

FutureFuel Corp.  
Form 10-Q  
May 10, 2010

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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, 2010

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)

(314) 854-8520  
(Registrant's Telephone Number)

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 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 10, 2010:



PART I  
FINANCIAL INFORMATION

## Item 1. Financial Statements.

The following sets forth our unaudited consolidated balance sheet as at March 31, 2010, our audited consolidated balance sheet as at December 31, 2009, our unaudited consolidated statements of operations and comprehensive income for the three-month periods ended March 31, 2010 and March 31, 2009, and our consolidated statements of cash flows for the three-month periods ended March 31, 2010 and March 31, 2009.

FutureFuel Corp.  
Consolidated Balance Sheets  
As at March 31, 2010 and December 31, 2009  
(Dollars in thousands)

|   | (Unaudited)       |                      |
|---|-------------------|----------------------|
|   | March 31,<br>2010 | December 31,<br>2009 |
| <b>Assets</b>   |                   |                      |
| Cash and cash equivalents   | \$104,595         | \$ 65,512            |
| Accounts receivable, net of allowances of \$0   | 24,732            | 21,759               |
| Inventory   | 29,181            | 26,444               |
| Income taxes receivable   | -                 | 912                  |
| Prepaid expenses  | 1,248             | 1,297                |
| Prepaid expenses - related parties  | -                 | 23                   |
| Marketable and auction rate securities  | 13,055            | 6,811                |
| Other current assets  | 748               | 828                  |
| Total current assets  | 173,559           | 123,586              |
| Property, plant and equipment, net  | 119,941           | 119,248              |
| Intangible assets   | 179               | 208                  |
| Other assets  | 2,615             | 2,965                |
| Total noncurrent assets   | 122,735           | 122,421              |
| Total Assets  | \$296,294         | \$ 246,007           |
| <b>Liabilities and Stockholders' Equity</b>   |                   |                      |
| Accounts payable  | \$10,571          | \$ 14,269            |
| Accounts payable - related parties  | 416               | 556                  |
| Income taxes payable  | 774               | -                    |
| Current deferred income tax liability   | 3,280             | 3,172                |
| Deferred revenue – short-term   | 1,076             | -                    |
| Accrued expenses and other current liabilities  | 4,167             | 2,832                |
| Accrued expenses and other current liabilities - related parties                              | 27                | 67                   |
| Total current liabilities   | 20,311            | 20,896               |
| Deferred revenue – long-term  | 10,353            | 9,348                |
| Contingent liability  | 231               | -                    |
| Other noncurrent liabilities  | 1,392             | 1,376                |
| Noncurrent deferred income tax liability  | 24,176            | 24,118               |
| Total noncurrent liabilities  | 36,152            | 34,842               |
| Total Liabilities   | 56,463            | 55,738               |
| <b>Commitments and contingencies</b>  |                   |                      |
| 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, 35,819,753 and 28,190,300 issued and outstanding as of March 31, 2010 and December 31, 2009, respectively

|  |           |            |
|--|-----------|------------|
|  | 3         | 3          |
| Accumulated other comprehensive income     | 164       | 38         |
| Additional paid in capital                 | 213,375   | 167,598    |
| Retained earnings                          | 26,289    | 22,630     |
| Total stockholders' equity                 | 239,831   | 190,269    |
| Total Liabilities and Stockholders' Equity | \$296,294 | \$ 246,007 |

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, 2010 and 2009  
(Dollars in thousands, except per share amounts)  
(Unaudited)

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2010                            | 2009       |
| Revenues  | \$47,763                        | \$38,845   |
| Revenues – related parties  | -                               | 892        |
| Cost of goods sold  | 37,492                          | 30,472     |
| Cost of goods sold – related parties  | 1,445                           | 1,903      |
| Distribution  | 771                             | 1,007      |
| Distribution – related parties  | 114                             | -          |
| Gross profit  | 7,941                           | 6,355      |
| Selling, general and administrative expenses                                    |                                 |            |
| Compensation expense  | 731                             | 494        |
| Other expense   | 496                             | 494        |
| Related party expense   | 35                              | 64         |
| Research and development expenses   | 900                             | 1,011      |
|   | 2,162                           | 2,063      |
| Income from operations  | 5,779                           | 4,292      |
| Interest income   | 122                             | 222        |
| Interest expense  | (6                              | ) (8       |
| Loss on foreign currency  | -                               | ) (3       |
| Other income  | 24                              | 3          |
|   | 140                             | 214        |
| Income before income taxes  | 5,919                           | 4,506      |
| Provision for income taxes  | 2,260                           | 1,685      |
| Net income  | \$3,659                         | \$2,821    |
| Earnings per common share   |                                 |            |
| Basic   | \$0.13                          | \$0.10     |
| Diluted   | \$0.12                          | \$0.10     |
| Weighted average shares outstanding   |                                 |            |
| Basic   | 29,265,383                      | 28,190,300 |
| Diluted   | 30,957,968                      | 28,196,985 |
| Comprehensive Income  |                                 |            |
| Net income  | \$3,659                         | \$2,821    |
| Other comprehensive income (loss), net of tax of \$77 in 2010 and \$(9) in 2009 | 126                             | (15        |
| Comprehensive income  | \$3,785                         | ) \$2,806  |

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, 2010 and 2009  
(Dollars in thousands)  
(Unaudited)

|   | Three Months Ended<br>March 31, |          |
|---|---------------------------------|----------|
|   | 2010                            | 2009     |
| Cash flows provided by operating activities                                       |                                 |          |
| Net income  | \$3,659                         | \$2,821  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |          |
| Depreciation  | 1,937                           | 1,769    |
| Provision for deferred income taxes   | 88                              | 366      |
| Change in fair value of derivative instruments                                    | (41 )                           | 97       |
| Losses on disposals of fixed assets   | 24                              | -        |
| Noncash interest expense  | 6                               | 6        |
| Changes in operating assets and liabilities:                                      |                                 |          |
| Accounts receivable   | (2,973 )                        | 1,128    |
| Inventory   | (2,737 )                        | (3,251 ) |
| Income taxes receivable   | 912                             | 792      |
| Prepaid expenses  | 49                              | 83       |
| Prepaid expenses – related parties  | 23                              | -        |
| Accrued interest on marketable debt securities                                    | (5 )                            | 2        |
| Other assets  | 116                             | 253      |
| Accounts payable  | (3,697 )                        | (2,072 ) |
| Accounts payable – related parties  | (139 )                          | (422 )   |
| Income taxes payable  | 774                             | 484      |
| Accrued expenses and other current liabilities                                    | 1,334                           | 647      |
| Accrued expenses and other current liabilities – related parties                  | (40 )                           | -        |
| Deferred revenue  | 2,081                           | (135 )   |
| Other noncurrent liabilities  | 10                              | 80       |
| Net cash provided by operating activities   | 1,381                           | 2,648    |
| Cash flows from investing activities  |                                 |          |
| Collateralization of derivative instruments                                       | 353                             | 3,398    |
| Proceeds from the sale of marketable securities                                   | -                               | 15,973   |
| Sales (purchases) of auction rate securities, net                                 | -                               | 1,750    |
| Proceeds from the sale of commercial paper  | -                               | 15,424   |
| Acquisition of a granary  | -                               | (1,252 ) |
| Contingent purchase price payment   | -                               | (47 )    |
| Purchase of preferred stock and trust preferred securities                        | (6,034 )                        | -        |
| Capital expenditures  | (2,394 )                        | (8,075 ) |
| Net cash provided by (used in) investing activities                               | (8,075 )                        | 27,171   |
| Cash flows from financing activities  |                                 |          |
| Proceeds from the issuance of stock   | 45,777                          | -        |
| Net cash provided by financing activities   | 45,777                          | -        |
| Net change in cash and cash equivalents   | 39,083                          | 29,819   |
| Cash and cash equivalents at beginning of period                                  | 65,512                          | 27,455   |
| Cash and cash equivalents at end of period  | \$104,595                       | \$57,274 |

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|                            |       |      |
|----------------------------|-------|------|
| Cash paid for interest     | \$-   | \$-  |
| Cash paid for income taxes | \$475 | \$25 |

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, bioethanol and lignin/biomass solid fuels) 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 2009 audited consolidated financial statements and should be read in conjunction with the 2009 audited consolidated financial statements of FutureFuel. Certain prior year balances have been reclassified to conform to the current year presentation.

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 subsidiary, FutureFuel Chemical. 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,<br>2010 | December 31,<br>2009 |
|--|-------------------|----------------------|
| At first-in, first-out or average cost (approximates current cost) |                   |                      |
| Finished goods   | \$ 13,050         | \$ 14,078            |
| Work in process  | 1,643             | 1,841                |
| Raw materials and supplies   | 19,486            | 16,451               |
|  | 34,179            | 32,370               |
| LIFO reserve   | (4,998 )          | (5,926 )             |
| Total inventories  | \$ 29,181         | \$ 26,444            |

## 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 loss of \$400 and a gain of \$1,473 for the three months ended March 31, 2010 and 2009, respectively.

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

|  | Asset/(Liability)                           |             |   |             |
|--|---|-------------|---|-------------|
|  | March 31, 2010                              |             | December 31, 2009                           |             |
|  | Quantity<br>(Contracts)<br>Long/<br>(Short) | Fair Value  | Quantity<br>(Contracts)<br>Long/<br>(Short) | Fair Value  |
| Regulated options, included in prepaid expenses and other current assets   | (125 )                                      | \$ (1,705 ) | (150 )                                      | \$ (1,998 ) |
| Regulated fixed price future commitments, included in other current assets | (61 )                                       | \$ (184 )   | 10  | \$ 68       |

The margin account maintained with a broker to collateralize these derivative instruments carried an account balance of \$2,203 and \$2,556 at March 31, 2010 and December 31, 2009, 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 debt securities

FutureFuel has made investments in certain auction rate securities. As of March 31, 2010, these securities had a maturity of August 2037. FutureFuel classified these instruments as current assets in the accompanying consolidated balance sheets as the issuers of these instruments have either exercised their right to repurchase or a liquid market still exists for these securities, which allows FutureFuel to exit its positions within a short period of time. FutureFuel anticipates these securities either being sold or repurchased within the next year. FutureFuel has designated these securities as being available-for-sale. Accordingly, these securities are carried at fair value, with unrealized gains and losses, net of taxes, reported as a component of stockholders' equity. No realized gains or losses have been incurred related to these securities through March 31, 2010.

The fair market value of these auction rate securities approximated their par value and, including accrued interest, totaled \$2,800 at both March 31, 2010 and December 31, 2009, respectively.

At March 31, 2010, FutureFuel had investments in certain preferred stock and trust preferred securities. 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 fair market value of these preferred stock and trust preferred securities, including accrued interest, totaled \$10,255 and \$4,011 at March 31, 2010 and December 31, 2009, 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,<br>2010 | December 31,<br>2009 |
|---|-------------------|----------------------|
| Accrued employee liabilities              | \$ 2,323          | \$ 1,499             |
| Accrued property, use and franchise taxes | 1,339             | 1,064                |
| Other                                     | 532               | 336                  |
| Total                                     | \$ 4,194          | \$ 2,899             |

## 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 terminated on March 10, 2010 and was subsequently renewed and extended on March 14, 2010 expiring on June 30, 2013 with only slight modifications to the original credit agreement. 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.

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

7

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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. 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.

At March 31, 2010, no borrowings were outstanding under this credit facility.

7) Provision for income taxes

|                            | For the three months ended<br>March 31, |       |      |       |
|----------------------------|---|-------|------|-------|
|                            | 2010                                    |       | 2009 |       |
| Provision for income taxes | \$                                      | 2,260 | \$   | 1,685 |
| Effective tax rate         |   | 38.2  | %    | 37.4  |
|                            |   |       |      | %     |

The effective tax rates for the three months ended March 31, 2010 and 2009 reflect FutureFuel's expected tax rate on reported operating earnings before income tax.

FutureFuel's unrecognized tax benefits, recorded as an element of other noncurrent liabilities, totaled \$559 at March 31, 2010 and December 31, 2009, the total amount of which, if recognized, would reduce FutureFuel's effective tax rate.

FutureFuel does not expect its unrecognized tax benefits to change significantly over the next 12 months.

FutureFuel records interest and penalties net as a component of income tax expense. FutureFuel had accrued a balance of \$148 and \$138 at March 31, 2010 and December 31, 2009, respectively, for interest or tax penalties.

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 2005 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<br>March 31, |            |      |            |
|--|---|------------|------|------------|
|  | 2010                                    |            | 2009 |            |
| Net income available to common stockholders                  | \$                                      | 3,659      | \$   | 2,821      |
| Weighted average number of common shares outstanding         |   | 29,265,383 |      | 28,190,300 |
| Effect of warrants   |   | 1,663,706  |      | -          |
| Effect of stock options                                      |   | 28,879     |      | 6,685      |
| Weighted average diluted number of common shares outstanding |   | 30,957,968 |      | 28,196,985 |
| Basic earnings per share                                     | \$                                      | 0.13       | \$   | 0.10       |

|                            |         |         |
|----------------------------|---------|---------|
| Diluted earnings per share | \$ 0.12 | \$ 0.10 |
|----------------------------|---------|---------|

Certain warrants 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, 2009 as they were anti-dilutive for the period. The weighted average number of warrants excluded on this basis was 21,317,500. Additionally, 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, 2010 and 2009 as they were anti-dilutive. The weighted average number of options excluded on this basis was 280,500 and 105,000, respectively.



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

9) Segment information

FutureFuel has determined that it 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. Revenues are generated through the production and sale of biodiesel to customers through FutureFuel’s distribution network from the Batesville Plant and through distribution facilities available at leased oil storage facilities 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, 2010     | \$ 42,929     | \$ 4,834              | \$ 47,763 |
| March 31, 2009     | \$ 35,853     | \$ 3,884              | \$ 39,737 |

For the three months ended March 31, 2010 and 2009, revenues from Mexico accounted for 9% and 8%, respectively, of total revenues. Other than Mexico, revenues from a single foreign country during the three months ended March 31, 2010 and 2009 did not exceed 2% 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<br>March 31, |           |
|----------------------------------|---|-----------|
|                                  | 2010                                    | 2009      |
| Revenues                         |   |           |
| Chemicals                        | \$ 43,602                               | \$ 35,860 |
| Biofuels                         | 4,161                                   | 3,877     |
| Revenues                         | \$ 47,763                               | \$ 39,737 |
| Segment gross profit             |   |           |
| Chemicals                        | \$ 9,226                                | \$ 7,375  |
| Biofuels                         | (1,285 )                                | (1,020 )  |
| Segment gross margins            | 7,941                                   | 6,355     |
| Corporate expenses               | (2,162 )                                | (2,063 )  |
| Income before interest and taxes | 5,779                                   | 4,292     |
| Interest and other income        | 146                                     | 225       |
| Interest and other expense       | (6 )                                    | (11 )     |
| Provision for income taxes       | (2,260 )                                | (1,685 )  |
| Net income                       | \$ 3,659                                | \$ 2,821  |

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.

## Notes to Consolidated Financial Statements of FutureFuel Corp.

(Dollars in thousands, except per share amounts)

(Unaudited)

The following tables provide information by level for assets and liabilities that are measured at fair value, on a recurring basis, at March 31, 2010 and December 31, 2009.

| Description                                    | Fair Value at<br>March 31,<br>2010 | Asset/(Liability)<br>Fair Value Measurements Using<br>Inputs Considered as |          |         |
|--|------------------------------------|--|----------|---------|
|  |                                    | Level 1  | Level 2  | Level 3 |
| Available for sale:                            |                                    |  |          |         |
| Auction rate securities                        | \$ 2,800                           | \$ -   | \$ 2,800 | \$ -    |
| Preferred stock and trust preferred securities | 10,255                             | 10,255   | -        | -       |
| Derivative instruments                         | \$ (1,889 )                        | \$ (1,889 )  | \$ -     | \$ -    |

| Description                                    | Fair Value at<br>December<br>31,<br>2009 | Asset/(Liability)<br>Fair Value Measurements Using<br>Inputs Considered as |          |         |
|--|--|--|----------|---------|
|  |  | Level 1  | Level 2  | Level 3 |
| Available for sale:                            |  |  |          |         |
| Auction rate securities                        | \$ 2,800                                 | \$ -   | \$ 2,800 | \$ -    |
| Preferred stock and trust preferred securities | 4,011                                    | 4,011  | -        | -       |
| Derivative instruments                         | \$ (1,930 )                              | \$ (1,930 )  | \$ -     | \$ -    |

FutureFuel's Level 1 assets held at March 31, 2010 and December 31, 2009 were preferred stock and trust preferred securities and are included with marketable and auction rate securities on our consolidated balance sheets presented elsewhere herein. Each of the securities held in this class actively trade on established public markets with price quotes readily available. FutureFuel's Level 1 liabilities at March 31, 2010 and December 31, 2009 were derivative instruments and are included with other current assets on our consolidated balance sheets presented elsewhere herein, net of cash held as margin in the same account. Derivative instruments are comprised of heating oil futures contracts and options on futures contracts that we utilize to hedge feedstock purchases and sales of biodiesel and diesel. These futures and options contracts actively trade on established public markets with price quotes readily available.

FutureFuel's Level 2 assets held at March 31, 2010 and December 31, 2009 were auction rate securities and are included with marketable and auction rate securities on our consolidated balance sheets presented elsewhere herein. This class includes a single security, the price of which is quoted in a relatively inactive market. In determining fair value, FutureFuel utilized this quoted market price, with additional consideration given to market values of similar securities.

## 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. Major products in the custom manufacturing group include: (i) nonanoyloxybenzene-sulfonate, a bleach activator manufactured exclusively for a customer for use in a household detergent; (ii) a proprietary herbicide (and intermediates) manufactured exclusively for a customer; (iii) two product lines (CPOs and DIPB) produced under conversion contracts for another customer; and (iv) an industrial intermediate manufactured for a customer for use in the antimicrobial industry. The major product line in the performance chemicals group is SSIPA/LiSIPA, a polymer modifier that aids the properties of nylon manufactured for a broad customer base. There are a number of additional small volume custom and performance chemical products that we group into "other products".

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.

We have been the exclusive manufacturer for a customer of a proprietary herbicide and certain intermediates. These products are facing some generic competition, and no assurances can be given that we will remain the exclusive manufacturer for this product line. The contracts automatically renew 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 for the herbicide and not later than 18 months prior to the then current term for the intermediates. No assurances can be given that these contracts 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.

CPOs are chemical intermediates that promote adhesion for plastic coatings and DIPB are intermediates for production of Eastman Chemical Company products used as general purpose inhibitors, intermediates or antioxidants. As part of our acquisition of FutureFuel Chemical Company, we entered into conversion agreements with Eastman Chemical Company that effectively provide a conversion fee to us for CPOs and DIPB based on volume manufactured, with a minimum annual fee for both products. In addition, the conversion agreements provide for revenue adjustments for actual price of raw materials purchased by us at standard usages. Eastman Chemical Company provides key raw materials at no cost. For the key raw materials, usage over standard is owed Eastman Chemical Company; likewise, any improvement over standard is owed to us at the actual price Eastman Chemical Company incurred for the key raw material.

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.

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.

Other products include agricultural intermediates and additives, imaging chemicals, fiber additives, and various specialty pharmaceutical intermediates that we have in full commercial production or in development. These products currently are sold in small quantities to a large customer base. Pricing for these products is negotiated directly with the customer (in the case of custom manufacturing) or is established based upon competitive market conditions (in the case of performance chemicals). In general, these products have no pricing mechanism or specific protection against raw material or conversion cost changes.

We procure all of our own biodiesel 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. We recently completed a project to increase our production 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. We believe we successfully demonstrated our ability to keep our former 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. We are currently making process changes that will allow us to use high free fatty acid/low cost feedstock. After the alterations are made, our plant should be able to produce a fungible product that can be handled in pipelines as well as truck and rail transportation, although no assurances can be given that we will be successful.

Uncertainty related to our future biodiesel production relates to changes in feedstock prices relative to biodiesel prices and the \$1.00 per gallon federal blender's tax credit, which terminated at the end of 2009 and has not been renewed. 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.

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.

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, 2010 Compared to Three Months Ended March 31, 2009

Revenues: Revenues for the three months ended March 31, 2010 were \$47,763,000 as compared to revenues for the three months ended March 31, 2009 of \$39,737,000, an increase of 20%. Revenues from biofuels increased 7% and

accounted for 9% of total revenues in 2010 as compared to 10% in 2009. Revenues from chemicals increased 22% and accounted for 91% of total revenues in 2010 as compared to 90% in 2009. Within the chemicals segment, revenues for 2010 changed as follows as compared to 2009: revenues from the bleach activator increased 23%; revenues from the proprietary herbicide and intermediates decreased 18%; revenues from CPOs increased more than 100%; revenues from DIPB decreased 12%; and revenues from all other chemical products increased 79%.

Revenues from the bleach activator and the proprietary herbicide and intermediates are together the most significant components of FutureFuel Chemical Company's revenue base, accounting for 61% of revenues for the three months ended March 31, 2010 as compared to 69% for the three months ended March 31, 2009. The increase in revenue from the bleach activator during 2010 as compared to 2009 was attributable to higher volumes sold in 2010. 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 certainty the revenues we will receive from this product in the future. With respect to the proprietary herbicide, the decrease in revenues in 2010 as compared to 2009 was primarily a result of lower volumes, partially offset by a moderate price increase resulting from higher raw material costs.

Revenues from CPOs and DIPB together increased 58% during 2010. The end market for CPOs is the automotive industry and demand for this product was impacted by both economic conditions and an inventory build by our customer at the end of 2008, resulting in no revenues in the first quarter of 2009. Demand for CPOs returned in the first quarter of 2010. Revenues from DIPB in the first quarter of 2010 were down as compared to the first quarter of 2009 as a result of price reductions and, to a lesser extent volume.

Increased revenues in 2010 from the biofuels segment resulted from higher volumes of petrodiesel distributed to our regional market. We completed shipment of biodiesel under two large sales that had been executed in 2009; otherwise we sold no biodiesel during the first quarter of 2010 as a result of the expiration of the \$1.00 per gallon federal blender's credit at the end of 2009. The volume of biodiesel sold in the first quarter of 2010 decreased 69% as compared to 2009. The volume of petrodiesel sold in the first quarter of 2010 increased 169% as compared to 2009. This increase was a result of success with our regional fuel distribution strategy. Finally, we purchased a granary in March 2009 and, because we anticipate future synergies with our biofuels business, we include the granary's operating results in our biofuels segment. Granary revenues are generated from the sale of agricultural commodities, primarily soybeans, rice, and corn.

**Cost of Goods Sold and Distribution:** Total cost of goods sold and distribution for the first three months of 2010 were \$39,822,000 as compared to total cost of goods sold and distribution for 2009 of \$33,382,000, an increase of 19%.

Cost of goods sold and distribution for the first quarter of 2010 for our chemicals segment were \$34,376,000 as compared to cost of goods sold and distribution for the first quarter of 2009 of \$28,485,000. On a percentage basis, the 21% increase in cost of goods sold and distribution was slightly less than the 22% increase in chemicals segment revenues.

Cost of goods sold and distribution for the first quarter of 2010 for our biofuels segment were \$5,446,000 as compared to cost of goods sold and distribution for the first quarter of 2009 of \$4,897,000. On a percentage basis, cost of goods sold and distribution increased 11% versus an increase in revenues of 7%. This difference is a result of growth in our fuel distribution business, changes in profit from hedging activity, and an inventory adjustment in the first quarter of 2010. In our fuel distribution business, we sell petrodiesel and biodiesel blends of less than 5% to as much as 20%. The margin we earn on the petrodiesel resold as a stand-alone product or as a component of the biodiesel blend is generally less than we earn on biodiesel. With respect to hedging activity, we incurred a loss of \$400,000 during the first quarter of 2010 as compared to a gain of \$1,473,000 in the first quarter of 2009. Finally, as a result of the expiration of the \$1.00 per gallon federal blender's credit, our cost of biodiesel feedstock at March 31, 2010 exceeded its market value, requiring a downward inventory adjustment. Cost of goods sold for the first quarter of 2010 includes a charge to reduce these inventories to market value.

**Operating Expenses:** Operating expenses increased 5%, from \$2,063,000 in the first three months of 2009 to \$2,162,000 in the first three months of 2010. Compensation expense increased 48% as a result of additions to our chemical sales department, moderate increases in wages, and a full quarter of expense related to the granary as



compared to a partial month in 2009. Other expense for the first three months of 2010 was unchanged from the same period of 2009. Related party expense decreased 45% as a result of reduced travel. Finally, research and development expense decreased 11% from \$1,011,000 for the first three months of 2009 to \$900,000 in 2010; this decrease is the result of reduced external spending on certain development efforts related to our biofuels segment.

Provision for Income Taxes: The effective tax rates for the three months ended March 31, 2010 and 2009 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 \$714,000 at March 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 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 six specialty chemical products in 2009 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 \$14,614,000 and \$14,172,000 for the three months ended March 31, 2010 and 2009, respectively.

#### Liquidity and Capital Resources

Our consolidated net cash provided by (used in) operating activities, investing activities and financing activities for the three months ended March 31, 2010 and 2009 are set forth in the following chart.

(Dollars in thousands)

|   | March 31,<br>2010 | March 31,<br>2009 |
|---|-------------------|-------------------|
| Net cash provided by operating activities           | \$ 1,381          | \$ 2,648          |
| Net cash provided by (used in) investing activities | \$ (8,075 )       | \$ 27,171         |
| Net cash provided by financing activities           | \$ 45,777         | \$ -              |

**Operating Activities:** Cash provided by operating activities decreased from \$2,648,000 during the first quarter of 2009 to \$1,381,000 during the first quarter of 2010. Discussion of the significant components of this change follows. Cash provided by (used in) the change in accounts receivable decreased from \$1,128,000 in the first quarter of 2009 to \$(2,973,000) in 2010. This decrease is attributable to generally higher sales activity in the first quarter of 2010 as compared to 2009 and, hence, higher receivable balances at the end of the first quarter of 2010. In addition, we agreed with a customer to accept prepayment of certain invoices at the end of 2009 in exchange for extended payment terms for product shipped in the first quarter of 2010. Cash used in the change in accounts payable, including related party balances, increased from \$2,494,000 in the first quarter of 2009 to \$3,836,000 in 2010. This increase is attributable to payments during the first quarter of 2010 for grain purchased in the fourth quarter of 2009 – there were no such payments in the first quarter of 2009 as we did not purchase the granary until March 2009 and there were no outstanding payables at the time of the acquisition. Cash provided by (used in) changes in deferred revenue increased from \$(135,000) in the first three months of 2009 to \$2,081,000 in 2010. Certain customers reimbursed us for capital expenditures we incurred in the construction or modification of assets to produce new products. In addition, the State of Arkansas began funding a capital project to expand and improve the rail infrastructure at our site. This funding by the customers and government was recognized as deferred revenue to be

amortized over the expected life of the respective customer relationship or asset.

Investing Activities: Cash provided by (used in) investing activities decreased from \$27,171,000 in the first quarter of 2009 to \$(8,075,000) in the first quarter of 2010. This decrease is primarily attributable to changes in net cash flows from short term investments. Cash provided by (used in) the proceeds from the sale of marketable securities, the net purchases of auction rate securities, the proceeds from the sale of commercial paper and the purchase of preferred stock and trust preferred securities was \$33,147,000 in the first three months of 2009 as compared to \$(6,034,000) in 2010. The investing activities which spurred these changes are further described below under

“Capital Management”. In addition to cash flows from short term investments, the decrease in cash provided by investing activities was partially attributable to a decline in cash provided by the collateralization of derivative instruments, which decreased from \$3,398,000 in the first three months of 2009 to \$353,000 in 2010. Partially offsetting the decreases in cash provided by (used in) investing activities described above, cash used for capital expenditures decreased from \$8,075,000 in the first three months of 2009 to \$2,394,000 in 2010.

Financing Activities: Cash provided by financing activities increased from \$- in the first quarter of 2009 to \$45,777,000 in the first quarter of 2010. This change is entirely attributable to proceeds from the issuance of stock in the first quarter of 2010, stemming from certain warrant holders exercising such warrants.

#### Credit Facility

FutureFuel Chemical Company 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 working capital, capital expenditures and general corporate purposes of FutureFuel Chemical Company. The facility terminated on March 10, 2010 and was subsequently renewed and extended on March 14, 2010 expiring on June 30, 2013 with only slight modifications to the original credit agreement. Advances are made pursuant to a borrowing base. Advances are secured by a perfected first priority security interest in accounts receivable and inventory. The interest rate floats at certain margins over LIBOR or base rate dependent upon certain leverage ratios.

There is an unused commitment fee of 0.325% per annum. The ratio of EBITDA to fixed charges may not be less than 3:1. FutureFuel has guaranteed FutureFuel Chemical Company’s obligations under this credit agreement.

As of March 31, 2010 and December 31, 2009, FutureFuel Chemical Company had no borrowings under this \$50 million credit agreement.

We intend to fund future capital requirements for FutureFuel Chemical Company’s chemical and biofuels segments from cash flow generated by operations as well as from existing cash and borrowings under the credit facility. We do not believe there will be a need to issue any securities to fund such capital requirements.

#### Off-Balance Sheet Arrangements

Our only off-balance sheet arrangements were hedging transactions. We engage in two types of hedging transactions. First, we hedge our biodiesel 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, 2010 and December 31, 2009. Second, we hedge our biodiesel 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, 2010 or December 31, 2009 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 biodiesel 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 FutureFuel Chemical Company has committed to a certain volume of feedstock in a future period and has fixed the basis and/or price for that volume.

#### Capital Management

As a result of our initial equity offering and our subsequent positive operating results, we have accumulated excess working capital. Some of this excess working capital was paid out in 2008 and 2009 as a special cash dividend. We intend to retain the remaining cash to fund infrastructure and capacity expansion at our Batesville plant and to pursue

complimentary acquisitions in the energy and chemical industries. Given the recent and current conditions in capital markets, we intend to take a risk averse approach to managing these funds. Third parties have not placed significant restrictions on our working capital management decisions.

In the first quarter of 2010, these funds were predominantly held in cash or cash equivalents at multiple financial institutions and, to a lesser degree, preferred stock and trust preferred securities. We also maintained a small position in auction rate securities.

We have selectively made investments in certain auction rate securities that we believe offer sufficient yield along with sufficient liquidity. To date, all the auction rate securities in which we have invested have maintained a mechanism for liquidity, meaning that the respective auctions have not failed, the issuers have called the instruments, or a secondary market exists for liquidation of the securities. We have classified these instruments as current assets in the accompanying consolidated balance sheet and carry them at their estimated fair market value. The fair market value of these instruments approximated their par value and, including accrued interest, totaled \$2,800,000 at March 31, 2010. Auction rate securities are typically long term bonds issued by an entity for which there is a series of auctions over the life of the bond that serve to reset the interest rate on the bonds to a market rate. These auctions also serve as a mechanism to provide liquidity to the bond holders; as long as there are sufficient purchasers of the auction rate securities, the then owners of the auction rate securities are able to liquidate their investment through a sale to the new purchasers. In the event of an auction failure, a situation when there are more sellers than buyers of a particular issue, the current owners of an auction rate security issue may not be able to liquidate their investment. As a result of an auction failure, a holder may be forced to hold the particular security either until maturity or until a willing buyer is found. Even if a willing buyer is found, however, there is no guarantee that this willing buyer will purchase the security for its carrying value, which would result in a loss being realized on the sale. The liquidity problems currently experienced in the U.S. auction rate securities markets have generally been focused on closed-end fund and student loan auction rate securities, asset classes that we have avoided.

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

#### 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 has 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 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 ("HED") required by the United States Environmental Protection Agency ("USEPA") 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 USEPA. 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 has 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 FutureFuel Chemical Company's 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 2010 or 2009. 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 biofuels being sold. As of March 31, 2010 and December 31, 2009, the fair values of our derivative instruments were a net liability in the amount of \$1,889,000 and \$1,930,000, 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 and electricity. 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 2010. We included only those raw materials and conversion costs for which a hypothetical adverse change in price would result in a 1.5% 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)<br>Requirements | Units | Hypothetical<br>Adverse<br>Change in<br>Price | Decrease in<br>Gross Profit | Percentage<br>Decrease in<br>Gross Profit |
|-------------|---------------------------|-------|---|-----------------------------|---|
| Natural Gas | 218,677                   | MCF   | 10.0%   | \$ 130                      | 1.6%                                      |

(a) Volume requirements and average price information are based upon volumes used and prices obtained for the three months ended March 31, 2010. Volume requirements may differ materially from these quantities in future years as the business of FutureFuel Chemical Company evolves.

As of March 31, 2010 and December 31, 2009, we had no borrowings and were not exposed to interest rate risk.

#### 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 (“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, 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 Securities and Exchange Commission’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.

Neither we nor our subsidiary are a party to, nor is any of ours or their property subject to, any material pending legal proceedings, other than ordinary routine litigation incidental to their businesses.

From time to time, FutureFuel Chemical Company and its operations 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, 2009 filed with the Securities and Exchange Commission on March 15, 2010 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 except as follows.

The federal excise tax credit for biodiesel expired on December 31, 2009 and Congress has not enacted legislation to extend this credit. If the credit permanently expires, FutureFuel Chemical Company's cost of producing biodiesel will be increased, which could have an adverse effect on our financial position.

In October 2004, Congress passed a biodiesel tax incentive, structured as a federal excise tax credit, as part of the American Jobs Creation Act of 2004. The credit amounts to one cent for each percentage point of vegetable oil or animal fat biodiesel that is blended with petrodiesel (and one-half cent for each percentage point of recycled oils and other non-agricultural biodiesel). For example, blender's that blend B20 made from soy, canola and other vegetable oils and animal fats receive a 20¢ per gallon excise tax credit, while biodiesel made from recycled restaurant oils (yellow grease) receive half of this credit. The tax incentive generally is taken by petroleum distributors and is passed on to the consumer. It is designed to lower the cost of biodiesel to consumers in both taxable and tax-exempt markets. The tax credit was scheduled to expire at the end of 2006, but was extended in the Energy Policy Act of 2005 to December 31, 2008 and most recently it was extended to December 31, 2009.

Congress has not enacted any legislation to extend this tax credit beyond December 31, 2009. If the tax credit is not extended, FutureFuel Chemical Company's biodiesel production costs will increase by \$1.00 per gallon. If biodiesel feedstock costs do not decrease significantly relative to biodiesel prices, FutureFuel Chemical Company would realize a negative biodiesel production margin. As a result, we would cease producing biodiesel, which could have an adverse effect on our financial condition.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

19

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Item 5. Other Information.

On March 12, 2010, we declared a special cash dividend of \$0.20 per share on our common stock, with a record date of March 23, 2010 and a payment date of April 9, 2010. Payment of the dividend was issued on April 9, 2010 as originally announced.

Item 6. Exhibits and Reports on Form 8-K.

| Exhibit No. | Description   |
|-------------|---|
| 10.10.2     | Second Modification Agreement dated March 14, 2010 to the Credit Agreement between FutureFuel Chemical Company and Regions Bank |
| 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   |

Forward Looking Information

This Form contains or incorporates by reference “forward-looking statements”. When used in this document, the words “anticipate,” “believe,” “estimate,” “expect,” “plan,” and “intend” and similar expressions, as they relate to us, FutureFuel Chemical Company or our respective management, are intended to identify forward-looking statements. These forward-looking statements are based on current management assumptions and are subject to uncertainties and inherent risks that could cause actual results to differ materially from those contained in any forward-looking statement. We caution you therefore that you should not rely on any of these forward-looking statements as statements of historical fact or as guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions as well as, but not limited to, the following:

- conflicts of interest of our officers and directors;
- potential future affiliations of our officers and directors with competing businesses;
- the control by our founding shareholders of a substantial interest in us;
- the highly competitive nature of the chemical and alternative fuel industries;
- fluctuations in energy prices may cause a reduction in the demand or profitability of the products or services we may ultimately produce or offer or which form a portion of our business;
- changes in technology may render our products or services obsolete;
- failure to comply with governmental regulations could result in the imposition of penalties, fines or restrictions on operations and remedial liabilities;
- the operations of FutureFuel Chemical Company’s biofuels business may be harmed if the applicable government were to change current laws and/or regulations;
- our board may have incorrectly evaluated FutureFuel Chemical Company’s potential liabilities;

- our board may have FutureFuel Chemical Company engage in hedging transactions in an attempt to mitigate exposure to price fluctuations in petroleum product transactions and other portfolio positions which may not ultimately be successful; and
- we may not continue to have access to capital markets and commercial bank financing on favorable terms and FutureFuel Chemical Company may lose its ability to buy on open credit terms.

Although we believe that the expectations reflected by such forward-looking statements are reasonable based on information currently available to us, no assurances can be given that such expectations will prove to have been correct. All forward-looking statements included in this Form and all subsequent oral forward-looking statements

attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as to their particular dates.

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 10, 2010

22