

FUEL TECH, INC.
Form DEFA14A
May 10, 2011

SCHEDULE 14A INFORMATION
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)(4) 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:

(5) Total fee paid:

Fee paid previously with preliminary materials.

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:

FUEL TECH, INC.
Annual Meeting of Stockholders
May 19, 2011
Supplemental Information Regarding Item 2:
Approval of a Program Permitting the Exchange of
Certain Stock Options for Restricted Stock Units

Explanatory Note

Commencing on May 10, 2011, Fuel Tech, Inc. (the Company) sent the following communication to certain stockholders of the Company.

Purpose of the Outreach

At our annual meeting of stockholders to be held on May 19, 2011, the Company's stockholders will vote on whether to approve an exchange program pursuant to which eligible employees would be offered the opportunity to exchange eligible options for grants of restricted stock units (RSUs) at ratios determined by the Company's Compensation and Nominating Committee and intended to represent a value-for-value exchange (the Exchange Program). Item 2 in the Company's proxy materials includes further information regarding this proposal.

Two proxy advisory firms have recently issued voting recommendations with respect to the Exchange Program. We are pleased that Glass Lewis & Co. (Glass Lewis), an independent proxy advisory firm, has recommended that its clients vote FOR the Exchange Program proposal, although we see another proxy advisory firm, ISS Proxy Advisory Services (ISS), has recommended that its clients vote AGAINST this proposal.

We reviewed ISS's analysis of our proposal, and the reason they set out for recommending an AGAINST vote is that they do not consider it a value-for-value exchange. We believe the difference lies in the method and stock inputs they used. We want to explain why we believe our calculation is more appropriate, and why we urge you to follow our recommendation and the Glass Lewis recommendation and vote FOR the Exchange Program proposal.

Value-for-value exchange: our methodology

In our proxy statement dated April 5, 2011 we described the methods by which we proposed to calculate the value of options surrendered in the offer, and the value of the RSUs to be granted. These methods follow our financial statement disclosures according to generally accepted accounting principles (GAAP). Under these methods, we value stock options using appropriate valuation techniques which are widely accepted and stock price inputs as of the valuation date and expected volatility over the remaining expected term based on the historical volatility for a similar term ending on the valuation date. We value RSUs based on the stock price at the valuation date. For purposes of the Exchange Program, the valuation date is the most recent practicable date prior to commencement of the offer to exchange, and in the illustrative examples included in our proxy statement, we assumed a valuation date of March 31, 2011.

Value-for-value exchange: ISS methodology

For their analysis of our proposed Exchange Program we understand ISS used a binomial pricing model, using a stock price calculated as a 200 day average of prices ending on December 1, 2010 and volatility measured over the same period. RSUs are valued at the 200 day average price as well. The resulting stock price and volatility were both lower than we used, and resulted in the options having a lower value than we calculated, and the RSUs having a lower value than we used. Using these values, ISS calculated that under the illustrative exchange ratios we set forth in the proxy statement the aggregate value of the RSUs was greater than the aggregate value of the options surrendered.

Why we think our methodology is better:

We think our methodology is more appropriate for the following reasons:

Our method is consistent with GAAP and the way we will account for the exchange program when and if consummated.

Our method, and the method used in setting the actual terms of the offer, uses current stock information, rather than stale information.

Our method uses volatility measured for each tranche of options, resulting in a more accurate measure than the one-size-fits-all approach.

The use of a non-GAAP valuation method could result in the Company incurring compensation charges for financial statement purposes for the period in which the offer is consummated, depending on the values measured for GAAP purposes.

Simply put, we believe the valuation methods adopted by the Company will better reflect the current values of the stock options and RSUs than the values resulting from the use of ISS's proprietary model and December 1, 2010 measuring point.

Your vote is important. Our board of directors has recommended that you vote FOR the Exchange Program proposal approving the program permitting the exchange of certain stock options for restricted stock units.