appeals, not just the three judge panel that issued the vacatur ruling in July 2008. On October 22, 2008, the EPA was granted a 15-day period to present a basis as to why the court should reconsider its decision. On December 23, 2008, the D.C. Circuit granted the EPA's petition only to the extent that it remanded the case without vacatur for EPA to conduct further proceedings consistent with the court's prior opinion. In summary, the court stated that "…allowing CAIR to remain in effect until it is replaced by a rule consistent with our opinion would at least temporarily preserve the environmental values covered by CAIR." The court did not impose a particular schedule by which the EPA must alter CAIR. CAIR requires the affected states to be in year-round NOx emission compliance beginning January 1, 2009. While we cannot predict the ultimate outcome of this matter, and any unfavorable outcome could have a material adverse effect on our business, results of operations, cash flows, and financial position, the primary driver of CAIR, the Federal CAAA, including the associated National Ambient Air Quality Standards, is in effect and states must comply with this law.

Fuel Tech also sells NOx control systems outside the United States, specifically in Europe and in the People's Republic of China (China). NOxOUT systems have long been sold in the traditional markets of Western Europe, but interest is growing in newer markets like Eastern Europe as well as Israel for complete NOx reduction programs on both new and existing boilers. Under EU Directives, certain waste incinerators and cement plants must come into compliance with specified NOx reduction targets by the end of 2009, while certain power plants must be in compliance by 2016.

China also represents attractive opportunities for Fuel Tech as the government has set pollution control and energy conservation and efficiency improvements as top priorities. Fuel Tech has viable technologies to help achieve these objectives. China has taken initial steps to reduce NOx emissions on new electric utility units (principally low-NOx burners), and on-going research and demonstration projects are generating cost performance data for use in tightening standards in the near future, both for new and retrofit units. China's dominant reliance on coal as an energy resource is not expected to change in the foreseeable future. Clean air has been and will continue to be a pressing issue, especially with China's robust economic growth, expected growth in power production (4%-5% average annual increase through 2020), and an increasingly expanded role in international events and organizations. China hosted the 2008 Beijing Summer Olympics and will host the 2010 Shanghai World Expo. China plans to address in a significant way the pollution control for the existing fleet of fossil plants in the Twelfth Five-Year Plan that takes effect in 2011. Our goal is to establish a leading market position in NOx control resulting from the national demonstration projects utilizing NOxOUT CASCADE technology at Jiangsu Kanshan (two new 600 megawatt units), NOxOUT Selective Non-Catalytic Reduction (SNCR) technology at Jiangyin Ligang (four new 600 megawatt units) and Inner Mongolia (two new 600 megawatt units), and NOxOUT ULTRA technology on two retrofit projects in Beijing. These projects are showcasing a wide spectrum of Fuel Tech capabilities for NOx emission control with the intent of gaining immediate penetration within the market for new power units, and establishing Fuel Tech as the leader for the larger market for retrofit units later.

The key market dynamic for this product line is the continued use of coal as the principal fuel source for global electricity production. Coal accounts for approximately 50% of all U.S. electricity generation. Coal's share of global electricity generation is forecast to be approximately 45% by 2030. Major coal consumers include China, the United States and India.

Products

Fuel Tech’s NOx reduction technologies are installed worldwide on over 450 combustion units, including utility, industrial and municipal solid waste applications. Products include customized NOx control systems and patented urea-to-ammonia conversion technology, which can provide safe reagent for use in Selective Catalytic Reduction (SCR) systems.

- Fuel Tech's NOxOUT process is a Selective Non-Catalytic Reduction (SNCR) process that uses non-hazardous urea as the reagent rather than ammonia. The NOxOUT process on its own is capable of reducing NOx by up to 25% - 50% for utilities and by potentially significantly greater amounts for industrial units in many types of plants with capital costs ranging from $5 - $20/kW for utility boilers and with total annualized operating costs ranging from $1,000 - $2,000/ton of NOx removed.

- Fuel Tech’s NOxOUT CASCADE process uses a catalyst in addition to the NOxOUT process to achieve performance similar to SCR. Capital costs for NOxOUT CASCADE systems can range from $30 - $75/kW which is significantly less than that of SCRs, which can cost $300/kW or more, while operating costs are competitive with those experienced by SCR systems.

- Fuel Tech’s NOxOUT-SCR process utilizes urea as a catalyst reagent to achieve NOx reductions of up to 85% from smaller stationary combustion sources with capital and operating costs competitive with equivalently sized, standard SCR systems.

- Fuel Tech’s NOxOUT ULTRA process is designed to convert urea to ammonia safely and economically for use as a reagent in the SCR process for NOx reduction. Recent local hurdles in the ammonia permitting process have raised concerns regarding the safety of ammonia storage in quantities sufficient to supply SCR. In addition, the Department of Homeland Security has characterized anhydrous ammonia as a Toxic Inhalation Hazard (TIH) commodity. This is contributing to new restrictions by rail carriers on the movement of anhydrous ammonia and to an escalation in associated rail transport and insurance rates. Overseas, new coal-fired power plants incorporating SCR systems are expected to be constructed at a rapid rate in China, and Fuel Tech’s NOxOUT ULTRA process is believed to be a market leader for the safe delivery of ammonia, particularly near densely populated cities, major waterways, harbors or islands, or where the transport of anhydrous or aqueous ammonia is a safety concern.

- Fuel Tech has licensed the Rich Reagent Injection Technology from Reaction Engineering International and Electric Power Research Institute. The technology has been proven in full-scale field studies on cyclone-fired units to reduce NOx by 40% - 60%. The technology is a generic SNCR process, whose applicability is outside the temperature range of the NOxOUT process. The technology is seen as an add-on to Fuel Tech's NOxOUT systems, thus potentially broadening the NOx reduction of the combined system to up to 60% with minimal additional capital requirement.

- Under an exclusive licensing agreement with FGC Corporation, Fuel Tech sells flue gas conditioning systems incorporating FGC Corporation technology for utility applications in all geographies outside the United States and Canada. Flue gas conditioning systems improve the efficiency of particulate collectors, also known as electrostatic precipitators (ESP). These conditioning systems represent a far lower capital cost approach to improving ash particulate capture versus the alternative of installing larger ESPs or fabric filter technology to meet opacity levels.

- As a result of the acquisitions of substantially all of the assets of Tackticks, LLC and FlowTack, LLC in the fourth quarter of 2008, Fuel Tech now provides process design optimization, performance testing and improvement, and catalyst selection services for SCR systems on coal-fired boilers. In addition, other related services, including start-ups, maintenance support and general consulting services for SCR systems, as well as ammonia injection grid design and tuning, to help optimize catalyst performance and catalyst management services to help optimize catalyst life, are now offered to customers around the world. Fuel Tech also specializes in both physical experimental models, which involve construction of scale models through which fluids are tested, and computational fluid dynamics models, which simulate fluid flow by generating a virtual replication of real-world geometry and operating inputs. We design flow corrective devices, such as turning vanes, ash screens, static mixers and our patent pending Graduated Straightening Grid. Our models help clients optimize performance in flow critical equipment, such as selective catalytic reactors in SCR systems, where the effectiveness and longevity of catalysts are of utmost concern. The Company's modeling capabilities are also applied to other power plant systems where proper flow distribution and mixing are important for performance, such as flue gas desulphurization scrubbers, electrostatic precipitators, air heaters, exhaust stacks and carbon injection systems for mercury removal.

Sales of the NOx reduction technologies were $44.4 million, $47.8 million and $46.4 million for the years ended December 31, 2008, 2007 and 2006, respectively.

NOx Reduction Competition

Competition with Fuel Tech's NOx reduction suite of products may be expected from companies supplying urea SNCR systems, combustion modification products, SCR systems and ammonia SNCR systems. In addition, Fuel Tech experiences competition in the urea-to-ammonia conversion market.

Combustion modifications, including low-NOx burners and over-fire-air systems, can be fitted to most types of boilers with cost and effectiveness varying with specific boilers. Combustion modifications may yield up to 20% - 60% NOx reduction economically with capital costs ranging from $10 - $20/kW and levelized total costs ranging from $300 - $1,500/ton of NOx removed. The modifications are designed to reduce the formation of NOx and are typically the first NOx reduction efforts employed. Such companies as Advanced Combustion Technology, Inc., Alstom, Foster Wheeler Corporation, The Babcock & Wilcox Company, Combustion Components Associates, Inc., Nalco Mobotec, Inc. and Babcock Power, Inc. are active competitors in the low-NOx burner business. On December 8, 2008, Fuel Tech announced that it had signed a definitive agreement to acquire substantially all of the assets of Advanced Combustion Technology, Inc. See Note 13, Subsequent Events, for more information regarding this acquisition.

Once NOx is formed, then the SCR process is an effective and proven method of control for removal of NOx up to 90%. SCR systems have a high capital cost of $300+/kW on retrofit coal applications. Such companies as Alstom, The Babcock & Wilcox Company, Hitachi, Foster Wheeler Corporation, Peerless Manufacturing Company, and Babcock Power, Inc., are active SCR system providers, or providers of the catalyst itself.

The use of ammonia as the reagent for the SNCR process can reduce NOx by 30% - 70% on incinerators, but has limited applicability in the utility industry. Ammonia system capital costs range from $5 - $20/kW, with annualized operating costs ranging from $1,000 - $3,000/ton of NOx removed. These systems require the use of either anhydrous or aqueous ammonia, both of which are hazardous substances.

Combustion Components Associates, Inc. is a licensed implementer of our NOxOUT SNCR systems.

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

Lastly, with respect to urea-to-ammonia conversion technologies, a competitive approach to Fuel Tech’s controlled urea decomposition system is available from Wahlco, Inc., which manufactures a system that hydrolyzes urea under high temperature and pressure.

FUEL CHEM

Product and Markets

The FUEL CHEM technology segment revolves around the unique application of specialty chemicals to improve the efficiency, reliability and environmental status of plants operating in the electric utility, industrial, pulp and paper, waste-to-energy, university and district heating markets. FUEL CHEM programs are currently in place on over 95 combustion units, treating a wide variety of solid and liquid fuels, including coal, heavy oil, biomass and municipal waste.

Central to the FUEL CHEM approach is the introduction of chemical reagents, such as magnesium hydroxide, to combustion units via in-body fuel application (pre-combustion) or via direct injection (post-combustion) utilizing Fuel Tech's proprietary TIFI technology. By attacking performance-hindering problems, such as slagging, fouling and corrosion, as well as the formation of sulfur trioxide (SO3), ammonium bisulfate (ABS), particulate matter (PM2.5), carbon dioxide (CO2), NOx and unburned carbon in fly ash, the Company's programs offer numerous operational, financial and environmental benefits to owners of boilers, furnaces and other combustion units.

The key market dynamic for this product line is the continued use of coal as the principal fuel source for global electricity production. Coal accounts for approximately 50% of all U.S. electricity generation. Coal's share of global electricity generation is forecast to be approximately 45% by 2030. Major coal consumers include the United States, China and India.

The principal markets for this product line are electric power plants burning coals with slag-forming constituents such as sodium, iron and high levels of sulfur. Sodium is typically found in the Powder River Basin (PRB) coals of Wyoming and Montana. Iron is typically found in coals produced in the Illinois Basin (IB) region. High sulfur content is typical of IB coals and certain Appalachian coals. High sulfur content can give rise to unacceptable levels of SO3 formation in plants with SCR systems and flue gas desulphurization units (scrubbers).

The combination of slagging coals and SO3-related issues, such as “blue plume” formation, air pre-heater fouling and corrosion, SCR fouling and the proclivity to suppress certain mercury removal processes, represents attractive market potential for Fuel Tech.

Internationally, market opportunities exist in Europe and in the Asia-Pacific region, particularly China and India, where high-slagging coals are fueling a large and growing fleet of power plants. To address the Chinese market, where particular emphasis is being placed on energy efficiency, Fuel Tech extended its exclusive teaming agreement with ITOCHU Hong Kong Ltd., a subsidiary of ITOCHU Corporation, through March 31, 2009. Working under this agreement, the first FUEL CHEM demonstration program in China was announced in January 2008 and a second demonstration program was announced in October 2008. In addition, Fuel Tech was awarded its first FUEL CHEM demonstration program in India in January 2008. TIFI initiatives aimed at energy efficiency improvements result in reduced CO2 emissions, which potentially can be monetized under provisions of the Kyoto Protocol.

A potentially large fuel treatment market exists in Mexico, where high-sulfur, low-grade fuel oil containing vanadium and nickel is the primary source for electricity production. The presence of these metallic constituents promotes slag build-up, and the fuel properties can result in acid gas and particulate emissions in local combustion units. Fuel Tech has successfully treated such units with its TIFI technology. To capitalize on this market opportunity, the Company signed a five-year license implementation agreement with Energy Marine Services, S.A. de C.V. (EMS), a private Mexican corporation, to implement our TIFI program for utility and end user customers in Mexico.

Sales of the FUEL CHEM products were $36.7 million, $32.5 million and $28.7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Competition

Competition for Fuel Tech's FUEL CHEM product line includes chemicals sold by specialty chemical and combustion engineering companies, such as GE Infrastructure, Ashland Inc., and Environmental Energy Services, Inc. No substantive competition currently exists for Fuel Tech's TIFI technology, which is designed primarily for slag control and SO3 abatement, but there can be no assurance that such lack of substantive competition will continue.

INTELLECTUAL PROPERTY

The majority of Fuel Tech’s products are protected by U.S. and non-U.S. patents. Fuel Tech owns 87 granted patents worldwide and has 13 patent applications pending in the United States and 37 pending in non-U.S. jurisdictions. These patents and applications cover some 36 inventions, 23 associated with the NOx reduction business, eight associated with the FUEL CHEM business and five associated with non-commercialized technologies. Graduated Straightening Grid (GSG) technology was added into Fuel Tech’s inventions through the acquisition of substantially all of the assets of FlowTack. GSG improves flow distribution and direction to potentially improve SCR and CASCADE performance, and minimize flow-related erosion, dust accumulation and heat transfer problems. These inventions represent significant enhancements of the application and performance of the technologies. Further, Fuel Tech believes that the protection provided by the numerous claims in the above referenced patents or patent applications is substantial, and affords Fuel Tech a significant competitive advantage in its business. Accordingly, any significant reduction in the protection afforded by these patents or any significant development in competing technologies could have a material adverse effect on Fuel Tech’s business.

EMPLOYEES

At December 31, 2008, Fuel Tech had 196 employees, 170 in North America, 15 in China and 11 in Europe. Fuel Tech enjoys good relations with its employees and is not a party to any labor management agreement.

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ITEM 1A - RISK FACTORS

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

(i) Lack of Diversification

Fuel Tech has two broad technology segments that provide advanced engineering solutions to meet the pollution control, efficiency improvement, and operational optimization needs of energy-related facilities worldwide. They are as follows:

- The Air Pollution Control technology segment, which includes the NOxOUT, NOxOUT CASCADE, GSG, 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 CHEM technology segment, which uses chemical processes, including TIFI Targeted In-Furnace Injection technology, to control slagging, fouling and corrosion, as well as the formation of sulfur trioxide, ammonium bisulfate, particulate matter (PM2.5), carbon dioxide, NOx and unburned carbon in fly ash of furnaces and boilers.

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

(ii) Competition

Competition in the Air Pollution Control market will come from competitors utilizing their own NOx reduction processes, including SNCR systems, low-NOx burners, over-fire air, flue gas recirculation, ammonia SNCR, SCR and, with respect to particular uses of urea not infringing Fuel Tech's patents, urea (see Item 1 "Intellectual Property"). Competition will also come from business practices such as the purchase rather than the generation of electricity, fuel switching, closure or de-rating of units, and sale or trade of pollution credits and emission allowances. Utilization by customers of such processes or business practices or combinations thereof may adversely affect Fuel Tech's pricing and participation in the NOx control market if customers elect to comply with regulations by methods other than the purchase of Fuel Tech's suite of Air Pollution Control products. See above text under the captions "Products" and “NOx Reduction Competition” in the Air Pollution Control segment overview.

Competition in the FUEL CHEM markets includes chemicals sold by specialty chemical and combustion engineering companies, such as GE Infrastructure, Ashland Inc. and Environmental Energy Services, Inc. As noted previously, no significant competition currently exists for Fuel Tech's patented TIFI technology, which is designed primarily for slag control and SO3 abatement. However, there can be no assurance that such lack of significant competition will continue.

(iii) Dependence on and Change in Air Pollution Control Regulations and Enforcement

Fuel Tech's business is significantly impacted by and dependent upon the regulatory environment surrounding the electricity generation market. Our business will be adversely impacted to the extent that regulations are repealed or amended to significantly reduce the level of required NOx reduction, or to the extent that regulatory authorities delay or otherwise minimize enforcement of existing laws. Additionally, long-term changes in environmental regulation that threaten or preclude the use of coal or other fossil fuels as a primary fuel source for electricity production, based on the theory that gases emitted therefrom impact climate change through a greenhouse effect, and result in the

reduction or closure of a significant number of fossil fuel-fired power plants, may adversely affect the Company's business, financial condition and results of operations. See also the text above under the caption “Regulations and Markets” in the Air Pollution Control segment overview.

(iv) Protection of Patents and Proprietary Rights

Fuel Tech holds licenses to or owns a number of patents for our products and processes. In addition, we also have numerous patents pending. There can be no assurance that pending patent applications will be granted or that outstanding patents will not be challenged or circumvented by competitors. Certain critical technology relating to our products is protected by trade secret laws and by confidentiality and licensing agreements. There can be no assurance that such protection will prove adequate or that we will have adequate remedies against contractual counterparties for disclosure of our trade secrets or violations of Fuel Tech’s intellectual property rights. See Item 1 “Intellectual Property.”

(v) Foreign Operations

In 2007, we expanded our operations into China by establishing a wholly-owned subsidiary in Beijing. The Asia-Pacific region, particularly China and India, offers significant market opportunities for Fuel Tech as these nations look to establish regulatory policies for improving their environment and utilizing fossil fuels, especially coal, efficiently and effectively. The future business opportunities in these markets are dependent on the continued implementation of regulatory policies that will benefit our technologies, the acceptance of Fuel Tech’s engineering solutions in such markets, and the ability of potential customers to utilize Fuel Tech’s technologies on a cost-effective basis.

(vi) Product Pricing and Operating Results

The onset of significant competition for either of the technology segments might have an adverse impact on product pricing and a resulting adverse impact on realized gross margins and operating profitability.

(vii) Raw Material Supply and Pricing

The FUEL CHEM technology segment is reliant upon a long-term global supply of magnesium hydroxide. Any adverse change in the availability of supply for this chemical will likely have an adverse impact on our cost structure. On October 1, 2008 we entered into a Product Supply Agreement ("PSA") with Martin Marietta Magnesia Specialties, LLC (MMMS) in order to assure the continuance of a stable supply from MMMS of magnesium hydroxide products for our requirements in the United States and Canada until December 31, 2013. Magnesium hydroxide products are a significant component of the FUEL CHEM programs. There can be no assurance that Fuel Tech will be able to obtain a stable source of magnesium hydroxide in markets outside the United States.

(ix) Customer Access to Capital Funds

Uncertainty about current economic conditions in the United States and globally poses risk that Fuel Tech's customers may postpone spending for capital improvement projects in response to tighter credit markets, negative financial news and/or decline in demand for electricity generated by combustion units, all of which could have a material negative effect on demand for the Fuel Tech's products and services.

(x) Customer Concentration

A small number of customers have historically accounted for a material portion of Fuel Tech's revenues (see note 11 – Business Segment, Geographic and Quarterly Financial Data). There can be no assurance that Fuel Tech's current customers will continue to place orders, that orders by existing customers will continue at the levels of previous periods, or that Fuel Tech will be able to obtain orders from new customers. The loss of one or more of our customers could have a material adverse effect on our sales and operating results.

ITEM 1B - UNRESOLVED STAFF COMMENTS

None

ITEM 2 - PROPERTIES

Fuel Tech and its subsidiaries operate from leased office facilities in Warrenville, Illinois; Stamford, Connecticut; Durham, North Carolina; Gallarate, Italy and Beijing, China. Fuel Tech does not segregate any of its leased facilities by operating business segment. The terms of the three material agreements are as follows:

- The Stamford, Connecticut building lease term, for approximately 7,000 square feet, runs from February 1, 2004 to January 31, 2010. The facility houses certain administrative functions such as Investor Relations, Benefit Plan Administration and certain APC sales functions.

- The Beijing, China building lease term, for approximately 4,000 square feet, runs from September 1, 2007 to August 31, 2009. This facility serves as the operating headquarters for our Beijing Fuel Tech operation. Fuel Tech has the option to extend the lease term at a market rate to be agreed upon between Fuel Tech and the lessor.

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The Durham, North Carolina building lease term, for approximately 16,000 square feet, runs from November 1, 2005 to April 30, 2014. This facility houses the former Tackticks and FlowTack operations. Fuel Tech has no option to extend the lease.

In addition to the above, on November 30, 2007, Fuel Tech purchased an office building in Warrenville, Illinois, which has served as our corporate headquarters since June 23, 2008. This facility, with approximately 40,000 square feet of office space, was purchased for approximately $6,000,000 and subsequently built out and furnished for an additional cost of approximately $5,500,000. This facility will meet our growth requirements for the foreseeable future. Our prior headquarters, an 18,000 square foot location in Batavia, Illinois, remains under an operating lease until May 31, 2009. We have no plans to renew this lease.

ITEM 3 - LEGAL PROCEEDINGS

We are from time to time involved in litigation incidental to our business. We are not currently involved in any litigation in which we believe an adverse outcome would have a material effect on our business, financial conditions, results of operations, or prospects.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of 2008, no matters were submitted to a vote of security holders.

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

Market

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

Prices

The table below sets forth the high and low sales prices during each calendar quarter since January 2007.

2008	High	Low
Fourth Quarter	$ 18.95	$ 6.05
Third Quarter	24.76	14.52
Second Quarter	27.16	17.55
First Quarter	22.94	14.15

2007	High	Low
Fourth Quarter	$ 34.48	$ 16.89
Third Quarter	35.85	20.65
Second Quarter	38.20	21.65
First Quarter	29.68	22.54

Dividends

Fuel Tech has never paid cash dividends on its common stock and has no current plan to do so in the foreseeable future. The declaration and payment of dividends on the Common Stock are subject to the discretion of the Company's Board of Directors. The decision of the Board of Directors to pay future dividends will depend on general business conditions, the effect of a dividend payment on our financial condition, and other factors the Board of Directors may consider relevant. The current policy of the Company's Board of Directors is to reinvest earnings in operations to promote future growth.

Share Repurchase Program

Fuel Tech purchased no equity securities during the quarter and year ended December 31, 2008.

Holders

Based on information from the Company's Transfer Agent and from banks and brokers, the Company estimates that, as of February 24, 2009, there were approximately 24,000 beneficial holders and 277 registered stockholders of Fuel Tech's Common Shares.

Transfer Agent

The Transfer Agent and Registrar for the Common Shares is BNY Mellon Shareowner Services, 480 Washington Boulevard, Jersey City, New Jersey 07310-1900.

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Performance Graph

The following line graph compares (i) Fuel Tech's total return to stockholders per share of Common Stock for the five years ended December 31, 2008 to that of (ii) the NASDAQ Composite index, and (iii) the WilderHill Clean Energy Index for the period December 31, 2003 through December 31, 2008.

ITEM 6 - SELECTED FINANCIAL DATA

Selected financial data are presented below as of the end of and for each of the fiscal years in the five-year period ended December 31, 2008. The selected financial data should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2008, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report and the schedules thereto.

	For the years ended December 31,				
CONSOLIDATED STATEMENT of OPERATIONS DATA (in thousands of dollars, except for share and per-share data)	2008	2007	2006	2005	2004
Revenues	$ 81,074	$ 80,297	$ 75,115	$ 52,928	$ 30,832
Cost of sales	44,345	42,471	38,429	27,118	16,566
Selling, general and administrative and other costs and expenses	30,112	27,087	25,953	18,655	14,130
Operating income	6,617	10,739	10,733	7,155	136
Net income	3,602	7,243	6,826	7,588	1,572
Basic income per Common Share	$ 0.15	$ 0.33	$ 0.32	$ 0.38	$ 0.08
Diluted income per Common Share	$ 0.15	$ 0.29	$ 0.28	$ 0.33	$ 0.07
Weighted-average basic shares outstanding	23,608,000	22,280,000	21,491,000	20,043,000	19,517,000
Weighted-average diluted shares outstanding	24,590,000	24,720,000	24,187,000	23,066,000	22,155,000

	December 31				
CONSOLIDATED BALANCE SHEET DATA	2008	2007	2006	2005	2004
(in thousands of dollars)					
Working capital	$ 44,346	$ 45,143	$ 38,715	$ 19,590	$ 11,292
Total assets	88,873	87,214	65,660	44,075	23,828
Long-term obligations	1,389	1,255	500	448	505
Total liabilities	15,056	23,975	18,005	14,939	4,873
Stockholders' equity (1)	73,817	63,239	47,655	29,136	18,955

Notes:

(1) Stockholders' equity includes principal amount of nil coupon non-redeemable perpetual loan notes. See Note 5 to the consolidated financial statements.

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

Background

Fuel Tech, Inc. ("Fuel Tech") has two broad technology segments that provide advanced engineering solutions to meet the pollution control, efficiency improvement and operational optimization needs of energy-related facilities worldwide. They are as follows:

Air Pollution Control Technologies

The Air Pollution Control technology segment focuses primarily on nitrogen oxide ("NOx") emission reductions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources and includes the NOxOUT, NOxOUT CASCADE, GSG, NOxOUT ULTRA and NOxOUT-SCR processes. Fuel Tech distributes its products through its direct sales force, licensees and agents.

FUEL CHEM Technologies

The FUEL CHEM technology segment uses chemical processes, including TIFI Targeted In-Furnace Injection technology, to control slagging, fouling and corrosion, as well as the formation of sulfur trioxide, ammonium bisulfate, particulate matter (PM2.5), carbon dioxide, NOx and unburned carbon in fly ash in furnaces and boilers. Fuel Tech sells its FUEL CHEM program through its direct sales force and agents to industrial and utility power-generation facilities. At December 31, 2008, FUEL CHEM programs were operating on over 95 combustion units around the world, treating a wide variety of solid and liquid fuels, including coal, heavy oil, biomass and municipal waste. The FUEL CHEM program improves the efficiency, reliability and environmental status of plants operating in the electric utility, industrial, pulp and paper, waste-to-energy, university and district heating markets and offers numerous operational, financial and environmental benefits to owners of boilers, furnaces and other combustion units.

The key market dynamic for both technology segments is the continued use of fossil fuels, especially coal, as the principal fuel source for global electricity production. Coal accounts for approximately 50% of all U.S. electricity generation. Coal's share of global electricity generation is forecast to be approximately 45% by 2030. Major coal consumers include China, the United States and India.

Critical Accounting Policies and Estimates

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and assumptions. We believe that of our accounting policies (see Note 1 to the consolidated financial statements), the following involve a higher degree of judgment and complexity and are deemed critical. We routinely discuss our critical accounting policies with the Company's Audit Committee.

Revenue Recognition

Revenues from the sales of chemical products are recorded when title transfers, either at the point of shipment or at the point of destination, depending on the contract with the customer.

Fuel Tech uses the percentage of completion method of accounting for equipment construction and license contracts that are sold within the Air Pollution Control technology segment. Under the percentage of completion method,

revenues are recognized as work is performed based on the relationship between actual construction costs incurred and total estimated costs at completion. Revisions in completion estimates and contract values in the period in which the facts giving rise to the revisions become known can influence the timing of when revenues are recognized under the percentage of completion method of accounting. Provisions are made for estimated losses on uncompleted contracts in the period in which such losses are determined. As of December 31, 2008 and December 31, 2007, Fuel Tech had no construction contracts in progress that were identified as loss contracts.

Fuel Tech's APC contracts are typically six to twelve months in length. A typical contract will have three or four critical operational measurements that, when achieved, serve as the basis for us to invoice the customer via progress billings. At a minimum, these measurements will include the generation of engineering drawings, the shipment of equipment and the completion of a system performance test.

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

Accounts receivable includes unbilled receivables, representing revenues recognized in excess of billings on uncompleted contracts under the percentage of completion method of accounting. At December 31, 2008 and December 31, 2007, unbilled receivables were approximately $5,552 and $16,813, respectively. Billings in excess of costs and estimated earnings on uncompleted contracts were $1,223 and $821 at December 31, 2008 and December 31, 2007, respectively. Such amounts are included in other accrued liabilities on the consolidated balance sheet.

Fuel Tech has installed over 450 units with the technology and has never failed to meet a performance guarantee when the customer has provided the required operating conditions for the project. As part of the project implementation process, we perform system start-up and optimization services that effectively serve as a test of actual project performance. We believe that this test, combined with the accuracy of the modeling that is performed, enables revenue to be recognized prior to the receipt of formal customer acceptance.

Allowance for Doubtful Accounts

In order to control and monitor the credit risk associated with our customer base, we review the credit worthiness of customers on a recurring basis. Factors influencing the level of scrutiny include the level of business the customer has with Fuel Tech, the customer's payment history and the customer's financial stability. Representatives of our management team review all past due accounts on a weekly basis to assess collectibility. At the end of each reporting period, the allowance for doubtful accounts balance is reviewed relative to management's collectibility assessment and is adjusted if deemed necessary. Our historical credit loss has been insignificant.

Assessment of Potential Impairments of Goodwill and Intangible Assets

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

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

Based upon the nature of the goodwill and other intangible assets recorded on the balance sheets as of December 31, 2008 and 2007, the Company believes that, in order for an impairment to occur, a series of material prolonged negative economic events would have to occur. These events would most likely be seen in economic indicators such as suppressed consolidated revenues or Common Stock price, reduced cash flows or declining APC order backlog.

Valuation Allowance for Deferred Income Taxes

Deferred tax assets represent deductible temporary differences and net operating loss and tax credit carryforwards. A valuation allowance is recognized if it is more likely than not that some portion of the deferred tax asset will not be realized. At the end of each reporting period, Fuel Tech reviews the realizability of the deferred tax assets. As part of this review, we consider if there are taxable temporary differences that could generate taxable income in the future, if there is the ability to carry back the net operating losses or credits, if there is a projection of future taxable income, and if there are any tax planning strategies that can be readily implemented.

Stock-Based Compensation

Fuel Tech recognizes compensation expense for employee equity awards ratably over the requisite service period of the award. We utilize the Black-Scholes option-pricing model to estimate the fair value of awards. Determining the fair value of stock options using the Black-Scholes model requires judgment, including estimates for (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. If any of these assumptions differ significantly from actual, stock-based compensation expense could be impacted.

Recently Adopted Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for fiscal years beginning after November 15, 2007. On February 14, 2008, the FASB issued FSP FAS No. 157-1 "Application of FASB Statement No. 157 to FASB Statement 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13" (SFAS 157-1) that amends SFAS 157 to exclude its application for purposes of lease classification or measurement under SFAS 13. On February 12, 2008, the FASB issued Staff Position Financial Accounting Standard (FSP FAS) No. 157-2 "Effective Date of FASB Statement No. 157" (FSP 157-2) that amends SFAS 157 to delay the effective date for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis to fiscal years beginning after November 15, 2008. The Company adopted the required provisions of SFAS 157-1 effective January 1, 2008 and there was no material effect on its consolidated financial statements. The Company has adopted FSP 157-2 to delay the adoption effects related to non-financial assets and does not anticipate there will be a material effect on its consolidated financial statements. In October 2008, the FASB issued FSP 157-3, "Determining the Fair Value of a Financial Asset in a Market That Is Not Active." The FSP was effective upon issuance, including periods for which financial statements have not been issued. The FSP clarified the application of SFAS 157 in an inactive market and provided an illustrative example to demonstrate how the fair value of a financial asset is determined when the market for that financial asset is inactive. The adoption of this FSP FAS 157-3 did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact of adoption of SFAS 141R on its consolidated financial statements. However, the Company does not expect the adoption of SFAS 141R to have a material effect on its consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets ("FSP No. FAS 142-3"). FSP No. FAS 142-3 requires companies estimating the useful life of a recognized intangible asset to consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, to consider assumptions that market participants would use about renewal or extension as adjusted for SFAS 142's, Goodwill and Other Intangible Assets, entity-specific factors. FSP No. FAS 142-3 will be effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact of adoption of FSP No. FAS 142-3 on its consolidated financial statements. However, the Company does not expect the adoption of FSP No. FAS 142-3 to have a material effect on its consolidated financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles. SFAS 162 becomes effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Company does not expect that the adoption of SFAS 162 to have a material effect on its consolidated financial statements.

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2008 versus 2007

Revenues for the years ended December 31, 2008 and 2007 were $81,074 and $80,297, respectively. The year-over-year increase of $777, or 1%, was driven by a 13% increase in revenues from the FUEL CHEM technology segment that were largely offset by a modest revenue decline in the APC technology segment.

Revenues for the APC technology segment were $44,393 for the year ended December 31, 2008, a decrease of $3,357, or 7%, versus 2007. The global financial crisis and the vacatur of the Clean Air Interstate Rule (CAIR) in July 2008 (subsequently remanded in December 2008) had a negative effect on segment revenues and APC order backlog. This segment is well positioned to capitalize on CAIR - the next phase of increasingly stringent U.S. air quality standards - which is effective January 1, 2009, and the Clean Air Visibility Rule (CAVR), which is effective January 1, 2013. Thousands of utility and industrial boilers will be impacted by these regulations and Fuel Tech's technologies will serve as an important element in enabling utility and industrial boiler unit owners to attain compliance. During 2008, Fuel Tech announced new contracts valued at approximately $21,000.

Revenues for the FUEL CHEM technology segment were $36,681 for the year ended December 31, 2008, an increase of $4,134, or 13%, versus 2007. 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, which represent the largest market opportunity for the technology, both domestically and abroad. During 2008, Fuel Tech added 15 new units to its customer base, 13 of which were coal-fired units, the largest annual total in the Company's history. Historically, most demonstrations convert into commercial accounts.

Cost of sales for the years ended December 31, 2008 and 2007 was $44,345 and $42,471, respectively. Cost of sales as a percentage of revenues for the years ended December 31, 2008 and 2007 was 54% and 53%, respectively. The 2008 cost of sales percentage for the APC technology segment increased to 55% from 54% in 2007. The increase is attributable to the mix of project business. The 2008 cost of sales percentage for the FUEL CHEM technology segment increased to 55% in 2008 from 51% in 2007. The increase is due to costs associated with demonstration periods and other related start-up activities for the record number of incremental units noted above, especially for the demonstrations in India and China where the Company bore a significantly higher portion of the costs versus typical demonstrations in the United States.

Selling, general and administrative expenses for the years ended December 31, 2008 and 2007 were $28,012 and $24,950, respectively. The $3,062 increase over 2007 is principally attributable to the following:

- Fuel Tech recorded $5,815 in stock compensation expense in 2008 in accordance with SFAS 123(R), as discussed in Note 6 to the consolidated financial statements. This amount represented a $1,024 increase over 2007, attributable to stock option awards to Directors and certain Fuel Tech employees in 2008 and the on-going expense recognition related to stock options awarded in prior years.

- Fuel Tech invested approximately $2,000 in personnel and other costs, including expenses associated with the start-up of the Company's Beijing, China office, in the areas of Engineering, Sales, Marketing and Administration to ensure the Company's financial and operational infrastructure are able to accommodate anticipated future growth.

- Partially offsetting this unfavorable variance was a reduction in annual incentive expenses of $1,500 as the minimum income threshold for the year ended December 31, 2008 was not met and, thus, no 2008 bonus payments were made under the Company's incentive plan.

Research and development expenses were $2,100 and $2,137 for the years ended December 31, 2008 and 2007, 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.

Interest income for the year ended December 31, 2008 decreased by $893 versus 2007 due to decreases in the interest rates paid by institutions with whom the Company's investments were located. Further, Fuel Tech recorded interest expense of $135 in 2008 related specifically to a short-term credit facility that was used to support the start-up of Fuel Tech's office in Beijing, China. Finally, the change in other income / (expense) is due largely to the impact of foreign exchange rates related to balances denominated in foreign currencies.

For the year ended December 31, 2008, Fuel Tech recorded tax expense of $3,305. For the year ended December 31, 2007, Fuel Tech recorded tax expense of $5,187 that predominantly represented deferred tax expense related to taxable income recognized in 2007.

2007 versus 2006

Revenues for the years ended December 31, 2007 and 2006 were $80,297 and $75,115, respectively. The year-over-year increase of $5,182, or 7%, predominantly reflects moderate increases in both technology segments.

Revenues for the APC technology segment were $47,750 for the year ended December 31, 2007, an increase of $1,296 , or 3%, versus 2006. This segment is positioned well to capitalize on the next phase of increasingly stringent U.S. air quality standards. With the compliance for the EPA's SIP Call regulation beginning to wind down, utilities and industrial facilities across the country are planning for compliance with the Clean Air Interstate Rule (CAIR) and the Clean Air Visibility Rule (CAVR), which take effect in 2009 and 2013, respectively. Thousands of utility and industrial boilers will be impacted by these regulations and Fuel Tech's technologies will serve as an important element in enabling utility and industrial boiler unit owners to attain compliance. In 2007, Fuel Tech announced new contracts valued at $60 million, which exceeded the previous annual record by almost 40%.

Revenues for the FUEL CHEM technology segment were $32,547 in 2007, an increase of $3,886, or 14%, over 2006. 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, which represent the largest market opportunity for the technology, both domestically and abroad. In 2007, Fuel Tech added 10 new coal-fired units to its customer base, the largest annual total in the Company's history.

Cost of sales for the years ended December 31, 2007 and 2006 was $42,471 and $38,429, respectively. Cost of sales as a percentage of revenues for the years ended December 31, 2007 and 2006 was 53% and 51%, respectively. The cost of sales percentage for 2007 for the APC technology segment decreased to 54% from 57% in 2006. The decrease is attributable to the mix of project business. For the FUEL CHEM technology segment, the cost of sales percentage increased to 51% in 2007 from 42% in 2006. The increase is due to start-up costs related to the incremental units noted above, without the realization of related revenues as only two of the 10 new units contributed significant revenues during 2007 due to customer-related delays impacting the timing of startup.

Selling, general and administrative expenses for the years ended December 31, 2007 and 2006 were $24,950 and $23,901, respectively. The $1,049 increase over 2006 is principally attributable to the following:

- Fuel Tech recorded $4,791 in stock compensation expense in 2007 in accordance with Statement 123(R), as discussed in Note 6 to the consolidated financial statements. This amount represented a $2,986 increase over 2006 attributable to the awarding of stock options to all Fuel Tech employees in December 2006 and to an increase in the fair value of the options granted, which was driven by an increase in the price of Fuel Tech's Common Stock.

- Partially offsetting this unfavorable variance was a reduction in revenue-related expenses of $2,100 as Fuel Tech aligned the focus of all employees under a common incentive plan in 2007.

Research and development expenses were $2,137 and $2,052 for the years ended December 31, 2007 and 2006, 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.

Interest income increased by $623 over 2006 reflecting higher average cash and short-term investment balances. Further, Fuel Tech recorded interest expense of $24 in 2007 related specifically to a short-term credit

facility that was used to support the start-up of Fuel Tech's new office in Beijing, China. Finally, the moderate increase in other income is due largely to foreign exchange gains related to balances denominated in foreign currencies.

For the year ended December 31, 2007, Fuel Tech recorded tax expense of $5,187, which predominantly represents deferred tax expense related to taxable income recognized in 2007. For the year ended December 31, 2006, Fuel Tech recorded tax expense of $4,942, also representing deferred tax expense related to taxable income.

Liquidity and Sources of Capital

At December 31, 2008, Fuel Tech had cash and cash equivalents and short-term investments of $28,149 and working capital of $44,346 versus $32,471 and $45,143 at December 31, 2007, respectively. Operating activities provided $8,047 of cash for the year ended December 31, 2008, primarily due to the favorable operating results of the business segments.

Investing activities used cash of $11,769 for the year ended December 31, 2008, primarily for expenditures related to our new corporate headquarters building to support and enhance the operations of the business of $5,200, the acquisition funding for substantially all of the assets of Tackticks, LLC and FlowTack, LLC of $3,928 and the remainder used principally for equipment related to the FUEL CHEM technology segment. Capital expenditures, which typically consist of equipment related to FUEL CHEM demonstration programs or commercial installations, are expected to be funded primarily from cash flows from operations. Other than the outfitting of the new corporate headquarters building in 2008, the Company has historically incurred a nominal amount of maintenance capital expenditures.

Fuel Tech generated cash from financing activities in the amount of $1,377. Of this amount, $619 represents proceeds derived from the exercise price of options and warrants exercised in 2008, while $548 represents the excess tax benefits realized from the exercise of stock options in 2008.

Fuel Tech has a domestic $25.0 million revolving credit facility expiring July 31, 2009. The facility is unsecured and bears interest at a rate of LIBOR plus 75 basis points. Fuel Tech can use this facility for cash advances and standby letters of credit.

At December 31, 2008, the Company had outstanding standby letters of credit and bank guarantees, predominantly to customers, totaling approximately $5,865 in connection with contracts in process. Fuel Tech is committed to reimbursing the issuing bank for any payments made by the bank under these instruments. At December 31, 2008, there were no cash borrowings under the revolving credit facility and approximately $19,135 was available. Management has met with the Company's lending institutions and, during the course of those meetings, was not made aware of any information indicating that they will not be able to perform their obligations for any letters of credit or guarantees issued, nor be unable to supply funds to Fuel Tech if the Company chooses to borrow funds under its two revolving credit facilities.

Beijing Fuel Tech Environmental Technologies Company, Ltd. (Beijing Fuel Tech), a wholly-owned subsidiary of Fuel Tech, entered into a revolving credit facility agreement during the third quarter of 2007 for RMB 35 million (approximately $4.8 million), which expires on July 31, 2009. The facility is unsecured and bears interest at a rate of 90% of the People's Bank of China (PBOC) Base Rate. Beijing Fuel Tech can use this facility for cash advances and bank guarantees. At December 31, 2008, Beijing Fuel Tech had borrowings outstanding in the amount $2,188.

Interest payments in the amount of $135 and $24 were made during the years ended December 31, 2008 and 2007, respectively. No payments were made during the year ended December 31, 2006.

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

Contractual Obligations and Commitments

In its normal course of business, Fuel Tech enters into agreements that obligate Fuel Tech to make future payments. The operating lease obligations noted below are primarily related to supporting the operations of the business.

Payments due by period in thousands of dollars

Contractual Cash Obligations	Total	Less than 1 year	2-3 years	4-5 years	Thereafter
Operating Leases	$ 1,720	$ 663	$ 527	$ 468	$ 62

Beijing Fuel Tech Environmental Technologies Company, Ltd. (Beijing Fuel Tech), a wholly-owned subsidiary of Fuel Tech, entered into a revolving credit facility agreement during the third quarter of 2007 for RMB 35 million (approximately $4.8 million), which expires on July 31, 2009. The facility is unsecured and bears interest at a rate of 90% of the People's Bank of China (PBOC) Base Rate. Beijing Fuel Tech can use this facility for cash advances and bank guarantees. At December 31, 2008, Beijing Fuel Tech had borrowings outstanding in the amount $2,188 as noted in the table below.

Commitment expiration by period in thousands of dollars

Commercial Commitments	Total	Less than 1 year	2-3 years	4-5 years	Thereafter
Short-term debt	$ 2,188	$ 2,188	$ -	$ -	$ -

For the years ended December 31, 2008 and 2007, Fuel Tech incurred interest expense related to the Beijing Fuel Tech short-term debt of $135 and $24, respectively. We cannot estimate the fiscal 2009 interest expense for this short-term debt as the debt may be repaid at any time during fiscal 2009.

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

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

In addition, Fuel Tech uses letters of credit as security for other obligations as needed in the normal course of business. As of December 31, 2008, Fuel Tech had outstanding bank performance guarantees and letters of credit as noted in the table below:

	Commitment expiration by period in thousands of dollars				
Commercial Commitments	Total	Less than 1 year	2-3 years	4-5 years	Thereafter
Standby letters of credit and bank guarantees	$ 5,865	$ 1,794	$ 3,388	$ 683	$ -

The following table summarizes Fuel Tech's FIN 48 obligations as of December 31, 2008. Please refer to Note 3 to the consolidated financial statements in this document for a description of our FIN 48 obligations.

	Commitment expiration by period in thousands of dollars				
Commercial Commitments	Total	Less than 1 year	2-3 years	4-5 years	Thereafter
FIN 48 Obligations	$ 713	$ -	$ -	$ -	$ 713

Off-Balance-Sheet Transactions

There were no off-balance-sheet transactions during the two-year period ended Decmeber 31, 2008.

Subsequent Events

On January 5, 2009 Fuel Tech completed its acquisition of substantially all of the assets of Advanced Combustion Technology, Inc. and is currently in the process of allocating the purchase price to the fair market values of acquired tangible and intangible assets and assumed liabilities as of January 6, 2009.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Fuel Tech's earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates. We do not enter into foreign currency forward contracts or into foreign currency option contracts to manage this risk due to the immaterial nature of the transactions involved.

Fuel Tech is also exposed to changes in interest rates primarily due to its long-term debt arrangement (refer to Note 8 to the consolidated financial statements). A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not have a materially adverse effect on interest expense during the upcoming year ended December 31, 2009.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report Of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Fuel Tech, Inc.

We have audited Fuel Tech, Inc (a Delaware corporation) and Subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2008 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included the accompanying Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Fuel Tech and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2008 and 2007 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008, and our report dated March 5, 2009 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Chicago, Illinois
March 5, 2009

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Fuel Tech, Inc.

We have audited the accompanying consolidated balance sheets of Fuel Tech, Inc. (a Delaware corporation) and Subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fuel Tech, Inc. and Subsidiaries as of December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 5, 2009 expressed an unqualified opinion on the effective operation of internal control over financial reporting.

/s/ GRANT THORNTON LLP

Chicago, Illinois
March 5, 2009

Fuel Tech, Inc.
Consolidated Balance Sheets
(in thousands of dollars, except share and per-share data)

December 31	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28,149	$ 30,473
Short-term investments	-	1,998
Accounts receivable, net of allowance for doubtful accounts of $80 and $150, respectively	23,365	31,856
Inventories	1,014	186
Deferred income taxes	767	1,589
Prepaid expenses and other current assets	4,718	1,761
Total current assets	58,013	67,863
Property and equipment, net of accumulated depreciation of $12,588 and $10,091, respectively	17,515	11,302
Goodwill	5,158	2,119
Other intangible assets, net of accumulated amortization of $1,504 and $1,320, respectively	2,543	1,088
Deferred income taxes	2,412	2,552
Other assets	3,232	2,290
Total assets	$ 88,873	$ 87,214
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 2,188	$ 2,051
Accounts payable	8,196	13,632
Accrued liabilities:		
Employee compensation	510	2,304
Other accrued liabilities	2,773	4,733
Total current liabilities	13,667	22,720
Other liabilities	1,389	1,255
Total liabilities	15,056	23,975
Stockholders' equity:		
Common stock, $.01 par value, 40,000,000 shares authorized, 24,110,967 and 22,410,064 shares issued, respectively	241	224
Additional paid-in capital	118,588	111,459
Accumulated deficit	(45,280)	(48,882)
Accumulated other comprehensive income	187	166
Nil coupon perpetual loan notes	81	272
Total stockholders' equity	73,817	63,239
Total liabilities and stockholders' equity	$ 88,873	$ 87,214

See notes to consolidated financial statements.

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Fuel Tech, Inc.
Consolidated Statements of Income
(in thousands of dollars, except share and per-share data)

For the years ended December 31	2008	2007	2006
Revenues	$ 81,074	$ 80,297	$ 75,115
Costs and expenses:			
Cost of sales	44,345	42,471	38,429
Selling, general and administrative	28,012	24,950	23,901
Research and development	2,100	2,137	2,052
	74,457	69,558	64,382
Operating income	6,617	10,739	10,733
Interest expense	(135)	(24)	-
Interest income	741	1,634	1,011
Other income (expense)	(226)	81	24
Income before taxes	6,997	12,430	11,768
Income taxes	(3,395)	(5,187)	(4,942)
Net income	$ 3,602	$ 7,243	$ 6,826
Net income per Common Share:			
Basic	$ 0.15	$ 0.33	$ 0.32
Diluted	$ 0.15	$ 0.29	$ 0.28
Weighted-average number of Common Shares outstanding:			
Basic	23,608,000	22,280,000	21,491,000
Diluted	24,590,000	24,720,000	24,187,000

See notes to consolidated financial statements.

Fuel Tech, Inc.
Consolidated Statements of Stockholders' Equity
(in thousands of dollars or thousand of shares, as appropriate)

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive Income	Treasury Stock		Nil Coupon Perpetual	
	Shares	Amount	Capital	Deficit	(Loss)	Shares	Amount	Loan Notes	Total
Balance at January 1, 2006	20,424	$ 204	$ 91,559	$ (62,870)	$ (39)	-	$ -	$ 282	$ 29,136
Comprehensive income:									
Net income				6,826					6,826
Foreign currency translation adjustments					118				118
Comprehensive income									6,944
Exercise of stock options and warrants	1,662	17	3,809						3,826
Conversion of nil coupon perpetual loan notes into Common Shares	1		5					(5)	-
Tax benefit from stock compensation expense			5,944						5,944
Stock compensation expense			1,805						1,805
Balance at December 31, 2006	22,087	$ 221	$ 103,122	$ (56,044)	$ 79	-	$ -	$ 277	$ 47,655
Comprehensive income:									
Net income				7,243					7,243
Foreign currency translation adjustments					87				87
Comprehensive income									7,330
Exercise of stock options and warrants	322	3	909						912
Conversion of nil coupon perpetual loan notes into Common Shares	1		5					(5)	-
Effect of FIN 48 adoption				(81)					(81)
Tax benefit from stock compensation expense			1,482						1,482
Stock compensation expense			4,791						4,791
			1,150						1,150

Issuance of deferred shares of stock								
Balance at December 31, 2007	22,410	$ 224	$ 111,459	$ (48,882)	$ 166	- $ -	$ 272	$ 63,239
Comprehensive income:								
Net income				3,602				3,602
Foreign currency translation adjustments					21			21
Comprehensive income								3,623
Exercise of stock options and warrants	1,657	17	602					619
Conversion of nil coupon perpetual loan notes into Common Shares	44		191					