

FutureFuel Corp.  
Form 10-Q  
August 09, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

√

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2016

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**

**20-3340900**

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(State or Other Jurisdiction of

(IRS Employer Identification No.)

Incorporation or Organization)

**8235 Forsyth Blvd., Suite 400**

**St. Louis, Missouri 63105**

(Address of Principal Executive Offices)

**(314) 854-8385**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting

(do not check if a smaller reporting company)

company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 9, 2016:  
43,721,376

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.**

The following sets forth our unaudited consolidated balance sheet as of June 30, 2016, our audited consolidated balance sheet as of December 31, 2015, our unaudited consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2016 and June 30, 2015, and our unaudited consolidated statements of cash flows for the six-month periods ended June 30, 2016 and June 30, 2015.

**FutureFuel Corp.****Consolidated Balance Sheets**

**As of June 30, 2016 and December 31, 2015**

**(Dollars in thousands)**

<b>(Unaudited)</b>	<b>June 30, 2016</b>	<b>December 31, 2015</b>	<b>Assets</b>
Cash and cash equivalents	\$ 173,600	\$ 154,049	
Accounts receivable, inclusive of the blenders' tax credit of \$5,821 and \$30,895 and net of allowances for bad debt of \$0 and \$0, at June 30, 2016 and December 31, 2015, respectively	24,611	46,319	
Accounts receivable – related parties	33	10	
Inventory	58,717	64,957	
Income tax receivable	16,932	14,114	

Prepaid expenses

1,053 1,642

Prepaid expenses – related parties

35 35

Marketable securities

92,064 74,667

Deferred financing costs

144 144

Other current assets

1,892 3,887

Total current assets

369,081 359,824

Property, plant and equipment, net

121,012 124,330

Intangible assets

1,408 1,408

Deferred financing costs

397 469

Other assets

3,640 3,078

Total noncurrent assets

126,457 129,285

**Total Assets**

\$ 495,538 \$ 489,109

**Liabilities and Stockholders' Equity**

Accounts payable

\$ 16,494    \$ 34,442

Accounts payable – related parties

1,828    244

Current deferred income tax liability

4,533    7,060

Deferred revenue – short-term

4,143    2,680

Contingent liability – short-term

1,151    1,151

Accrued expenses and other current liabilities

5,446    2,976

Total current liabilities

33,595    48,553

Deferred revenue – long-term

17,378    15,908

Other noncurrent liabilities

836    1,219

Noncurrent deferred income tax liability

27,790    29,117

Total noncurrent liabilities

46,004    46,244

Total liabilities

79,599    94,797

Commitments and contingencies:

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Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, none issued and outstanding

- -

Common stock, \$0.0001 par value, 75,000,000 shares authorized, 43,721,376 and 43,715,832, issued and outstanding as of June 30, 2016 and December 31, 2015, respectively

4 4

Accumulated other comprehensive income

3,372 2,055

Additional paid in capital

279,994 279,231

Retained earnings

132,569 113,022

Total stockholders' equity

415,939 394,312

**Total Liabilities and Stockholders' Equity**

\$ 495,538 \$ 489,109

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

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**FutureFuel Corp.**

**Consolidated Statements of Operations and Comprehensive Income**

**For the Three Months and Six Months Ended June 30, 2016 and 2015**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**Three months ended June 30:**

**Six months ended June 30:**

**2016**

**2015**

**2016**

**2015**

Revenue

\$ 65,842   \$ 78,690   \$ 109,046   \$ 128,505

Revenues – related parties

2,037   25,908   5,468   30,180

Cost of goods sold

57,118   96,900   90,276   135,210



## Cost of goods sold – related parties

1,914	1,063	3,435	2,807
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## Distribution

768	986	1,565	1,634
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## Distribution – related parties

107	105	213	176
-----	-----	-----	-----

**Gross profit**

7,972	5,544	19,025	18,858
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## Selling, general, and administrative expenses

## Compensation expense

1,277	1,059	2,443	2,212
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## Other expense

540	572	1,163	1,181
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## Related party expense

41	66	89	126
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## Research and development expenses

738	670	1,425	1,385	2,596	2,367	5,120	4,904
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**Income from operations**

5,376	3,177	13,905	13,954
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## Interest and dividend income

1,464	1,405	2,809	2,672
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## Interest expense

(42)	(43)	(85)	(49)
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## Gain/(loss) on marketable securities

613	451	(405)	1,471
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Other expense

(104)	(78)	(220)	(122)	1,931	1,735	2,099	3,972
-------	------	-------	-------	-------	-------	-------	-------

Income before income taxes

7,307	4,912	16,004	17,926
-------	-------	--------	--------

(Benefit)/provision for income taxes

(6,917)	1,119	(8,789)	6,002
---------	-------	---------	-------

**Net income**

\$ 14,224	\$ 3,793	\$ 24,793	\$ 11,924
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**Earnings per common share**

Basic

\$ 0.33	\$ 0.09	\$ 0.57	\$ 0.27
---------	---------	---------	---------

Diluted

\$ 0.33	\$ 0.09	\$ 0.57	\$ 0.27
---------	---------	---------	---------

**Weighted average shares outstanding**

Basic

43,527,857	43,420,923	43,501,599	43,396,789
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Diluted

43,528,759	43,428,733	43,507,509	43,405,641
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**Comprehensive Income**

Net income

\$ 14,224	\$ 3,793	\$ 24,793	\$ 11,924
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Other comprehensive income/(loss) from unrealized

net gains/(losses) on available-for-sale securities

1,349 (2,061) 2,027 (3,057)

Income tax effect

(472) 779 (710) 1,174

Total unrealized gains/(losses), net of tax

877 (1,282) 1,317 (1,883)

**Comprehensive income**

\$ 15,101 \$ 2,511 \$ 26,110 \$ 10,041

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

**FutureFuel Corp.**

**Consolidated Statements of Cash Flows**

**For the Six Months Ended June 30, 2016 and 2015**

**(Dollars in thousands)**

**(Unaudited)**

**Six months ended June 30:**

**2016**

**2015**

**Cash flows provided by operating activities**

Net income

\$ 24,793    \$ 11,924

Adjustments to reconcile net income to net cash provided by operating activities:

Depreciation

5,257    4,872

Amortization of deferred financing costs

72    36

Benefit for deferred income taxes

(4,969 ) (6,458 )

Change in fair value of derivative instruments

4,869 5,423

Other than temporary impairment of marketable securities

1,879 186

Impairment of fixed assets

178 -

Gain on the sale of investments

(1,474 ) (1,657 )

Stock based compensation

954 954

Losses on disposals of fixed assets

137 122

Noncash interest expense

22 13

Changes in operating assets and liabilities:

Accounts receivable

21,708 30,484

Accounts receivable – related parties

(23 ) (3,958 )

Inventory

6,240 (10,635 )

Income tax receivable

(2,818 ) 1,987

Prepaid expenses

589 724

Prepaid expenses – related party

- (23 )

Accrued interest on marketable securities

(104 ) (73 )

Other assets

(321 ) (207 )

Accounts payable

(17,948 ) (175 )

Accounts payable – related parties

1,584 (721 )

Accrued expenses and other current liabilities

2,470 1,720

Accrued expenses and other current liabilities – related parties

- 267

Deferred revenue

2,933 730

Other noncurrent liabilities

- (675 )

**Net cash provided by operating activities**

46,028 34,860

**Cash flows from investing activities**

Collateralization of derivative instruments

(3,011 ) (5,013 )

Purchase of marketable securities

(32,299 ) (25,819 )

Proceeds from the sale of marketable securities

16,524 26,010

Expenditures for intangible assets

- (1,408 )

Capital expenditures

(2,254 ) (4,360 )

**Net cash used in investing activities**

(21,040 ) (10,590 )

**Cash flows from financing activities**

Minimum tax withholding on stock options exercised and awards vested

(55 ) (22 )

Excess tax benefits associated with stock options and awards

(136 ) -

Deferred financing costs

- (721 )

Payment of dividends

(5,246 ) (5,247 )

**Net cash used in financing activities**

(5,437 ) (5,990 )

Net change in cash and cash equivalents

19,551 18,280

Cash and cash equivalents at beginning of period

154,049 124,079

**Cash and cash equivalents at end of period**

\$ 173,600    \$ 142,359

Cash paid for interest

-    -

Cash paid for income taxes

\$ 985    \$ 11,147

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

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**Notes to Consolidated Financial Statements of FutureFuel Corp.**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

1)

**NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

*Organization*

FutureFuel Corp. (“FutureFuel”), through its wholly-owned subsidiary, FutureFuel Chemical Company (“FutureFuel Chemical”), owns and operates a chemical production facility located on approximately 2,200 acres of land six miles southeast of Batesville in north central Arkansas fronting the White River (the “Batesville Plant”). FutureFuel Chemical manufactures diversified chemical products, biobased products comprised of biofuels, and biobased specialty chemical products. FutureFuel Chemical’s operations are reported in two segments: chemicals and biofuels.

The chemicals segment manufactures a diversified listing of chemical products that are sold to third party customers. The majority of the revenues from the chemicals segment are derived from the custom manufacturing of specialty chemicals for specific customers.

The biofuels business segment primarily produces and sells biodiesel. FutureFuel Chemical also sells petrodiesel in blends with the company’s biodiesel and, from time to time, with no biodiesel added. Finally, FutureFuel is a shipper of refined petroleum products on common carrier pipelines and buys and sells petroleum products to maintain an active shipper status on these pipelines.

*Basis of Presentation*

The accompanying consolidated financial statements have been prepared by FutureFuel in accordance and consistent with the accounting policies stated in FutureFuel’s 2015 audited consolidated financial statements and should be read in conjunction with the 2015 audited consolidated financial statements of FutureFuel.

In the opinion of FutureFuel, all normal recurring adjustments necessary for a fair presentation have been included in the unaudited consolidated financial statements. The unaudited consolidated financial statements have been prepared in compliance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) accounting principles generally accepted in the United States (“GAAP”) 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 GAAP 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; namely, FutureFuel Chemical Company, FFC Grain, L.L.C., FutureFuel Warehouse Company, L.L.C., and Legacy Regional Transport, L.L.C. Intercompany transactions and balances have been eliminated in consolidation.

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## **INVENTORY**

The carrying values of inventory were as follows as of:

**June 30, 2016**

**December 31, 2015**

At average cost (approximates current cost)

Finished goods

\$ 26,892    \$ 35,517

Work in process

2,039    1,695

Raw materials and supplies

31,031	31,247	59,962	68,459
--------	--------	--------	--------

LIFO reserve

(1,245 )	(3,502 )
----------	----------

Total inventory

\$ 58,717	\$ 64,957
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FutureFuel recorded a lower of cost or market adjustment of \$1,895 in the three and six months ended June 30, 2016. This lower of cost or market adjustment was recorded as a decrease in inventory values and an increase in cost of goods sold. There was no such adjustment in the three and six months ended June 30, 2015.

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**Notes to Consolidated Financial Statements of FutureFuel Corp.**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

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**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*. 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. Realized gains and losses on derivative instruments and 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 losses of \$5,139 and \$3,056 for the three months ended June 30, 2016 and 2015, respectively, and losses of \$6,178 and \$2,337 for the six months ended June 30, 2016 and 2015, respectively.

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

**Asset/ (Liability)**

**June 30, 2016**

**December 31, 2015**

**Quantity (contracts)**

**Short**

**Fair Value**

**Quantity (contracts) Short**

**Fair Value**

Regulated options, included in other current assets

150	\$ (1,520 )	200	\$ (427 )
-----	-------------	-----	-----------

Regulated fixed price future commitments, included in other current assets

96	\$ 14	631	\$ 3,789
----	-------	-----	----------

The margin account maintained with a broker to collateralize these derivative instruments carried an account balance of \$3,234 and \$225 at June 30, 2016 and December 31, 2015, 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 June 30, 2016 and December 31, 2015, FutureFuel had investments in certain preferred stock, trust preferred securities, exchange traded debt instruments, and other equity instruments. 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.

FutureFuel's marketable securities were comprised of the following at June 30, 2016 and December 31, 2015:

**June 30, 2016**

**Adjusted Cost**

**Unrealized Gains**

**Unrealized Losses**

**Fair Value**

Equity instruments

\$ 12,330    \$ 447    \$ (429 )    \$ 12,348

Preferred stock

60,081    4,450    (10 )    64,521

Trust preferred securities

6,783    184    -    6,967

Exchange traded debt instruments

7,679    549    -    8,228

Total

\$ 86,873    \$ 5,630    \$ (439 )    \$ 92,064

**December 31, 2015**

**Adjusted Cost**

**Unrealized Gains**

**Unrealized Losses**

**Fair Value**

Equity instruments

\$ 10,825    \$ 44    \$ (711 )    \$ 10,158

Preferred stock

37,703    2,419    (122 )    40,000

Trust preferred securities

16,464    1,303    (66 )    17,701

Exchange traded debt instruments

6,511    297    -    6,808

Total

\$ 71,503    \$ 4,063    \$ (899 )    \$ 74,667

The aggregate fair value of instruments with unrealized losses totaled \$3,467 and \$15,571 at June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016 and December 31, 2015, FutureFuel had no investments in marketable securities that were in an unrealized loss position for a greater than 12-month period.

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#### **ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

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

**June 30, 2016**

**December 31, 2015**

Accrued employee liabilities

\$ 3,061    \$ 1,474

Accrued property, franchise, motor fuel and other taxes



2,130 1,248

Other

255 254

Total

\$ 5,446 \$ 2,976

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**Notes to Consolidated Financial Statements of FutureFuel Corp.**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**6)**

**BORROWINGS**

On April 16, 2015, FutureFuel, with FutureFuel Chemical as borrowers, and certain of FutureFuel's other subsidiaries, as guarantors, entered into a \$150,000 secured and committed credit facility with the lenders party thereto, Regions Bank as administrative agent and collateral agent, and PNC Bank, N.A., as syndication agent. On May 25, 2016, FutureFuel increased the credit facility by \$15,000. The credit facility consists of a five-year revolving credit facility in a dollar amount of up to \$165,000, which includes a sublimit of \$30,000 for letters of credit and \$15,000 for swingline loans (collectively, the "Credit Facility").

The interest rate floats at the following margins over LIBOR or base rate based upon the leverage ratio from time to time:

**Consolidated Leverage Ratio**

**Adjusted**

**LIBOR Rate**

**Loans and**

**Letter of**

**Credit Fee**

**Base Rate**

**Loans**

**Commitment**

**Fee**

< 1.00:1.0

1.25

%

0.25

%

0.15

%

≥ 1.00:1.0

And

< 1.50:1.0

1.50

%

0.50

%

0.20

%

≥ 1.50:1.0

And

< 2.00:1.0

1.75

%

0.75

%

0.25

%

≥ 2.00:1.0

And

< 2.50:1.0

2.00

%

1.00

%

0.30

%

≥ 2.50:1.0

2.25

%

1.25

%

0.35

%

The terms of the Credit Facility contain certain covenants and conditions including a maximum consolidated leverage ratio, a minimum consolidated fixed charge coverage ratio, and a minimum liquidity requirement. FutureFuel was in compliance with such covenants as of June 30, 2016.

There were no borrowings under this credit agreement at June 30, 2016 and December 31, 2015.

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**PROVISION FOR INCOME TAXES**

The following table summarizes the provision for income taxes.

**Three months ended June 30:**

**Six months ended June 30:**

**2016**

**2015**

**2016**

**2015**

(Benefit)/provision for income taxes

\$ (6,917 ) \$ 1,119 \$ (8,789 ) \$ 6,002

Effective tax rate

(94.7 %) 22.8 % (54.9 %) 33.5 %



**Notes to Consolidated Financial Statements of FutureFuel Corp.**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

The effective tax rate for the three and six months ended June 30, 2016, reflects our expected tax rate on reported operating earnings before income tax. Our effective tax rate in the three and six months ended June 30, 2016, reflects the positive effect of the reinstatement of certain tax credits and incentives for 2016. In 2016, it is anticipated that these tax credits and incentives will form a larger proportion of FutureFuel's net income than in prior years. This increase in proportion combined with the income tax treatment of the credits and incentives will reduce FutureFuel's effective income tax rate in 2016 relative to prior years. In addition, during the second quarter of 2016, FutureFuel booked a tax benefit related to the reversal of a state's treatment of the taxability of the tax credits and incentives.

The effective tax rate for the three and sixth months ended June 30, 2015, reflects our expected tax rate on reported operating income earnings before income tax. Our effective tax rate in the three and six months ended June 30, 2015, reflects the positive effect of the completion of an IRS audit of FutureFuel's 2010 through 2012 amended federal income tax returns which allowed FutureFuel to successfully recover tax benefits previously unrecorded in its financial statements. Also, during the second quarter of 2015, FutureFuel recorded the unfavorable tax effect related to a state subjecting the tax credits and incentives to taxation. In the three and six months ended June 30, 2015, the tax credits and incentives along with its favorable tax treatment was not in effect.

Unrecognized tax benefits totaled \$0 and \$4,588 at June 30, 2016 and December 31, 2015, respectively.

FutureFuel records interest and penalties, net, as a component of income tax expense. At June 30, 2016 and December 31, 2015, FutureFuel recorded \$0 and \$61, respectively, in accruals for interest or tax penalties.

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**EARNINGS PER SHARE**

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We compute earnings per share using the two-class method in accordance with ASC Topic No. 260, "Earnings per Share." The two-class method is an allocation of earnings between the holders of common stock and a company's participating security holders. Our outstanding non-vested shares of restricted stock contain non-forfeitable rights to dividends and, therefore, are considered participating securities for purposes of computing earnings per share pursuant to the two-class method. We had no other participating securities at June 30, 2016 or 2015.

Contingently issuable shares associated with outstanding service-based restricted stock units were not included in the earnings per share calculations for the three-month periods ended June 30, 2016 or 2015 as the vesting conditions had not been satisfied.

Basic and diluted earnings per common share were computed as follows:

**For the three months ended**

**June 30:**

**For the six months ended**

**June 30:**

**2016**

**2015**

**2016**

**2015**

**Numerator:**



Net income

\$ 14,224   \$ 3,793   \$ 24,793   \$ 11,924

Less: distributed earnings allocated to non-vested stock

(10)   (16)   (24)   (37)

Less: undistributed earnings allocated to non-vested restricted stock

(42)   (7)   (96)   (49)

**Numerator for basic earnings per share**

\$ 14,172   \$ 3,770   \$ 24,673   \$ 11,838

**Effect of dilutive securities:**

Add: undistributed earnings allocated to non-vested restricted stock

42   7   96   49

Less: undistributed earnings reallocated to non-vested restricted stock

(42)   (7)   (96)   (49)

**Numerator for diluted earnings per share**

\$ 14,172   \$ 3,770   \$ 24,673   \$ 11,838

**Denominator:**

Weighted average shares outstanding – basic

43,527,857   43,420,923   43,501,599   43,396,789

**Effect of dilutive securities:**

Stock options and other awards

902   7,810   5,910   8,852

Weighted average shares outstanding – diluted

43,528,759   43,428,733   43,507,509   43,405,641

**Basic earnings per share**

\$ 0.33   \$ 0.09   \$ 0.57   \$ 0.27

**Diluted earnings per share**

\$ 0.33   \$ 0.09   \$ 0.57   \$ 0.27

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**Notes to Consolidated Financial Statements of FutureFuel Corp.**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

Certain options to purchase FutureFuel's common stock were not included in the computation of diluted earnings per share for the three-months ended June 30, 2016 because they were anti-dilutive in the period. The weighted average number of options excluded on this basis was 110,000 and 100,000 for the three-months and six-months ended June 30, 2016, respectively. The weighted average number of options excluded on this basis was 100,000 for both the three and six-months ended June 30, 2015.

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**SEGMENT INFORMATION**

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

*Chemicals*

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

*Biofuels*

FutureFuel's biofuels business segment primarily manufactures and markets biodiesel. Biodiesel revenues are generated through the sale of biodiesel to customers through FutureFuel's distribution network at the Batesville Plant, through distribution facilities available at leased oil storage facilities, and through a network of remotely located tanks. Biofuels revenues also include the sale of biodiesel blends with petrodiesel, petrodiesel with no biodiesel added, RINs, biodiesel production byproducts, and the purchase and sale of other petroleum products on common carrier pipelines.

*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 with 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. FutureFuel is rarely the exporter of record, never the importer of record into foreign countries, and 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 outside 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 June 30:**

**Six months ended June 30:**

**2016**

**2015**

**2016**

**2015**

**United States**

\$ 67,209   \$ 104,157   \$ 113,215   \$ 157,734

**All Foreign Countries**

670 441 1,299 951

**Total**

\$ 67,879 \$ 104,598 \$ 114,514 \$ 158,685

Revenues from a single foreign country during the three-months and six-months ended June 30, 2016 and 2015 did not exceed 1% of total revenues.

*Summary of business by segment*

**Three months ended June 30:**

**Six months ended June 30:**

**2016**

**2015**

**2016**

**2015**

Revenue

Custom chemicals

\$ 19,401   \$ 28,158   \$ 39,693   \$ 57,956

Performance chemicals

5,162   4,530   9,938   8,938

Chemicals revenue

24,563	32,688	49,631	66,894
Biofuels revenue			
43,316	71,910	64,883	91,791
Total Revenue			
\$ 67,879	\$ 104,598	\$ 114,514	\$ 158,685
Segment gross profit			
Chemicals			
\$ 6,297	\$ 10,012	\$ 14,869	\$ 20,865
Biofuels			
1,675	(4,468 )	4,156	(2,007 )
Total gross profit			
7,972	5,544	19,025	18,858
Corporate expenses			
(2,596 )	(2,367 )	(5,120 )	(4,904 )
Income before interest and taxes			
5,376	3,177	13,905	13,954
Interest and other income			
1,464	1,856	2,809	4,143
Interest and other expense			
467	(121 )	(710 )	(171 )
Benefit/(provision) for income taxes			
6,917	(1,119 )	8,789	(6,002 )
Net income			
\$ 14,224	\$ 3,793	\$ 24,793	\$ 11,924

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.

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#### **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.

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**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 June 30, 2016 and December 31, 2015.

**Asset (Liability)**

**Fair Value at**

**Fair Value Measurements Using**

**June 30, 2016**

**Inputs Considered as:**

**Description**

**Level 1**

**Level 2**

**Level 3**

Derivative instruments

\$ (1,506) \$ (1,506) \$ - \$ -

Preferred stock, trust preferred securities, exchange traded debt instruments, and other equity instruments

\$ 92,064 \$ 92,064 \$ - \$ -

**Asset (Liability)**

**Fair Value at**

**Fair Value Measurements Using**

**Description**

**December 31, 2015**

**Inputs Considered as:**

Derivative instruments

\$ 3,362 \$ 3,362 \$ - \$ -

Preferred stock, trust preferred securities, exchange traded debt instruments, and other equity instruments

\$ 74,667 \$ 74,667 \$ - \$ -

11 )

**RECLASSIFICATIONS FROM ACCUMULATED OTHER COMPREHENSIVE INCOME:**

The following tables summarize changes in accumulated other comprehensive income from unrealized gains and losses on available-for-sale securities in the three and six months ended June 30, 2016 and 2015.

**Changes in Accumulated Other Comprehensive Income Unrealized Gains and**

**Losses on Available-for-Sale Securities**

**For the three months ended June 30, 2016 and 2015**

**(net of tax)**

**2016**

**2015**

**Balance at March 31**

\$ 2,495    \$ 3,658

Other comprehensive income/(loss) before reclassifications

1,275    (1,004 )

Amounts reclassified from accumulated other comprehensive income

(398 )    (278 )

Net current-period other comprehensive income/(loss)

877    (1,282 )

**Balance at June 30**

\$ 3,372    \$ 2,376

**Changes in Accumulated Other Comprehensive Income Unrealized Gains and**

**Losses on Available-for-Sale Securities**

**For the six months ended June 30, 2016 and 2015**

**(net of tax)**

**2016**

**2015**

**Balance at December 31**

\$ 2,055    \$ 4,259

Other comprehensive income/(loss) before reclassifications

1,054    (977 )

Amounts reclassified from accumulated other comprehensive income

263    (906 )

Net current-period other comprehensive income/(loss)

1,317    (1,883 )

**Balance at June 30**

\$ 3,372    \$ 2,376



**Notes to Consolidated Financial Statements of FutureFuel Corp.**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

The following tables summarize amounts reclassified from accumulated other comprehensive income in the three and six months ended June 30, 2016 and 2015:

**Reclassifications from Accumulated Other**

**Comprehensive Income for the three and six months ended**

**June 30, 2016 and 2015**

**Three months ended**

**June 30, 2016**

**Six months ended**

**June 30, 2016**

**Affected Line Item in Statement of Operations**

Unrealized gain/(loss) on available-for-sale securities

\$ 613    \$ (405 )

Gains/(losses) on marketable securities

Total before tax

613 (405 )

Tax benefit

(215 ) 142

Total reclassifications

\$ 398 \$ (263 )

**Three months ended**

**June 30, 2015**

**Six months ended**

**June 30, 2015**

**Affected Line Item in Statement of Operations**

Unrealized gain on available-for-sale securities

\$ 451 \$ 1,471

Gains on marketable securities

Total before tax

451 1,471

Tax provision

(173 ) (565 )

Total reclassifications

\$ 278 \$ 906

**12 )**

**LEGAL MATTERS**

From time to time, FutureFuel and its operations are parties to, or targets of, lawsuits, claims, investigations, regulatory matters, 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.

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### **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, other petroleum products, 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, blends, and other petroleum products 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.

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**Notes to Consolidated Financial Statements of FutureFuel Corp.**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**14 )**

**INTANGIBLE ASSET**

In April of 2015, FutureFuel acquired additional historical line space on a pipeline for \$1,408. The acquired line space was recorded as an intangible asset with an indefinite life as there was no foreseeable limit on the time period over which it is expected to contribute to cash flows. The carrying value of the asset was \$1,408 as of June 30, 2016 and December 31, 2015. FutureFuel will test the intangible asset for impairment in accordance with codification ASC 350-30-35-18 through 35-20.

**15 )**

**RECENTLY ISSUED ACCOUNTING STATEMENTS**

In May 2014, the FASB and International Accounting Standards Board jointly issued new principles-based accounting guidance for revenue recognition that will supersede virtually all existing revenue guidance. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. To achieve the core principle, the guidance establishes the following five steps: 1) identify the contract(s) with a customer, 2) identify the performance obligation in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also details the accounting treatment for costs to obtain or fulfill a contract. Lastly, disclosure requirements have been enhanced to provide sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The provisions of the Accounting Standards Update (ASU) are to be applied retrospectively; early adoption prior to the original effective date is not permitted. However, in May 2016, FASB and International Accounting Standards Board jointly issued amended guidance clarifying adoption, the

retrospective application, and delay of the effective date by one year. FutureFuel is currently evaluating the impact of this guidance on its financial position, results of operations, and related disclosures.

In July 2015, the Financial Accounting Standards Board (the "FASB") issued new guidance that requires inventory not measured using either the last in, first out (LIFO) or the retail inventory method to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. The new standard will be effective for periods beginning on or after December 15, 2016 and will be applied prospectively. Early adoption is permitted. FutureFuel is currently evaluating the impact of this guidance on its financial position, results of operations, and related disclosures.

In November 2015, the FASB issued guidance under the simplification and productivity initiative for presentation of deferred income tax liabilities and assets. This guidance simplifies the presentation of deferred income taxes such that deferred tax liabilities and assets are to be classified as noncurrent in a classified balance sheet. The update does not amend the current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount. This guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted as of the beginning of an interim or annual reporting period and may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company has elected not to early adopt the new guidance as of the balance sheet date due to the insignificance of the change. As of June 30, 2016 and December 31, 2015, the impact to the company would be a reclassification of \$4,533 and \$7,060, respectively, from current deferred tax liability to long-term deferred tax liability.

In February 2016, the FASB issued guidance on lease accounting. The new guidance establishes two types of leases for lessees: finance or operating. The guidance for lessors is largely unchanged. Under the guidance, a lessee is to recognize a right-of-use asset and lease liability that arises from a lease. A lessee can make a policy election, by asset class, to not recognize lease assets or liabilities for leases with a term of 12 months or less. Both finance and operating leases will have associated right-of-use assets and liabilities initially measured at the present value of the lease payments. Current and noncurrent balance sheet classification will apply. Finance leases will have another reported element for interest associated with the principal lease liability. The component concept from the 2014 revenue recognition standard has been included in the new lease standard which will guide identification of individual assets and non-lease components. As with current GAAP, the guidance does not apply to the following leases: intangible assets to explore for or use minerals, oil, natural gas, and similar nonregenerative resources, biological assets (includes timber), inventory, or assets under construction. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period and early adoption is permitted. The new guidance is to be applied under a modified retrospective approach wherein practical expedients have been allowed that will not require reassessment of current leases at the effective date. The Company is currently evaluating the impact on the Company's financial position and results of operations and related disclosures.

In March 2016, the FASB issued guidance in regards to stock compensation as a part of the simplification initiative that covers related tax accounting, cash flow presentation, and forfeitures. The two tax accounting related amendments are as follows: all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) should be recognized as income tax expense or benefit in the income statement, the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur, an entity also should

recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period; and the threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions. The cash flow presentation items sets forth that excess tax benefits should be classified along with other income tax cash flows as an operating activity and cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. For forfeitures, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. This guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and early adoption is permitted, including adoption in an interim period. The new guidance application is mixed among the various elements that include, retrospective, prospective, and modified retrospective transition methods. The Company is currently evaluating the impact on the Company's financial position and results of operations and related disclosures.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

**All dollar amounts expressed as numbers in this M D&A are in thousands (except per share amounts).**

**Certain tables may not add due to rounding.**

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.

### **Overview**

Our company is managed and reported in two reporting segments: chemicals segment and biofuels segment. Within the chemicals segment are two product groupings: custom chemicals and performance chemicals. The custom product group is comprised of specialty chemicals manufactured for a single customer whereas the performance product group is comprised of chemicals manufactured for multiple customers. The biofuels segment is comprised of one product group. Management believes that the diversity of each segment strengthens the company in the ability to utilize resources and is committed to growing each segment.

### **Summary of Financial Results**

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

**Three months ended June 30:**

**Dollar**

*%*

**2016**

**2015**

**Change**

**Change**

Revenues

\$ 67,879   \$ 104,598   \$ (36,719 )   (35.1 %)

Income from operations

\$ 5,376   \$ 3,177   \$ 2,199   69.2 %

Net income

\$ 14,224   \$ 3,793   \$ 10,431   275.0 %

Earnings per common share:

Basic

\$ 0.33   \$ 0.09   \$ 0.24   266.7 %

Diluted

\$ 0.33   \$ 0.09   \$ 0.24   266.7 %

Capital expenditures and intangibles (net of customer reimbursements and regulatory grants)

\$ 1,357   \$ 2,651   \$ (1,294 )   (48.8 %)

Adjusted EBITDA

\$ 13,581   \$ 9,317   \$ 4,264   45.8 %

**Six months ended June 30:**

**Dollar**

*%*

**2016**

**2015**

**Change**

**Change**

Revenues

\$ 114,514   \$ 158,685   \$ (44,171 )   (27.8 %)

Income from operations

\$ 13,905   \$ 13,954   \$ (49 )   (0.4 %)

Net income

\$ 24,793   \$ 11,924   \$ 12,869   107.9 %

Earnings per common share:

Basic

\$ 0.57   \$ 0.27   \$ 0.30   111.1 %

Diluted

\$ 0.57   \$ 0.27   \$ 0.30   111.1 %

Capital expenditures and intangibles (net of customer reimbursements and regulatory grants)

\$ 2,135   \$ 4,971   \$ (2,836)   (57.1 %)

Adjusted EBITDA

\$ 26,283   \$ 22,153   \$ 4,130   18.6 %

We use adjusted EBITDA as a key operating metric to measure both performance and liquidity. 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 and liquidity 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 and liquidity 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 and liquidity, relative to a performance and liquidity based on GAAP results, while isolating the effects of certain items, including depreciation and amortization, which may vary among our operating segments without any correlation to their underlying operating performance, 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, which can cause net income to appear volatile from period to period relative to the sale of the underlying physical product.

We enter into commodity derivative instruments primarily to protect our operations from downward movements in commodity prices, and to provide greater certainty of cash flows associated with sales of our commodities. We enter into hedges, and we utilize mark-to-market accounting to account for these instruments. Thus, our results in any given period can be impacted, and sometimes significantly, by changes in market prices relative to our contract price along with the timing of the valuation change in the derivative instruments relative to the sale of biofuel. We include this item as an adjustment as we believe it provides a relevant indicator of the underlying performance of our business in a given period.

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

**Three months ended June 30:**



**Six months ended June 30:****2016****2015****2016****2015**

Adjusted EBITDA

\$ 13,581   \$ 9,317   \$ 26,283   \$ 22,153

Depreciation and amortization

(2,671 )   (2,607 )   (5,329 )   (4,908 )

Non-cash stock-based compensation

(477 )   (477 )   (954 )   (954 )

Interest and dividend income

1,464   1,405   2,809   2,672

Interest expense

(42 )   (43 )   (85 )   (49 )

Losses on disposal of property and equipment

(22 )   (78 )   (137 )   (122 )

Losses on derivative instruments

(5,139 )   (3,056 )   (6,178 )   (2,337 )

(Losses)/gains on marketable securities

613   451   (405 )   1,471

Income tax benefit/(expense)

6,917 (1,119 ) 8,789 (6,002 )

Net income

\$ 14,224 \$ 3,793 \$ 24,793 \$ 11,924

The following table reconciles adjusted EBITDA with cash flows from operations, the most directly comparable GAAP liquidity financial measure.

**Six months ended June 30:**

**2016**

**2015**

Adjusted EBITDA

\$ 26,283 \$ 22,153

Amortization of deferred financing costs

(72 ) (36 )

Provision for deferred income taxes

(4,969 ) (6,458 )

Impairment of fixed assets

178 -

Interest and dividend income

2,809 2,672

Income tax benefit/(expense)

8,789 (6,002 )

Losses on derivative instruments

(6,178 ) (2,337 )

Change in fair value of derivative instruments

4,869 5,423

Changes in operating assets and liabilities, net

14,310 19,445 Other 9 -

Net cash provided by/(used in) operating activities

\$ 46,028 \$ 34,860

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**Results of Operations**

*Consolidated*

Three months ended June 30:

Six months ended June 30:

(Dollars in thousands)

Change

Change

2016

2015

\$

%

2016

2015

\$

%

Sales

\$ 67,879

\$ 104,598

\$ (36,719)

(35.1%)

\$ 114,514

\$ 158,685

\$ (44,171)

(27.8%)

Volume/product mix effect

(26,820)

(25.6%)

(27,238)

(17.2%)

Price effect

(9,899)

(9.5%)

(16,933)

(10.7%)

Gross profit

\$ 7,972

\$ 5,544

\$ 2,428

43.8%

\$ 19,025

\$ 18,858

\$ 167

0.9%

Consolidated sales revenue in the three and six months ended June 30, 2016 decreased \$36,719 and \$44,171, respectively, compared to the three and six months ended June 30, 2015. These decreases were primarily from lower sales volumes and prices of pipeline business in the biofuels segment. In addition, the chemical segment experienced lower sales volume and prices. Partially offsetting these decreases were increased sales volumes of biodiesel and biodiesel blends in the biofuel segment.

Gross profit in the three and six months ended June 30, 2016 increased \$2,428 and \$167 compared to the three and six months ended June 30, 2015. This increase primarily resulted from the reinstatement of the blenders' tax credit (BTC) on December 31, 2015. This increase was reduced by lower sales volumes in the chemicals segment and by the adjustment in the carrying value of our inventory as determined utilizing the LIFO method of inventory accounting. This adjustment reduced gross profit \$3,319 and \$345 in the three months ended June 30, 2016 and 2015, respectively. This adjustment increased gross profit \$2,257 and \$3,324 in the six months ended June 30, 2016 and 2015, respectively.

*Operating Expenses*

Operating expenses increased \$229 and \$216, in the three and six-months ended June 30, 2016, as compared to the three and six-months ended 2015, respectively. These increases were from higher compensation costs.

### *Provision for Income Taxes*

The effective tax rate for the three and six months ended June 30, 2016, reflects our expected tax rate on reported operating earnings before income tax. Our effective tax rate in the three and six months ended June 30, 2016, reflects the positive effect of the reinstatement of the certain tax credits and incentives for 2016. In 2016, it is anticipated that the tax credits and incentives will form a larger proportion of FutureFuel's net income than in prior years. This increase in proportion combined with the income tax treatment of the tax credits and incentives will reduce FutureFuel's effective income tax rate in 2016 relative to prior years. In addition, during the second quarter of 2016, FutureFuel booked a tax benefit related to the reversal of a state's treatment of the taxability of the tax credits and incentives.

The effective tax rate for the three and sixth months ended June 30, 2015, reflects our expected tax rate on reported operating income earnings before income tax. Our effective tax rate in the three and six months ended June 30, 2015, reflects the positive effect of the completion of an IRS audit of FutureFuel's 2010 through 2012 amended federal income tax returns which allowed FutureFuel to successfully recover tax benefits previously unrecorded in its financial statements. Also during the second quarter of 2015, FutureFuel recorded the unfavorable tax effect related to a state subjecting the tax credits and incentives to taxation. In the three and six months ended June 30, 2015, the tax credits and incentives along with its favorable tax treatment was not in effect.

### *Net Income*

Net income for the three months ended June 30, 2016 increased 275% or \$10,431 as compared to the same period in 2015. Net income for the six months ended June 30, 2016 increased 108% or \$12,869 as compared to the same period in 2015. The increase for both the three and six month periods was from: i) the benefit of tax credits and incentives in effect resulting in an income tax benefit in the three and six months ended June 30, 2016 which was not in effect in the three and six months ended June 30, 2015; ii) the benefit of the EPA's final Renewable Fuel mandate declared; and iii) the favorable reversal of a state's previous tax treatment of tax credits and incentives.





*Chemicals Segment*

Three months ended June 30:

Six months ended June 30:

(Dollars in thousands)

Change

Change

2016

2015

\$

%

2016

2015

\$

%

Sales

\$ 24,563

\$ 32,688

\$ (8,125)

(24.9%)

\$ 49,631

\$ 66,894

\$ (17,263)

(25.8%)

Volume/product mix effect

(6,136)

(18.8%)

(13,807)

(20.6%)

Price effect

(1,989)

(6.1%)

(3,456)

(5.2%)

Gross profit

\$ 6,297

\$ 10,012

\$ (3,715)

(37.1%)

\$ 14,869

\$ 20,865

\$ (5,996)

(28.7%)

Sales revenue in the three months ended June 30, 2016 declined by \$8,125 compared to the three months ended June 30, 2015. Sales revenue for our custom chemicals (unique chemicals produced for specific customers) for the three months ended June 30, 2016 totaled \$19,401, a decline of \$8,757 from the comparable period in 2015. This decline was primarily attributed to continued lower sales volumes of chemicals used in the agrochemical and energy markets and to a lesser extent, lower sales volumes of the laundry detergent additive. Further impacting revenue was reduced selling prices in accordance with contractual agreements indexed to key raw materials. Performance chemicals (comprised of multi-customer products which are sold based on specification) sales revenues were \$5,162 in the three months ended June 30, 2016, an increase of \$632 from the three months ended June 30, 2015. This increase was from improved sales across several products.

Sales revenue in the six months ended June 30, 2016 declined by \$17,263 compared to the six months ended June 30, 2015. Sales revenue for our custom chemicals (unique chemicals produced for specific customers) for the six months ended June 30, 2016 totaled \$39,693, a decline of \$18,263 from the comparable period in 2015. This decline was primarily attributed to continued lower sales volumes of chemicals sold to customers servicing the agrochemical and energy markets and to a lesser extent, reduced sales volumes of the laundry detergent additive. Further impacting revenue was reduced selling prices in accordance with contractual agreements indexed to certain key raw materials. Performance chemicals (comprised of multi-customer products which are sold based on specification) sales revenues were \$9,938 in the six months ended June 30, 2016, an increase of \$1,000 from the six months ended June 30, 2015. This increase was from improved sales of specialty polymer modifiers and glycerin products.

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Gross profit for the chemicals segment for the three months ended June 30, 2016 decreased by \$3,715 when compared to the three months ended June 30, 2015. This decrease resulted from lower sales volumes of the laundry detergent additive and reduced volume from other custom products used in the agrochemical and energy markets. The result of these changes was a 19% decline in cost of goods sold and distribution expense as compared to a 25% decline in revenue in the three months ended June 30, 2016.

Gross profit for the chemicals segment for the six months ended June 30, 2016 decreased by \$5,996 when compared to the six months ended June 30, 2015. This decrease resulted primarily from lower sales volumes of the laundry detergent additive and reduced volume from other custom products used in the agrochemical and energy markets. The net result of all changes was a 24% decline in cost of goods sold and distribution expense as compared to a 26% decline in revenue in the six months ended June 30, 2016.

*Biofuels Segment*

Three months ended June 30:

Six months ended June 30:

(Dollars in thousands)

Change

Change

2016

2015

\$

%

2016

2015

\$

%

Sales

\$ 43,316

\$ 71,910

\$ (28,594)

(39.8%)

\$ 64,883

\$ 91,791

\$ (26,908)

(29.3%)

Volume/product mix effect

(20,684)

(28.8%)

(13,431)

(14.6%)

Price effect

(7,910)

(11.0%)

(13,477)



(14.7%)

Gross profit

\$ 1,675

\$ (4,468)

\$ 6,143

137.5%

\$ 4,156

\$ (2,007)

\$ 6,163

307.1%

Biofuels sales revenue in the three months ended June 30, 2016 decreased \$28,594 when compared to the three months ended June 30, 2015. These decreases were primarily from lower sales volumes and prices of pipeline business in the biofuels segment. Pipeline sales totaled \$2,678 and \$28,186 in the three months ended June 30, 2016 and 2015, respectively. Partially offsetting this decline was a 19% increase in sales volumes of biodiesel and biodiesel blends in the three months ended June 30, 2016, as compared to the same period of 2015. With reduced sales prices, biodiesel and biodiesel blends resulted in a net decrease in sales revenue of \$3,086.

Biofuel sales revenue in the six months ended June 30, 2016 decreased \$26,908 when compared to the six months ended June 30, 2015. These decreases were primarily from lower sales volumes and prices of pipeline business in the biofuels segment. Pipeline sales totaled \$5,881 and \$31,543 in the six months ended June 30, 2016 and 2015, respectively. Partially offsetting this decline was a 45% increase in sales volumes of biodiesel and biodiesel blends in the six months ended June 30, 2016, as compared to the same period of 2015. With reduced sales prices, biodiesel and biodiesel blends resulted in a net decrease in sales revenue of \$1,246.

Revenues from common carrier pipelines varies as its revenue recognition depends upon whether a transaction is bought from and sold to the same party. Purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another (including buy/sell agreements) are combined and recorded on a net basis. Additionally, revenue from common carrier pipelines fluctuate with market conditions.

A portion of our biodiesel sold in 2016 and 2015 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 we will sell or the profit margin we will realize. We do not believe that the loss of this customer would have a material adverse effect on our biofuels segment or on us as a whole in that: (i) unlike our custom manufacturing products, biodiesel is a commodity with a large potential customer base; (ii) we believe that we could readily sell our biodiesel to other customers as potential demand from other customers for biodiesel exceeds our production capacity; (iii) our sales to this customer are not under fixed terms and the customer has no fixed obligation to purchase any minimum quantities except as stipulated by short term purchase orders; and (iv) the prices we receive from this customer are based upon then-market rates, as would be the case with sales of this commodity to other customers.

Biofuels gross profit in the three months ended June 30, 2016 increased \$6,143 when compared to the three months ended June 30, 2015. Cost of goods sold declined quarter over quarter 45% as compared to a decline of 40% in sales revenue for the same periods. Biofuels profits were benefited this quarter with the BTC and the final Renewable Fuel mandate from the EPA in place when neither was in place in the second quarter of 2015. Gross profits were reduced by the change in adjustments in the carrying value of our inventory as determined utilizing the LIFO method of inventory accounting. This adjustment reduced gross profit \$2,804 and \$197 in the three months ended June 30, 2016 and 2015, respectively. The segment was further impacted by a lower of cost or market adjustment of \$1,895 and no such adjustments existed in the three months ended June 30, 2015.

Biofuels gross profit in the six months ended June 30, 2016 increased \$6,163. Cost of goods sold declined 35% as compared to a decline of 29% in sales revenue for the same period. Gross profit was primarily benefited with the BTC and the final Renewable Fuel mandate from the EPA in place throughout the year when neither was in place in the same period of 2015.

Biofuels gross profit was reduced by the change in activity from derivative instruments. Losses on derivative instruments were \$5,139 and \$3,056 for the three months ended June 30, 2016 and 2015, respectively. Losses on derivative instruments were \$6,178 and \$2,337, respectively, for the six months ended June 30, 2016 and 2015. In order to better manage the commodity price risk caused by market fluctuations in biofuel prices, we may enter into exchange traded commodity futures and options contracts. We account for these derivative instruments in accordance with accounting standards whereby 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. Realized gains and losses on derivative instruments and changes in fair value of the derivative instruments are recorded in the statement of operations as a component of cost of goods sold within the biofuels segment.

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*. None of the derivative instruments are designated and accounted for as hedges due primarily to the extensive record keeping requirements.

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

**Asset/ (Liability)**

**June 30, 2016**

**December 31, 2015**

**Quantity (contracts) Short**

**Fair Value**

**Quantity (contracts) Short**

**Fair Value**

Regulated options, included in other current assets

150	\$ (1,520 )	200	\$ (427 )
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Regulated fixed price future commitments, included in other current assets

96	\$ 14	631	\$ 3,789
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\*All derivative instruments are entered into with the standard contract terms and conditions in accordance with major trading authorities of the New York Mercantile Exchange.

**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. All of our products are tested for quality before shipment, and historically returns have been inconsequential. We do not offer rebates or other warranties.

Revenue from bill and hold transactions in which a performance obligation exists is recognized when the total performance obligation has been met and title to the product has transferred. Bill and hold transactions for the three and six months ended June 30, 2016 and 2015 were related to specialty chemicals customers whereby revenue was recognized in accordance with contractual agreements based upon product being 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 chemicals customers. Sales revenue under bill and hold arrangements were \$4,019 and \$7,591 for the three months ended June 30, 2016 and 2015, and \$10,344 and \$15,216, for the six months ended June 30, 2016 and 2015, respectively.

### **Liquidity and Capital Resources**

Our net cash provided by (used in) operating activities, investing activities, and financing activities for the six months ended June 30, 2016 and 2015 are set forth in the following chart.

(Dollars in thousands)

**Six months ended June 30,**

**2016**

**2015**

Net cash provided by operating activities

\$ 46,028    \$ 34,860

Net cash used in investing activities

\$ (21,040 ) \$ (10,590 )

Net cash used in financing activities

\$ (5,437 ) \$ (5,990 )

*Operating Activities*

Cash from operating activities increased from \$34,860 of cash provided by operating activities in the first six months of 2015 to \$46,028 of cash provided by operating activities in the first six months of 2016. This increase was primarily attributable to the change in our inventory and net income offset by a decrease in accounts payable. In the first six months of 2016, net income increased cash provided by operating activities by \$24,793 as compared to \$11,924 in the first six months of 2015. This difference was primarily from the change in the provision for income taxes in 2015 as compared to the benefit of income taxes in 2016. The change in inventories increased cash in the first six months of 2016 by \$6,240 as compared to a decrease of \$10,635 in cash in the first six months of 2015. Cash from the change in accounts payable, including accounts payable from related parties, decreased cash provided by operating activities by \$16,364 in the first six months of 2016 as compared to a decrease of cash of \$896 in the first six months of 2015.

*Investing Activities*

Cash used in investing activities was \$21,040 in the first six months of 2016 compared to \$10,590 in the first six months of 2015. This change was primarily the result of net sales or purchases of marketable securities in the first six months of 2016 compared to the first six months of 2015. In the first six months of 2016, such net purchases totaled \$15,775. In the first six months of 2015, such net sales provided \$191 but were offset by \$5,013 from cash used in the collateralization of derivatives.

Our capital expenditures and customer reimbursements for capital expenditures are summarized in the following table:

(Dollars in thousands)

**Six months ended June 30:**

**2016**

**2015**

Cash paid for capital expenditures and intangibles

\$ 2,254    \$ 5,768

Cash received as reimbursement of capital expenditures

(119 )    (797 )

Cash paid, net of reimbursement, for capital expenditures

\$ 2,135    \$ 4,971

### *Financing Activities*

Cash used in financing activities decreased slightly from \$5,990 in the first six months of 2015 to \$5,437 in the first six months of 2016. This change is primarily the result of the deferred financing costs in the first six months of 2015. The payment of dividends totaled \$5,246 and \$5,247 in the first six months of 2016 and 2015, respectively.

### *Credit Facility*

Effective April 16, 2015, we entered into a new \$150 million secured committed credit facility with a syndicated group of commercial banks. On May 25, 2016, we increased the facility \$15,000. 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 April 16, 2020. See Note 6 – “Borrowings” in our consolidated financial statements ended June 30, 2016 for additional information regarding our Credit Agreement.

We intend to fund future capital requirements for our businesses from cash flow 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.

### *Dividends*

In the first two quarters of 2016, we paid a regular cash dividend in the amount of \$0.06 per share on our common stock. The regular cash dividend amounted to \$2,623 in the first quarter of 2016 and \$2,623 in the second quarter of 2016, for aggregate dividend payments of \$5,246 in the first six months of 2016.

In the first two quarters of 2015, we paid a regular cash dividend in the amount of \$0.06 per share on our common stock. The regular cash dividend amounted to \$2,623 in the first quarter of 2015 and \$2,624 in the second quarter of 2015, for aggregate dividend payments of \$5,247 in the first six months of 2015.

### *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, we accumulated excess working capital. Some of this excess working capital has been paid out as special and regular cash dividends. Additionally, regular cash dividends will be paid in 2016, as previously reported. Third parties have not placed significant restrictions on our working capital management decisions.

A significant portion of these funds was held in cash or cash equivalents at multiple financial institutions. In the periods ended June 30, 2016 and December 31, 2015, we also had investments in certain preferred stock, trust preferred securities, exchange traded debt instruments, and other equity instruments. We classify these investments as current assets in the accompanying consolidated balance sheets and designate them as being “available-for-sale.” Accordingly, they are recorded at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders’ equity. The fair value of these preferred stock, trust preferred securities, exchange traded debt instruments, and other equity instruments totaled \$92,064 and \$74,667 at June 30, 2016 and December 31, 2015, respectively.

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

### **Off- Balance Sheet Arrangements**

We engage in two types of hedging transactions. First, we hedge our biofuels sales through the purchase and sale of futures contracts and options on futures contracts of energy commodities. This activity was captured on our balance sheet at June 30, 2016 and December 31, 2015. Second, we hedge our biofuels feedstock through the execution of purchase contracts and supply agreements with certain vendors. These hedging transactions are recognized in earnings and were not recorded on our balance sheet at June 30, 2016 or December 31, 2015 because they do not meet the definition of a derivative instrument as defined under GAAP. The purchase of biofuels feedstock generally involves two risk 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.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

**All dollar amounts expressed as numbers in these Market Risk Disclosures are in thousands (except per share amounts).**

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 chemicals and biofuels business both with respect to inputs (electricity, coal, raw materials, biofuels feedstock, etc.) and outputs (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, and some 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 six months of 2016 or 2015. 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 within the biodiesel segment.

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 volume of biofuel being sold. As of June 30, 2016 and December 31, 2015, the fair values of our derivative instruments were a net liability in the amount of \$1,506 and a net asset of \$3,362, 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 six months of 2016. 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 gross profit.

(Volume and dollars in thousands)

**Item**

**Volume Requirements(a)**

**Units**

**Hypothetical Adverse**

**Change in Price**

**Decrease in Gross Profit**

**Percentage Decrease in Gross Profit**

Crude corn oil and yellow grease

188,321

LB

10%

\$ 4,991

25.4%

Methanol

86,159

LB

10%

\$ 1,077

5.5%

Petrofuels

5,515

GAL

10%

\$ 692

3.5%

Electricity

47

MWH

10%

\$ 258

1.3%

Sodium Methlyate

5,510

LB

10%

\$ 189

1.0%

(a) Volume requirements and average price information are based upon volumes used and prices obtained for the six months ended June 30, 2016. Volume requirements may differ materially from these quantities in future years as our business evolves.

We had no borrowings as of June 30, 2016 or December 31, 2015 and, as such, we were not exposed to interest rate risk for those periods. Due to the relative insignificance of transactions denominated in foreign currency, we consider our foreign currency risk to be immaterial.

#### **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 (the “Exchange Act”), as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and our principal financial officer have concluded that these disclosure controls and procedures as of June 30, 2016 were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms.

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



## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

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

### **Item 1A. Risk Factors.**

There have been no material changes to the risk factors we previously disclosed in Item 1A of our Form 10-K, Annual Report for the year ended December 31, 2015 filed with the SEC on March 10, 2016.

### **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.**

None.

**Item 6. Exhibits.**

**Exhibit**

**Description**

10.1 Incremental Revolving Commitment Agreement Dated May 25, 2016

11.

Statement re Computation of per Share Earnings

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 chief principal officer

32.

Section 1350 Certification of chief executive officer and principal financial officer

101

Interactive Data Files\*\*

101.INS

XBRL Instance

101.SCH

XBRL Taxonomy Extension Schema

101.CAL

XBRL Taxonomy Extension Calculation

101.DEF

XBRL Taxonomy Extension Definition

101.LAB

XBRL Taxonomy Extension Labels

101.PRE

XBRL Taxonomy Extension Presentation

\*\*

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” in FutureFuel’s Form 10-K Annual Report for the year ended December 31, 2015 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/ Paul A. Novelly

Paul A. Novelly, Chairman and Chief

Executive Officer

Date: August 9, 2016

By:

/s/ Rose M. Sparks

Rose M. Sparks, Chief Financial Officer

and Principal Financial Officer

Date: August 9, 2016