

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

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

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

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

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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

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

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

(4) Proposed maximum aggregate value of transaction:

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

**FUEL TECH, INC.**

**27601 Bella Vista Parkway**

**Warrenville, Illinois 60555**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To be Held May 18, 2017**

To the Stockholders of Fuel Tech, Inc.:

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

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

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

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

**FUEL TECH, INC.**

Albert G. Grigonis

Secretary

[ ]

**IMPORTANT**

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

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

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

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

**FUEL TECH, INC.**

**Proxy Statement**

**FUEL TECH ANNUAL MEETING**

**The Meeting**

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

**Shares Eligible to Vote; Quorum**

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

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

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

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

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

**Proxy Solicitation; Distribution**

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

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



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## AGENDA ITEM NO. 1 ELECTION OF DIRECTORS

### *The Nominees*

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

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

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

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

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

### *Availability*

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

### **Plurality Voting**

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

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

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## DIRECTORS AND EXECUTIVE OFFICERS OF FUEL TECH

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

### Directors

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

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

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

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



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

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

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

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

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

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

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

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

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

#### **Named Executive Officers**

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

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

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

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

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**PRINCIPAL STOCKHOLDERS AND STOCK OWNERSHIP OF MANAGEMENT**

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

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

\* Less than one percent (1.0%)

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



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## DIRECTOR COMPENSATION

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

### Cash Compensation for Directors

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

### Equity Compensation for Directors

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

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

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

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**DIRECTOR COMPENSATION IN FISCAL YEAR 2016**

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

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

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

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

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

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

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## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

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

### **Committees of the Board**

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

#### *Audit Committee*

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

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

#### *Compensation Committee*

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

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

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

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

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

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

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

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

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

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

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

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

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

*Nominating and Corporate Governance Committee*

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

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

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

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

## **Corporate Governance**

### ***Meetings***

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

### ***Executive Sessions***

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

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

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





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

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

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

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

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

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

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

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

### ***Risk Oversight***

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

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

## **EXECUTIVE COMPENSATION**

### **Report of Compensation Committee**

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

By the Compensation Committee:

*T.S. Shaw, Chair*

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

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

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

### **Compensation Discussion and Analysis**

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

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

### **Compensation Philosophy and Objectives**

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

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

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

to provide stockholders with a superior rate of return;

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

to support an integrated team-oriented philosophy.

### **Compensation Elements**

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

#### **Base Salary**

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

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

the executive's compensation relative to other officers;

recent and expected performance of the executive;

Fuel Tech's recent and expected overall performance; and

Fuel Tech's overall budget for base salary increases.

**Short Term Incentives**

*Executive Officer Incentive Plan*

In 2016, each of Fuel Tech's NEOs had the opportunity to earn an annual cash bonus based upon Fuel Tech's achievement of predetermined performance thresholds under the 2016 Executive Officer Incentive Plan (2016 EOIP). The 2016 EOIP was approved by the Compensation Committee effective March 26, 2016. Participation in the 2016 EOIP was limited to Fuel Tech's then current: Executive Chairman; President and Chief Executive Officer; the Senior Vice President, Fuel Conversion Marketing; the Senior Vice President, Treasurer and Chief Financial Officer; and the Senior Vice President, General Counsel & Secretary (each a Participant). The 2016 EOIP was intended to focus the efforts of each Participant on the overall financial performance of Fuel Tech across all business lines, and, thus, align the interests of the participating officers with the overall performance of Fuel Tech.

As set forth in more detail below, there was no payout to any Participant under the 2016 EOIP.

The 2016 EOIP was structured as follows:

The 2016 EOIP was based on Fuel Tech's performance for three critical financial metrics—Adjusted EBITDA, Revenues and APC Bookings, as those terms are described below. An Incentive Pool would be funded dependent upon Fuel Tech's financial performance pertaining to those metrics during the fiscal year.

A percentage of Adjusted EBITA would be set aside in the Incentive Pool to provide for bonus payments dependent on performance in the following three categories: (i) Adjusted EBITDA, (ii) Revenue and (iii) APC Bookings. Adjusted EBITDA refers to earnings before interest expense, taxes, depreciation and amortization, profit sharing contributions, stock compensation, incentive pay (excluding sales commissions) and other unusual or non-cash charges, and also excludes the effect of any acquisition or divestiture undertaken by Fuel Tech for the fiscal year in which such event occurs. Revenue refers to net sales. APC Bookings refers to revenue from the sale of equipment or services in Fuel Tech's APC line of business to which Fuel Tech has a contractual right pursuant to a sales contract executed after January 1, 2016.

A condition precedent to any payment under the 2016 EOIP was Fuel Tech's achievement of the established minimum threshold of Adjusted EBITDA for 2016. Accordingly, if Fuel Tech's financial performance for 2016 fell below the established minimum threshold of Adjusted EBITDA, there would be no payout under the 2016 EOIP of any kind, regardless of the annual Revenue or APC Bookings achieved. If Fuel Tech's minimum threshold of Adjusted EBITDA was met, however, the percentage of Adjusted EBITDA set aside in the Incentive Pool would rise incrementally based on actual combined performance for the Adjusted EBITDA, Revenues, and APC Bookings financial metrics up to an upper limit cap.

For the 2016 EOIP, the minimum performance thresholds for Adjusted EBITDA, Revenue and APC Bookings were set at \$2.5 million, \$75.0 million and \$37.5 million, respectively. As the 2016 EOIP was structured, upon achievement of the Adjusted EBITDA performance threshold, an amount equal to 2.00% of



Adjusted EBITDA would be funded into the Incentive Pool; assuming Fuel Tech achieved two of the three performance thresholds, 2.50% of Adjusted EBITDA would be funded into the Incentive Pool; and, assuming Fuel Tech had achieved all three performance thresholds, 3.00% of Adjusted EBITDA would have been funded into the Incentive Pool.

Upon achievement of the minimum thresholds described above, the 2016 EOIP provided that the percentage of Adjusted EBITDA funded into the Incentive Pool would rise incrementally at a rate

equal to 0.20% of Adjusted EBITDA for each additional \$500,000 in Adjusted EBITDA, subject to an overall cap of 4.00%; the percentage of Adjusted EBITDA funded into the Incentive Pool for Revenue would rise incrementally at a rate equal to 0.10% for each additional \$1.5 million in revenues, subject to an overall cap of 1.50%; and the percentage of Adjusted EBITDA funded into the Incentive Pool for APC Bookings would rise incrementally at a rate equal to 0.10% for each additional \$1.5 million in APC Bookings, subject to an overall cap of 1.50%. Accordingly, the highest possible funding percentage that was possible for the Incentive Pool under the 2016 EOIP was 7.00%.

Effective February 21, 2017, the Committee determined that Fuel Tech had not achieved its Adjusted EBITDA minimum threshold. Accordingly, no amount of Adjusted EBITDA was funded into the Incentive Pool. There was no payout to any Participant under the 2016 EOIP.

Under the 2016 EOIP, the size of the Incentive Pool, if any, the payout allocation percentages for each Participant and the payout to each Participant, if any, were applied according to the formulas in the 2016 EOIP and did not involve any adjustments based on the exercise of discretion by the Committee.

For 2017, the EOIP has been modified as set forth below.

On March 13, 2017, the Committee (the "Committee") adopted Fuel Tech's 2017 Executive Officer Incentive Plan (the "2017 EOIP"), including establishing the financial performance threshold for payout and the percentage of the incentive pool to be paid out to participants in the 2017 EOIP. Participation in the 2017 EOIP is limited to Fuel Tech's: Executive Chairman; President and Chief Executive Officer; Senior Vice President, Treasurer and Chief Financial Officer; and Senior Vice President, General Counsel & Secretary (each a "Participant"). The Committee, in its business discretion, may subjectively decide to designate additional full-time senior management employees to be Participants in the EOIP after consideration of the recommendations of Fuel Tech's Chief Executive Officer.

2017 EOIP payouts are based on Fuel Tech's performance in the three critical financial metrics defined below. An Incentive Pool may be created dependent on Fuel Tech's financial performance pertaining to all or some of those metrics during the fiscal year. If the Incentive Pool is created, each Participant will be awarded his designated portion of the Incentive Pool by March 30, 2018.

Under the 2017 EOIP, a percentage of Adjusted EBITDA may be set aside in the Incentive Pool with respect to each fiscal year to provide for bonus payments based on performance in the following three categories: (i) Adjusted EBITDA, (ii) Revenue and (iii) APC Bookings. Adjusted EBITDA refers to earnings before interest expense, taxes, depreciation and amortization, profit sharing contributions, stock compensation, incentive pay (excluding sales commissions) and other unusual or non-cash charges, and also excludes the effect of any acquisition or divestiture undertaken by Fuel Tech for the fiscal year in which such event occurs. Revenue refers to net sales. APC Bookings refers to revenue from the sale of equipment or services in Fuel Tech's APC line of business to which Fuel Tech has a contractual right pursuant to a sales contract executed after January 1, 2017.

No amounts will be payable under the 2017 EOIP unless Fuel Tech achieves the established minimum threshold of Adjusted EBITDA for 2017. Accordingly, if Fuel Tech's financial performance for 2017 falls

below the established minimum threshold of Adjusted EBITDA, there will be no payout under the 2017 EOIP of any kind, regardless of the annual Revenue, APC Bookings or other Company product sales achieved. If Fuel Tech's minimum threshold of Adjusted EBITDA is met, however, the percentage of Adjusted EBITDA set aside in the Incentive Pool rises pro rata incrementally based on actual combined performance for the Adjusted EBITDA, Revenues, and APC Bookings financial metrics up to an upper limit cap.

For the 2017 EOIP, the minimum performance thresholds for Adjusted EBITDA, Revenue and APC Bookings were set at \$4.0 million, \$57.5 million and \$38 million, respectively. If the Adjusted EBITDA performance threshold is met, 1.25% of Adjusted EBITDA will be funded into the Incentive

Pool; assuming Fuel Tech achieved two of the three performance thresholds, 1.875% of Adjusted EBITDA will be funded into the Incentive Pool; and, assuming Fuel Tech achieves all three performance thresholds, 2.50% of Adjusted EBITDA will be funded into the Incentive Pool.

If the minimum thresholds above are met, the percentage of Adjusted EBITDA funded into the Incentive Pool for the Adjusted EBITDA metric will rise incrementally at a rate equal to 0.10% for each additional \$200,000 in Adjusted EBITDA, subject to an overall cap of 2.25%; the percentage of Adjusted EBITDA funded into the Incentive Pool for Revenue will rise incrementally at a rate equal to 0.05% for each additional \$450 thousand in Revenue, subject to an overall cap of 1.125%; and the percentage of Adjusted EBITDA funded into the Incentive Pool for APC Bookings will rise incrementally at a rate equal to 0.05% for each additional \$900 thousand in APC Bookings, subject to an overall cap of 1.125%. Accordingly, the highest possible funding percentage for the Incentive Pool under the 2017 EOIP is 4.50% of Adjusted EBITDA.

If the performance thresholds under the 2017 EOIP are met, 100% of the Incentive Pool will be divided in accordance with the following participation percentages: 40% of the Incentive Pool being awarded to the President and Chief Executive Officer; 20% of the Incentive Pool awarded to the Executive Chairman; 20% to the Senior Vice President, Treasurer and Chief Financial Officer; and 20% to the Senior Vice President, General Counsel and Secretary.

Both the payout vesting and allocation percentages for each Participant under the 2017 EOIP are formulaic, and do not involve any subjective evaluation of the performance of the Participants or other exercise of discretion by the Committee.

The actual amounts of fiscal 2017 cash bonuses earned, if any, for any 2017 Named Executive Officer who is a Participant in the 2017 EOIP will be reported in the Registrant's proxy statement for its 2018 Annual Meeting of Stockholders.

### **Long-Term Incentives**

In May, 2014, the stockholders approved the Fuel Tech, Inc. 2014 Long-Term Incentive Plan (2014 LTIP). The purpose of the 2014 LTIP is to further the interests of the Company and its stockholders by providing long-term incentives (a) to attract and retain employees, consultants and directors who will contribute to the Company's long range success and (b) that align the interests of 2014 LTIP participants with those of the stockholders of the Company. The 2014 LTIP succeeded the Company's former equity-based compensation plan—the Fuel Tech, Inc. Incentive Plan f/k/a the 1993 Incentive Plan (FTIP). Certain prior equity awards remain outstanding under the FTIP. However, the 2014 LTIP is the Company's only equity-based plan for new equity awards to participants. The 2014 LTIP allows for a variety of types of awards that may be granted to participants in the form of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, bonuses or other forms of share-based or non-share-based awards or combinations thereof (as each of those types of awards is defined in the 2014 LTIP). Participants in the 2014 LTIP may be Fuel Tech's directors, officers, employees, consultants or advisors (except consultants or advisors in capital-raising transactions) as the directors determine are key to the success of Fuel Tech's business.

Historically, Fuel Tech's overall long-term equity incentives approach was to award stock options, principally non-qualified options, which are designed to focus management on Fuel Tech's long-term success as evidenced by appreciation of Fuel Tech's stock price over several years, by growth in its earnings per share and other elements. In

2009 the Committee undertook an analysis as to the features of a variety of equity award vehicles (which analysis included input from the Committee's compensation consultant), and the general trend towards use of RSUs as a long-term incentive equity award vehicle as well as the limitation of shares available for equity award grants in the FTIP. As a result, in 2010, the Company started to use predominantly RSUs under the FTIP for equity based long-term incentive awards for employees. The Company has continued that trend of predominantly using RSUs for equity awards for employees under the 2014 LTIP (all above described stock option awards and restricted stock unit awards collectively referred to as "Equity Awards").

Both RSUs and stock options have ownership motivational attributes for the participants. Further, Fuel Tech's RSU grants and stock option grants, by design, have featured graduated vesting over a multiple year period which can facilitate employee retention and also incentivizes performance by employees that is focused on creating long-term value and growth for the Company. As such, Fuel Tech believes that each type of Equity Award can have a place in the Company's long-term incentive compensation programs. However, there are three potential advantages to granting RSU awards over options: 1) RSUs are less depletive on the remaining available 2014 LTIP shares because they carry a higher valuation than stock options on the date of grant, thus, less 2014 LTIP shares are required for each RSU award than would be required for an equivalent stock option award to achieve the Company's desired equity award value for the participant; 2) the prospect of an RSU award retaining the Company's intended motivational attributes for the participant over time can be greater than a stock option award because an RSU award does not carry a strike price that must be exceeded for the RSU award to continue to be of value to the participant; and 3) because the motivational aspects of an RSU over a stock option can be greater as described above, that prospect can result in enhanced value to the Company for the compensation charges that will be recognized by the Company to grant an RSU award versus a stock option award.

Historically, except for Equity Awards granted to the CEO, Equity Awards have been determined by the Committee based upon recommendations from Fuel Tech's CEO. Equity Awards for the CEO have been determined by the Committee with no participation of the CEO—the CEO is not present during the Committee's decisional deliberations or votes pertaining to CEO Equity Awards. The determination and approval of proposed Equity Awards are based on a variety of factors that may include:

historical Equity Awards, by employee, by year;

intrinsic values for each Equity Award, or, when applicable, the fair value of each Equity Award using the Black-Scholes option pricing model;

the number of Equity Award units available for issuance under the 2014 LTIP;

supervisor recommendations for employee Equity Awards; the estimate of expected intrinsic value (e.g., Equity Award compensation expense) of the aggregate Equity Award;

net income (before or after taxes);

basic or diluted earnings per share (before or after taxes);

gross revenue, net revenue, gross revenue growth or net revenue growth;

sales of particular products or services;

gross profit, gross profit growth, net profit or net operating profit (before or after taxes);

earnings before or after deduction for all or any portion of interest, taxes, depreciation, amortization, incentive pay, contributions to 401(k) or other employee benefit plans, or items of income or expense not occurring in the normal course of business, whether or not on continuing operations or on an aggregate or per share basis (basic or fully diluted);

return on assets, capital, invested capital, equity, or sales (discounted or otherwise);

cash flow (including, but not limited to, operating cash flow, free cash flow, and cash flow return on capital);

one or more operating ratios such as earnings before or after interest, taxes and/or depreciation and/or amortization;

gross or operating margins;

improvements in capital structure;

budget and expense management or cost targets;

productivity ratios;

economic value added or other value added measurements;

share price (including, but not limited to, growth measures and total stockholder return);

book value;

financing and other capital raising transactions (including sales of our equity or debt securities);

operating efficiency;

working capital targets;

enterprise value;

completion of acquisitions, business expansion, reorganizations or divestitures (in whole or in part);

borrowing levels, leverage ratios or credit rating;

regulatory achievements (including submitting or filing applications or other documents with regulatory authorities or receiving approval of any such applications or other documents and passing pre-approval inspections (whether of us or a third-party manufacturer) and validation of manufacturing processes (whether ours or a third-party manufacturer s);

strategic partnerships or transactions (including in-licensing and out-licensing of intellectual property);

establishing relationships with commercial entities with respect to the marketing, distribution and sale of our products (including with group purchasing organizations, distributors and other vendors);

supply chain achievements (including establishing relationships with manufacturers or suppliers of component materials and manufacturers of our products);

co-development, co-marketing, profit sharing, joint venture or other similar arrangements;



economic value-added models or equivalent metrics;

implementation, completion or attainment of measurable objectives with respect to research, development, manufacturing, commercialization, products or projects, production volume levels, succession and hiring projects, or expansions of specific business operations;

timely completion of new product roll-outs;

timely launch of new facilities;

sales or licenses of our assets, including its intellectual property, whether in a particular jurisdiction or territory or globally, or through partnering transactions);

royalty income;

exceptional and innovative individual performance;

individual contribution to a strategic goal;

teamwork;

leadership accomplishments; and

employee job level

Under the FTIP, all outstanding options and RSUs not granted pursuant to an executive performance RSU award agreement that are not vested will become immediately vested in the event that there is with respect to Fuel Tech, a change-in-control. Under the FTIP, a change-in-control generally is defined as taking place if: (a) any person or affiliated group becomes the beneficial owner of 51% or more of Fuel Tech's outstanding securities, (b) in any two-year period, persons in the majority of the Fuel Tech Board of Directors cease being so

unless the nomination of the new directors was approved by a majority of the directors then still in office who were directors at the beginning of such period, (c) a business combination takes place where the shares of Fuel Tech are converted to cash, securities or other property, but not in a transaction in which the stockholders of Fuel Tech have proportionately the same share ownership before and after the transaction, or (d) the stockholders of Fuel Tech approve of a plan of liquidation or dissolution of Fuel Tech.

Under the 2014 LTIP, change-in-control generally is defined as:

an acquisition by any person as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 of beneficial ownership of 50% or more of Fuel Tech's then outstanding common stock or voting power;

a sale, transfer or other disposition of all or substantially all of Fuel Tech's assets;

the date ten days prior to the liquidation or dissolution of the Company;

a merger, consolidation, statutory share exchange or similar corporate transaction, unless Fuel Tech stockholders continue to hold, directly or indirectly, more than 50% of Fuel Tech voting power; or

incumbent directors shall cease for any reason to constitute a majority of the board of directors of Fuel Tech unless the election or the nomination for election by stockholders of Fuel Tech, of each new director was approved by a vote of at least a majority of the directors then still in office who were incumbent directors.

Under the 2014 LTIP, in the event of a change-in-control, the Committee may take any of the following actions with respect to employee non-executive performance RSU equity awards granted under the 2014 LTIP either by including such terms in the applicable award agreement or by taking such actions in connection with the change-in-control:

fully or partially vest some or all of the outstanding awards immediately prior to the change-in-control transaction;

cancel some or all of the outstanding awards (vested or not) in exchange for cash or property representing the value the award recipient would have obtained upon the exercise or settlement of the award in connection with the transaction;

assume existing awards or issue substitute awards in exchange for some or all of the outstanding awards;

fully vest outstanding options and stock appreciation rights combined with a requirement that the award recipient exercise the awards before the closing of the change-in-control transaction or such awards will terminate; or

continue the outstanding awards on their same terms.

The Committee is not required to treat all award recipients or awards granted to any individual in the same manner.

The executive performance RSU award agreements issued under the 2014 LTIP include certain provisions that describe what occurs to each of the three types of RSUs described therein in the event of a change-in-control. These change-in-control terms are described further under the heading *Executive Performance RSU Long-Term Incentive* below.

*Executive Performance RSU Long-Term Incentive*

On March 1, 2016, the Committee approved the Company entering into an Executive Performance RSU Award Agreement (the 2016 Agreement) with each of the Company's Executive Chairman; President/Chief

Executive Officer; Senior Vice President, Fuel Conversion Marketing; Senior Vice President, Treasurer/Chief Financial Officer; and Senior Vice President, General Counsel and Corporate Secretary (each a 2016 Participant). (Each of the 2016 Participants are hereinafter sometimes referred to collectively as a Participant, and each of the 2016 Agreements are sometimes referred to hereinafter collectively as the Agreement.) The 2016 Agreement provides each Participant the opportunity to be awarded target RSUs for the applicable year as illustrated in the Target RSU Table below.

On March 13, 2017, in light of the Equity Award factors above that relate to the overall financial performance of the Company on an annual and long-term basis and the trading price trend of the Company's Common Stock over the last calendar year, the Committee determined that for 2017 the Company would not enter into an Executive Performance RSU Award Agreement with any Company executives including each NEO, pending a review by the Committee of whether the Executive Performance RSU Award Agreement method of equity award under the 2014 LTIP continued to be an appropriate method of awarding long-term incentive pay-for-performance given the Company's current circumstances.

For the 2016 Agreement, the Committee derived the total amount of target RSUs available for grant to each Participant through a comparative analysis of long-term incentive equity grants (expressed as a percentage of market capitalization) made for the same or similar executive job positions within the companies that make up Fuel Tech's then current Peer Group Companies (as the term is defined below), other market data, and the Company's business and strategic objectives and operational performance factors and initiatives for 2016. The Committee considered various percentile ranges and concluded that an approximate percentage between the median and 75<sup>th</sup> percentile be used along with consideration of the then remaining incentive shares available under the 2014 LTIP as a basis for determining the total amount of target RSUs for the Participating Executives in 2016, respectively. That derived total amount of target RSUs was then divided equally among the three RSU components identified in the Agreement—Look-Back RSUs, Revenue Growth RSUs and Total Stockholder Return Performance RSUs. Actual RSU awards are contingent on performance by the Participants and the Company in the performance areas and for the measurement periods set forth in the applicable Agreement.

*Look-Back RSUs:* Each Participant has the opportunity to earn a targeted amount of Look-Back RSUs based upon the Participant's performance during 2016. After the completion of the applicable calendar year, the Committee, in its business judgment, may approve or not approve the Company granting to each Participant a number of Look-Back RSUs between zero and one hundred fifty percent of the targeted Look-Back RSU amount based on the Committee's subjective, qualitative assessment of each Participant's overall performance during the applicable calendar year. No specific, individualized prospective performance goals are associated with the Look-Back RSUs for any of the Participants, and the Committee may use a variety of factors in determining the amount of any such award, including one or more of the factors shown in Exhibit A of the Agreement. All such RSU grants shall otherwise be made subject to the terms of the Company's standard Executive Performance RSU Agreement and the 2014 LTIP, including a vesting schedule that provides for vesting of one-third of the granted Look-Back RSUs after the first thirteen month anniversary of the grant determination date, one-third after the second twelve month grant anniversary date and one-third after the third twelve month grant anniversary date.

*Revenue Growth RSUs:* Each Participant has the opportunity to earn a targeted amount of RSUs (Revenue Growth RSUs) to be granted dependent upon the Company's revenue performance over a two-year period. During a two-year measurement period commencing effective January 1<sup>st</sup> in the calendar year in which the applicable Agreement is executed and ending on December 31<sup>st</sup> of the following calendar year, the Company's revenues will be measured against a peer group of companies selected by the Committee with input by the Committee's independent compensation consultant (Peer Group Companies). As soon as practicable after the Peer Group Companies have reported their revenue growth for the two-year period, the Committee shall compare the Company's revenue growth for such period with that of the Peer Group Companies. The Committee will evaluate the Company's ranking of revenue growth performance in light of those rankings and shall approve a grant to the Participant of a number of

Revenue Growth RSUs as determined by that ranking as shown in the Performance Ranking table below. All such RSU grants shall otherwise be made subject to the terms of the

Company's standard Executive Performance RSU Agreement and the 2014 LTIP, including a vesting schedule that provides that two-thirds of the granted RSUs will vest immediately on the grant determination date, and the remaining one-third one year after the grant determination date.

#### Performance Ranking Table

	Fourth Quartile of Peer Group Companies (Lowest)	Third Quartile of Peer Group Companies	Second Quartile of Peer Group Companies	First Quartile of Peer Group Companies
Percentage of Target RSU Amount to be Granted	0%	50%	100%	150%

***TSR Performance RSUs:*** Each Participant has the opportunity to earn a targeted amount of RSUs (TSR Performance RSUs) to be granted dependent upon the Company's performance over a two-year period measured in terms of the Company's total return to stockholders per share of stock (TSR). During a two-year measurement period commencing effective January 1st in the calendar year in which the applicable Agreement is executed and ending on December 31st of the following calendar year, the Company's TSR performance will be measured against the TSR performance of the Peer Group Companies. As soon as practicable after the TSR performance for the two-year measurement period is readily available, the Committee shall compare the Company's TSR performance for such period with that of the Peer Group Companies. The Committee will evaluate the Company's TSR performance in light of those rankings and shall approve a grant to the Participant a number of TSR Performance RSUs as determined by that ranking as shown in the Performance Ranking table above. All such RSU grants shall otherwise be made subject to the terms of the Company's standard Executive Performance RSU Agreement and the 2014 LTIP, including a vesting schedule that provides that two-thirds of the granted RSUs will vest immediately on the grant determination date, and one-third one year after the grant determination date.

#### Target RSU Amounts Established:

In March of 2016, the Committee established target RSU amounts for each Participant under the 2016 Agreement as shown in the following Target RSU Table.

#### Target RSU Table

Name	Year	Target Look-Back RSUs*	Target Revenue Growth RSUs*	Target TSR Performance RSUs*
Vincent J. Arnone President and Chief Executive Officer	2016	53,333	53,333	53,333
Douglas G. Bailey Executive Chairman	2016	26,666	26,666	26,666
David S. Collins Senior Vice President, Chief Financial Officer and Treasurer	2016	26,666	26,666	26,666
2016 Total Aggregate Pool of Target RSUs for NEO 2016 Participants		106,665	106,665	106,665

- \* The total aggregate amount of RSUs shown for each year for each category represents the total aggregate target amount of RSUs available for grant to all of the Participants who are NEOs for the year shown. The actual total aggregate amount of RSUs granted for each category can range from 0% to 150% of the target amounts as shown in the Performance Ranking Table above.

Post Agreement Effective Date Event Treatment:

For Executive Performance RSU Award Agreements issued to Participants under the FTIP:

In the event of a Participant's termination, vested and unvested Look-Back RSUs, Revenue Growth RSUs and TSR Performance RSUs that have been granted will be treated as follows: if the termination is for cause, all

such vested and unvested RSUs will be forfeited; if the termination is for death or total disability, all such unvested RSUs will vest; and if the termination is for any other reason, all such unvested RSUs will be forfeited.

In the event of a Participant's termination before the grant determination date, Look-Back RSUs, Revenue Growth RSUs and TSR Performance RSUs will be granted as follows: In the case of Look-Back RSUs, and the termination is due to death or total disability, the Committee shall determine to award none, some or all of the Target Look-Back RSUs; if the termination is for any other reason, no Look-Back RSUs will be awarded. In the case of Revenue Growth RSUs and TSR Performance RSUs, and the termination is by the Company without cause, or for death or total disability, the Committee will award a number of Revenue Growth RSUs and TSR Performance RSUs based on the percentage of target grants that would have been earned at the date of the termination, pro-rated based on the number of months of employment completed by the Participant in the measurement period, divided by 36. In the case of Revenue Growth RSUs and TSR Performance RSUs, and the termination is for any other reason, no such RSUs will be awarded.

Unvested Look-Back RSUs, Revenue Growth RSUs and TSR Performance RSUs that have been granted under the Agreement will vest upon a change-in-control (as defined in the Agreement), unless the Company is the surviving entity or the surviving entity effectively assumes the unvested RSUs. If, however, these RSUs do not vest upon a change-in-control, but the Participant is terminated without cause, or the Participant terminates for good reason (as defined in the Agreement) or for death or disability within two years of the change-in-control, then the RSUs will nonetheless vest.

Look-Back RSUs, Revenue Growth RSUs and TSR Performance RSUs may be granted, and will be granted, in the event of a change-in-control before the grant determination date, as follows: In the case of Look-Back RSUs, the Committee shall determine to award none, some or all of the Target Look-Back RSUs, and whether to accelerate the vesting of those Look-Back RSUs it so awards. In the case of Revenue Growth RSUs and TSR Performance RSUs, the Committee shall determine to award none, some or all of the Target Revenue Growth RSUs and Target TSR Performance RSUs and whether to accelerate the vesting of those Revenue Growth RSUs and TSR Performance RSUs it so awards. In the case of Revenue Growth RSUs and TSR Performance RSUs, however, the Committee must award a minimum number of Revenue Growth RSUs and TSR Performance RSUs. This minimum number is based on the percentage of target grants that would have been earned at the date of the change-in-control, pro-rated based on the number of months of employment completed by the participant in the measurement period, divided by 36.

For Executive Performance RSU Award Agreements issued to Participants under the 2014 LTIP:

Executive performance RSUs granted in 2017 were awarded under Executive Performance RSU Award Agreements issued to Participants under the 2014 LTIP. Generally, as to post award agreement effective date event treatment, executive performance RSU awards under the 2017 Agreements are treated in the same manner as executive performance RSUs awarded under executive performance RSU award agreements issued under the FTIP as described above, except that the 2014 LTIP definition of "change-in-control" which is described in the *Long-Term Incentives* section above applies.

### ***Material Compensation Actions***

As of February 22, 2017, the Committee took the following actions:

Determined there would be no payout under the 2016 EOIP as further described above.



Determined there would be no profit sharing contribution to the Company's 401(k) plan.

Approved a modified list of companies to constitute the Peer Group of companies for 2017 as more particularly described in the **Use of Peer Groups** section below.

Approved awarding TSR performance RSUs under their 2015 Executive Performance RSU Award Agreements with the Company to Messrs. Arnone, Bailey, and Collins, each an NEO, based on the

TSR quartile performance of the Company against that of its 2015 Peer Group of companies as generally described in the *Executive Performance RSU Long-Term Incentive* discussion in the **Long-Term Incentives** portion of the **Compensation Elements** section above and more particularly set forth in the previously disclosed 2015 Executive Performance RSU Award Agreement. Those approved awards are shown in the table below.

As of March 13, 2017, the Committee took the following actions:

Determined that for each 2016 Participant under each 2016 Executive Performance RSU Award Agreement, there would be no actual Look-Back RSUs awarded to any 2016 Participant including Messrs. Arnone, Bailey, and Collins, each an NEO.

Based on the Revenue quartile performance of the Company against that of its 2015 Peer Group of companies as generally described in the *Executive Performance RSU Long-Term Incentive* discussion in the **Long-Term Incentives** portion of the **Compensation Elements** section above and more particularly set forth in the previously disclosed 2015 Executive Performance RSU Award Agreement for each NEO and summarized in the table below, the Committee determined that under their 2015 Executive Performance RSU Award Agreements, Messrs. Arnone, Bailey, and Collins, each an NEO, would be awarded no actual Revenue RSUs.

Approved the 2017 EOIP as further described above.

Name(1)	Performance Period	Target	Actual	Target	Actual
		Revenue Growth RSUs	Revenue Growth RSUs	TSR Performance	TSR Performance
		Quartile Performance Rating(1)	Quartile Performance Rating(1)	Quartile Performance Rating(1)	Quartile Performance Rating(1)
Vincent J. Arnone President and Chief Executive Officer	2015-2016	45,000	4th (0%)	45,000	3rd (50%)
Douglas G. Bailey Executive Chairman	2015-2016	24,000	4th (0%)	24,000	3rd (50%)
David S. Collins Senior Vice President, Chief Financial Officer and Treasure	2015-2016	24,000	4th (0%)	24,000	3rd (50%)

- (1) The applicable quartile performance rating was determined using the methodology explained under the heading *Executive Performance RSU Long-Term Incentive* above.
- (2) For all Revenue Growth RSUs, if any, and TSR Performance RSUs, if any, actually granted, two-thirds of the granted RSUs will vest immediately on the grant determination date, and the remaining one-third one year after the grant determination date.

#### **The Role of Say-on-Pay Votes**

The Company provides its stockholders with the opportunity to cast an annual advisory vote on executive compensation ( say-on-pay proposal ). At the Company s annual meeting of stockholders held on May 19, 2016, 94.7% of the votes cast on the say-on-pay proposal at the meeting were voted in favor of the proposal. The Compensation Committee evaluated these results and concluded that this vote reflected our stockholders support of the Company s approach to executive compensation. Accordingly, in 2017, the Company did not change its approach to executive compensation or make any significant changes to its executive compensation programs based on stockholder feedback. The Compensation Committee expects to continue to consider the outcome of the Company s say-on-pay votes when making future compensation decisions for the Named Executive Officers.

#### **Benchmarking, Consultants and the Use of Peer Groups**

Fuel Tech has from time to time made use of the services of Frederick W. Cook & Co., Inc. (Cook), a compensation consultant, to address matters of compensation and benefits, and to identify peer group companies

based on industry, markets and size. Fuel Tech recognizes that compensation practices must be competitive in the marketplace and marketplace information is one of the many factors that are considered in assessing the reasonableness of compensation programs. The Compensation Committee retains the discretion to make all final decisions relative to matters of compensation and benefits.

The Committee engaged in benchmarking for its NEOs based on the use of 2017 data from the peer group of companies shown below. The overall compensation programs for the Company's NEOs are designed to reward achievement of performance and to attract, retain, and motivate them in an increasingly competitive talent market. The Committee examined compensation data for the peer group of companies shown below to stay current with market pay practices and trends and to understand the competitiveness of our overall executive compensation programs and their various elements. The Committee used this benchmarking data for informational purposes. It does not formulaically target a specific percentile or make significant compensation decisions based on market data or peer group benchmarking data alone, which avoids a ratcheting up impact. The Committee uses performance as a primary driver of compensation levels.

The peer group of companies listed below was chosen due to their inclusion in the clean technology or alternative energy industries segment and, for some, common listing in certain third-party clean technology indices that also include Fuel Tech, which indices consider market capitalization, revenues and company size as factors.

Active Power, Inc.  
American Superconductor Corporation  
Amtech Systems, Inc.  
Ballard Systems Inc.  
Capstone Turbine Corporation  
Ceco Environmental Corp.  
Codexis, Inc.  
Consolidated Water Co. Ltd.

FuelCell Energy, Inc.  
Maxwell Technologies, Inc.  
Orion Energy Systems, Inc.  
Ovivo Inc.  
Plug Power Inc.  
Solazyme, Inc.

As described above, from time to time, the Committee may supplement its business judgment pertaining to its consideration of Fuel Tech compensation matters, including salary amounts, short-term and long-term incentive plan minimum and incremental payout thresholds and targets, with a variety of market information obtained from a number of different sources including, among other things, the Committee's general knowledge regarding compensation matters, information from one or more independent compensation consultants, peer company data, benchmarking related to that data, information obtained from independent search firms, available shares under the Company's 2014 LTIP, historical and current Fuel Tech compensation data, and historical, current and projected industry and Fuel Tech financial operational performance data and trends.

### **Ownership Guidelines**

Fuel Tech does not have a stock ownership policy for its executive officers.

### **Hedging and Insider Trading Policies**

Fuel Tech does not have a formal policy on hedging. Fuel Tech does prohibit all employees from speculating in Fuel Tech securities, which includes, but is not limited to: short selling; and the purchase and sale or sale and purchase, in non-exempt transactions, of Common Stock within periods of less than six months. Fuel Tech prohibits trading in Common Stock during closed periods from the end of a quarterly period until the third day following the announcement of earnings for that quarterly period.

### **Equity Grant Practices**

As discussed in the ***Long-Term Incentives*** portion of the **Compensation Elements** section above, long-term incentives in the form of stock options or RSUs have been issued by Fuel Tech previously under the FTIP and currently under the 2014 LTIP in accordance with compensation policy as determined by the Committee from time to time.

Under current policy, based on the level of the employee position, new employee stock options or RSUs or some combination thereof may be granted at the first Committee meeting following employment. However, from time to time, an option or RSU award may be authorized by the Committee to be granted and effective on a specified date or event, such as on the first date of employment or after a performance measurement time period. The price of all options granted is the mean of the high and low stock prices reported on the NASDAQ Stock Market, Inc. for the effective date of grant. Also, under the current policies of the Committee: all employees' options have a term of ten years and are subject to a four-year vesting schedule as follows: 50% of the options vest two years from the grant date and 25% vest on each subsequent year on that date. Vesting of an RSU award (RSU Award) is controlled by the terms of the vesting schedule in the RSU Award Agreement. Vesting can vary from RSU Award to RSU Award, and may be based on the passage of time, the achievement of pre-determined performance criteria or any combination of the foregoing. For time-vested RSUs, granted after March 2012, the Company's typical vesting schedule is one-third of the RSU Award after one year, one-third after the second year, and one-third after the third year. Depending on the circumstances, the Company may use a different vesting schedule whether for time-vested RSUs or other RSU Awards.

The Committee may grant options or RSUs to existing employees on a periodic basis based on the level of the employee position and as well as certain of the factors or performance measurement factors enumerated in the ***Long-Term Incentives*** portion of the **Compensation Elements** section above. While there are no mandatory levels established for the quantity of options or RSUs to be granted, Fuel Tech has used historical practice and employee job level as two of the factors it considers.

#### **Retirement Benefits**

Fuel Tech has no defined benefit pension plan. Fuel Tech has a 401(k) Plan covering substantially all employees. The 401(k) Plan is an important factor in attracting and retaining employees as it provides an opportunity to accumulate retirement funds. Fuel Tech's 401(k) Plan currently provides for annual deferral of up to \$18,000 for individuals until age 50, \$24,000 for individuals 50 and older, or as allowed by the Internal Revenue Code.

Fuel Tech annually matches 50% of employee contributions up to 6% of the employee's salary, or a maximum annual match of \$7,650. Fuel Tech may also make discretionary profit sharing contributions to the 401(k) Plan on an annual basis. Matching and profit sharing contributions vest over a three-year period.

#### **Welfare Benefits**

In order to attract and retain employees, Fuel Tech provides certain welfare benefit plans to its employees, which include medical and dental insurance benefits, group term life insurance, voluntary life and accidental death and dismemberment insurance and personal accident insurance. These benefits are not provided to non-employee directors.

#### **Employment Agreements; Potential Payments Upon Termination or Change-in-Control**

Messrs. Arnone, Bailey, and Collins are each party to an employment agreement with Fuel Tech effective as follows: September 20, 2010 for Mr. Arnone; April 1, 2010 for Mr. Bailey; and August 2, 2010 for Mr. Collins. These agreements are for indefinite terms, for disclosure and assignment of inventions to Fuel Tech, protection of Fuel Tech proprietary data, covenants against certain competition and arbitration of disputes. These employment agreements are for terms of employment at will and do not provide for severance payments. Under the agreements for Messrs. Arnone, Bailey, and Collins, each of them is entitled to continuation of base salary and benefits, and incentive bonus amounts earned under the applicable short-term incentive plan for the year of termination, for up to one year or sooner on finding comparable employment, after involuntary termination not for cause within one year of a change-in-control as described in the table below.



The following table quantifies potential payments that could be made to NEOs under various circumstances involving termination or change-in-control assuming such event occurred on December 31, 2016:

Named Executive Officer	Termination Event(1)	Base Salary(2)(\$)	Bonus(3)(\$)	Value of Awarded RSUs(4)(\$)	Value of Awarded Options(5)(\$)	Benefits(6)(\$)	Total(\$)
Vincent J. Arnone	Change-in-Control			344,370			344,370
	Termination without Cause within 1 year of Change-in-Control	425,000				16,697	441,697
Douglas G. Bailey	Change-in-Control			195,958			195,958
	Termination without Cause within 1 year of Change-in-Control	350,000				24,104	374,104
David S. Collins	Change-in-Control			180,931			180,931
	Termination without Cause within 1 year of Change-in-Control	290,000				21,396	311,396

- (1) No payments are due to any Named Executive Officer upon a termination of employment for any other reason.
- (2) Assumes annual base salaries in effect as of January 1, 2017. In the event of a termination of employment without Cause within one year of a change-in-control, each of Messrs. Arnone, Bailey and Collins is entitled to continuation of base salary and benefits for up to the earlier of one year after such termination or until such officer attains comparable employment with an equivalent salary. For illustrative purposes, a full year of base salary for each of Messrs. Arnone, Bailey and Collins is shown.
- (3) Amounts shown (a) assume a termination date of December 31, 2016, and (b) reflect the fact that no Named Executive Officer earned any incentive compensation under the EOIP in 2016.
- (4) Amounts shown represent value of all unvested RSUs outstanding at December 31, 2016 determined by using the closing price of the Company's Common Stock on the Nasdaq Stock Market on such date, which was \$1.15 per share.
- (5) Messrs. Arnone and Bailey hold stock options in the amounts of 40,000 and 20,000, respectively, which are not included in the amounts above. Although such options would immediately vest upon a change-of-control, no value has been attributed to such amounts because the exercise price of each such unvested option is higher than \$1.15 per share, the closing price of the Company's Common Stock on the Nasdaq Stock Market on December 31, 2016.
- (6) Assumes benefits paid at 2016 levels.

#### Indemnification and Insurance

Under the Fuel Tech Certificate of Incorporation and the terms of individual indemnity agreements with the Company's directors and officers, indemnification is afforded Fuel Tech's directors and officers to the fullest extent



permitted by Delaware law. Such indemnification also includes payment of any costs that an indemnitee incurs because of claims against the indemnitee and provides for advancement to the indemnitee of those costs, including legal fees. Fuel Tech is not, however, obligated to provide indemnity and costs where it is adjudicated that the indemnitee did not act in good faith in the reasonable belief that the indemnitee's actions were in the best interests of Fuel Tech, or, in the case of a settlement of a claim, such determination is made by the Board.

Fuel Tech carries insurance providing indemnification, under certain circumstances, to all of its directors and officers for claims against them by reason of, among other things, any act or failure to act in their capacities as directors or officers. The current annual premium for this policy is \$173,758.

No payments have been made for such indemnification to any past or present director or officer by Fuel Tech or under any insurance policy.

### **Compensation Recovery Policies**

Fuel Tech's Board maintains a policy that it will evaluate in appropriate circumstances whether to seek the reimbursement of certain compensation awards paid to an executive officer, if such executive engages in misconduct that caused or partially caused a restatement of financial results, in accordance with Section 304 of the Sarbanes-Oxley Act of 2002. If the Board determines that circumstances warrant, Fuel Tech will seek to recover appropriate portions of the executive officer's compensation for the relevant period, as provided by law.

### **Tax Deductibility of Executive Compensation**

Fuel Tech reviews and considers the deductibility of executive compensation under the requirements of Internal Revenue Code Section 162(m), which provides that the Company may not deduct compensation of more than \$1,000,000 that is paid to certain individuals. The Company believes that compensation paid under the Company's incentive plans is generally fully deductible for federal income tax purposes.

### **Accounting for Equity-Based Compensation**

On January 1, 2006, Fuel Tech began accounting for the equity-based compensation issued under the FTIP in accordance with the requirements of FASB ASC Topic No. 718. Fuel Tech accounting for equity-based compensation under the 2014 LTIP also is in accordance with the requirements of FASB ASC Topic No. 718.

## Summary of NEO Compensation

It has been Fuel Tech's practice that overall NEO compensation consists of three primary elements: base salary, a short-term incentive plan based on financial performance (whether under an EOIP, a CIP or a sales commission plan, as applicable), and long-term incentives. Those primary elements of compensation paid by Fuel Tech to its NEOs are reflected in the following chart.

The Committee determined the amounts to be paid to each NEO for fiscal 2016 as follows:

*Vincent J. Arnone, President, and Chief Executive Officer:* Mr. Arnone's compensation for 2016 consisted primarily of the following:

Base Salary: From April 1, 2015, Mr. Arnone's annualized salary has remained at \$425,000.

Short-Term Incentives: Mr. Arnone earned no payout under the 2016 EOIP as further described in the *Executive Officer Incentive Plan* portion of the **Compensation Elements** section above.

Long-Term Incentives:

Look-Back RSUs: Pursuant to a 2016 Executive Performance RSU Award Agreement previously entered into between Mr. Arnone and the Company, effective March 13, 2017, the Committee, in its discretion, determined there would be no grant of actual 2016 Look-Back RSUs to Mr. Arnone.

Revenue and TSR Performance RSUs: Effective February 22, 2017 for TSR RSUs and March 13, 2017 for Revenue RSUs, under his 2015 Executive Performance RSU Award Agreement with the Company, the Committee approved awarding no actual Revenue performance RSUs and 22,500 actual TSR performance RSUs to Mr. Arnone based on the Revenue and TSR quartile performance of the Company against that of its 2015 Peer Group of companies during the 2015-2016 performance period, all as further described in the table set forth in the **Material Compensation Actions** section above.

*Douglas G. Bailey, Executive Chairman:* Mr. Bailey's compensation for 2016 consisted primarily of the following:

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Base Salary: Since March 1, 2016, Mr. Bailey's annualized salary has remained at \$350,000.

Short-Term Incentives: Mr. Bailey earned no payout under the 2016 EOIP as further described in the *Executive Officer Incentive Plan* portion of the **Compensation Elements** section above.

Long-Term Incentives:

Look-Back RSUs: Pursuant to a 2016 Executive Performance RSU Award Agreement previously entered into between Mr. Bailey and the Company, effective March 13, 2017, the Committee, in its discretion, determined there would be no grant of actual 2016 Look-Back RSUs to Mr. Bailey.

Revenue and TSR Performance RSUs: Effective February 22, 2017 for TSR RSUs and March 13, 2017 for Revenue RSUs, under his 2015 Executive Performance RSU Award Agreement with the Company, the Committee approved awarding no actual Revenue performance RSUs and 12,000 actual TSR performance RSUs to Mr. Bailey based on the Revenue and TSR quartile performance of the Company against that of its 2015 Peer Group of companies during the 2015-2016 performance period, all as further described in the table set forth in the **Material Compensation Actions** section above.

*David S. Collins, Senior Vice President, Chief Financial Officer and Treasurer:* Mr. Collins's compensation for 2016 consisted primarily of the following:

Base Salary: Since March 1, 2012, Mr. Collins's annualized base salary has remained at \$290,000.

Short-Term Incentives: Mr. Collins earned no payout under the 2016 EOIP as further described in the *Executive Officer Incentive Plan* portion of the **Compensation Elements** section above.

Long-Term Incentives:

Look-Back RSUs: Pursuant to a 2016 Executive Performance RSU Award Agreement previously entered into between Mr. Collins and the Company, effective March 13, 2017, the Committee, in its discretion, determined there would be no grant of actual 2016 Look-Back RSUs to Mr. Collins.

Revenue and TSR Performance RSUs: Effective February 22, 2017 for TSR RSUs and March 13, 2017 for Revenue RSUs, under his 2015 Executive Performance RSU Award Agreement with the Company, the Committee approved awarding no actual Revenue performance RSUs and 12,000 actual TSR performance RSUs to Mr. Collins based on the Revenue and TSR quartile performance of the Company against that of its 2015 Peer Group of companies during the 2015-2016 performance period, all as further described in the table set forth in the **Material Compensation Actions** section above.

### SUMMARY COMPENSATION TABLE

The table below sets forth information concerning fiscal years 2016, 2015 and 2014 compensation awarded to, earned by or paid in all capacities to the Named Executive Officers, who are the President and Chief Executive Officer; Executive Chairman; and the Senior Vice President, Treasurer and Chief Financial Officer, whose total compensation exceeded \$100,000.

(a) Name & Principal Position	(b) Year	(c) Salary (\$)	(e) Stock Awards (\$)	(f) Options (\$)	(g) Non-Equity Incentive Compensation (\$)	(i) All Other Compensation (\$)	(j) Total (\$)
Vincent J. Arnone President and Chief Executive Officer	2016	425,000	267,732			16,697	709,428
	2015	405,000	661,425			16,003	1,082,428
	2014	345,000	275,968			15,138	636,106
Douglas G. Bailey Executive Chairman	2016	358,333	133,863			24,105	516,301
	2015	412,500	228,960			22,900	664,360
	2014	450,000	376,320			21,622	847,942
David C. Collins Senior Vice President, Treasurer and Chief Financial Officer	2016	290,000	133,863			21,396	400,259
	2015	290,000	228,960			20,120	539,080
	2014	290,000	200,704			19,050	509,754

- (1) The amounts in these columns reflect stock and option awards that were granted in 2016, 2015, and 2014. The amounts represent the aggregate grant date fair value of awards granted in each respective year computed in accordance with stock-based compensation accounting rules (FASB ASC Topic 718), excluding the effect of forfeitures (see footnote 8 to the financial statements in our annual report on Form 10-K for a further discussion of the accounting for stock awards). The Look-Back, Revenue and TSR RSUs associated with our long-term incentive plan are included in stock awards at the service inception date, even though they will not be granted until future years. For 2016 and 2015, the maximum value of outstanding stock awards subject to performance conditions exceeded the amount computed in accordance with accounting standards, and are for Mr. Arnone \$352,266 and \$797,755, for Mr. Bailey \$176,129 and \$301,680 and for Mr. Collins \$176,129 and \$301,680, respectively. See the Grants of Plan-Based Awards table below for further information on awards made in 2016.
- (2) The amounts in this column include cash bonuses.
- (3) All Other Compensation includes for each of the Named Executive Officers, matching contributions and profit sharing allocations to the Fuel Tech 401(k) Plan; expense for life, accidental death and dismemberment and long-term disability insurance.

## GRANTS OF PLAN-BASED AWARDS IN FISCAL YEAR 2016

## TO NAMED EXECUTIVE OFFICERS

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			Grant Date Fair Value of Stock	Closing Price per Share (\$/Sh) on	Option and Other Awards (\$)
		Threshold	Target	Maximum	Threshold	Target	Maximum			
(a)	(b)	(\$)(c)	(\$)(d)	(\$)(e)	(#)(f)	(#)(g)	(#)(h)	(k)	(2)(l)	
Vincent J. Arnone	3/01/16	20,000	30,000	210,000	79,999	159,999	238,998	1.56	267,732	
Douglas G. Bailey	3/01/16	10,000	15,000	105,000	39,999	79,998	119,997	1.56	133,863	
David S. Collins	3/01/16	10,000	15,000	105,000	39,999	79,998	119,997	1.56	133,863	

- (1) The Registrant's 2016 EOIP was adopted by the Compensation Committee, effective March 1, 2016. As previously discussed, the Registrant failed to achieve the minimum performance threshold for Adjusted EBITDA, and accordingly, no payouts were made under the 2016 EOIP. As described in the Executive Officer Incentive Plan portion of the **Compensation Elements** section above, if a minimum performance threshold for Adjusted EBITDA had been achieved in 2016, an amount would be paid based on three factors, with a minimum amount of 2.00% of Adjusted EBITDA and a maximum amount of 7.00% of Adjusted EBITDA. The EOIP does not have a performance target or a determinable amount payable if the target is met. Amounts in columns (c), (d) and (e) are representative amounts based on the amount payable if the minimum performance threshold for Adjusted EBITDA was achieved (2.00% of \$2.5 million in Adjusted EBITDA), the amount payable if the minimum threshold for all three factors were achieved (3.00% of Adjusted EBITDA), and the maximum amount payable if the caps for all three factors were achieved (7.00% of \$7.5 million in Adjusted EBITDA).
- (2) Amounts shown represent the targeted number of Look-Back, Revenue, and TSR RSUs established under the 2016 Executive Performance RSU Award Agreements between the Company and each of the NEOs listed above. These RSUs are deemed for reporting purposes to have a grant date of March 1, 2016 even though they will not be granted, if at all, until 2017 or 2018, depending on the type of award. All Look-Back RSUs vest one-third thirteen months after the grant determination date, one-third after the second anniversary of the grant determination date and the remaining one-third after the third anniversary date. The Revenue and TSR RSUs each vest two-thirds immediately on the grant determination date with the remaining one-third vesting after the first anniversary date of the grant determination date as discussed under the heading *Executive Performance RSU Long-Term Incentive* under the **Compensation Elements** section above.

## OPTION EXERCISES AND STOCK VESTED IN FISCAL YEAR 2016

## FOR NAMED EXECUTIVE OFFICERS

Name	Option Exercises and Stock Vested		Stock Awards	
	Option Awards		Stock Awards	
(a)	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
	(#)(b)	(\$)(c)	(#)(d)	(\$)(e)

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Vincent J. Arnone	51,746	90,807
Douglas G. Bailey	36,360	63,822
David S. Collins	18,626	32,678



**OUTSTANDING EQUITY AWARDS AT 2016 FISCAL YEAR-END**

**FOR NAMED EXECUTIVE OFFICERS**

For each of the options described below, the option expiration date is the 10th anniversary of the grant date; each of these options vests 50% on the second anniversary of the grant date and 25% on each of the third and fourth anniversaries of the grant date. See the text under the caption *Equity Grant Practices* in the Compensation Discussion and Analysis above.

(a) <b>Name</b>	Option Awards			(f) <b>Option Expiration Date</b>
	(b) <b>Number of Securities Underlying Unexercised Options (#) Exercisable</b>	(c) <b>Number of Securities Underlying Unexercised Options (#) Unexercisable</b>	(e) <b>Option Exercise Price (\$)</b>	
Vincent J. Arnone President and Chief Executive Officer	40,000		6.10	09/20/2020
Douglas G. Bailey Executive Chairman	10,000		17.82	03/07/2018
David S. Collins Senior Vice President, Chief Financial Officer and Treasurer	10,000		10.20	05/20/2019

At December 31, 2016 the following RSUs were outstanding. See the text under the caption *Equity Grant Practices* section in the Compensation Discussion and Analysis above.

(a) <b>Name</b>	(g) <b>Number of Units of Stock That Have Not Vested (#)(1)</b>	(h) <b>Market Value of Units of Stock That Have Not Vested (\$)(2)</b>	(i) <b>Equity Incentive Plan Awards: Number of Unearned Units That Have Not Vested (#)(3)</b>	(j) <b>Equity Incentive Plan Awards: Market or Payout Value of Unearned Units That Have Not Vested \$(2)</b>
Vincent J. Arnone President and Chief Executive Officer	139,453	160,371	231,999	266,799
Douglas G. Bailey Executive Chairman	90,400	103,960	118,398	136,158
David S. Collins Senior Vice President, Chief Financial Officer and Treasurer	77,333	88,933	118,398	136,158

(1)

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Amounts shown include the earned, unvested Common Stock to be issued in connection with the Look-Back, Revenue, and TSR RSUs granted in conjunction with the 2013, 2014 and 2015 Executive Performance RSU Award Agreements between the Company and each NEO as follows:

<b>Name</b>	<b>Grant Year</b>	<b>Unvested Stock from Look-Back RSUs</b>	<b>Unvested Stock from TSR RSUs</b>	<b>Unvested Stock from Revenue RSUs</b>
Vincent J. Arnone	2015	27,000	45,000	45,000
	2014	10,560	2,933	
	2013	8,960		
Douglas G. Bailey	2015	14,400	24,000	24,000
	2014	14,400	4,000	
	2013	9,600		
David S. Collins	2015	14,400	24,000	24,000
	2014	7,680	2,133	
	2013	5,120		

All Look-Back RSUs vest one-third thirteen months after the grant determination date, one-third after the second anniversary date and one-third after the third anniversary date. All TSR Performance RSUs and Revenue RSUs vest two-thirds on the grant determination date and one-third after the first anniversary date of the grant determination date. For further detail, please see the discussion included under the heading *Executive Performance RSU Long-Term Incentive* under the **Compensation Elements** section above.

- (2) Market value reflects a per RSU value of \$1.15, the closing price of Fuel Tech's Common Stock on December 31, 2016.
- (3) Amounts shown include the following targeted number of Look-Back, Revenue, and TSR RSUs established in conjunction with the 2015 and 2016 Executive Performance RSU Award Agreements between the Company and each NEO as follows:

<b>Name</b>	<b>Executive Performance Agreement Executed</b>	<b>Target Look-Back RSUs</b>	<b>Target TSR RSUs</b>	<b>Target Revenue RSUs</b>
Vincent J. Arnone	2016	53,333	53,333	53,333
	2015	27,000	45,000	
Douglas G. Bailey	2016	26,666	26,666	26,666
	2015	14,400	24,000	
David S. Collins	2016	26,666	26,666	26,666
	2015	14,400	24,000	

All Target Look-Back RSUs, to the extent actually granted, vest one-third thirteen months after the grant determination date, one-third after the second anniversary date and one-third after the third anniversary date. All Target TSR Performance RSUs and Target Revenue RSUs, to the extent actually granted, vest two-thirds on the grant determination date and one-third after the first anniversary date of the grant determination date. For further detail, please see the discussion included under the heading *Executive Performance RSU Long-Term Incentive* under the **Compensation Elements** section above.

## **AGENDA ITEM NO. 2 ADOPTION OF THE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT AND OTHER AMENDMENTS**

### ***Overview***

The Company's Board of Directors has adopted a resolution approving an amendment to the Company's Certificate of Incorporation and recommending that the Company's stockholders adopt such amendment which would effect a reverse stock split of its issued and outstanding Common Stock at a ratio of not less than one-for-five (1:5) and not more than one-for-ten (1:10), the exact reverse stock split ratio to be determined by the Board of Directors and publicly announced prior to the filing of the Amended and Restated Certificate of Incorporation, should the Board of Directors decide to proceed with the amendment. The amendment would also reduce the number of shares of Common Stock authorized for issuance proportionately. One of the Board of Directors' purposes in proposing the reverse stock split is to raise the per share trading price of the Company's Common Stock to better enable the Company to maintain the listing of its Common Stock on the NASDAQ Global Market (the "NASDAQ Global Market"). An increase in the Company's share price may also broaden the Company's investor base as many institutional investors and mutual funds have rules against purchasing a stock whose price is below a certain threshold.

If the amendment to the Certificate of Incorporation is adopted by the stockholders, and the Board of Directors determines to proceed, the reverse stock split will be accomplished by the filing with the Secretary of State of the State of Delaware of the amendment that: (i) contains the reverse stock split ratio determined by the Board of Directors to be in the best interests of the Company and stockholders and publicly announced prior to the filing of the amendment, which determination shall be made within ten months from the date of the Company's 2017 Annual Meeting of Stockholders (the Annual Meeting), and (ii) reduces the number of shares of Common Stock (now 40,000,000 shares) proportionately, rounded down for convenience.

Except for adjustments that may result from the treatment of fractional shares as described below, each stockholder will hold the same percentage of Common Stock outstanding immediately following the reverse stock split as that stockholder held immediately before the reverse stock split.

The form of the amendment to the Certificate of Incorporation to accomplish the reverse stock split is attached to this Proxy Statement as *Appendix A* (the Amendment). The following discussion is qualified in its entirety by the full text of the proposed Amendment, which is hereby incorporated by reference.

***Purposes of the Reverse Stock Split***

One of the Board of Directors' objectives in proposing the reverse stock split is to raise the per share trading price of the Company's Common Stock to better enable the Company to maintain the listing of its Common Stock on the NASDAQ Global Market and to attract a broader investor base. Continued listing of the Company's Common Stock on the NASDAQ Global Market requires compliance with Rule 5450(a)(1) (the NASDAQ Rule) which requires the average closing price of the Company's Common Stock, calculated over 30 consecutive trading days, to be at least \$1.00 per share. If the Company's average closing price did not meet this requirement, the Company would receive a notice from NASDAQ of the deficiency. The Company can regain compliance if, during the 180 calendar day period following receipt of the deficiency notice, the Company's Common Stock had an average closing price per share of at least \$1.00 over a consecutive period of 10 business days. While the Company could obtain a further 180 day period for compliance if it were to transfer its NASDAQ listing to the NASDAQ Capital Market, assuming it met the other standards for a new listing on the Capital Market, the Company currently does not meet these standards. If the Company's Common Stock were delisted, the Company might seek to have such shares traded on the OTC Bulletin Board or the pink sheets. The Board of Directors does not consider this to be a desirable outcome.

Over the last year, the Company's Common Stock has traded in a range between \$1.13 and \$1.94. The Company's Board of Directors considered it prudent to consider the possibility that the trading price would trade below \$1.00 over a period of 30 trading days and that it would receive a deficiency notice. In that event, the Board of Directors would propose a reverse stock split with the expectation that this would result in regained compliance. Under Delaware law, such a reverse stock split would require stockholder approval, which would require it to hold a meeting of stockholders within the 180 day period for regaining compliance. In order to avoid the possible expense of holding a second meeting of stockholders before the next annual meeting, the Board of Directors has determined to propose such a reverse stock split at this annual meeting. The Board of Directors believes that effecting the reverse stock split will in any case further ensure continued compliance with the NASDAQ Rule. The Board of Directors believes that the increased market price of our Common Stock expected as a result of the reverse stock split may improve marketability and liquidity of our Common Stock and further encourage interest and trading in our Common Stock.

For example, the Board of Directors believes that some institutional investors and investment funds may be reluctant to invest, and in some cases may be prohibited from investing, in lower-priced stocks and that brokerage firms may be reluctant to recommend lower-priced stocks to their clients. The reverse stock split could increase our market price to a level that would be viewed more favorably by potential investors. Further, brokerage commissions, as a percentage of the total transaction, tend to be higher for lower-priced stocks. As a result, certain investors may also be dissuaded from purchasing lower-priced stock. A higher stock price after the reverse stock split may reduce this concern.

***Board of Directors' Discretion to Implement Reverse Stock Split and Determine the Ratio***

If the Amendment to the Certificate of Incorporation effecting the reverse stock split is adopted by the stockholders, the reverse stock split will become effective, if at all, only upon a determination by the Board of Directors within ten months after the Annual Meeting of the reverse stock ratio to be used and that the actions



contemplated by the Amendment containing such reverse stock split ratio are in the best interests of the Company and the stockholders. Notwithstanding approval by the stockholders, the Board of Directors may, in its sole discretion, abandon the proposed reverse stock split and determine not to effect any reverse stock split. If the Board of Directors elects not to implement the reverse stock split at this time, stockholder approval would again be required prior to implementing any subsequent reverse stock split.

The ratio of the reverse stock split, if approved and implemented, will be a ratio of not less than one-for-five (1:5) and not more than one-for-ten (1:10), as determined by the Board of Directors in its sole discretion. In determining the reverse stock split ratio, the Board of Directors will consider numerous factors, including:

the historical and projected performance of the Company's Common Stock;

prevailing market conditions;

general economic and other related conditions prevailing in our industry and in the marketplace;

the Company's capitalization (including the number of shares of Common Stock issued and outstanding);

the prevailing trading price for the Company's Common Stock and the volume level thereof; and

the potential devaluation of the Company's market capitalization as a result of the reverse stock split.

the number of holders of the Company's common stock who after the reverse stock split may hold fractional shares and be cashed out.

The Company's purpose for requesting authorization to implement the reverse stock split at a ratio to be determined by the Board of Directors, as opposed to a ratio that is fixed in advance, is to give the Board of Directors the flexibility to take into account then-current market conditions and changes in the price of the Company's Common Stock and to respond to any other developments that may be relevant when considering the appropriate ratio.

The Board of Directors will determine the exact reverse stock split ratio within the stated range prior to filing the Amendment with the Secretary of State of the State of Delaware and such reverse stock split ratio will be publicly announced prior to such filing through a press release.

#### ***Certain Risks Associated with Reverse Stock Split***

*A reverse stock split could result in a significant devaluation of the Company's market capitalization and the trading price of the Company's Common Stock.* Although the Board of Directors expects that the reverse stock split will result in an increase in the market price of the Company's Common Stock, it cannot assure you that the reverse stock split, if implemented, will increase the market price of the Common Stock in proportion to the reduction in the number of shares of the Common Stock outstanding or result in a permanent increase in the market price. Accordingly, the total market capitalization of the Company's Common Stock after the proposed reverse stock split may be lower than the total market capitalization before the proposed reverse stock split and, in the future, the market price of the

Common Stock following the reverse stock split may not exceed or remain higher than the market price prior to the proposed reverse stock split.

The effect of the reverse stock split upon the market price of the Company's Common Stock cannot be predicted with any certainty, and the history of similar reverse stock splits for companies in similar circumstances to ours is varied. The market price of Common Stock is dependent on many factors, including the Company's business and financial performance, general market conditions, prospects for future success and other factors detailed from time to time in the reports the Company files with the SEC. If the reverse stock split is implemented and the market price of the Company's Common Stock declines, the percentage decline as an absolute number and as a percentage of the Company's overall market capitalization may be greater than would occur in the absence of the reverse stock split.



*The reverse stock split may result in some stockholders owning odd lots that may be more difficult to sell or require greater transaction costs per share to sell.* The reverse stock split may result in some stockholders owning odd lots of less than 100 shares of the Company's Common Stock on a post-split basis. These odd lots may be more difficult to sell, or require greater transaction costs per share to sell, than shares in round lots of even multiples of 100 shares.

*The reverse stock split may not generate additional investor interest.* While the Board of Directors believes that a higher stock price may help generate investor interest, there can be no assurance that the reverse stock split will result in a per share price that will attract institutional investors or investment funds or that such share price will satisfy the investing guidelines of institutional investors or investment funds. As a result, the trading liquidity of our Common Stock may not necessarily improve.

*The reduced number of shares of Common Stock resulting from a reverse stock split could adversely affect the liquidity of the Company's Common Stock.* Although the Board of Directors believes that the decrease in the number of shares of the Common Stock outstanding as a consequence of the reverse stock split and the anticipated increase in the market price of the Company's Common Stock could encourage interest in the Company's Common Stock and possibly promote greater liquidity for the Company's stockholders, such liquidity could also be adversely affected by the reduced number of shares outstanding after the reverse stock split.

#### ***Anticipated Effects of Reverse Stock Split***

*Effect on Authorized and Outstanding Shares.* Currently, the Company is authorized to issue up to a total of forty million shares of the Company's Common Stock. Upon effectiveness of the reverse stock split, the number of authorized shares that are not issued or outstanding will be reduced but effectively remain the same because the proposed amendment will reduce the number of authorized shares proportionately. As of March 22, 2017, the record date, there were [ ] shares of Common Stock outstanding. The following table illustrates the effects of the reverse stock split at certain exchange ratios within the one-for-five (1:5) and one-for-ten (1:10) range, without giving effect to any adjustments for fractional shares of Common Stock, on our outstanding shares of Common Stock as of March 22, 2017, the record date:

<b>As of March 22, 2017 Record Date</b>	<b>Pre-Reverse Split</b>	<b>Post-1-for-5 Reverse Split</b>	<b>Post-1-for-10 Reverse Split</b>
Common Stock	[ ]	[ ]	[ ]
Shares Reserved under 2014 LTIP	[ ]	[ ]	[ ]

The Company's Common Stock is currently registered under Section 12(b) of the Exchange Act, and the Company is subject to the periodic reporting and other requirements of the Exchange Act. The proposed reverse stock split will not affect the registration of the Company's Common Stock under the Exchange Act. If the proposed reverse stock split is implemented, the Company currently expects that the Common Stock will continue to be traded on the NASDAQ under the symbol FTEK, provided that the Company meets the continued listing requirements (although the NASDAQ would likely add the letter D to the end of the trading symbol for a period of about 20 trading days to indicate that the reverse stock split has occurred).

*Effect on Outstanding Stock Awards; Stock Plans.* The reverse stock split, when implemented, will affect outstanding Restricted Stock Units (RSU) awards and options to purchase the Company's Common Stock. The proposed reverse stock split will also reduce the number of shares of Common Stock issuable under the Company's 2014 LTIP. The per share exercise price of all outstanding option awards will be increased proportionately and the number of shares of Common Stock issuable upon the exercise of all outstanding option awards and the vesting of all unvested RSUs will be reduced proportionately. These adjustments will result in approximately the same aggregate exercise price being

required to be paid for all outstanding option awards upon

exercise, although the aggregate number of shares issuable upon exercise of such option awards will be reduced proportionately following the reverse stock split. Similarly our outstanding RSU awards would be reduced proportionately following the reverse stock split.

*Effect on Existing Stockholders.* The number of shares of Common Stock held by each stockholder will be reduced as a result of the reverse stock split. For example, as a result of a 1-for-10 reverse stock split, a stockholder holding 100 shares of Common Stock before the reverse stock split would hold 10 shares of Common Stock immediately after the reverse stock split. No fractional shares will be issued and any stockholder that holds a fractional share interest will receive payment as described below under *Treatment of Fractional Shares*.

*Effect on the Company.* We expect our business and operations to continue as they are currently being conducted and the reverse stock split is not anticipated to have any effect upon the conduct of such business. We expect to incur expenses of approximately \$50,000 to effect the reverse stock split.

### ***No Going Private Transaction***

Notwithstanding the change in the number of outstanding shares following the reverse stock split, the Board does not intend for this transaction to be the first step in a series of plans or proposals of a going private transaction within the meaning of Rule 13e-3 of the Exchange Act.

### ***Accounting Consequences***

The par value per share of the Company's Common Stock will remain unchanged at \$0.01 per share after the reverse stock split. As a result, on the effective date of the reverse split, the stated capital on the Company's balance sheet attributable to the Company's Common Stock will be reduced proportionately from its present amount, and the additional paid in capital account shall be credited with the amount by which the stated capital is reduced. The per share Common Stock net income or loss and net book value will be increased because there will be fewer shares of Common Stock outstanding. The Company does not anticipate that any other accounting consequences would arise as a result of the reverse stock split.

### ***Treatment of Fractional Shares***

No fractional shares of Common Stock will be issued in connection with the reverse stock split. Upon the proposed Amendment to the Certificate of Incorporation becoming effective pursuant to the Delaware General Corporation Law (the *Effective Time*), the aggregate of all fractional shares otherwise issuable to the record holders of shares of Common Stock prior to the *Effective Time*, as applicable, will be issued to the Company's transfer agent, as agent, for the accounts of all record holders of such shares otherwise entitled to have fractional shares issued to them. The sale of all fractional interests will be effected by the transfer agent as soon as practicable after the *Effective Time* on the basis of prevailing market prices of the Common Stock at the time of sale. After such sale and upon the surrender of the certificates representing Common Stock outstanding immediately prior to the *Effective Time*, the transfer agent will pay to such holders of record their pro rata share of the net proceeds derived from the sale of the fractional interests. No transaction costs will be assessed to stockholders for the cash payment. Stockholders will not be entitled to receive interest for the period of time between the effective date of the reverse stock split and the date payment is made for fractional shares.

After the reverse stock split, then current stockholders will have no further interest in the Company with respect to fractional shares. Such stockholders will only be entitled to receive the cash payment described above. Such cash payments may reduce the number of post-split stockholders; however, this is not the purpose of the reverse stock split.

Stockholders should be aware that under the escheat laws of the relevant jurisdictions, cash payments not timely claimed after the effective date of the reverse stock split may be required to be paid to designated agents for the relevant jurisdictions, without interest.

***Effect on Registered Certificated Shares***

Some registered stockholders hold their shares of Common Stock in certificate form or a combination of certificate and book-entry form. If any of your shares of Common Stock are held in certificate form, you will receive a letter of transmittal from the Company's transfer agent as soon as practicable after the effective date of the reverse stock split. The letter of transmittal will contain instructions on how to surrender your certificate(s) representing your pre-split shares to the exchange agent. Upon receipt of your properly completed and executed letter of transmittal and your stock certificate(s), you will be issued the appropriate number of shares either in certificate form or electronically in book-entry form under the new direct registration system. If you are entitled to a payment in lieu of any fractional share interest, payment will be made as described above under Treatment of Fractional Shares. No new stock certificates or payments in lieu of fractional shares will be issued to a stockholder until such stockholder has surrendered such stockholder's outstanding certificate(s) to the transfer agent.

Beginning on the effective date of the reverse stock split, each certificate representing pre-reverse stock split shares will be deemed for all corporate purposes to evidence ownership of post-reverse stock split shares.

**STOCKHOLDERS SHOULD NOT DESTROY ANY PRE-SPLIT STOCK CERTIFICATE AND SHOULD NOT SUBMIT ANY CERTIFICATES UNTIL THEY ARE REQUESTED TO DO SO BY THE TRANSFER AGENT.**

***Effect on Registered Book-Entry Holders***

The Company's registered stockholders may hold some or all of their shares electronically in book-entry form under the direct registration system for securities. These stockholders will not have stock certificates evidencing their ownership of the Company's Common Stock. They are, however, provided with a statement reflecting the number of shares registered in their accounts.

If you hold shares in a book-entry form, you do not need to take any action to receive your post-split shares or your cash payment in lieu of any fractional share interest, if applicable. If you are entitled to post-split shares, a transaction statement will automatically be sent to your address of record indicating the number of shares you hold.

If you are entitled to a payment in lieu of any fractional share interest, a check will be mailed to you at your registered address as soon as practicable after the Company's transfer agent completes the aggregation and sale described above in Treatment of Fractional Shares. By signing and cashing this check, you will warrant that you owned the shares for which you receive a cash payment.

***U.S. Federal Income Tax Consequences***

The following is a general summary of certain U.S. federal income tax consequences of the reverse stock split to the Company's stockholders. This summary does not purport to be a complete discussion of all of the possible U.S. federal income tax consequences of the reverse stock split and is included for general information only. Further, it does not address any state, local or foreign income or other tax consequences. Also, it does not address the tax consequences to stockholders that are subject to special tax rules, such as banks, insurance companies, regulated investment companies, personal holding companies, foreign entities, nonresident alien individuals, broker-dealers, tax-exempt entities, entities or arrangements treated as partnerships for U.S. federal income tax purposes, and stockholders owning large positions in the Company's Common Stock. Other stockholders may also be subject to special tax rules, including, but not limited to, stockholders that received Common Stock as compensation for services or pursuant to the exercise of an employee stock option, or stockholders who have held, or will hold, stock as part of a straddle,

hedging or conversion transaction for U.S. federal income tax purposes. This summary also assumes that you are a U.S. Holder (defined below) who has held, and will hold, shares of Common Stock as a capital asset, as defined in the Internal Revenue Code of

1986, as amended (the Code), i.e., generally, property held for investment. Finally, the following discussion does not address the tax consequences of transactions occurring prior to or after the reverse stock split (whether or not such transactions are in connection with the reverse stock split), including, without limitation, the exercise of options or rights to purchase Common Stock in anticipation of the reverse stock split.

The tax treatment of a stockholder may vary depending upon the particular facts and circumstances of such stockholder. You should consult with your own tax advisor with respect to the tax consequences of the reverse stock split. As used herein, the term U.S. Holder means a stockholder that is, for U.S. federal income tax purposes: a citizen or resident of the United States; a corporation or other entity taxed as a corporation created or organized in or under the laws of the United States or any state, including the District of Columbia; an estate the income of which is subject to U.S. federal income tax regardless of its source; or a trust that (i) is subject to the primary supervision of a U.S. court and the control of one of more U.S. persons or (ii) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

The following discussion is based on the Code, applicable Treasury Regulations, judicial authority and administrative rulings and practice, all as of the date hereof. The Internal Revenue Service could adopt a contrary position. In addition, future legislative, judicial or administrative changes or interpretations could adversely affect the accuracy of the statements and conclusions set forth herein. Any such changes or interpretations could be applied retroactively and could affect the tax consequences described herein. No ruling from the Internal Revenue Service or opinion of counsel has been obtained in connection with the reverse stock split.

No gain or loss should be recognized by a U.S. Holder upon such holder's exchange of pre-reverse stock split shares of Common Stock for post-reverse stock split shares of Common Stock pursuant to the reverse stock split, except with respect to cash, if any, received in lieu of fractional shares, as described below. The aggregate tax basis of the post-reverse stock split shares received in the reverse stock split will be the same as the holder's aggregate tax basis in the pre-reverse stock split shares exchanged therefor (excluding any amount allocable to a fractional share for which cash is received). The holder's holding period for the post-reverse stock split shares will include the period during which the stockholder held the pre-reverse stock split shares surrendered in the reverse stock split.

In general, the receipt of cash by a U.S. Holder in lieu of a fractional share of post-reverse stock split Common Stock will result in a taxable gain or loss to such U.S. Holder for U.S. federal income tax purposes. The amount of the taxable gain or loss to the U.S. Holder will be determined based upon the difference between the amount of cash received by such U.S. Holder and the amount of pre-reverse stock split basis allocable to the fractional share. The gain or loss recognized will constitute capital gain or loss and will constitute long-term capital gain or loss if the U.S. Holder's holding period is greater than one year. There are limitations on the deductibility of capital losses under the Code.

THE PRECEDING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE REVERSE STOCK SPLIT AND DOES NOT PURPORT TO BE A COMPLETE ANALYSIS OR DISCUSSION OF ALL POTENTIAL TAX EFFECTS RELEVANT THERETO. YOU SHOULD CONSULT YOUR OWN TAX ADVISORS AS TO THE PARTICULAR U.S. FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES OF THE REVERSE STOCK SPLIT IN LIGHT OF YOUR SPECIFIC CIRCUMSTANCES.

#### ***No Dissenters' Rights***

The holders of shares of Common Stock will have no dissenters' rights of appraisal under Delaware law, the Certificate of Incorporation or the Bylaws with respect to the proposed Amendment to the Certificate of Incorporation to accomplish the reverse stock split.





**Approval Required**

The affirmative vote of a majority of the shares of Common Stock of the Company entitled to vote thereon are required to adopt the Amendment to the Certificate of Incorporation to accomplish a reverse stock split of our Common Stock. The effect of an abstention or broker non-vote is the same as that of a vote against the proposal.

**The Board recommends that you vote FOR adoption of the Amendment to the Certificate Of Incorporation of the Company to effect a reverse stock split of the Company s Common Stock.**

**AGENDA ITEM NO. 3 APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

On December 7, 2016, the Audit Committee approved the appointment of RSM US LLP (RSM) f/k/a McGladrey LLP as Fuel Tech s independent registered accounting firm for the year ending December 31, 2016. We are asking you to ratify that appointment. RSM has served in this capacity since its July 2010 appointment and has become knowledgeable about Fuel Tech s operations and accounting practices and is well qualified to act in the capacity of independent registered accountants. In making the appointment, the Audit Committee reviewed RSM s performance along with its reputation for integrity, overall competence in accounting and auditing and independence. Representatives of RSM will be present at the Annual Meeting and will have the opportunity to make a statement, if they wish to do so, and be available to respond to questions.

**Audit Fees**

Fees for professional services provided by RSM in each of the last two fiscal years by category were:

	2016(\$)	2015(\$)
Audit Fees	402,579	338,551
Audit-Related Fees	10,550	14,180
Tax Fees		
All Other Fees		
	413,129	352,731

**Pre-Approval Policies and Procedures**

Fuel Tech s policy and procedure is that each engagement for an audit or non-audit service is approved in advance by the Audit Committee.

**The affirmative vote of a majority of the shares voting is required for the approval of this proposal. The Board recommends a vote FOR this proposal.**

**Report of the Audit Committee**

Management is primarily responsible for Fuel Tech s internal controls and financial reporting. RSM US LLP (RSM) f/k/a McGladrey, LLP, Fuel Tech s independent auditors, are responsible for performing independent audits of Fuel Tech s consolidated financial statements in accordance with the auditing standards of the Public Company Accounting Oversight Board. These audits serve as the basis for RSM s opinions included in annual reports to stockholders as to whether the financial statements fairly present, in all material respects, Fuel Tech s financial position, results of

operations, and cash flows in conformity with U.S. generally accepted accounting principles, whether management's assessment of the effectiveness of Fuel Tech's internal control over financial reporting is fairly stated in all material respects, and whether Fuel Tech's internal control over financial reporting was effective. The Audit Committee ( Committee ) is responsible for the review and oversight of these processes.

Management has represented that Fuel Tech's 2016 financial statements were prepared in accordance with accounting principles generally accepted in the United States. The Committee has reviewed and discussed with both management and RSM the 2016 financial statements, management's report on internal control over financial reporting and RSM's report on financial reporting. The Committee has also discussed with RSM the matters required to be discussed by the Public Company Accounting Oversight Board; Audit Standard No. 16.

The Committee has received the written disclosures and correspondence from RSM required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Committee concerning independence, and has represented that RSM is independent from Fuel Tech. The Committee has discussed with RSM their independence and concluded that the provision of the services described above under the caption "Audit Fees" is compatible with maintaining their independence.

The Committee reviewed its charter and determined that no changes were required to the charter.

Based on the representations, reviews and discussions referred to above, the Committee recommended to the Board that Fuel Tech's audited consolidated financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2016 and filed with the Securities and Exchange Commission.

By the Audit Committee:

*D.L. Zeitler, Chairman*

*W.G. Gregory and T.S. Shaw*

### **AGENDA ITEM NO. 3 ADVISORY VOTE ON EXECUTIVE COMPENSATION**

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), Fuel Tech is offering our stockholders the opportunity to cast an advisory vote (commonly referred to as the "say on pay" vote) on the Company's executive compensation program for its NEOs. Although this advisory vote is nonbinding, the Board of Directors and the Compensation Committee will take into account the outcome of the vote when considering future compensation decisions for the Company's NEOs.

As discussed in the **Compensation Discussion and Analysis** section of this proxy statement, we believe that the primary elements of the Company's executive compensation programs for Fuel Tech's NEOs are based on a pay-for-performance structure, are well-aligned with the long-term interests of the Company's stockholders, and are designed to attract, motivate, and retain NEOs who are critical to the success of Fuel Tech. Some of the features of the Company's executive compensation programs that illustrate the Fuel Tech's philosophy are:

By design, two of the three primary elements of each NEO's overall compensation package are at-risk and are subject to the Company's performance. As explained in detail in the **Summary of NEO Compensation** portion of the **Compensation Discussion and Analysis** section, in fiscal 2016, NEO incentive compensation, whether short-term or long-term, was determined based on the Company's financial, operational or sales performance, or a combination of those factors.

Base salary and base salary increase decisions for Fuel Tech's NEOs are typically in keeping with market pay data for comparable executive positions in companies from Fuel Tech's established peer group (also see the discussion of the use of peer groups in the **Benchmarking, Consultants and Use of Peer Groups** section

above). Exceptional increases are limited to promotions or situations where the executive's job performance is strong and his/her base salary is significantly under the market median.

Both in design and application, the formal cash-based short-term incentive program for each of the Company's NEOs is a pay-for-performance program.

Our stock option awards and RSU grant awards feature graduated vesting over a multiple year period. For RSUs, the number of years in the vesting period can vary depending on the type of RSU grant involved.

Among other things, the 2016 pay-for-performance approach of Fuel Tech's Executive Performance RSU Long-Term Incentive program incentivizes the Company's senior executives to engage in activities focused on Fuel Tech's revenue growth and the total stockholder return the Company is able to achieve for our stockholders. Fuel Tech believes that the formulaic mechanism used to determine performance achievement in those areas (relative performance of Fuel Tech against the performance of its selected peer group companies in those same performance areas) provides a meaningful way to assess Fuel Tech executive performance within the broader industry category that Fuel Tech is a part of.

Stockholders are encouraged to read the full details of Fuel Tech's executive compensation programs as described in the **Compensation Discussion and Analysis**, section and the accompanying compensation tables and related narrative disclosure to properly evaluate Fuel Tech's approach to compensating the Company's executives.

For the reasons provided above, Fuel Tech recommends that the stockholders vote in favor of the following resolution:

RESOLVED, that the stockholders approve, on an advisory non-binding basis, the compensation of the Company's named executive officers, as disclosed in the Compensation Discussion and Analysis and the accompanying compensation tables and related narrative disclosure in this proxy statement.

**The Board of Directors recommends that you vote FOR this proposal to approve, on an advisory basis, the compensation of the Company's named executive officers.**

#### **AGENDA ITEM NO. 4 ADVISORY VOTE ON THE FREQUENCY OF THE EXECUTIVE COMPENSATION ADVISORY VOTE**

In addition to providing an advisory vote on our compensation program for our named executive officers, we are requesting stockholders to indicate their preference for the frequency with which these advisory votes should take place every one, two or three years. In 2011, and consistent with the Board's then recommendation to stockholders of an advisory vote every one year, the stockholders of the Company voted in favor of an annual frequency (every one year) for the non-binding advisory vote regarding executive compensation.

The stockholders preference for the frequency of the advisory vote or executive compensation is mandated by Section 951 of the Dodd-Frank Act and SEC regulations. Stockholders may indicate their preference on this advisory vote by choosing an annual, biennial or triennial vote frequency, or abstaining on this vote when stockholders vote in response to the resolution set forth below. We will ask stockholders not less than every six years whether they desire a different vote frequency on the advisory vote on our compensation program for our named executive officers.

In 2011, the Company's Board recommended an annual non-binding advisory vote frequency. In 2017, the Board continues that same recommendation that the stockholders approve that the Company provide for our stockholders a non-binding advisory vote on our named executive officer compensation program annually. We believe that an annual advisory vote on our compensation program for our named executive officers can create a greater opportunity for us to obtain information on stockholders' views of the compensation program of our named executive officers including the Company's compensation philosophy, policies and implementation approach. Thus, we believe that stockholders should support an annual advisory vote on executive compensation.

The option of one year, two years or three years that receives the highest number of votes cast by the stockholders will be the frequency for the advisory vote on named executive officer compensation that has been selected by stockholders. However, because this is an advisory vote, this proposal is not binding upon the Company in any way and the Company's Board of Directors may decide that it is in the best interests of stockholders and the Company to hold an advisory vote on executive compensation more or less frequently than



the option approved by the stockholders. The Board's Compensation Committee, which is responsible for approving our executive compensation program, and the Board of Directors value the opinions expressed by stockholders in their vote on this proposal, and will consider the outcome of the vote when making a decision about the frequency of future advisory votes on executive compensation.

**The Board of Directors recommends that you select ONE YEAR as your preference for the frequency with which our stockholders would have the opportunity to provide an advisory vote on the Company's named executive officer compensation.**

## GENERAL

### Section 16(a) Beneficial Ownership Reporting Compliance

Fuel Tech believes that all reports required to be filed under Section 16(a) of the Securities and Exchange Act of 1934 for the year 2016 were timely filed except that a Form 4 filing for Mr. Collins, due on March 23, 2016, was filed on April 18, 2016.

### Other Business

Management knows of no other matters that may properly be, or are likely to be, brought before the Annual Meeting other than those described in this Proxy Statement.

### Stockholder Proposals

Stockholder proposals intended for inclusion in the proxy statement and proxy to be mailed to all stockholders entitled to vote at the annual meeting of stockholders to be held in the year 2018 must be received in writing addressed to the Board of Directors or the Secretary of Fuel Tech at 27601 Bella Vista Parkway, Warrenville, IL 60555 on or before December 5, 2017 and, if not received by such date, may be excluded from the proxy materials. Any such proposal must meet the informational and other requirements set forth in the SEC's rules and regulations and our bylaws in order to be eligible for inclusion in the proxy materials for that meeting.

In addition, under our bylaws, if security holders intend to nominate directors or present proposals at the 2018 annual meeting other than through inclusion of such proposals in the proxy materials for that meeting, then Fuel Tech must receive notice of such nominations or proposals at 27601 Bella Vista Parkway, Warrenville, IL 60555 no earlier than January 18, 2018 and no later than February 17, 2018. Such notice must meet the informational and other requirements set forth in our bylaws in order to be presented at the 2018 annual meeting. If we do not receive notice by that date, then such proposals and nominees may not be presented at the 2018 annual meeting.

### Communicating With the Board of Directors

Any stockholder desiring to send a communication to the Board of Directors, or any individual director, may forward such communication to the Secretary to the address provided above for stockholder proposals. Under procedures fixed from time to time by the independent directors, the Secretary will collect and organize all such communications and forward them to the Board or individual director. Fuel Tech generally will not forward to the directors a communication that is primarily commercial in nature, relates to an improper or irrelevant topic, or requests general information regarding Fuel Tech.

### FUEL TECH, INC.

Albert G. Grigonis

Secretary

March [ ], 2017

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**APPENDIX A**  
**FORM OF AMENDMENT**  
**TO THE**  
**CERTIFICATE OF INCORPORATION**  
**OF**  
**FUEL TECH, INC.**

**Pursuant to Section 242 of the**  
**Delaware General Corporation Law**

The undersigned, being a duly authorized officer of Fuel Tech, Inc. (the Corporation), a corporation existing under the laws of the State of Delaware, does hereby certify as follows:

1. The name of the Corporation is Fuel Tech, Inc.
2. The Corporation's Certificate of Incorporation was filed in the office of the Secretary of State of the State of Delaware on September 25, 2006.
3. This Amendment to the Certificate of Incorporation amends the Certificate of Incorporation of the Corporation.
4. This Amendment to the Certificate of Incorporation was duly adopted by the affirmative vote of the holders of a majority of the stock entitled to vote at a meeting of stockholders in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.
5. The text of Paragraph 5 of the Certificate of Incorporation is hereby amended and restated in full as follows:

The corporation shall have authority to issue the total number of [ ( )] shares of the par value of \$0.01 per share, amounting in the aggregate to [ Dollars (\$ )], and of such shares [ ] ( ) shall be designated as common stock.

Effective at the time of filing of this Amendment to the Restated Certificate of Incorporation with the Secretary of State of the State of Delaware (the Effective Time), every[ ] shares of the Corporation's common stock, par value \$0.01 per share, issued and outstanding or held by the Corporation in treasury immediately prior to the Effective Time ( Old Common Stock ) shall, automatically and without any action on the part of the Corporation or the respective holders thereof, be combined and reclassified into one (1) share of common stock, par value, \$0.01 per share, of the Corporation ( New Common Stock ). Notwithstanding the immediately preceding sentence, no fractional shares of New Common Stock shall be issued in connection with the foregoing combination and reclassification of the Old Common Stock (such combination and reclassification, the Reverse Stock Split ) and, in lieu thereof, upon receipt after the Effective Time by the Corporation's transfer agent of a properly completed and duly executed transmittal letter and, where shares are held in certificated form, the surrender of the stock certificate(s) formerly representing shares of Old Common Stock, any stockholder who would otherwise be entitled to a fractional share of New Common Stock as a result of the Reverse Stock Split, following the Effective Time (after taking into account all fractional shares of New Common Stock otherwise issuable to such stockholder), shall be entitled to receive a cash payment (without interest) equal to the fractional share of New Common Stock to which such stockholder would otherwise be entitled multiplied

by the average of the closing sales prices of a share of the Corporation's common stock (as adjusted to give effect to the Reverse Stock Split) on the NASDAQ Global Market during regular trading hours for the five (5) consecutive trading days immediately preceding the date this Amendment to the Certificate of Incorporation is filed with the Secretary of State of the State of Delaware. Each stock certificate that, immediately prior to the Effective Time, represented shares of Old Common Stock shall, from and after the Effective Time, automatically and without any action on the part of the Corporation or the respective holders thereof, represent that number of whole shares of

New Common Stock into which the shares of Old Common Stock represented by such certificate shall have been combined and reclassified (as well as the right to receive cash in lieu of any fractional shares of New Common Stock as set forth above); *provided, however*, that each holder of record of a certificate that represented shares of Old Common Stock shall receive, upon surrender of such certificate, a new certificate representing the number of whole shares of New Common Stock into which the shares of Old Common Stock represented by such certificate shall have been combined and reclassified, as well as any cash in lieu of fractional shares of New Common Stock to which such holder may be entitled as set forth above.

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IN WITNESS WHEREOF, I have signed this Amendment to the Certificate of Incorporation this [ ] day of [ ], [ ] .

By:

Name:

Title:

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