

FutureFuel Corp.
Form 10-Q
May 09, 2012

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 March 31, 2012

OR

- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-52577

FUTUREFUEL CORP.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or
Organization)

20-3340900

(I.R.S. Employer Identification No.)

8235 Forsyth Blvd., Suite 400
Clayton, 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 ☐

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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):

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 May 9, 2012:
41,319,057

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

The following sets forth our unaudited consolidated balance sheet as at March 31, 2012, our audited consolidated balance sheet as at December 31, 2011, our unaudited consolidated statements of operations and comprehensive income for the three-month periods ended March 31, 2012 and March 31, 2011, and our consolidated statements of cash flows for the three-month periods ended March 31, 2012 and March 31, 2011.

FutureFuel Corp.
Consolidated Balance Sheets
As at March 31, 2012 and December 31, 2011
(Dollars in thousands)

| | (Unaudited) March 31, 2012 | December 31, 2011 |
|---|----------------------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$88,886 | \$89,745 |
| Accounts receivable, net of allowances of \$10 | 21,947 | 35,554 |
| Accounts receivable – related parties | 170 | 123 |
| Inventory | 67,952 | 57,439 |
| Prepaid expenses | 1,244 | 1,460 |
| Marketable securities | 68,194 | 56,294 |
| Other current assets | 2,139 | 1,910 |
| Total current assets | 250,532 | 242,525 |
| Property, plant and equipment, net | 139,952 | 140,517 |
| Other assets | 2,173 | 2,202 |
| Total noncurrent assets | 142,125 | 142,719 |
| Total Assets | \$392,657 | \$385,244 |
| Liabilities and Stockholders' Equity | | |
| Accounts payable | \$21,441 | \$18,665 |
| Accounts payable - related parties | 329 | 3,023 |
| Income taxes payable | 4,321 | 1,123 |
| Current deferred income tax liability | 6,686 | 6,162 |
| Deferred revenue – short-term | 3,558 | 3,558 |
| Accrued expenses and other current liabilities | 3,542 | 3,225 |
| Accrued expenses and other current liabilities - related parties | 17 | 43 |
| Total current liabilities | 39,894 | 35,799 |
| Deferred revenue – long-term | 28,365 | 29,256 |
| Contingent liability – long-term | 2,521 | 2,521 |
| Other noncurrent liabilities | 930 | 924 |
| Noncurrent deferred income tax liability | 28,522 | 28,506 |
| Total noncurrent liabilities | 60,338 | 61,207 |
| Total Liabilities | 100,232 | 97,006 |
| Commitments and contingencies | | |
| Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, none issued and outstanding | - | - |

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Common stock, \$0.0001 par value, 75,000,000 shares authorized, 41,319,057 and 41,308,446 issued and outstanding as of March 31, 2012 and December 31, 2011, respectively

| | | |
|--|-----------|-----------|
| | 4 | 4 |
| Accumulated other comprehensive income | 2,929 | 1,803 |
| Additional paid in capital | 253,585 | 253,505 |
| Retained earnings | 35,907 | 32,926 |
| Total stockholders' equity | 292,425 | 288,238 |
| Total Liabilities and Stockholders' Equity | \$392,657 | \$385,244 |

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 March 31, 2012 and 2011
(Dollars in thousands, except per share amounts)
(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| | 2012 | 2011 |
| Revenues | \$84,837 | \$52,216 |
| Revenues – related parties | 890 | 3,025 |
| Cost of goods sold | 70,956 | 45,387 |
| Cost of goods sold – related parties | 986 | 4,203 |
| Distribution | 864 | 519 |
| Distribution – related parties | 120 | 133 |
| Gross profit | 12,801 | 4,999 |
| Selling, general and administrative expenses | | |
| Compensation expense | 749 | 809 |
| Other expense | 591 | 169 |
| Related party expense | 35 | 48 |
| Research and development expenses | 843 | 753 |
| | 2,218 | 1,779 |
| Income from operations | 10,583 | 3,220 |
| Interest and dividend income | 1,140 | 776 |
| Interest expense | (6) | (134) |
| Gain on marketable securities | 314 | 95 |
| Other expense | (52) | (5) |
| | 1,396 | 732 |
| Income before income taxes | 11,979 | 3,952 |
| Provision for income taxes | 4,866 | 1,236 |
| Net income | \$7,113 | \$2,716 |
| Earnings per common share | | |
| Basic | \$0.17 | \$0.07 |
| Diluted | \$0.17 | \$0.07 |
| Weighted average shares outstanding | | |
| Basic | 41,314,859 | 39,982,905 |
| Diluted | 41,493,135 | 40,131,086 |
| Comprehensive Income | | |
| Net income | \$7,113 | \$2,716 |
| Other comprehensive income, net of tax of \$701 in 2012 and \$618 in 2011 | 1,126 | 987 |
| Comprehensive income | \$8,239 | \$3,703 |

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

FutureFuel Corp.
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2012 and 2011
(Dollars in thousands)
(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2012 | 2011 |
| Cash flows provided by operating activities | | |
| Net income | \$7,113 | \$2,716 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,584 | 1,911 |
| Benefit from deferred income taxes | (161) | (1,478) |
| Change in fair value of derivative instruments and marketable securities | (1,266) | (2) |
| (Gain)/loss on investments | (314) | 69 |
| Losses on disposals of fixed assets | 63 | 6 |
| Noncash interest expense | 6 | 6 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 13,607 | 8,114 |
| Accounts receivable – related parties | (47) | (22) |
| Inventory | (10,513) | (3,827) |
| Income taxes receivable | - | 519 |
| Prepaid expenses | 216 | (22) |
| Accrued interest on marketable securities | - | (96) |
| Other assets | 15 | 153 |
| Accounts payable | 2,776 | 7,853 |
| Accounts payable – related parties | (2,694) | 14 |
| Income taxes payable | 3,198 | 1,730 |
| Accrued expenses and other current liabilities | 317 | 47 |
| Accrued expenses and other current liabilities – related parties | (26) | (2) |
| Deferred revenue | (891) | 5,277 |
| Net cash provided by operating activities | 13,983 | 22,966 |
| Cash flows from investing activities | | |
| Restricted cash | - | 16,400 |
| Proceeds from the sale of fixed assets | 31 | - |
| Collateralization of derivative instruments | 1,050 | (199) |
| Purchase of marketable securities | (17,406) | (58,311) |
| Proceeds from the sale of marketable securities | 7,648 | 19,577 |
| Capital expenditures | (2,113) | (8,163) |
| Net cash used in investing activities | (10,790) | (30,696) |
| Cash flows from financing activities | | |
| Proceeds from the issuance of stock | 72 | 35 |
| Excess tax benefits associated with stock options | 8 | - |
| Payment of dividend | (4,132) | (3,999) |
| Net cash used in financing activities | (4,052) | (3,964) |
| Net change in cash and cash equivalents | (859) | (11,694) |
| Cash and cash equivalents at beginning of period | 89,745 | 91,057 |
| Cash and cash equivalents at end of period | \$88,886 | \$79,363 |

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| | | |
|-------------------------------|---------|-------|
| Cash paid for interest | \$- | \$3 |
| Cash paid for income taxes | \$2,090 | \$465 |
| Non-cash capital expenditures | \$- | \$535 |

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 of one or more operating businesses in the oil and gas industry. On July 12, 2006 Viceroy completed an equity offering.

On October 31, 2006, Viceroy acquired all of the issued and outstanding shares of Eastman SE, Inc. (“Eastman SE”) from Eastman Chemical Company (“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”).

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 included 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 2011 audited consolidated financial statements and should be read in conjunction with the 2011 audited consolidated financial statements of FutureFuel.

In the opinion of FutureFuel, all normal recurring adjustments necessary for a fair presentation have been included in these unaudited consolidated financial statements. These 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, FFC Grain, L.L.C., and FutureFuel Warehouse Company, LLC. 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:

| | March 31, 2012 | December 31, 2011 |
|---|----------------|-------------------|
| At average cost (approximates current cost) | | |
| Finished goods | \$ 38,858 | \$ 19,481 |
| Work in process | 2,935 | 3,643 |
| Raw materials and supplies | 39,357 | 47,833 |
| | 81,150 | 70,957 |
| LIFO reserve | (13,198) | (13,518) |
| Total inventories | \$ 67,952 | \$ 57,439 |

3) Derivative instruments

FutureFuel is exposed to certain risks relating to its ongoing business operations. Commodity price risk is the primary risk managed by using derivative instruments. 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 loss of \$3,406 and \$3,750 for the three months ended March 31, 2012 and 2011, respectively.

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

| | Asset/(Liability) | | | |
|--|--|-------------|--|-------------|
| | March 31, 2012 | | December 31, 2011 | |
| | Quantity (Contracts) Long/ (Short) | Fair Value | Quantity (Contracts) Long/ (Short) | Fair Value |
| Regulated options, included in other current assets | (200) | \$ (1,323) | (300) | \$ (2,221) |
| Regulated fixed price future commitments, included in other current assets | (277) | \$ 134 | (71) | \$ (232) |

The margin account maintained with a broker to collateralize these derivative instruments carried an account balance of \$3,314 and \$4,363 at March 31, 2012 and December 31, 2011, respectively, and is classified as other current assets in the consolidated balance sheet. The carrying values of the margin account and of the derivative instruments are included, net, in other current assets.

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

4) Marketable securities

At March 31, 2012 and December 31, 2011, FutureFuel had investments in certain preferred stock, trust preferred securities, and other equity instruments. At March 31, 2012, FutureFuel also had investments in certain municipal securities. These investments are classified as current assets in the 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. These securities were comprised of the following at:

| March 31, 2012 | | | | |
|----------------------------|---------------|---------------------|----------------------|------------|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Equity instruments | \$ 34,705 | \$ 3,970 | \$ (602) | \$ 38,073 |
| Preferred stock | 16,325 | 1,229 | (15) | 17,539 |
| Trust preferred securities | 9,409 | 176 | (3) | 9,582 |
| Municipal debt securities | 3,000 | - | - | 3,000 |
| Total | \$ 63,439 | \$ 5,375 | \$ (620) | \$ 68,194 |

| December 31, 2011 | | | | |
|----------------------------|---------------|---------------------|----------------------|------------|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Equity instruments | \$ 33,442 | \$ 4,433 | \$ (647) | \$ 37,228 |
| Preferred stock | 10,718 | 110 | (1,029) | 9,799 |
| Trust preferred securities | 9,210 | 65 | (8) | 9,267 |
| Total | \$ 53,370 | \$ 4,608 | \$ (1,684) | \$ 56,294 |

The aggregate fair value of investments with unrealized losses totaled \$12,004 and \$13,283 at March 31, 2012 and December 31, 2011, respectively. As of March 31, 2012 and December 31, 2011, FutureFuel had a total of \$281 and \$257 invested in marketable securities that were in an unrealized loss position for a greater than 12-month period, respectively.

5) Accrued expenses and other current liabilities

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

| | March 31, 2012 | December 31, 2011 |
|--|----------------|----------------------|
| Accrued employee liabilities | \$1,561 | \$1,710 |
| Accrued property, use, and franchise taxes | 1,101 | 1,521 |
| Other | 897 | 37 |
| Total | \$3,559 | \$3,268 |

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% |

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

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 March 31, 2012 or December 31, 2011.

7) Provision for income taxes

The following table summarizes the provision for income taxes:

| | Three months ended March 31, | |
|----------------------------|------------------------------|---------|
| | 2012 | 2011 |
| Provision for income taxes | \$4,866 | \$1,236 |
| Effective tax rate | 40.6 | % 31.3 |

The effective tax rates for the three months ended March 31, 2012 and 2011 reflect FutureFuel's expected tax rate on reported operating earnings before income taxes and includes the impact of the elimination of the agri-biodiesel production credit for 2012. FutureFuel has determined that it does not believe that it has a more likely than not probability of realizing a portion of its deferred tax assets. As such, it recorded a valuation allowance of \$384 at March 31, 2012.

FutureFuel had no unrecognized tax benefits at March 31, 2012 or December 31, 2011.

FutureFuel records interest and penalties net as a component of income tax expense. FutureFuel had no accrual for interest or tax penalties at March 31, 2012 or December 31, 2011.

FutureFuel and its subsidiaries file tax returns in the U.S. federal jurisdiction and with various state jurisdictions. FutureFuel is subject to U.S., state, and local examinations by tax authorities from 2008 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 | |
|--|----------------------------|------------|
| | March 31, | |
| | 2012 | 2011 |
| Net income available to common stockholders | \$7,113 | \$2,716 |
| Weighted average number of common shares outstanding | 41,314,859 | 39,982,905 |
| Effect of stock options | 178,276 | 148,181 |
| Weighted average diluted number of common shares outstanding | 41,493,135 | 40,131,086 |
| Basic earnings per share | \$0.17 | \$0.07 |

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| | | |
|----------------------------|--------|--------|
| Diluted earnings per share | \$0.17 | \$0.07 |
|----------------------------|--------|--------|

Certain options to purchase shares of FutureFuel's common stock were not included in the computation of diluted earnings per share for the three months ended March 31, 2012 as they were anti-dilutive. The weighted average number of options excluded on this basis was 120,000. No options to purchase shares of FutureFuel's common stock were excluded for the computation of diluted earnings per share for the three months ended March 31, 2011 as all options were dilutive.

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

9) Segment information

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

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 |
|--------------------|---------------|-----------------------|----------|
| March 31, 2012 | \$81,144 | \$4,583 | \$85,727 |
| March 31, 2011 | \$51,577 | \$3,664 | \$55,241 |

For the three months ended March 31, 2012 and 2011, revenues from Mexico accounted for 5% and 6%, respectively, of total revenues. Other than Mexico, revenues from a single foreign country during the three months ended March 31, 2012 and 2011 did not exceed 1% of total revenues.

Summary of business by segment

For the three months ended
March 31,
2012 2011

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| | | |
|----------------------------------|----------|----------|
| Revenues | | |
| Chemicals | \$38,409 | \$44,695 |
| Biofuels | 47,318 | 10,546 |
| Total Revenues | \$85,727 | \$55,241 |
| Segment gross profit | | |
| Chemicals | \$11,669 | \$7,774 |
| Biofuels | 1,132 | (2,775) |
| Segment gross profit | 12,801 | 4,999 |
| Corporate expenses | (2,218) | (1,779) |
| Income before interest and taxes | 10,583 | 3,220 |
| Investment income | 1,454 | 871 |
| Interest and other expense | (58) | (139) |
| Provision for income taxes | (4,866) | (1,236) |
| Net income | \$7,113 | \$2,716 |

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

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.

The following tables provide information by level for assets and liabilities that are measured at fair value, on a recurring basis, at March 31, 2012 and December 31, 2011.

| Description | Fair Value at March 31, 2012 | Asset/(Liability) Fair Value Measurements Using Inputs Considered as | | |
|--|------------------------------------|--|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Derivative instruments | \$(1,189) | \$(1,189) | \$- | \$- |
| Preferred stock, trust preferred securities, municipal debt securities, and other equity instruments | \$68,194 | \$68,194 | \$- | \$- |

| Description | Fair Value at December 31, 2011 | Asset/(Liability) Fair Value Measurements Using Inputs Considered as | | |
|---|---------------------------------------|--|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Derivative instruments | \$(2,453) | \$(2,453) | \$- | \$- |
| Preferred stock, trust preferred securities, and other equity instruments | \$56,294 | \$56,294 | \$- | \$- |

11) Legal matters

From time to time, FutureFuel and its operations are parties to, or targets of, lawsuits, claims, investigations, and proceedings, which are being handled and defended in the ordinary course of business. While FutureFuel is unable to predict the outcomes of these matters, it does not believe, based upon currently available facts, that the ultimate

resolution of any such pending matters will have a material adverse effect on its overall financial condition, results of operations, or cash flows. However, adverse developments could negatively impact earnings or cash flows in a particular future period.

12) 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 as related party line items.

Related party revenues are the result of sales of biodiesel, petrodiesel, blends, and other similar or related products 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.

Liquidity and Capital Resources

Our net cash provided by (used in) operating activities, investing activities, and financing activities for the three months ended March 31, 2012 and 2011 are set forth in the following table.

(Dollars in thousands)

| | March 31, 2012 | March 31, 2011 |
|---|-------------------|-------------------|
| Net cash provided by operating activities | \$13,983 | \$22,966 |
| Net cash used in investing activities | \$(10,790) | \$(30,696) |
| Net cash used in financing activities | \$(4,052) | \$(3,964) |

Operating Activities

Cash provided by operating activities decreased from \$22,966,000 during the first three months of 2011 to \$13,983,000 during the first three months of 2012, a net decrease of \$8,983,000. This decrease was primarily attributable to: (i) an increase in inventory balances; (ii) the timing and amount of payments of accounts payable, including payables to related parties; and (iii) a reduction in cash receipts related to deferred revenue. Our inventory balances increased by \$10,513,000 in the first three months of 2012 compared to an increase of \$3,827,000 in the first three months of 2011. This increase was primarily the result of increased purchases of biodiesel feedstock and the generation of biodiesel inventory. In the first three months of 2011, accounts payable, including accounts payable to related parties, increased cash provided by operating activities by \$7,867,000. In the first three months of 2012, accounts payable, including accounts payable to related parties, increased cash provided by operating activities by \$82,000. Additionally, cash provided by the change in deferred revenue decreased from \$5,277,000 in the first three months of 2011 to \$(891,000). This change occurred as the construction related to capital projects we undertook on behalf of certain of our customers has largely been completed and payments for those capital expenditures have been received. Partially offsetting these decreases to cash provided by operating activities are increases attributable to: (i) accounts receivable, including accounts receivable from related parties; (ii) depreciation and amortization; (iii) income taxes payable; and (iv) net income. Accounts receivable, including accounts receivable from related parties, increased cash provided by operating activities by \$13,560,000 in the three months ended March 31, 2012 as compared to \$8,092,000 primarily due to the timing of receipts of customer payments. Depreciation and amortization totaled \$2,584,000 in the three months ended March 31, 2012 compared to \$1,911,000 in the three months ended March 31, 2011. This increase is attributable to the completion of several capital projects, some of which were funded by certain of our customers. Due to the timing of the payment of income taxes, income taxes payable increased \$3,198,000 in the first three months of 2012 compared to an increase of \$1,730,000 in the first three months of 2011. Lastly, our net income increased to \$7,113,000 from \$2,716,000, the majority of which was attributable to increased sales of biodiesel.

Investing Activities

Cash used in investing activities decreased from \$30,696,000 in the first three months of 2011 to \$10,790,000 in the first three months of 2012. This decrease was primarily attributable to a reduction in the net purchases of marketable securities in the first three months of 2012 compared to the first three months of 2011. Such net purchases totaled \$38,734,000 in the first three months of 2011 and totaled \$9,758,000 in the first three months of 2012. Additionally, capital expenditures decreased from \$8,163,000 in the first three months of 2011 to \$2,113,000 in the first three months of 2012. This decrease is attributable to the completion of certain capital projects undertaken on behalf of certain of our customers. Our capital expenditures and customer reimbursements are summarized in the table below. Partially offsetting these decreases in cash used in investing activities was a \$16,400,000 change in restricted cash incurred in the first three months of 2011 that was not experienced in the first three months of 2012.

(Dollars in thousands)

| | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 |
|---|---|---|
| Cash paid for capital expenditures | \$2,113 | \$8,163 |
| Cash received as reimbursement of capital expenditures | (157) | (5,920) |
| Cash paid, net of reimbursement, for capital expenditures | \$1,956 | \$2,243 |

Financing Activities

Cash used in financing activities increased from \$3,964,000 in the first quarter of 2011 to \$4,052,000 in the first quarter of 2012. This change is primarily the result of a \$133,000 increase in cash dividends paid in the first quarter of 2012 compared to the first three months of 2011.

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 March 31, 2012 or December 31, 2011.

We intend to fund future capital requirements for our businesses from cash flow generated by us as well as from existing cash, cash investments, and, if the need should arise, borrowings under our credit facility. We do not believe there will be a need to issue any securities to fund such capital requirements.

Dividend

In the first quarter of 2012, we declared a regular cash dividend in the amount of \$0.10 per share on our common stock, with a record date of March 1, 2012 and a payment date of March 15, 2012. The regular cash dividend amounted to approximately \$4,132,000.

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 \$3,999,000.

Capital Management

As a result of our initial equity offering, our subsequent positive operating results, the exercise of warrants, and the issuance of shares in our at-the-market offering (discussed below), we accumulated excess working capital. Some of this excess working capital was paid out in 2008, 2009, 2010, and the first quarter of 2011 as a special cash dividend and for the remainder of 2011 and the first quarter of 2012 as regular cash dividends. Regular cash dividends will also be paid out in 2012 as previously disclosed. We intend to retain the remaining cash to fund infrastructure and capacity expansion at our Batesville plant. 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 quarter of 2012 and in 2011, we also had investments in certain preferred stock, trust preferred securities, other equity instruments, and municipal debt securities. 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, other equity instruments, and municipal debt securities totaled \$68,194,000 and \$56,294,000 at March 31, 2012 and December 31, 2011, respectively.

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

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; (ii) a proprietary herbicide (and intermediates) manufactured exclusively for Arysta LifeScience North America Corporation; (iii) chlorinated polyolefin adhesion promoters and antioxidant precursors for a customer; and (iv) a biocide intermediate for another customer. The custom manufacturing group also includes agrochemicals as well as industrial and consumer products (cosmetics and personal care products, specialty polymers, photographic and imaging chemicals, food additives, and an intermediate anode powder to be used as a component of high-performance graphite anode materials for lithium-ion batteries).

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 its intention to reduce the quantities of the bleach activator they purchase. Sales of the bleach activator for the three months ended March 31, 2012 declined by 19% from sales for the three months ended March 31, 2011. We continue to work collaboratively with our customer to assess their future demand, which demand may continue to decline.

We (and our predecessor at our Batesville plant) have been the primary manufacturer for our customer (and its predecessors) of a proprietary herbicide and certain intermediates since approximately 1993. However, in recent years, these products have faced generic competition, both from other suppliers to our customer and from others who compete with our customer for the sale of herbicides. In response to its perceptions of this competition, in 2011 the customer initiated discussions with us to reduce volume and alter other terms of the contracts. Since that time, we have been in fundamental disagreement with our customer about the price for and volume of these products to be manufactured by us for them. In addition, we are of the opinion that the current contracts do not adequately provide a framework to support our mutual efforts. Our contracts with our customer automatically renew for successive one-year periods, subject to the right of either party to terminate the contracts. Accordingly, we have exercised our rights to terminate these contracts, effective September 1, 2013 for the proprietary herbicide and October 1, 2013 for the intermediates. We anticipate that we will continue to do business with our customer after those dates provided we can meet mutually acceptable terms.

In 2008, we entered into a contract with a new customer for the toll manufacture of an industrial intermediate utilized in the antimicrobial industry. This contract required certain 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.

SSIP/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, for noncontract sales there are 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 mechanism and/or specific protection against raw material or conversion cost changes.

For our biofuels segment, 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 2010, we redesigned our continuous line to produce biodiesel from feedstock with high fatty acids. By March 31, 2012, daily production volumes from the redesigned line demonstrated a production capacity in excess of 45 million gallons of biodiesel per year. Projects are currently in progress to further debottleneck the plant to run at higher rates.

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; and (ii) the permanency of government mandates. See "Risk Factors" contained in our Form 10-K for the year ended December 31, 2011 filed with the SEC on March 15, 2012. A copy can also be obtained at our web site at <http://ir.futurefuelcorporation.com/sec.cfm>.

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 and at our Batesville plant. 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 on common carrier pipelines in part to maintain our status as a shipper on the 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.

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Set forth below is a summary of certain financial information for the periods indicated.

(Dollars in thousands other than per share amounts)

| | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 | Dollar Change | % Change | |
|---|---|---|---------------|----------|-----|
| Revenues | \$85,727 | \$55,241 | \$30,486 | 55 | % |
| Income from operations | \$10,583 | \$3,220 | \$7,363 | 229 | % |
| Net income | \$7,113 | \$2,716 | \$4,397 | 162 | % |
| Earnings per common share – basic | \$0.17 | \$0.07 | \$0.10 | 143 | % |
| Earnings per common share – diluted | \$0.17 | \$0.07 | \$0.10 | 143 | % |
| Capital expenditures (net of customer reimbursements and regulatory grants) | \$1,956 | \$2,243 | \$(287) | (13) | (%) |
| Adjusted EBITDA | \$16,584 | \$8,882 | \$7,702 | 87 | % |

We use adjusted EBITDA as a key operating metric. Adjusted EBITDA is a non-GAAP financial measure. Adjusted EBITDA is not a substitute for operating income, net income, or cash flow from operating activities (each as determined in accordance with GAAP) as a measure of performance or liquidity. Adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of results as reported under GAAP. We define adjusted EBITDA as net income before interest, income taxes, depreciation, and amortization expenses, excluding, when applicable, non-cash stock-based compensation expenses, public offering expenses, acquisition-related transaction costs, purchase accounting adjustments, losses on disposal of property and equipment, gains or losses on derivative instruments, and other non-operating income or expenses. Information relating to adjusted EBITDA is provided so that investors have the same data that we employ in assessing the overall operation of our business. Our calculation of adjusted EBITDA may be different from similarly titled measures used by other companies; therefore, the results of our calculation are not necessarily comparable to the results of other companies.

Adjusted EBITDA allows our chief operating decision makers to assess the performance of our business on a consolidated basis to assess the ability of our operating segments to produce operating cash flow to fund working capital needs, to fund capital expenditures, and to pay dividends. In particular, our management believes that adjusted EBITDA permits a comparative assessment of our operating performance, relative to a performance based on GAAP results, while isolating the effects of depreciation and amortization, which may vary among our operating segments without any correlation to their underlying operating performance, and of non-cash stock-based compensation expense, which is a non-cash expense that varies widely among similar companies, and gains and losses on derivative instruments, whose immediate recognition can cause net income to be volatile from period to period due to the timing of the valuation change in the derivative instruments relative to the sale of biofuel.

The following table reconciles adjusted EBITDA with net income, the most directly comparable GAAP financial measure.

(Dollars in thousands)

| | Three Months Ended March 31, 2012 | Three Month Ended March 31, 2011 |
|--|---|--|
| Adjusted EBITDA | \$16,584 | \$8,882 |
| Depreciation and amortization | (2,584) | (1,911) |
| Non-cash stock-based compensation | - | - |
| Interest and dividend income | 1,140 | 776 |
| Interest expense | (6) | (134) |
| Loss on disposal of property and equipment | (63) | (6) |
| Losses on derivative instruments | (3,406) | (3,750) |
| Other income (expense), net | 314 | 95 |
| Impairment of fixed assets | - | - |
| Income tax expense | (4,866) | (1,236) |
| Net income | \$7,113 | \$2,716 |

Revenues

Revenues for the three months ended March 31, 2012 were \$85,727,000 as compared to revenues for the three months ended March 31, 2011 of \$55,241,000, an increase of 55%. Revenues from biofuels increased 349% and accounted for 55% of total revenues in the first quarter of 2012 as compared to 19% in the first quarter of 2011. Revenues from chemicals decreased 14% and accounted for 45% of total revenues in the first quarter of 2012 as compared to 81% in the first quarter of 2011. Within the chemicals segment, revenues for the first quarter of 2012 changed as follows as compared to the first quarter of 2011: (i) revenues from the bleach activator decreased 19%; (ii) revenues from the proprietary herbicide and intermediates decreased 50%; (iii) revenues from CPOs decreased 31%; (iv) revenues from DIPB increased 13%; and (v) revenues from other products increased 18%.

Revenues from the bleach activator and the proprietary herbicide and intermediates are together the most significant components of our chemicals business revenue base, accounting for 22% of total revenues for the three months ended March 31, 2012 as compared to 49% of total revenues for the three months ended March 31, 2011. These products comprised a smaller percentage of our total revenues in 2012 as revenues from our biofuels segment assumed a larger percentage. Additionally, revenues from the bleach activator decreased during the three months ended March 31, 2012 as compared to the three months ended March 31, 2011. The decrease was attributable to reduced volumes sold in 2012. The future volume of and revenues from the bleach activator depend on both consumer demand for the product containing the bleach activator and the manufacturing, sales, and marketing priorities of our customer. We are unable to predict with any certainty the revenues we will receive from this product in the future. With respect to the proprietary herbicide and intermediates, the decrease in revenue for the three months ended March 31, 2012 as compared to the three months ended March 31, 2011 was primarily attributable to reduced volumes sold in 2012. See the discussion above as to future business with this herbicide and intermediates customer.

Revenues from CPOs and DIPB together decreased 7% during the first quarter of 2012 compared to the first quarter of 2011. The combined decreased revenues from these two products were attributable to decreased CPOs sales volumes, partially offset by increased DIPB sales volumes. The end market for CPOs is the automotive industry and demand for this product has fluctuated significantly over the last couple years.

Revenues from other custom chemical products increased 18% in the first quarter of 2012 as compared to the first quarter of 2011. The increase was due to commercial sales of lithium ion battery material and continued sales of a product we campaign for a customer. In the first three months of 2011, we did not make any sales of the lithium ion battery material and sales of the campaigned product were limited. Revenues from proprietary chemicals increased 4% for the first three months of 2012 as compared to the first three months of 2011 and accounted for approximately 4% of total revenues for the first quarter of 2012. The increase was primarily due to increased sales of crude glycerin and sales of other byproducts.

Revenues from biofuels increased from \$10,546,000 in the first quarter of 2011 to \$47,318,000 in the first quarter of 2012. The reinstatement of the \$1.00 per gallon federal blenders credit in December 2010 along with the government mandated renewable fuel standard for biodiesel combined to improve the economics of biodiesel. The blenders credit expired on December 31, 2011 and has not been reinstated; however, we have not experienced a material decrease in demand for our biodiesel as a result of the loss of the blenders credit. We have continued to debottleneck and increase our production capacity to make use of the improved economics of biodiesel. Sales and production of biodiesel increased in the first quarter of 2012 as we were producing and selling biodiesel for the entire period, whereas sales in the first quarter of 2011 were limited due to the initial conversion to lower grade biodiesel feedstocks and adaptation to the improvement in biodiesel economics. Additionally, our production capacity has increased in the first three months of 2012 as compared to the first three months of 2011. Lastly, revenues from biofuels have been benefited by our sales of refined petroleum products as a shipper on a common carrier pipeline. Such sales totaled \$8,881,000 in the first quarter of 2012 compared to \$2,749,000 in the first quarter of 2011. Such sales generate little gross profit. A substantial portion of our biodiesel sold in the first three months of 2012 was to a major refiner in the United States and no assurances can be given that we will continue to sell to such major refiner or, if we do sell, the volume that will be sold of the profit margin that will be realized. We continue to develop our regional fuel distribution business.

Cost of Goods Sold and Distribution

Total cost of goods sold and distribution for the first three months of 2012 were \$72,926,000 as compared to total cost of goods sold and distribution for the first quarter of 2011 of \$50,242,000, an increase of 45%, which compares to a 55% increase in revenue for the period. The difference between the 55% increase in revenue and the 45% increase in cost of goods sold and distribution is primarily due to certain expenditures incurred in the first quarter of 2011 that we were unable to pass along to customers not being incurred in the first quarter of 2012.

Cost of goods sold and distribution for the first quarter of 2012 for our chemicals segment totaled \$26,740,000 as compared to cost of goods sold and distribution for the first quarter of 2011 of \$36,921,000. On a percentage basis, the 28% decrease in cost of goods sold and distribution for the first quarter of 2012 was higher than the 14% decrease in chemicals segment revenues for that period. This difference was largely the combination of the following: (i) the before mentioned expenditures incurred in the first quarter of 2011 that we were unable to pass along to customers were not incurred in the first quarter of 2012; and (ii) as sales in our biofuels segment have increased, fixed costs that may have previously been more heavily allocated to the chemicals segment are being allocated in greater proportion to the biofuels segment.

Cost of goods sold and distribution for the first quarter of 2012 for our biofuels segment were \$46,186,000 as compared to cost of goods sold and distribution for the first quarter of 2011 of \$13,321,000. On a percentage basis, cost of goods sold and distribution increased 247% versus an increase in revenues of 349%. In the first quarter of 2012, the economics of the biofuels segment were such that we were able to increase our sales sufficiently to more than overcome the increased share of our fixed costs. Additionally, the before mentioned expenditures incurred in the first quarter of 2011 that we were unable to pass along to customers were not incurred in the first quarter of 2012.

Operating Expenses

Operating expenses increased 25%, from \$1,779,000 in the first three months of 2011 to \$2,218,000 in the first three months of 2012. This increase is primarily attributable to certain reductions in other operating expenditures which were realized in the first quarter of 2011, but did not repeat in the first quarter of 2012. Other causes for the increase stem from increases in expenditures related to research and development activities and expenditures incurred in connection with our acquisition of additional warehousing facilities.

Provision for Income Taxes

The effective tax rates for the three months ended March 31, 2012 and 2011 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 \$384,000 at March 31, 2012 and \$25,000 at December 31, 2011.

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 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 five specialty chemical products in the first quarter of 2012 and for four in the first quarter of 2011 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 \$9,860,000 and \$15,040,000 for the three months ended March 31, 2012 and 2011, respectively.

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 March 31, 2012 and December 31, 2011. 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 March 31, 2012 or December 31, 2011 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.

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 asserted were due him under our contract with him. The trial was conducted on this matter and the jury determined that we were not the breaching party under the contract but rather the general contractor was the breaching party and that the general contractor did not substantially complete his obligations under the contract. The jury did however award the contractor certain amounts that the jury determined we owed him under the contract for services rendered through the date of breach. Such amounts do not have a material adverse effect on our overall financial condition, results of operations, or cash flows. We are presently evaluating our rights to appeal the amounts awarded.

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 United States Environmental Protection Agency (or EPA) 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 EPA. We brought suit against the trade association for rescission of the agreement for various reasons including, among other things, that we 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 were 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, raw materials, 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 quarter of 2012 or 2011. 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 period to period due to the timing of the change in value of the derivative instruments relative to the sale of biofuel being sold. As of March 31, 2012 and December 31, 2011, the fair values of our derivative instruments were a net liability in the amount of \$1,189,000 and \$2,453,000, 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 crude corn oil and yellow grease 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 three months of 2012. 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.

(Volumes and dollars in thousands)

| Item | Volume(a) Requirements | Units | Hypothetical | Decrease in Gross Profit | Percentage Decrease in Gross Profit |
|------|---------------------------|-------|-------------------------------|-----------------------------|---|
| | | | Adverse Change in Price | | |

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| | | | | | |
|----------------------------------|------------|-----|-----|----------|-------|
| Crude corn oil and yellow grease | 83,407,606 | LB | 10% | \$ 3,612 | 28.2% |
| Petrodiesel | 952,283 | GAL | 10% | \$ 306 | 2.4% |
| Methanol | 7,984,613 | LB | 10% | \$ 157 | 1.2% |
| Electricity | 28,549 | MWH | 10% | \$ 145 | 1.1% |

(a) Volume requirements and average price information are based upon volumes used and prices obtained for the three months ended March 31, 2012. Volume requirements may differ materially from these quantities in future years as our business evolves.

We had no borrowings as of March 31, 2012 or December 31, 2011 and, as such, we were not exposed to interest rate risk for those years. Due to the relative insignificance of transactions denominated in a foreign currency, we consider our foreign currency risk to be immaterial.

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 March 31, 2012 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 parties to, or targets 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, 2011 filed with the SEC on March 15, 2012 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. Mine Safety Disclosures.

None.

Item 5. Other Information.

On February 10, 2011, we filed with the 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.

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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 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 |

We did not make any sales of our common stock through this at-the-market offering during the first quarter of 2012.

In March 2012, we terminated the Registrar Agreement dated June 27, 2008 between us and Computershare Investor Services (Channel Islands) Limited and consolidated our share registers into one central register managed by our U.S. transfer agent (Computershare).

There were no material changes to the procedures by which security holders may recommend nominees to our board of directors.

Item 6. Exhibits.

- 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. 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. Hommert as Trustee of the Douglas D. Hommert 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)
- 10.1. 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)
- 10.2. 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)
- 10.3. 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)
- 10.4. 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.)
- 10.7. 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 No. 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. 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 No. 10.15 to Form 10-K filed March 16, 2011)
- 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

- 22. Published report regarding matters submitted to vote of security holders (incorporated by reference to Form 8-K filed July 19, 2011)

31(a). Rule 13a-15(e)/15d-15(e) Certification of chief executive officer

31(b). Rule 13a-15(e)/15d-15(e) Certification of principal financial officer

32. Section 1350 Certification of chief executive officer and principal financial officer

101

Interactive Data Files**

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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: May 9, 2012