

FutureFuel Corp.
Form 10-Q
August 09, 2011

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

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2011
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____

Commission file number: 0-52577

FUTUREFUEL CORP.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20-3340900
(IRS Employer Identification No.)

8235 Forsyth Blvd., Suite 400
St. Louis, Missouri 63105
(Address of Principal Executive Offices)

(805) 565-9800
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Edgar Filing: FutureFuel Corp. - Form 10-Q

Large accelerated
filer

Accelerated
filer

Non-accelerated filer

Smaller reporting
company

(do not check if a smaller reporting
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 9, 2011:
41,297,834

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

The following sets forth our unaudited consolidated balance sheet as at June 30, 2011, our audited consolidated balance sheet as at December 31, 2010, our unaudited consolidated statements of operations and comprehensive income for the three- and six-month periods ended June 30, 2011 and June 30, 2010, and our consolidated statements of cash flows for the six-month periods ended June 30, 2011 and June 30, 2010.

FutureFuel Corp.
Consolidated Balance Sheets
As at June 30, 2011 and December 31, 2010
(Dollars in thousands)

| | (Unaudited) June 30, 2011 | December 31, 2010 |
|--|------------------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$94,525 | \$91,057 |
| Accounts receivable, net of allowances of \$10 | 30,251 | 35,165 |
| Accounts receivable – related parties | 247 | - |
| Inventory | 40,376 | 37,372 |
| Income taxes receivable | - | 519 |
| Prepaid expenses | 854 | 1,240 |
| Marketable securities | 52,756 | 28,200 |
| Restricted cash and cash equivalents | - | 21,086 |
| Other current assets | 1,666 | 1,015 |
| Total current assets | 220,675 | 215,654 |
| Property, plant and equipment, net | 137,605 | 125,007 |
| Intangible assets | 38 | 94 |
| Other assets | 2,221 | 2,401 |
| Total noncurrent assets | 139,864 | 127,502 |
| Total Assets | \$360,539 | \$343,156 |
| Liabilities and Stockholders' Equity | | |
| Accounts payable | \$14,260 | \$14,628 |
| Accounts payable - related parties | 418 | 468 |
| Income taxes payable | 1,850 | - |
| Current deferred income tax liability | 4,831 | 4,661 |
| Deferred revenue – short-term | 1,726 | 1,758 |
| Short position – marketable debt securities | - | 19,295 |
| Accrued expenses and other current liabilities | 5,174 | 3,341 |
| Accrued expenses and other current liabilities - related parties | 32 | 8 |
| Total current liabilities | 28,291 | 44,159 |
| Deferred revenue – long-term | 29,712 | 17,118 |
| Contingent liability – long-term | 2,464 | 2,289 |
| Other noncurrent liabilities | 913 | 903 |
| Noncurrent deferred income tax liability | 26,945 | 26,364 |
| Total noncurrent liabilities | 60,034 | 46,674 |
| Total Liabilities | 88,325 | 90,833 |
| Commitments and contingencies | | |

Edgar Filing: FutureFuel Corp. - Form 10-Q

| | | |
|--|------------|------------|
| Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, none issued and outstanding | - | - |
| Common stock, \$0.0001 par value, 75,000,000 shares authorized, 41,297,834 and 39,978,849 issued and outstanding as of June 30, 2011 and December 31, 2010, respectively | 4 | 4 |
| Accumulated other comprehensive income | 959 | 525 |
| Additional paid in capital | 253,423 | 237,123 |
| Retained earnings | 17,828 | 14,671 |
| Total stockholders' equity | 272,214 | 252,323 |
| Total Liabilities and Stockholders' Equity | \$ 360,539 | \$ 343,156 |

The accompanying notes are an integral part of these financial statements.

FutureFuel Corp.
Consolidated Statements of Operations and Comprehensive Income
For the Three Months Ended June 30, 2011 and 2010
(Dollars in thousands, except per share amounts)
(Unaudited)

| | Three Months Ended June 30, | |
|---|-----------------------------|------------|
| | 2011 | 2010 |
| Revenues | \$73,963 | \$51,714 |
| Revenues – related parties | 765 | - |
| Cost of goods sold | 56,962 | 43,484 |
| Cost of goods sold – related parties | 1,407 | 895 |
| Distribution | 829 | 932 |
| Distribution – related parties | 101 | 101 |
| Gross profit | 15,429 | 6,302 |
| Selling, general and administrative expenses | | |
| Compensation expense (inclusive of \$502 and \$0 of stock based compensation for the three months ended June 30, 2011 and 2010, respectively) | 1,320 | 731 |
| Other expense | 521 | 409 |
| Related party expense | 71 | 35 |
| Research and development expenses | 861 | 886 |
| | 2,773 | 2,061 |
| Income from operations | 12,656 | 4,241 |
| Interest income | 811 | 222 |
| Interest expense | (36 |) (5 |
| Loss on marketable securities | (37 |) (4 |
| Other (expense) income | (22 |) 18 |
| | 716 | 231 |
| Income before income taxes | 13,372 | 4,472 |
| Provision for income taxes | 4,933 | 1,709 |
| Net income | \$8,439 | \$2,763 |
| Earnings per common share | | |
| Basic | \$0.21 | \$0.08 |
| Diluted | \$0.21 | \$0.07 |
| Weighted average shares outstanding | | |
| Basic | 40,234,242 | 36,773,695 |
| Diluted | 40,438,023 | 37,522,593 |
| Comprehensive Income | | |
| Net income | \$8,439 | \$2,763 |
| Other comprehensive loss, net of tax of \$(346) in 2011 and of \$(41) in 2010 | (553 |) (66 |
| Comprehensive income | \$7,886 | \$2,697 |

The accompanying notes are an integral part of these financial statements.

FutureFuel Corp.
Consolidated Statements of Operations and Comprehensive Income
For the Six Months Ended June 30, 2011 and 2010
(Dollars in thousands, except per share amounts)
(Unaudited)

| | Six Months Ended June 30, | |
|---|---------------------------|------------|
| | 2011 | 2010 |
| Revenues | \$ 126,179 | \$ 99,477 |
| Revenues – related parties | 3,790 | - |
| Cost of goods sold | 102,349 | 80,953 |
| Cost of goods sold – related parties | 5,610 | 2,363 |
| Distribution | 1,349 | 1,703 |
| Distribution – related parties | 234 | 215 |
| Gross profit | 20,427 | 14,243 |
| Selling, general and administrative expenses | | |
| Compensation expense (inclusive of \$502 and \$0 of stock based compensation for the six months ended June 30, 2011 and 2010, respectively) | 2,129 | 1,462 |
| Other expense | 691 | 905 |
| Related party expense | 119 | 70 |
| Research and development expenses | 1,614 | 1,786 |
| | 4,553 | 4,223 |
| Income from operations | 15,874 | 10,020 |
| Interest income | 1,587 | 344 |
| Interest expense | (170) | (11) |
| Gain/(loss) on marketable securities | 58 | (4) |
| Other (expense) income | (27) | 42 |
| | 1,448 | 371 |
| Income before income taxes | 17,322 | 10,391 |
| Provision for income taxes | 6,169 | 3,969 |
| Net income | \$ 11,153 | \$ 6,422 |
| Earnings per common share | | |
| Basic | \$ 0.28 | \$ 0.19 |
| Diluted | \$ 0.28 | \$ 0.19 |
| Weighted average shares outstanding | | |
| Basic | 40,109,268 | 33,040,280 |
| Diluted | 40,285,249 | 34,261,022 |
| Comprehensive Income | | |
| Net income | \$ 11,153 | \$ 6,422 |
| Other comprehensive income, net of tax of \$272 in 2011 and of \$37 in 2010 | 434 | 60 |
| Comprehensive income | \$ 11,587 | \$ 6,482 |

The accompanying notes are an integral part of these financial statements.

FutureFuel Corp.
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2011 and 2010
(Dollars in thousands)
(Unaudited)

| | Six Months Ended June 30, | |
|---|---------------------------|----------|
| | 2011 | 2010 |
| Cash flows provided by operating activities | | |
| Net income | \$11,153 | \$6,422 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 3,884 | 3,803 |
| Provision for (benefit from) deferred income taxes | 478 | (253) |
| Change in fair value of derivative instruments and marketable securities | 984 | (430) |
| Loss on the sale of investments | 148 | 4 |
| Losses on disposals of fixed assets | 27 | 42 |
| Stock based compensation | 502 | - |
| Noncash interest expense | 11 | 11 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 4,915 | (1,715) |
| Accounts receivable – related parties | (247) | - |
| Inventory | (3,004) | (2,843) |
| Income taxes receivable | 519 | 112 |
| Prepaid expenses | 386 | 537 |
| Prepaid expenses – related parties | - | 23 |
| Accrued interest on marketable securities | (123) | (5) |
| Other assets | 274 | 194 |
| Accounts payable | (368) | (4,281) |
| Accounts payable – related parties | (50) | (284) |
| Income taxes payable | 1,849 | - |
| Accrued expenses and other current liabilities | 1,832 | 1,856 |
| Accrued expenses and other current liabilities – related parties | 23 | (47) |
| Deferred revenue | 11,602 | 4,647 |
| Other noncurrent liabilities | - | 21 |
| Net cash provided by operating activities | 34,795 | 7,814 |
| Cash flows from investing activities | | |
| Restricted cash | 21,086 | - |
| Collateralization of derivative instruments | (1,920) | 9 |
| Purchase of marketable securities | (70,072) | (6,034) |
| Proceeds from the sale of marketable securities | 27,090 | 425 |
| Proceeds from the sale of fixed assets | 12 | - |
| Capital expenditures | (15,325) | (3,896) |
| Net cash used in investing activities | (39,129) | (9,496) |
| Cash flows from financing activities | | |
| Proceeds from the issuance of stock | 15,798 | 67,994 |
| Purchase of warrants | - | (878) |
| Payment of dividend | (7,996) | (15,062) |
| Net cash provided by financing activities | 7,802 | 52,054 |
| Net change in cash and cash equivalents | 3,468 | 50,372 |

Edgar Filing: FutureFuel Corp. - Form 10-Q

| | | |
|--|----------|-----------|
| Cash and cash equivalents at beginning of period | 91,057 | 65,512 |
| Cash and cash equivalents at end of period | \$94,525 | \$115,884 |
| Cash paid for interest | \$- | \$- |
| Cash paid for income taxes | \$2,857 | \$4,090 |
| Non-cash capital expenditures | \$1,134 | \$- |

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)
(Unaudited)

1) Nature of operations and basis of presentation

FutureFuel Corp.

Viceroy Acquisition Corporation (“Viceroy”) was incorporated under the laws of the state of Delaware on August 12, 2005 to serve as a vehicle for the acquisition by way of asset acquisition, merger, capital stock exchange, share purchase or similar transaction of one or more operating businesses in the oil and gas industry. On July 12, 2006 Viceroy completed an equity offering.

On July 21, 2006, Viceroy entered into an acquisition agreement with Eastman Chemical Company (“Eastman Chemical”) to purchase all of the issued and outstanding stock of Eastman SE, Inc. (“Eastman SE”). On October 27, 2006, a special meeting of the shareholders of Viceroy was held and the acquisition of Eastman SE was approved by the shareholders. On October 31, 2006, Viceroy acquired all of the issued and outstanding shares of Eastman SE from Eastman Chemical. Immediately subsequent to the acquisition, Viceroy changed its name to FutureFuel Corp. (“FutureFuel”) and Eastman SE changed its name to FutureFuel Chemical Company (“FutureFuel Chemical”).

Eastman SE, Inc.

Eastman SE was incorporated under the laws of the state of Delaware on September 1, 2005 and subsequent thereto operated as a wholly-owned subsidiary of Eastman Chemical through October 31, 2006. Eastman SE was incorporated for purposes of affecting a sale of Eastman Chemical’s manufacturing facility in Batesville, Arkansas (the “Batesville Plant”). Commencing January 1, 2006, Eastman Chemical began transferring the assets associated with the business of the Batesville Plant to Eastman SE.

The Batesville Plant was constructed to produce proprietary photographic chemicals for Eastman Kodak Company (“Eastman Kodak”). Over the years, Eastman Kodak shifted the plant’s focus away from the photographic imaging business to the custom synthesis of fine chemicals and organic chemical intermediates used in a variety of end markets, including paints and coatings, plastics and polymers, pharmaceuticals, food supplements, household detergents, and agricultural products.

In 2005, the Batesville Plant began the implementation of a biobased products platform. This includes the production of biofuels (biodiesel) and biobased specialty chemical products (biobased solvents, chemicals, and intermediates). In addition to biobased products, the Batesville Plant continues to manufacture fine chemicals and other organic chemicals.

The accompanying consolidated financial statements have been prepared by FutureFuel in accordance and consistent with the accounting policies stated in FutureFuel’s 2010 audited consolidated financial statements and should be read in conjunction with the 2010 audited consolidated financial statements of FutureFuel.

In the opinion of FutureFuel, all normal recurring adjustments necessary for a fair presentation have been included in the unaudited consolidated financial statements. The unaudited consolidated financial statements have been prepared in compliance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) accounting principles generally accepted in the United States for interim financial information and with instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, the financial statements do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements, and do include amounts that are based upon management estimates and

judgments. Future actual results could differ from such current estimates. The unaudited consolidated financial statements include assets, liabilities, revenues, and expenses of FutureFuel and its wholly owned subsidiaries, FutureFuel Chemical and FFC Grain, L.L.C. Intercompany transactions and balances have been eliminated in consolidation.

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)
(Unaudited)

2) Inventories

The carrying values of inventory were as follows as of:

| | June 30, 2011 | December 31, 2010 |
|---|---------------|-------------------|
| At average cost (approximates current cost) | | |
| Finished goods | \$ 15,513 | \$ 6,659 |
| Work in process | 2,118 | 1,999 |
| Raw materials and supplies | 37,385 | 36,652 |
| | 55,016 | 45,310 |
| LIFO reserve | (14,640) | (7,938) |
| Total inventories | \$ 40,376 | \$ 37,372 |

3) Derivative instruments

FutureFuel is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is commodity price risk. Regulated fixed price futures and option contracts are utilized to manage the price risk associated with future purchases of feedstock used in FutureFuel's biodiesel production along with physical feedstock and finished product inventories attributed to this process.

FutureFuel recognizes all derivative instruments as either assets or liabilities at fair value in its consolidated balance sheet. FutureFuel's derivative instruments do not qualify for hedge accounting under the specific guidelines of ASC 815-20-25, Derivatives and Hedging, Hedging-General, Recognition. While management believes each of these instruments are entered into in order to effectively manage various risks, none of the derivative instruments are designated and accounted for as hedges primarily as a result of the extensive record keeping requirements.

The fair value of FutureFuel's derivative instruments is determined based on the closing prices of the derivative instruments on relevant commodity exchanges at the end of an accounting period. Changes in fair value of the derivative instruments are recorded in the statement of operations as a component of cost of goods sold, and amounted to a gain of \$1,957 and \$1,876 for the three months ended June 30, 2011 and 2010, respectively, and a loss of \$1,793 and a gain of \$1,477 for the six months ended June 30, 2011 and 2010, respectively.

The volumes and carrying values of FutureFuel's derivative instruments were as follows at:

| | Asset/(Liability) | | | |
|--|--|-------------|--|-------------|
| | June 30, 2011 | | December 31, 2010 | |
| | Quantity (Contracts) Long/ (Short) | Fair Value | Quantity (Contracts) Long/ (Short) | Fair Value |
| Regulated options, included in other current assets | (175) | \$ (2,353) | (225) | \$ (1,620) |
| Regulated fixed price future commitments, included in other current assets | (65) | \$ (469) | (44) | \$ (29) |

The margin account maintained with a broker to collateralize these derivative instruments carried an account balance of \$4,149 and \$2,230 at June 30, 2011 and December 31, 2010, respectively. The carrying values of the margin

account and of the derivative instruments are included, net, in other current assets.

7

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)
(Unaudited)

4) Marketable securities

At June 30, 2011 and December 31, 2010, FutureFuel had investments in certain preferred stock, trust preferred securities, and other equity instruments. These investments have been classified as current assets in the accompanying consolidated balance sheet. FutureFuel has designated these securities as being available-for-sale. Accordingly, they are recorded at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders' equity. The amortized cost, unrealized gains, unrealized losses, and fair value of these securities totaled \$51,198, \$2,331, \$(773), and \$52,756, respectively, at June 30, 2011. The amortized cost, unrealized gains, unrealized losses, and fair value of these securities totaled \$27,348, \$1,056, \$(204), and \$28,200, respectively, as December 31, 2010.

At December 31, 2010, FutureFuel had a short position in certain marketable debt securities. No such position existed at June 30, 2011. The purpose of this position was to help mitigate the potential negative impact an increase in interest rates would have had on other marketable securities FutureFuel has purchased. The securities comprising this position were carried at fair value, with unrealized gains and losses reported as a component of net income. The amortized cost, unrealized gains, unrealized losses, and fair value, including accrued interest, of these securities totaled \$(19,107), \$0, \$(188), and \$(19,295), respectively, at December 31, 2010. The margin account maintained with a broker to collateralize these securities carried a balance of \$21,086 at December 31, 2010 and was classified as restricted cash and cash equivalents in the consolidated balance sheet.

5) Accrued expenses and other current liabilities

Accrued expenses and other current liabilities, including those associated with related parties, consisted of the following at:

| | June 30, 2011 | December 31, 2010 |
|---|---------------|-------------------|
| Accrued employee liabilities | \$ 3,660 | \$ 1,727 |
| Accrued property, use and franchise taxes | 1,546 | 1,174 |
| Other | - | 448 |
| Total | \$ 5,206 | \$ 3,349 |

6) Borrowings

In March 2007 FutureFuel Chemical entered into a \$50 million credit agreement with a commercial bank. The loan is a revolving facility the proceeds of which may be used for working capital, capital expenditures, and the general corporate purposes of FutureFuel Chemical. The facility terminates on June 30, 2013. Advances are made pursuant to a borrowing base comprised of 85% of eligible accounts plus 60% of eligible direct inventory plus 50% of eligible indirect inventory. Advances are secured by a perfected first priority security interest in accounts receivable and inventory. The interest rate floats at certain margins over the London Interbank Offered Rate ("LIBOR") or base rate based upon the leverage ratio from time to time as set forth in the following table.

| Leverage Ratio | Base Rate Margin | LIBOR Margin |
|-------------------|---------------------|-----------------|
| > 3 | -0.55% | 1.70% |
| > 2 < 3 | -0.70% | 1.55% |
| > 1 < 2 | -0.85% | 1.40% |
| < 1 | -1.00% | 1.25% |

There is an unused commitment fee of 0.325% per annum. On the last day of each fiscal quarter, the ratio of EBITDA to fixed charges may not be less than 3:1. FutureFuel has guaranteed FutureFuel Chemical's obligations under this credit agreement.

There were no borrowings at June 30, 2011 or December 31, 2010.

8

Edgar Filing: FutureFuel Corp. - Form 10-Q

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)
(Unaudited)

7) Provision for income taxes

| | For the three months ended June 30, | | For the six months ended June 30, | |
|----------------------------|-------------------------------------|----------|-----------------------------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Provision for income taxes | \$ 4,933 | \$ 1,709 | \$ 6,169 | \$ 3,969 |
| Effective tax rate | 36.9 % | 38.2 % | 35.6 % | 38.2 % |

The effective tax rates for the three and six months ended June 30, 2011 and 2010 reflect FutureFuel's expected tax rate on reported operating earnings before income tax.

FutureFuel has no unrecognized tax benefits at June 30, 2011 or December 31, 2010.

FutureFuel records interest and penalties net as a component of income tax expense. FutureFuel had no accrual for interest or tax penalties at June 30, 2011 or December 31, 2010.

FutureFuel and its subsidiary, FutureFuel Chemical, file tax returns in the U.S. federal jurisdiction and with various state jurisdictions. FutureFuel was incorporated in 2005 and is subject to U.S., state, and local examinations by tax authorities from 2007 forward. FutureFuel Chemical is subject to the effects of tax examinations that may impact the carry-over basis of its assets and liabilities.

8) Earnings per share

The computation of basic and diluted earnings per common share was as follows:

| | For the three months ended June 30, | | For the six months ended June 30, | |
|--|-------------------------------------|------------|-----------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income available to common stockholders | \$ 8,439 | \$ 2,763 | \$ 11,153 | \$ 6,422 |
| Weighted average number of common shares outstanding | 40,234,242 | 36,773,695 | 40,109,268 | 33,040,280 |
| Effect of warrants | - | 721,575 | - | 1,193,092 |
| Effect of stock options | 203,781 | 27,323 | 175,981 | 27,650 |
| Weighted average diluted number of common shares outstanding | 40,438,023 | 37,522,593 | 40,285,249 | 34,261,022 |
| Basic earnings per share | \$ 0.21 | \$ 0.08 | \$ 0.28 | \$ 0.19 |
| Diluted earnings per share | \$ 0.21 | \$ 0.07 | \$ 0.28 | \$ 0.19 |

Certain options to purchase shares of FutureFuel's common stock were not included in the computation of diluted earnings per share for the three and six months ended June 30, 2011 and 2010 as they were anti-dilutive. The weighted average number of options excluded on this basis was 60,000 and 120,000 for the three and six month periods ended June 30, 2011, respectively. The weighted average number of options excluded on this basis was 285,500 and 283,000 for the three and six month periods ended June 30, 2010, respectively.

9) Segment information

FutureFuel has determined that it has two reportable segments organized along product lines – chemicals and biofuels.

9

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)
(Unaudited)

Chemicals

FutureFuel's chemicals segment manufactures diversified chemical products that are sold externally to third party customers. This segment comprises two components: "custom manufacturing" (manufacturing chemicals for specific customers); and "performance chemicals" (multi-customer specialty chemicals).

Biofuels

FutureFuel's biofuels business segment manufactures and markets biodiesel. Biodiesel revenues are generated through the sale of biodiesel to customers through FutureFuel's distribution network at the Batesville Plant and through distribution facilities available at a leased oil storage facility near Little Rock, Arkansas at negotiated prices.

Summary of long-lived assets and revenues by geographic area

All of FutureFuel's long-lived assets are located in the U.S.

Most of FutureFuel's sales are transacted with title passing at the time of shipment from the Batesville Plant, although some sales are transacted based on title passing at the delivery point. While many of FutureFuel's chemicals are utilized to manufacture products that are shipped, further processed, and/or consumed throughout the world, the chemical products, with limited exceptions, generally leave the United States only after ownership has transferred from FutureFuel to the customer. Rarely is FutureFuel the exporter of record, never is FutureFuel the importer of record into foreign countries, and FutureFuel is not always aware of the exact quantities of its products that are moved into foreign markets by its customers. FutureFuel does track the addresses of its customers for invoicing purposes and uses this address to determine whether a particular sale is within or without the United States. FutureFuel's revenues attributable to the United States and foreign countries (based upon the billing addresses of its customers) were as follows:

| Three Months Ended | United States | All Foreign Countries | Total |
|--------------------|---------------|--------------------------|-----------|
| June 30, 2011 | \$ 73,512 | \$ 1,216 | \$ 74,728 |
| June 30, 2010 | \$ 47,011 | \$ 4,703 | \$ 51,714 |

| Six Months Ended | United States | All Foreign Countries | Total |
|------------------|---------------|--------------------------|------------|
| June 30, 2011 | \$ 125,089 | \$ 4,880 | \$ 129,969 |
| June 30, 2010 | \$ 89,940 | \$ 9,537 | \$ 99,477 |

For the three months ended June 30, 2011 and 2010, revenues from Mexico accounted for 1% and 8%, respectively, of total revenues. For the six months ended June 30, 2011 and 2010, revenues from Mexico accounted for 3% and 9%, respectively, of total revenues. Other than Mexico, revenues from a single foreign country during the three or six months ended June 30, 2011 and 2010 did not exceed 1% of total revenues.

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)
(Unaudited)

Summary of business by segment

| | For the three months ended June 30, | | For the six months ended June 30, | |
|----------------------------------|-------------------------------------|-----------|-----------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues | | | | |
| Chemicals | \$ 36,851 | \$ 40,255 | \$ 81,547 | \$ 83,857 |
| Biofuels | 37,877 | 11,459 | 48,422 | 15,620 |
| Revenues | \$ 74,728 | \$ 51,714 | \$ 129,969 | \$ 99,477 |
| Segment gross profit | | | | |
| Chemicals | \$ 7,068 | \$ 8,706 | \$ 14,842 | \$ 17,932 |
| Biofuels | 8,361 | (2,404) | 5,585 | (3,689) |
| Segment gross margins | 15,429 | 6,302 | 20,427 | 14,243 |
| Corporate expenses | (2,773) | (2,061) | (4,553) | (4,223) |
| Income before interest and taxes | 12,656 | 4,241 | 15,874 | 10,020 |
| Interest and other income | 811 | 240 | 1,645 | 386 |
| Interest and other expense | (95) | (9) | (197) | (15) |
| Provision for income taxes | (4,933) | (1,709) | (6,169) | (3,969) |
| Net income | \$ 8,439 | \$ 2,763 | \$ 11,153 | \$ 6,422 |

Depreciation is allocated to segment costs of goods sold based on plant usage. The total assets and capital expenditures of FutureFuel have not been allocated to individual segments as large portions of these assets are shared to varying degrees by each segment, causing such an allocation to be of little value.

10) Fair value measurements

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Fair value accounting pronouncements also include a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of FutureFuel. Unobservable inputs are inputs that reflect FutureFuel's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy is broken down into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

FutureFuel's short position on marketable debt securities has been classified within level 2 as the valuation inputs are indirectly observable for the liability.

The following tables provide information by level for assets and liabilities that are measured at fair value, on a recurring basis, at June 30, 2011 and December 31, 2010.

Edgar Filing: FutureFuel Corp. - Form 10-Q

| Description | Fair Value at June 30, 2011 | Asset/(Liability) Fair Value Measurements Using Inputs Considered as | | |
|---|-----------------------------------|--|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Derivative instruments | \$ (2,822) | \$ (2,822) | \$ - | \$ - |
| Preferred stock, trust preferred securities, and other equity instruments | \$ 52,756 | \$ 52,756 | \$ - | \$ - |

| Description | Fair Value at December 31, 2010 | Asset/(Liability) Fair Value Measurements Using Inputs Considered as | | |
|---|---------------------------------------|--|--------------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Derivative instruments | \$ (1,649) | \$ (1,649) | \$ - | \$ - |
| Preferred stock, trust preferred securities, and other equity instruments | \$ 28,200 | \$ 28,200 | \$ - | \$ - |
| Short position on marketable debt securities | \$ (19,295) | \$ - | \$ (19,295) | \$ - |

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)
(Unaudited)

11) Related party transactions

FutureFuel enters into transactions with companies affiliated with or controlled by a director and significant shareholder. Revenues, expenses, prepaid amounts and unpaid amounts related to these transactions are captured in the accompanying consolidated financial statements of FutureFuel as related party line items.

Related party revenues are the result of sales of biodiesel, petrodiesel and blends to these related parties.

Related party cost of goods sold and distribution are the result of sales of biodiesel, petrodiesel and blends to these related parties along with the associated expense from the purchase of natural gas, storage and terminalling services and income tax and consulting services by FutureFuel from these related parties.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with our consolidated financial statements, including the notes thereto, set forth herein. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements. See "Forward Looking Information" below for additional discussion regarding risks associated with forward-looking statements.

Results of Operations

In General

We break our chemicals business into two main product groups: custom manufacturing and performance chemicals. Custom manufacturing consists of products made for specific customers based upon specifications provided by such customers. Major products in the custom manufacturing group include:

(i) nonanoyloxybenzene-sulfonate, a bleach activator manufactured exclusively for The Procter & Gamble Company for use in a household detergent and (ii) a proprietary herbicide (and intermediates) manufactured exclusively for Arysta LifeScience North America Corporation. The custom manufacturing group also includes agrochemicals as well as industrial and consumer products (cosmetics and personal care products, ink colorants, adhesion promoters, polymer additives, polymer and specialty dyes, specialty polymers, photographic and imaging chemicals, and food additives).

Revenues generated from the bleach activator are based on a supply agreement with the customer. The supply agreement stipulates selling price per kilogram based on volume sold, with price moving up as volumes move down, and vice-versa. The current contract expires in March 2013. We pay for raw materials required to produce the bleach activator. The contract with the customer provides that the price received by us for the bleach activator is indexed to changes in certain items, enabling us to pass along most inflationary increases in production costs to the customer. In the second quarter of 2011, we received notification from the customer of the bleach activator stating their intention to reduce the quantities of the bleach activator they purchase beginning as soon as possible from the date of such notice. The amount of such decrease was not stated. We are working collaboratively with our customer to assess their future demand, which demand may continue to decline. The financial impact of any such decline is not known at this time.

We have been the primary manufacturer for our customer of a proprietary herbicide and certain intermediates. These products are facing generic competition, and no assurances can be given that we will remain the primary manufacturer for this product line. The contract automatically renews for successive one-year periods, subject to the right of either party to terminate the contract not later than 270 days prior to the end of the then current term. No assurances can be given that this contract will not be terminated. The customer supplies most of the key raw materials for production of the proprietary herbicide. There is no pricing mechanism or specific protection against cost changes for raw materials or conversion costs that we are responsible for purchasing and/or providing.

In 2008, we entered into a contract with a new customer for the toll manufacture of an industrial intermediate utilized in the antimicrobial industry. We invested approximately \$10 million in capital expenditures to modify and expand our plant to produce this industrial intermediate. The customer reimbursed these expenditures, which reimbursements have been classified as deferred revenue on our balance sheet and will be earned into income over the expected life of the product. The contract stipulates a price curve based on volumes sold and has an inflationary pricing provision whereby we pass along most inflationary changes in production costs to the customer. The contract expires in December 2013.

Pricing for the other custom manufacturing products is negotiated directly with the customer. Some, but not all, of these products have pricing mechanisms and/or protections against raw material or conversion cost changes.

Performance chemicals consist of specialty chemicals that are manufactured to general market-determined specifications and are sold to a broad customer base. The major product line in the performance chemicals group is SSIPA/LiSIPA, a polymer modifier that aids the properties of nylon. This group of products also includes sulfonated monomers and hydrotropes, specialty solvents, polymer additives, and chemical intermediates.

SSIPA/LiSIPA revenues are generated from a diverse customer base of nylon fiber manufacturers and other customers that produce condensation polymers. Contract sales are indexed to key raw materials for inflation; otherwise, there is no pricing mechanism or specific protection against raw material or conversion cost changes.

Pricing for the other performance chemical products is established based upon competitive market conditions. Some, but not all, of these products have pricing mechanisms and/or specific protection against raw material or conversion cost changes.

We procure all of our own feedstock and only sell biodiesel for our own account. In rare instances, we purchase biodiesel from other producers for resale. We have the capability to process multiple types of vegetable oils and animal fats, we can receive feedstock by rail or truck, and we have completed the construction of substantial storage capacity to acquire feedstock at advantaged prices when market conditions permit. In 2009, we completed a project to increase our production nameplate capacity to 59 million gallons of biodiesel per year through the addition of a new continuous processing line. We initiated commercial production from this new line in May 2009. By the end of the second quarter of 2009, daily production volumes from the new processing line were demonstrated at approximately 80% of nameplate capacity. This production line was designed to produce biodiesel from feedstock with low fatty acids. We believe we successfully demonstrated our ability to keep this continuous processing line at or near capacity for sustained periods of time as well as our ability to procure and logistically handle large quantities of feedstock with low fatty acids. However, with the expiration of the \$1.00 federal blenders' credit at the end of 2009, we determined that feedstock with low fatty acids were too costly to consistently produce biodiesel with positive margins. Accordingly, we redesigned our continuous line to produce biodiesel from feedstock with high fatty acids. We are currently producing at approximately 50% of our nameplate capacity of 59 million gallons per year. We are still in the process of debugging and optimizing the production process to increase the output of the plant.

There currently is uncertainty as to whether we will produce biodiesel in the future. This uncertainty results from: (i) changes in feedstock prices relative to biodiesel prices; (ii) continuance of the \$1.00 per gallon federal blenders' tax credit, which credit terminates on December 31, 2011; and (iii) the permanency of government mandates. See "Risk Factors" below.

While biodiesel is the principal component of the biofuels segment, we also generate revenue from the sale of petrodiesel both in blends with our biodiesel and, from time to time, with no biodiesel added. Petrodiesel and biodiesel blends are available to customers at our leased storage facility in North Little Rock, Arkansas. In addition, we deliver blended product to a small group of customers within our region. We also sell refined petroleum products from time to time to maintain our status as a shipper on a common carrier pipeline.

The majority of our expenses are cost of goods sold. Cost of goods sold include raw material costs as well as both fixed and variable conversion costs, conversion costs being those expenses that are directly or indirectly related to the operation of our plant. Significant conversion costs include labor, benefits, energy, supplies, depreciation, and maintenance and repair. In addition to raw material and conversion costs, cost of goods sold includes environmental reserves and costs related to idle capacity. Finally, cost of goods sold includes hedging gains and losses recognized by us related to our biofuels segment. Cost of goods sold is allocated to the chemicals and biofuels business segments based on equipment and resource usage for most conversion costs and based on revenues for most other costs.

Operating costs include selling, general and administrative, and research and development expenses.

The discussion of results of operations that follows is based on revenues and expenses in total and for individual product lines and do not differentiate related party transactions.

Revenues

Revenues for the three months ended June 30, 2011 were \$74,728,000 as compared to revenues for the three months ended June 30, 2010 of \$51,714,000, an increase of 45%. Revenues from our biofuels segment increased 231% and accounted for 51% of total revenues in 2011 as compared to 22% in 2010. Revenues from our chemicals segment decreased 8% and accounted for 49% of total revenues as compared to 78% in 2010.

Historically, the revenues for the bleach activator and the proprietary herbicide together have been the most significant components of our revenue base. In the three months ended June 30, 2011, these products accounted for 32% of revenues as compared to 51% for the three months ended June 30, 2010. Revenues for the bleach activator decreased approximately 27% in the second quarter of 2011 as compared to the second quarter of 2010. We are unable to predict with certainty the revenues we will receive from this product in the future as the customer has stated that they intend to decrease purchases, but the quantity of such decrease has not been specified. Further, the future volumes of and revenues from the bleach activator depend on both customer demand for the product containing the bleach activator and the manufacturing, sales, and marketing priorities of our customer. With respect to the proprietary herbicide revenues increased approximately 33% in the second quarter of 2011 as compared to the second quarter of 2010.

Revenues from other chemical products decreased approximately 22% in the second quarter of 2011 as compared to the second quarter of 2010. This decrease is almost entirely due to production ceasing on one product which we campaigned for a customer in 2010. We do not know if we will produce the product for this customer in the future. Revenues from proprietary chemicals increased approximately 26% in the three months ended June 30, 2011 compared to the three months ended June 30, 2010.

Revenues from biofuels increased from \$11,459,000 in the three months ended June 30, 2010 to \$37,877,000, an increase of 231%. The reinstatement of the \$1.00 per gallon federal blender's credit in December 2010 along with the government mandated renewable fuel standard combined to improve the economics of biodiesel and demand and production increased in 2011 relative to 2010. Additionally, we have continued to develop our regional fuel distribution business.

Cost of Goods Sold and Distribution

Total cost of goods sold and distribution for the second quarter of 2011 totaled \$59,299,000. This represented an increase of 31% over the second quarter of 2010.

Cost of goods sold and distribution for the second quarter of 2011 for our chemicals segment were \$29,783,000 as compared to cost of goods sold and distribution for the second quarter of 2010 of \$31,549,000, a decrease of 6%. On a percentage basis, the 6% decrease in cost of goods sold and distribution is slightly lower than the 8% decrease in chemicals segment revenues. This difference is attributable to differences in product mix from 2010 to 2011 and from cost increases which we could not pass along to our customers.

Cost of good sold and distribution for the second quarter of 2011 for our biofuel segment totaled \$29,516,000 as compared to cost of goods sold and distribution for the second quarter of 2010 of \$13,863,000, an increase of 113%. On a percentage basis, cost of goods sold and distribution increased 113% versus an increase in revenues of 231%. This difference is largely attributable to the \$1.00 per gallon federal blender's credit being allowed in the second quarter of 2011 when it was not in the second quarter of 2010. This blender's credit is one of the reasons that the production of biodiesel was profitable in the second quarter of 2011 compared to the second quarter of 2010. We continue to acquire feedstock and produce biodiesel as this credit is effective through December 31, 2011. If the credit is not extended beyond the end of this year, our biofuels segment could be materially and adversely affected.

Operating Expenses

Operating expenses increased 35% from \$2,061,000 in the three months ended June 30, 2010 to \$2,773,000 in the three months ended June 30, 2011, an increase of \$712,000. This increase is primarily attributable to the increase in compensation expense, which increased from \$731,000 for the three months ended June 30, 2010 to \$1,320,000 for the three months ended June 30, 2011. This increase in compensation expense was primarily the result of \$502,000 in expense being recognized in the three months ended June 30, 2011 for stock option compensation expense. Options for 120,000 shares of stock were granted in the second quarter of 2011. No such options were granted in the second quarter of 2010.

Provision for Income Taxes

The effective tax rates for the three months ended June 30, 2011 and 2010 reflect our expected tax rate on reported operating earnings before income taxes. We have determined that we do not believe that we have a more likely than not probability of realizing a portion of our deferred tax assets. As such, we have recorded a valuation allowance of \$329,000 at June 30, 2011 and \$277,000 at December 31, 2010.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Revenues

Revenues for the six months ended June 30, 2011 were \$129,969,000 as compared to revenues for the six months ended June 30, 2010 of \$99,477,000, an increase of 31%. Revenues from the biofuels segment increased from \$15,620,000 for the six months ended June 30, 2010 to \$48,422,000 for the six months ended June 30, 2011, an increase of 210%. Revenues from the chemicals segment decreased to \$81,547,000 from \$83,857,000, a decrease of 3%.

Revenues from the bleach activator and the proprietary herbicide, which have historically combined to comprise the most significant components of our revenue base, accounted for 39% of our revenues for the six months ended June 30, 2011. In the six months ended June 30, 2010, these products together accounted for 55% of our revenues. Revenues from the bleach activator decreased approximately 18% for the six months ended June 30, 2011 as compared to the six months ended June 30, 2010. We are unable to predict with certainty the revenues we will receive from this product in the future as the customer has stated that they intend to decrease purchases, but the quantity of such decrease has not been specified. Further, the future volume of and revenues from the bleach activator depend both on consumer demand for the product containing the bleach activator and the manufacturing, sales, and marketing priorities of our customer. With respect to the proprietary herbicide revenues increased approximately 17% in the first half of 2011 as compared to the first half of 2010.

Revenues from other chemical products remained relatively constant in the first half of 2011 as compared to the first half of 2010. The first half of 2010 revenues were benefited by the campaign production of a product for a certain customer. This production ceased in early 2011. We do not know if this production will resume in the future. Revenues from proprietary chemicals increased approximately 31% in the first half of 2011 as compared to the first half of 2010. This increase is largely attributable to increased sales of SSIPA, which are the result of our concerted effort to expand our proprietary chemicals business.

The reinstatement of the \$1.00 federal blender's credit in December 2010 along with the government mandated renewable fuels standard combined to improve the economics of biodiesel and demand and production increased in 2011 relative to 2010. This has resulted in growth in our biofuels segment, growth that we will work to continue throughout the second half of the year.

Cost of Goods Sold and Distribution

Total cost of goods sold and distribution expense for the first half of 2011 totaled \$109,542,000, an increase of 29% from the first half of 2010.

Cost of goods sold and distribution for the first half of 2011 for our chemicals segment totaled \$66,704,000. This represents a 1% increase over the total seen in the first half of 2010. On a percentage basis, this does not match the 3% reduction in revenues from the chemicals segment for the first half of 2011. This differential is primarily the result of the incurrence of certain expenditures that we have not been able to pass on to our customers.

Cost of goods sold and distribution for the first half of 2011 for our biofuels segment totaled \$42,838,000. This total exceeds the cost of goods sold and distribution expense for the first half of 2010 by \$23,529,000. This represents a 122% increase from the 2010 expenditures. On a percentage basis, this 122% increase is less than the 210% increase in revenues for the first half of the current year. This difference is directly attributable to the reinstatement of the \$1.00 federal blender's credit in December 2010. The reinstatement of this credit improved the economics of the biodiesel business. We continue to acquire feedstock and produce biodiesel as this credit is effective through December 31, 2011. If the credit is not extended beyond the end of this year, our biofuels segment could be materially and adversely affected.

Operating Expenses

Operating expenses increased \$330,000 in the six months ended June 30, 2011 as compared to the six months ended June 30, 2010. Operating expenses totaled \$4,553,000 in the first half of 2011 and \$4,223,000 in the first half of 2010, an 8% increase. This increase was primarily attributable to the expense related to the 120,000 stock options which were granted in the first half of 2011. \$502,000 of expense, which is the estimated grant date fair value of those options, was recorded as a result of this grant. No such options were granted in the comparable period in the prior year. This increase was partially offset by relatively minor decreases in research and development expenses and other expense.

Provision for Income Taxes

The effective tax rates for the six months ended June 30, 2011 and 2010 reflect our expected tax rate on reported operating earnings before income taxes. We have determined that we do not believe that we have a more likely than not probability of realizing a portion of our deferred tax assets. As such, we have recorded a valuation allowance of \$329,000 at June 30, 2011 and \$277,000 at December 31, 2010.

Critical Accounting Estimates

Revenue Recognition

For most product sales, revenue is recognized when product is shipped from our facilities and risk of loss and title have passed to the customer, which is in accordance with our customer contracts and the stated shipping terms. Nearly all custom manufactured products are manufactured under written contracts. Performance chemicals and biodiesel are generally sold pursuant to the terms of written purchase orders. In general, customers do not have any rights of return, except for quality disputes. However, all of our products are tested for quality before shipment, and historically returns have been inconsequential. We do not offer volume discounts, rebates, or warranties.

Revenue from bill and hold transactions in which a performance obligation exists is recognized when the total performance obligation has been met. Bill and hold transactions for four specialty chemical products in the first two quarters of 2011 and 2010 related to revenue that was recognized in accordance with contractual agreements based on product produced and ready for use. These sales were subject to written monthly purchase orders with agreement that production was reasonable. The inventory was custom manufactured and stored at the customer's request and could not be sold to another buyer. Credit and payment terms for bill and hold customers are similar to other specialty chemical customers. Sales revenue under bill and hold arrangements were \$16,351,000 and \$11,851,000 for the three months ended June 30, 2011 and 2010, respectively, and \$31,896,000 and \$26,464,000 for the six month ended June 30, 2011 and 2010, respectively.

Liquidity and Capital Resources

Our net cash provided by (used in) operating activities, investing activities, and financing activities for the six months ended June 30, 2011 and 2010 are set forth in the following chart.

(Dollars in thousands)

| | First Half, 2011 | First Half, 2010 |
|---|---------------------|---------------------|
| Net cash provided by operating activities | \$34,795 | \$7,814 |
| Net cash used in investing activities | \$(39,129) | \$(9,496) |
| Net cash provided by financing activities | \$7,802 | \$52,054 |

Operating Activities

Cash provided by operating activities increased from \$7,814,000 during the first half of 2010 to \$34,795,000 during the first half of 2011, an increase of \$26,981,000. This increase was largely due to changes in accounts receivable, accounts payable, income taxes payable, deferred revenue, and net income. In the first half of 2010, accounts receivable reduced cash provided by operating activities by \$1,715,000, and in 2011 increased cash provided by operating activities by \$4,668,000. This increase was primarily attributable to the collection of the \$1.00 per gallon federal blender's credit, which was booked as an account receivable at December 31, 2010 and collected in the first quarter of 2011. The effect of this collection has been partially offset by higher accounts receivable balances from biodiesel customers, which resulted from our increased biodiesel sales activity. In the first half of 2011, accounts payable used \$418,000 of cash from operations. In the first half of 2010, accounts payable used \$4,565,000. This decrease is largely due to timing differences related to the receipt and payment of inventory and the timing of payment for capital expenditures. In the first half of 2010, income taxes payable did not affect cash provided by operating activities. In the first half of 2011, income taxes payable increased cash provided by operating activities by \$1,849,000. This increase is largely due to timing associated with our income tax payments. In the first half of 2011, deferred revenue contributed \$11,602,000 to cash provided by operating activities. In the first half of 2010, it contributed \$4,647,000. This change is a result of progress made on capital projects we have undertaken on behalf of certain of our customers. Lastly, \$4,731,000 of the increase in cash provided by operating activities is due to the increase in net income in the first half of 2011 as compared to net income in the first half of 2010.

Investing Activities

Cash used in investing activities increased from \$9,496,000 in the six months ended June 30, 2010 to \$39,129,000 in the six months ended June 30, 2011. This increase is primarily attributable to a reduction in restricted cash, a net increase in the purchases of marketable securities, and an increase in capital expenditures. In the first six months of 2011, our restricted cash balances decreased by \$21,086,000. This reduction resulted from our short sale position in U.S. Treasuries having been closed. When this happened, the cash which was previously held in a restricted margin account was returned to us. In the first six months of 2011, we purchased a net \$42,982,000 of marketable securities. Such purchases totaled a net \$5,609,000 in the first six months of 2010. Lastly, capital expenditures for the first six months of 2011 totaled \$15,325,000 compared to \$3,896,000 in the first six months of 2010. This increase in capital expenditures is primarily the result of us undertaking certain capital projects on behalf of certain customers, a large portion of which is reimbursed by certain of our customers and through grants. These reimbursements are summarized in the following table.

| | First Half, 2011 | First Half, 2010 |
|--|---------------------|---------------------|
| Capital expenditures | \$15,325 | \$3,896 |
| Cash received as reimbursement of capital expenditures | (10,456) | (895) |
| Net cash paid for capital expenditures | \$4,869 | \$3,001 |

Financing Activities

Cash provided by financing activities decreased from \$52,054,000 in the first six months of 2010 to \$7,802,000 in the first six months of 2011. This decrease was primarily attributable to the difference in proceeds from equity issuances in the two periods. In the first six months of 2010, \$67,994,000 of cash was received as a result of certain warrant holders exercising their warrants to acquire our common stock. In the first six months of 2011, \$15,798,000 was received primarily as a result of the at-the-market offering of our common stock which commenced on June 3, 2011 as discussed below. Additionally in the first six months of 2011, we paid dividends of \$7,996,000; in the first six months of 2010 such activities totaled \$15,062,000.

At-the-Market Offering

On February 10, 2011, we filed with the United States Securities and Exchange Commission, or SEC, a Form S-3 Registration Statement commonly referred to as a “shelf-registration” whereby we registered shares of our common stock, preferred stock, warrants, rights, and units which we might issue in the future in an aggregate amount not to exceed \$50 million. The registration statement was amended on March 4, 2011 and became effective on March 10, 2011.

On May 10, 2011, we entered into an At-the-Market Equity Offering Sales Agreement with Stifel, Nicolaus & Company, Incorporated, or Stifel, relating to up to 3 million shares of our common stock. The sales of shares of our common stock under this sales agreement are to be made in “at the market” offerings as defined in Rule 415 of the Securities Act of 1933, as amended, including sales made directly on the New York stock Exchange (the principal existing trading market for shares of our common stock), to or through a market maker or any other trading market for our common stock, or (with our prior consent) in privately negotiated transactions at negotiated prices. The aggregate compensation payable to Stifel as sales agent will be 3% of the gross sales price of the shares sold through the sales agreement. The sales are being made pursuant to our shelf registration.

We commenced sales of our common stock through this at-the-market offering on June 3, 2011. The number of shares of our common stock sold through Stifel under the sales agreement, the net proceeds to us, and the compensation paid by us to Stifel in connection with the sales of our common stock during the second quarter of 2011 are set forth in the following table.

| Number of Shares Sold | Net Proceeds | Compensation to Stifel |
|-----------------------|--------------|------------------------|
| 1,313,985 | \$15,763,000 | \$488,000 |

Credit Facility

We entered into a \$50 million credit agreement with a commercial bank in March 2007. The loan is a revolving facility the proceeds of which may be used for our working capital, capital expenditures, and general corporate purposes. The facility terminates on June 30, 2013. Advances are made pursuant to a borrowing base. Advances are secured by a perfected first priority security interest in our accounts receivable and inventory. The interest rate floats at certain margins over LIBOR or base rate based upon the leverage ratio from time to time. There is an unused commitment fee. The ratio of total funded debt to EBITDA may not be less than 3:1. We had no borrowings under this credit agreement at June 30, 2011 or December 31, 2010.

We intend to fund future capital requirements for our businesses from cash flow generated by us as well as from existing cash and cash investments, proceeds from our at-the-market offering, and borrowings under the credit facility. We do not believe there will be a need to issue any securities to fund such capital requirements other than those which may be sold through our at-the-market offering.

Dividends

In the first quarter of 2011, we declared a special cash dividend in the amount of \$0.10 per share on our common stock, with a record date of March 1, 2011 and a payment date of March 15, 2011. The special cash dividend amounted to approximately \$3,998,000.

On April 5, 2011, we declared normal quarterly cash dividends of \$0.10 per share on our common stock for the remainder of 2011, with record dates of June 1, 2011, September 1, 2011, and December 1, 2011, and payment dates of June 14, 2011, September 15, 2011, and December 15, 2011. The regular cash dividends for June 2011 amounted to approximately \$3,998,000.

Capital Management

As a result of our initial equity offering, our subsequent positive operating results, the exercise of warrants, and our at-the-market offering, we accumulated excess working capital. Some of this excess working capital has been paid out as special and regular cash dividends. We intend to retain the remaining cash to fund infrastructure and capacity expansion at our Batesville plant, to pursue complimentary acquisitions in the energy and chemical industries, and to

pay the regular cash dividends for the remainder of 2011. Third parties have not placed significant restrictions on our working capital management decisions.

These funds were predominantly held in cash or cash equivalents at multiple financial institutions. In the first two quarters of 2011 and 2010, we also had investments in certain preferred stock, trust preferred securities, and other equity instruments. We classify these investments as current assets in the accompanying consolidated balance sheets and designate them as being “available-for-sale”. Accordingly, they are recorded at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders’ equity. The fair value of these preferred stock, trust preferred securities, and other equity instruments, including accrued interest, totaled \$52,756,000 and \$28,200,000 at June 30, 2011 and December 31, 2010, respectively.

At December 31, 2010, we also had a short position in certain marketable debt securities. The purpose of this position was to help mitigate the potential negative impact an increase in interest rates would have on other marketable securities we had purchased. The securities comprising this position are carried at fair value, with unrealized gains and losses reported as a component of net income. We realized losses of \$170,000 on these securities in the first two quarters of 2011. No such losses were recognized in the first six months of 2010. This position was closed in the first half of 2011 and no short position in these marketable debt securities was present at June 30, 2011. The fair value of these securities totaled \$(19,295,000) at December 31, 2010. The margin account maintained with a broker to collateralize these securities carried a balance of \$21,086,000 at December 31, 2010, and was classified as restricted cash and cash equivalents in our consolidated balance sheet.

Lastly, we maintain depository accounts such as checking accounts, money market accounts, and other similar accounts at selected financial institutions.

Off-Balance Sheet Arrangements

We engage in two types of hedging transactions. First, we hedge our biofuels sales through the purchase and sale of futures contracts and options on futures contracts of energy commodities. This activity was captured on our balance sheet at June 30, 2011 and December 31, 2010. Second, we hedge our biofuels feedstock through the execution of purchase contracts and supply agreements with certain vendors. These hedging transactions are recognized in earnings and were not recorded on our balance sheet at June 30, 2011 or December 31, 2010 as they do not meet the definition of a derivative instrument as defined under accounting principles generally accepted in the U.S. The purchase of biofuels feedstock generally involves two components: basis and price. Basis covers any refining or processing required as well as transportation. Price covers the purchases of the actual agricultural commodity. Both basis and price fluctuate over time. A supply agreement with a vendor constitutes a hedge when we have committed to a certain volume of feedstock in a future period and have fixed the basis for that volume.

At December 31, 2010, we had a short position in certain marketable debt securities. The purpose of this position was to help mitigate the potential negative impact an increase in interest rates would have on other marketable securities we have purchased. We were committed to repurchase these short-sold securities in the future. We were required to maintain a margin account at a broker to collateralize this obligation. It was possible that this margin account balance would not have been sufficient to meet our obligation, which would have placed an additional commitment on our available cash balances.

From time to time we may enter into forward sales commitments related to our generation of renewable identification numbers ("RINs"). At the time these commitments are made, we may or may not have these RINs in our possession, but expect to generate them in the ordinary course of our biodiesel business. These commitments are not reflected on our consolidated balance sheet. If we are unable to generate enough RINs to meet these obligations, we may be forced to purchase replacement RINs from other parties. Such activity may result in us purchasing RINs at a higher price than we have agreed to sell them for.

Other Matters

We entered into an agreement with a customer to construct at a fixed price a processing plant and produce a certain chemical for the customer. We engaged a third party to act as general contractor on the construction of this plant for a guaranteed price. That general contractor defaulted on its obligations under its contract with us and abandoned the project. As a result, we undertook the general contractor role ourselves. We also filed suit against our former contractor to recoup any damages that we may incur as a result of his default. The former contractor counterclaimed against us for amounts he asserts are due him under our contract with him. At this time, we are unable to determine what effect the general contractor's default and/or his counterclaim will have on us or on our financial condition.

We entered into an agreement with a biodiesel trade association to pay certain fees and dues to the association in order to obtain access and registration to the association's compiled biodiesel health effects data, or HED, required by the Environmental Protection Agency for biodiesel manufacturers. Manufacturers of biodiesel who pay their fair share of costs for the HED can have access to and obtain registration with the Environmental Protection Agency. We brought suit against the trade association for rescission of the agreement for various reasons including, among other things, that we have already paid our fair share of costs for the data to the trade association; and that the fees and dues structure of the trade association are overly excessive and against public policy. The trade association filed suit against us for collection of alleged fees and dues owed by us to it. At this time, we are unable to determine what effect the trade association's suit against us will have on us or on our financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

In recent years, general economic inflation has not had a material adverse impact on our costs and, as described elsewhere herein, we have passed some price increases along to our customers. However, we are subject to certain market risks as described below.

Market risk represents the potential loss arising from adverse changes in market rates and prices. Commodity price risk is inherent in the chemical and biofuels business both with respect to input (electricity, coal, biofuels feedstock, etc.) and output (manufactured chemicals and biofuels).

We seek to mitigate our market risks associated with the manufacturing and sale of chemicals by entering into term sale contracts that include contractual market price adjustment protections to allow changes in market prices of key raw materials to be passed on to the customer. Such price protections are not always obtained, however, so raw material price risk remains significant.

In order to manage price risk caused by market fluctuations in biofuels prices, we may enter into exchange traded commodity futures and options contracts. We account for these derivative instruments in accordance with ASC 815-20-25, Derivatives and Hedging, Hedging-General, Recognition. Under this standard, the accounting for changes in the fair value of a derivative instrument depends upon whether it has been designated as an accounting hedging relationship and, further, on the type of hedging relationship. To qualify for designation as an accounting hedging relationship, specific criteria must be met and appropriate documentation maintained. We had no derivative instruments that qualified under these rules as designated accounting hedges in the first two quarters of 2011 or 2010. Changes in the fair value of our derivative instruments are recognized at the end of each accounting period and recorded in the statement of operations as a component of cost of goods sold.

Our immediate recognition of derivative instrument gains and losses can cause net income to be volatile from quarter to quarter due to the timing of the change in value of the derivative instruments relative to the sale of biofuel being sold. As of June 30, 2011 and December 31, 2010, the fair values of our derivative instruments were a net liability in the amount of \$2,822,000 and \$1,649,000, respectively.

Our gross profit will be impacted by the prices we pay for raw materials and conversion costs (costs incurred in the production of chemicals and biofuels) for which we do not possess contractual market price adjustment protection. These items are principally comprised of animal fat, electricity, and petrodiesel. The availability and price of these items are subject to wide fluctuations due to unpredictable factors such as weather conditions, overall economic conditions, governmental policies, commodity markets, and global supply and demand.

We prepared a sensitivity analysis of our exposure to market risk with respect to key raw materials and conversion costs for which we do not possess contractual market price adjustment protections, based on average prices for the first six months of 2011. We included only those raw materials and conversion costs for which a hypothetical adverse change in price would result in a 1% or greater decrease in gross profit. Assuming that the prices of the associated finished goods could not be increased and assuming no change in quantities sold, a hypothetical 10% change in the average price of the commodity listed below would result in the following change in annual gross profit.

(Volume and dollars in thousands)

| Item | Volume(a) Requirements | Units | Hypothetical Adverse Change in Price | Decrease in Gross Profit | Percentage Decrease in Gross Profit |
|-----------------------------|---------------------------|-------|--|-----------------------------|---|
| Biodiesel feedstock | 59,652,627 | LB | 10% | \$ 2,428 | 11.9% |
| Ultra low sulphur diesel | 2,024,489 | GAL | 10% | \$ 533 | 2.6% |
| Electricity | 47,183 | MWH | 10% | \$ 253 | 1.2% |
| Natural gas | 448,383 | MCF | 10% | \$ 221 | 1.1% |
| Propionic anhydride | 1,959,930 | LB | 10% | \$ 201 | 1.0% |

Volume requirements and average price information are based upon volumes used and prices obtained for the six (a) months ended June 30, 2011. Volume requirements may differ materially from these quantities in future years as our business evolves.

We had no borrowings as of June 30, 2011 or December 31, 2010 and, as such, we were not exposed to interest rate risk for those periods. Due to the relative insignificance of transactions denominated in foreign currency, we consider our foreign currency risk to be immaterial.

At December 31, 2010, we had a short position in certain marketable debt securities. The purpose of this position was to help mitigate the potential negative impact an increase in interest rates would have on our other marketable securities. The fair value of these securities totaled \$(19,295,000) at December 31, 2010. We maintained a margin account to collateralize these marketable debt securities. This margin account maintained a balance of \$21,086,000 at December 31, 2010, and was classified as restricted cash and cash equivalents in our consolidated balance sheet included herein. We were obligated to purchase these securities at a future date. To the extent that these marketable debt securities appreciated in value, we were exposed to off-balance sheet risks. These securities were repurchased in the first six months of 2011 and this position did not exist at June 30, 2011.

Item 4. Controls and Procedures.

Under the supervision and with the participation of our chief executive officer and our principal financial officer and other senior management personnel, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e)) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and our principal financial officer have concluded that these disclosure controls and procedures as of June 30, 2010 were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

There were no changes in our internal control over financial reporting during our last fiscal quarter that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

We are not a party to, nor is any of our property subject to, any material pending legal proceedings, other than ordinary routine litigation incidental to our business. However, from time to time, we may be a party to, or a target of, lawsuits, claims, investigations, and proceedings, including product liability, personal injury, asbestos, patent and intellectual property, commercial, contract, environmental, antitrust, health and safety, and employment matters, which we expect to be handled and defended in the ordinary course of business. While we are unable to predict the outcome of any matters currently pending, we do not believe that the ultimate resolution of any such pending matters will have a material adverse effect on our overall financial condition, results of operations, or cash flows. However, adverse developments could negatively impact earnings or cash flows in future periods.

Item 1A. Risk Factors.

See our Form 10-K, Annual Report for the year ended December 31, 2010 filed with the SEC on March 16, 2011 for a description of “Risk Factors” relating to an investment in us. There are no material changes from the risk factors disclosed in such filing.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. [Removed and Reserved.]

Item 5. Other Information.

We commenced sales of our common stock through this at-the-market offering on June 3, 2011. The number of shares of our common stock sold through Stifel under the sales agreement, the net proceeds to us, and the compensation paid by us to Stifel in connection with the sales of our common stock during the second quarter of 2011 are set forth in the following table.

| Number of Shares Sold | Net Proceeds | Compensation to Stifel |
|-----------------------|--------------|------------------------|
| 1,313,985 | \$15,763,000 | \$488,000 |

Item 6. Exhibits.

| Exhibit | Description |
|---------|---|
| 3.1. | Fourth Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit No. 3.3.f to Amendment No. 2 to Form 10 filed February 29, 2008) |
| 3.2. | FutureFuel Corp.’s Bylaws (incorporated by reference to Exhibit No. 3.2.a to Form 10 filed April 24, 2007) |
| 4.1. | Investor Rights Agreement dated July 12, 2006 among FutureFuel Corp., CRT Capital Group LLC and KBC Peel Hunt Ltd (incorporated by reference |

to Exhibit No. 4.4 to Form 10 filed April 24, 2007)

- 4.2. Registration Rights Agreement dated July 12, 2006 among FutureFuel Corp., St. Albans Global Management, Limited Partnership, LLLP, Lee E. Mikles as Trustee of the Lee E. Mikles Gift Trust dated October 6, 1999, Lee E. Mikles as Trustee of the Lee E. Mikles Revocable Trust dated March 26, 1996, Douglas D. Himmert as Trustee of the Douglas D. Himmert Revocable Trust, Edwin A. Levy, Joe C. Leach, Mark R. Miller, RAS LLC, Edwin L. Wahl, Jeffery H. Call and Ken Fenton (incorporated by reference to Exhibit No. 4.5 to Form 10 filed April 24, 2007)

Edgar Filing: FutureFuel Corp. - Form 10-Q

| Exhibit | Description |
|---------|---|
| 10.1. | Registrar Agreement dated June 27, 2008 between FutureFuel Corp. and Computershare Investor Services (Channel Islands) Limited (incorporated by reference to Exhibit No. 10.2 to Form 10-K filed March 16, 2009) |
| 10.2. | Storage and Thruput Agreement dated November 1, 2006 between FutureFuel Chemical Company and Center Point Terminal Company (incorporated by reference to Exhibit No. 10. to Form 10 filed April 24, 2007) |
| 10.3. | Commodity Trading Advisor Agreement dated November 1, 2006 between FutureFuel Chemical Company and Apex Oil Company, Inc. (incorporated by reference to Exhibit No. 10.5 to Form 10 filed April 24, 2007) |
| 10.4. | Service Agreement dated November 1, 2006 between FutureFuel Corp. and Pinnacle Consulting, Inc. (incorporated by reference to Exhibit No. 10.6 to Form 10 filed April 24, 2007) |
| 10.5. | Purchase Agreement made and entered into as of April 1, 2008 between The Procter & Gamble Manufacturing Company, The Procter & Gamble Distributing LLC and Procter & Gamble International Operations SA, as buyer, and FutureFuel Chemical Company, as seller (portions of the exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.7 to Form 10-Q filed August 14, 2008.) |
| 10.6. | Custom Manufacturing Agreement dated September 1, 1992 between Tomen Corporation and Eastman Kodak Company, as amended October 2, 1992, February 1, 1993, March 19, 1993, September 28, 1995, October 30, 1998, May 24, 1999, November 10, 1999, December 12, 2000 and July 25, 2006 (portions of the exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit No. 10.8 to Form 10 filed April 24, 2007) |
| 10.7. | Credit Agreement dated March 14, 2007 between FutureFuel Chemical Company and Regions Bank (portions of the exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit No. 10.10 to Form 10 filed April 24, 2007) |
| 10.8. | Revolving Credit Promissory Note dated March 14, 2007 executed by FutureFuel Chemical Company and payable to the order of Regions Bank (incorporated by reference to Exhibit No. 10.11 to Form 10 filed April 24, 2007) |
| 10.9. | Security Agreement -Accounts and Inventory dated March 14, 2007 executed by FutureFuel Chemical Company in favor of Regions Bank (incorporated by reference to Exhibit No. 10.12 to Form 10 filed April 24, 2007) |
| 10.10. | Continuing Unlimited Guaranty Agreement dated March 14, 2007 executed by FutureFuel Corp. in favor of Regions Bank (incorporated by reference to Exhibit No. 10.13 to Form 10 filed April 24, 2007) |
| 10.11. | Second Modification Agreement dated March 14, 2010 between FutureFuel Chemical Company and Regions Bank (incorporated by reference to Exhibit 10.12 to Form 10-K filed March 16, 2011) |
| 10.12. | Time Sharing Agreement dated April 18, 2007 between Apex Oil Company, Inc. and FutureFuel Corp. (incorporated by reference to Exhibit No. 10.15 to Form 10 filed April 24, 2007) |
| 10.13. | Omnibus Incentive Plan (incorporated by reference to Exhibit No. 10.16 to Amendment No. 1 to Form 10 filed June 26, 2007) |
| 10.14. | |

Edgar Filing: FutureFuel Corp. - Form 10-Q

Assistance Agreement effective June 16, 2010 between FutureFuel Chemical Company and the U.S. Department of Energy/National Energy Technology Laboratory (portions of exhibit omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.15 to Form 10-K filed March 16,2011)

| Exhibit | Description |
|---------|---|
| 10.15. | At-The-Market Equity Offering Sales Agreement, dated May 10, 2011, between FutureFuel Corp. and Stifel, Nicolaus & Company, Incorporated (incorporated by reference to Exhibit 1.1 to Form 8-K filed May 10,2011) |
| 11. | Statement re Computation of per Share Earnings |
| 31(i). | Rule 13a-15(e)/15d-15(e) Certification of chief executive officer |
| 31(ii). | Rule 13a-15(e)/15d-15(e) Certification of principal financial officer |
| 32. | Section 1350 Certification of chief executive officer and principal financial officer |

Special Note Regarding Forward Looking Information

This report, and the documents incorporated by reference into this report, contain forward-looking statements. Forward-looking statements deal with our current plans, intentions, beliefs, and expectations, and statements of future economic performance. Statements containing such terms as “believe,” “do not believe,” “plan,” “expect,” “intend,” “estimate,” “anticipate,” and other phrases of similar meaning are considered to contain uncertainty and are forward-looking statements. In addition, from time to time we or our representatives have made or will make forward-looking statements orally or in writing. Furthermore, such forward-looking statements may be included in various filings that we make with the SEC, or in press releases, or in oral statements made by or with the approval of one of our authorized executive officers.

These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause actual results to differ include, but are not limited to, those set forth under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in our future filings made with the SEC. You should not place undue reliance on any forward-looking statements contained in this report which reflect our management’s opinions only as of their respective dates. Except as required by law, we undertake no obligation to revise or publicly release the results of any revisions to forward-looking statements. The risks and uncertainties described in this report and in subsequent filings with the SEC are not the only ones we face. New factors emerge from time to time, and it is not possible for us to predict which will arise. There may be additional risks not presently known to us or that we currently believe are immaterial to our business. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. If any such risks occur, our business, operating results, liquidity, and financial condition could be materially affected in an adverse manner. You should consult any additional disclosures we have made or will make in our reports to the SEC on Forms 10-K, 10-Q, and 8-K, and any amendments thereto. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this report.

SIGNATURES

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

FUTUREFUEL CORP.

By: /s/ Douglas D.
Hommert
Douglas D. Hommert, Executive
Vice President, Secretary and
Treasurer

Date: August 9, 2011