FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
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FUEL TECH N V
CIK:**846913**| Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-21724** | Film No.: **1696963**
SIC: **3564** Industrial & commercial fans & blowers & air purifing equip

Mailing Address
C/O FUEL TECH INC
300 ATLANTIC ST
STAMFORD CT 06901

Business Address
CASTORWEG 22-24
CURACAO NETHERLANDS P7

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2001

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to _______________

Commission file number: 000-21724

FUEL-TECH N.V.
(Exact name of registrant as specified in its charter)

Netherlands Antilles	N.A.
(State of Incorporation)	(I.R.S. Employer Identification No.)
Fuel-Tech N.V.	Fuel Tech, Inc.
(Registrant)	(U.S. Operating Subsidiary)
Castorweg 22-24 Curacao, Netherlands Antilles (599) 9-461-3754	Suite 703, 300 Atlantic Street Stamford, CT 06901 (203) 425-9830

(Address and telephone number of principal executive offices)

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

Yes X No
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As of August 3, 2001, there were outstanding 18,554,377 shares of Common Stock, par value $0.01 per share, of the registrant.

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FUEL-TECH N.V.
Form 10-Q for the three and six-month periods ended June 30, 2001

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PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2001 (Unaudited)	December 31, 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 9,553	$ 8,987
Accounts receivable, net	4,010	7,550
Prepaid expenses and other current assets	1,135	1,181
Total current assets	14,698	17,718
Equipment, net of accumulated depreciation of $4,775 and $4,489, respectively	1,660	1,584
Goodwill, net of accumulated amortization of $757 and $590, respectively	2,282	2,450
Other intangibles, net of accumulated amortization of $829 and $809, respectively	471	458
Other	705	879
Total assets	$ 19,816	$ 23,089
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of note payable	$ 900	$ 900
Accounts payable	1,384	2,480

Accrued expenses	1,259	1,796
Total current liabilities	3,543	5,176
Note payable	2,250	2,700
Other liabilities	492	646
Total liabilities	6,285	8,522
Stockholders' equity:		
Common stock, par value $0.01 per share, authorized 40,000,000 shares, 18,597,347 and 18,526,972 shares issued, respectively	186	185
Additional paid-in capital	86,144	86,097
Accumulated deficit	(75,546)	(74,574)
Accumulated other comprehensive (loss) income	(15)	97
Treasury stock	(1,058)	(1,058)
Nil coupon perpetual loan notes	3,820	3,820
Total stockholders' equity	13,531	14,567
Total liabilities and stockholders' equity	$ 19,816	$ 23,089

See notes to condensed consolidated financial statements.

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

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	Three Months Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
Net sales	$ 4,741	$ 5,851	$ 7,896	$ 10,306
Costs and expenses:				
Cost of sales	2,225	3,271	3,942	6,048
Selling, general and administrative	2,065	1,973	4,132	3,606
Research and development	317	235	556	476
Closing costs related to German subsidiary	--	528	--	528
Operating income (loss)	134	(156)	(734)	(352)
Loss from equity interest in affiliate	(56)	(126)	(174)	(126)
Interest expense	(66)	(93)	(138)	(183)
Other income (expense):				
Gain on sale of German subsidiary's chemical business	--	269	--	269
Cumulative translation loss related to German subsidiary	--	(231)	--	(231)
Other income, net	59	12	75	2
Income (loss) before taxes	71	(325)	(971)	(621)

Income taxes	--	--	--	--
Net income (loss)	$ 71	$ (325)	$ (971)	$ (621)
Net income (loss) per common share:				
Basic	$ --	$ (.02)	$ (.05)	$ (.03)
Diluted	$ --	$ (.02)	$ (.05)	$ (.03)
Average number of common shares outstanding:				
Basic	18,537,000	18,383,000	18,526,000	18,370,000
Diluted	20,684,000	18,383,000	18,526,000	18,370,000

</TABLE>

See notes to condensed consolidated financial statements.

FUEL-TECH N.V.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands of U.S. dollars)

	Six Months Ended June 30	
	2001	2000
Operating activities		
Net cash provided by operating activities	$ 1,634	$ 1,801
Investing activities		
Investment in affiliate	--	(225)
Loan to affiliate	(125)	--
Purchases of equipment and patents	(469)	(392)
Net cash used in investing activities	(594)	(617)
Financing activities		
Exercise of stock options	48	249
Repayment of borrowings	(450)	(450)
Net cash used in financing activities	(402)	(201)
Effect of exchange rate fluctuations on cash	(72)	(26)
Net increase in cash and cash equivalents	566	957
Cash and cash equivalents at beginning of period	8,987	8,959
Cash and cash equivalents at end of period	$ 9,553	$ 9,916

See notes to condensed consolidated financial statements.

FUEL-TECH N.V.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2001
(Unaudited)

Note A: Basis of Presentation

The accompanying unaudited, condensed, consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results of operations for the periods covered have been included. Operating results for the six-month period ended June 30, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

The balance sheet at December 31, 2000, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in Fuel-Tech N.V.'s annual report on Form 10-K for the year ended December 31, 2000.

Fuel-Tech N.V., including its subsidiaries (the "Company"), is a technology company active in the business of air pollution control through its wholly owned subsidiary Fuel Tech, Inc. ("FTI") and its affiliate Clean Diesel Technologies, Inc. ("CDT"). Fuel-Tech N.V., incorporated in 1987 under the laws of the Netherlands Antilles, is registered at Castorweg 22--24 in Curacao under No. 1334/N.V.

Note B: Close of German Subsidiary

In the second quarter of 2000, the Company announced that it would concentrate its European resources in its Italian company, Fuel Tech Srl, and shut down Fuel Tech GmbH, a wholly owned subsidiary in Germany. At that time, a charge of $528,000 was recorded related to the closure of the entity. The charge includes accruals of $343,000 primarily for severance obligations for four employees, lease termination costs and other costs related to the closure of the entity. This charge was recorded as part of operating income in the condensed consolidated statement of operations. As of June 30, 2001, the Company has remitted approximately $293,000 related to the reserved closing costs.

Note C: Earnings Per Share Data

Basic earnings per share excludes the dilutive effects of stock options and warrants and of the nil coupon non-redeemable convertible unsecured loan notes. Diluted earnings per share includes the dilutive effect of stock options and warrants and of the nil coupon non-redeemable convertible unsecured loan notes. The following table sets forth the weighted-average shares (in thousands) used in calculating the earnings per share for the three and six-month periods ended June 30, 2001 and 2000:

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	Three months ended		Six months ended	
	2001	2000	2001	2000
Basic weighted-average shares	18,537	18,383	18,526	18,370
Conversion of unsecured loan notes	471	--	--	--
Unexercised options and warrants	1,676	--	--	--
Diluted weighted-average shares	20,684	18,383	18,526	18,370

</TABLE>

Note D: Total Comprehensive Income

Total comprehensive income for the Company is comprised of net income, the impact of foreign currency translation, and the change in fair value of the interest rate swap for the three and six-month periods ended June 30, 2001 and 2000. Total comprehensive income was $38,000 and $(67,000) for the three month periods ended June 30, 2001 and 2000, respectively.

Total comprehensive income was $(1,083,000) and $(416,000) for the six month periods ended June 30, 2001 and 2000, respectively.

<TABLE>
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	For the three months ended June 30,		For the six months ended June 30,	
	2001	2000	2001	2000
Comprehensive income:				
Net income	$ 71,000	$ (325,000)	$ (971,000)	$ (621,000)
Foreign currency translation	(33,000)	27,000	(72,000)	(26,000)
Change in fair value of interest rate swap	--	--	(40,000)	--
Foreign currency loss on German subsidiary	--	231,000	--	231,000
	$ 38,000	$ (67,000)	$(1,083,000)	$ (416,000)

</TABLE>

Note E: Derivative Financial Instruments

Effective January 1, 2001, the Company adopted SFAS 133, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in accumulated other comprehensive income or loss, and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

Interest Rate Risk Management:

The Company is exposed to interest rate risk due to its long-term debt arrangement. The Company uses an interest rate derivative instrument (an interest rate swap) to manage exposure to interest rate changes. The Company has entered into an interest rate swap transaction that fixes the rate of interest at 8.91% on approximately 50% of the outstanding principal balance during the term of the loan. The term of the swap is from October 22, 1999 until October 22, 2002.

At the date of adoption, January 1, 2001, the Company recorded the fair value of the interest rate swap, a credit of approximately $20,000, as an "other liability" with a corresponding decrease to "accumulated other comprehensive income."

At March 31, 2001, the Company reduced further the fair value of the interest rate swap by approximately $20,000, thus increasing the "other liability" with a corresponding decrease to "accumulated other comprehensive income" for this amount. At June 30, 2001, the fair value of the swap was approximately the same. The impact of the ineffectiveness calculation at this same date was immaterial.

Foreign Currency Risk Management:

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

Note F: Accounting for Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company will adopt FASB (Financial Accounting Standards Board) Statement No. 142, Goodwill and Other Intangible Assets which was approved on June 29, 2001. Under the guidance of this statement, Goodwill and indefinite-lived intangible assets will no longer be amortized but will be reviewed annually, or more frequently if impairment indicators arise, for impairment.

Note G: Business Segment and Geographic Disclosures

The Company operates in one business segment providing air pollution control chemicals and equipment.

Information concerning the Company's operations by geographic area is provided below. Operating earnings represent sales less cost of products sold and operating expenses. Foreign operating expenses include direct expenses incurred outside of the United States by foreign corporations controlled by the Company plus an allocation of domestic selling and general expenses directly related to the foreign operations. Assets are those directly associated with operations in the geographic area.

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	For the three months ended	For the six months ended

	June 30,		June 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
Revenues:				
Domestic	$3,832,000	$ 5,286,000	$6,560,000	$ 9,003,000
Foreign	909,000	565,000	1,336,000	1,303,000
	$4,741,000	$ 5,851,000	$7,896,000	$10,306,000
Operating Earnings:				
Domestic	$ 68,000	$ 666,000	$ (657,000)	$ 589,000
Foreign	66,000	(822,000)	(77,000)	(941,000)
	$ 134,000	$ (156,000)	$ (734,000)	$ (352,000)

</TABLE>

	June 30, 2001	December 31, 2000
Assets:		
Domestic	$17,345,000	$19,640,000
Foreign	2,471,000	3,449,000
	$19,816,000	$23,089,000

FUEL-TECH N.V.

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

Results of Operations

Net sales for the three months ended June 30, 2001 and 2000 were $4,741,000 and $5,851,000, respectively while net sales for the six months ended June 30, 2001 and 2000 were $7,896,000 and $10,306,000, respectively. The year on year decline is attributable to the decrease in domestic NOx reduction utility and industrial project revenues. NOx reduction utility revenue had been negatively impacted by the delay in obtaining a final ruling on the Environmental Protection Agency's (EPA) SIP Call regulation. As discussed further below, the uncertainty regarding this regulation has now been removed and the Company expects demand for its NOx reduction technologies to increase significantly during the next few years. The decline in domestic industrial project revenue is due to a reduction in industrial project backlog year on year. Domestic industrial project revenue was heightened late in 1999 and early in 2000 due to the NOx reduction requirements mandated in Title III of the Clean Air Act Amendments of 1990 (CAAA). Domestic fuel treatment chemical revenues for the first half of the year were in excess of prior year by approximately $2,000,000. The favorable results were attributable to two primary factors, namely, the extensive burning of oil at key customer locations and to the continued development of new business opportunities for the Company's patented targeted-in-furnace-injection technology.

The "SIP Call" is the federal mandate introduced in 1998 to further reduce NOx in 22 states by May 2003. This mandate was an extension of Phase II of Title I of the CAAA. In May 1999 a stay was imposed on this regulation. On March 3, 2000, an appellate court of the D.C. Circuit upheld the validity of the

SIP Call for 19 of the 22 states and, on June 22, 2000, the same court made a final ruling upholding the EPA's SIP call regulation and denying the appeal of the states and utilities. Subsequent to this court ruling, the stay on the SIP Call was lifted. Although the NOx reduction requirement date was moved back one year to May of 2004, nineteen states were required to complete and issue their State Implementation Plans for NOx reduction by October of 2000. These plans, which the EPA has until October 2001 to approve, will potentially impact 700 to 800 utility boilers and 400 to 500 industrial units.

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

In addition to the SIP Call regulation, the so-called Section 126 Petitions, which enable downwind states to obtain relief from pollutants arising from their upwind neighbors, require major emissions sources in 12 of the 19 aforementioned states to comply with the 85% aggregate NOx reduction requirement by May 1, 2003.

Based on these regulatory developments, the Company expects to see project bookings from utilities resume towards the end of 2001 and beyond.

Cost of sales for the second quarter, and for the first half of the year, is improved on a percentage basis from that of the prior year, reflecting a favorable product mix impact as domestic fuel treatment chemical revenues comprised a larger percent of total revenues during the first half of 2001. The sale of the Company's chemical business in Germany in June of 2000 also contributed to the margin improvement, as this business was highly competitive and contributed lower margins than similar product sales in the U.S.

Selling, general and administrative expenses were $2,065,000 in the second quarter of 2001 versus $1,973,000 in the comparable period in 2000. For the six months ended June 30, 2001 and 2000, selling, general

and administrative expenses increased to $4,132,000 from $3,606,000 in 2000. The increase is due primarily to a refocusing of the Company's engineering resources towards planning efforts for the anticipated increase in NOx project business and towards refinement of new proprietary technologies (e.g. NOxOUT Ultra). Engineering resources, whose time in prior quarters would have been charged to cost of sales, were charged instead to selling, general and administrative expenses or research and development expenses.

Research and development expenses for the six months ended June 30, 2001 and 2000 were $556,000 and $476,000, respectively. The Company continues to pursue commercial applications for its technologies outside of its traditional markets, with a particular focus on it's advanced visualization and NOxOUT Ultra products.

For the six months ended June 30, 2001, the Company recognized a loss of $49,000 on its equity investment in Fuel Tech CS GmbH, a 49% owned entity, the majority of which being attributable to a non-cash charge related to a decrease in the amortization period for goodwill. A loss of $125,000 was recognized on the Company's equity investment in Clean Diesel Technologies, Inc., its 21.6 percent-owned affiliate.

For the six months ended June 30, 2001, the Company recorded other income of $75,000 versus $2,000 in the comparable period in 2000. The increase stems largely from a decrease in the amortization period for the deferred gain that was recorded in the second quarter of 2000 at the time of sale of the Company's German chemical business to Fuel Tech CS GmbH. The amortization periods for the goodwill on the books of Fuel Tech CS GmbH, mentioned above, and for the deferred gain on the books of the Company, are the same.

Interest expense for the six months ended June 30, 2001 was reduced to $138,000 from $183,000 in the comparable period in 2000, the decrease being attributable to a reduction in the average outstanding principal balance on the Company's term loan, as well as a reduction in short term interest rates.

There was no income tax expense recorded in either the first six months of 2001 or 2000.

Liquidity and Sources of Capital

For the six months ended June 30, 2001 and 2000, the Company generated cash from operating activities of $1,634,000 and $1,801,000, respectively. The increased cash generation stems primarily from a reduction in trade working capital in both periods, which served to offset the Company's operating losses.

At June 30, 2001 and December 31, 2000, the Company had cash and cash equivalents of $9,553,000 and $8,987,000, respectively.

Working capital decreased to $11,155,000 at June 30, 2001 from $12,542,000 at December 31, 2000 due primarily to a reduction in accounts receivable related to NOx reduction projects which has been driven by lower NOx reduction revenues.

Forward-Looking Statements

Statements in this Form 10-Q that are not historical facts, so-called "forward-looking statements," are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including those detailed in the Company's filings with the Securities and Exchange Commission. See "Risk Factors of the Business" in Item 1, "Business," and also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-K for the year ended December 31, 2000.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings
None

Item 2. Changes in Securities
None

Item 3. Defaults upon Senior Securities
None

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

At the annual general meeting of the Company, held on June 12, 2001, 12,645,516 common shares, par $.01 per share, or 68.23% of the issued and outstanding common shares of the Company as of the record date, were represented in person or by proxy and:

(i) The proposal to approve the Report of Management of the Company for the year ended December 31, 2000 was approved by a vote of 12,637,866 in favor, 2,000 votes against and 5,650 abstaining.
(ii) The proposal to approve the Financial Statements of the Company for the year ended December 31, 2000 was approved by a vote of 12,631,866 in favor, none against and 13,650 abstaining.

(iii) The proposal to approve the election of nine nominees as a group as Managing Directors of the Company and to fix their compensation was approved with totals of 12,530,866 shares cast for and 115,150 withheld; and with respect to each of the nominees, as follows:

Name	Votes for	Votes Withheld
Douglas G. Bailey	12,610,866	34,650
Ralph E. Bailey	12,610,866	34,650
John A. de Havilland	12,610,866	34,650
Charles W. Grinnell	12,600,866	44,650
Jeremy D. Peter-Hoblyn	12,550,366	95,150
John R. Selby	12,610,866	34,650
Thomas S. Shaw	12,610,866	34,650
Tarma Trust Management N.V.	12,607,866	37,650
James M. Valentine	12,530,866	115,150

Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits
None

b. Reports on Form 8-K
None

FUEL-TECH N.V.
SIGNATURES

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

Date: August 3, 2001 By: /s/Ralph E. Bailey

Ralph E. Bailey
Chairman, Managing Director and Chief Executive Officer

Date: August 3, 2001 By: /s/Scott M. Schecter

Scott M. Schecter
Chief Financial Officer, Vice President and Treasurer