

FutureFuel Corp.
Form 10-Q
November 08, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from _____

Commission file number: 0-52577

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

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20-3340900
(IRS Employer Identification
No.)

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

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

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

Yes No

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

Edgar Filing: FutureFuel Corp. - Form 10-Q

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	<input checked="" type="checkbox"/>
Non-accelerated filer (do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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 November 8, 2012:
41,326,057

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

The following sets forth our unaudited consolidated balance sheet as at September 30, 2012, our audited consolidated balance sheet as at December 31, 2011, our unaudited consolidated statements of operations and comprehensive income for the three- and nine-month periods ended September 30, 2012 and September 30, 2011, and our consolidated statements of cash flows for the nine-month periods ended September 30, 2012 and September 30, 2011.

FutureFuel Corp.
Consolidated Balance Sheets
As at September 30, 2012 and December 31, 2011
(Dollars in thousands)

	(Unaudited) September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	\$ 114,593	\$ 89,745
Accounts receivable, net of allowances of \$0 and \$10 at September 30, 2012 and December 31, 2011, respectively	19,886	35,554
Accounts receivable – related parties	947	123
Inventory	49,078	57,439
Prepaid expenses	410	1,460
Prepaid expenses – related parties	32	-
Marketable securities	81,807	56,294
Other current assets	1,568	1,910
Total current assets	268,321	242,525
Property, plant and equipment, net	139,143	140,517
Other assets	2,249	2,202
Total noncurrent assets	141,392	142,719
Total Assets	\$ 409,713	\$ 385,244
Liabilities and Stockholders' Equity		
Accounts payable	\$ 16,109	\$ 18,665
Accounts payable – related parties	1,084	3,023
Income taxes payable	4,793	1,123
Current deferred income tax liability	8,079	6,162
Deferred revenue – short-term	6,035	3,558
Accrued expenses and other current liabilities	5,439	3,225
Accrued expenses and other current liabilities – related parties	14	43
Total current liabilities	41,553	35,799
Deferred revenue – long-term	28,206	29,256
Contingent liability – long-term	2,521	2,521
Other noncurrent liabilities	942	924
Noncurrent deferred income tax liability	28,736	28,506
Total noncurrent liabilities	60,405	61,207
Total liabilities	101,958	97,006
Commitments and contingencies		

Edgar Filing: FutureFuel Corp. - Form 10-Q

Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.0001 par value, 75,000,000 shares authorized, 41,326,057 and 41,308,446 issued and outstanding as of September 30, 2012 and December 31, 2011, respectively	4	4
Accumulated other comprehensive income	5,179	1,803
Additional paid in capital	253,907	253,505
Retained earnings	48,665	32,926
Total stockholders' equity	307,755	288,238
Total Liabilities and Stockholders' Equity	\$409,713	\$385,244

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

FutureFuel Corp.
Consolidated Statements of Operations and Comprehensive Income
For the Three Months Ended September 30, 2012 and 2011
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,	
	2012	2011
Revenues	\$81,983	\$90,101
Revenues – related parties	6,293	206
Cost of goods sold	63,866	66,599
Cost of goods sold – related parties	1,263	848
Distribution	1,084	770
Distribution – related parties	100	95
Gross profit	21,963	21,995
Selling, general, and administrative expenses		
Compensation expense (inclusive of \$22 and \$0 of stock based compensation expense for the three months ended September 30, 2012 and 2011, respectively)	841	826
Other expense	951	762
Related party expense	36	53
Research and development expenses	954	996
	2,782	2,637
Income from operations	19,181	19,358
Interest and dividend income	1,144	955
Interest expense	(6	(6
Gain/(loss) on marketable securities	83	(240
Other income/(expense)	68	(66
	1,289	643
Income before income taxes	20,470	20,001
Provision for income taxes	7,921	7,268
Net income	\$12,549	\$12,733
Earnings per common share		
Basic	\$0.30	\$0.31
Diluted	\$0.30	\$0.31
Weighted average shares outstanding		
Basic	41,320,427	41,297,834
Diluted	41,471,373	41,478,005
Comprehensive Income		
Net income	\$12,549	\$12,733
Other comprehensive income/(loss) from unrealized gains and losses on available-for-sale securities, net of tax of \$2,134 in 2012 and of \$(2,159) in 2011	3,423	(3,449
Comprehensive income	\$15,972	\$9,284

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

FutureFuel Corp.
Consolidated Statements of Operations and Comprehensive Income
For the Nine Months Ended September 30, 2012 and 2011
(Dollars in thousands, except per share amounts)
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Revenues	\$264,429	\$216,280
Revenues – related parties	12,811	3,996
Cost of goods sold	221,288	168,948
Cost of goods sold – related parties	3,001	6,458
Distribution	3,424	2,118
Distribution – related parties	363	329
Gross profit	49,164	42,423
Selling, general, and administrative expenses		
Compensation expense (inclusive of \$281 and \$502 of stock based compensation expense for the nine months ended September 30, 2012 and 2011, respectively)	2,655	2,955
Other expense	2,390	1,452
Related party expense	157	172
Research and development expenses	2,626	2,610
	7,828	7,189
Income from operations	41,336	35,234
Interest and dividend income	3,431	2,542
Interest expense	(21) (176
Gain/(loss) on marketable securities	281	(182
Other income/(expense) income	112	(93
	3,803	2,091
Income before income taxes	45,139	37,325
Provision for income taxes	17,004	13,437
Net income	\$28,135	\$23,888
Earnings per common share		
Basic	\$0.68	\$0.59
Diluted	\$0.68	\$0.59
Weighted average shares outstanding		
Basic	41,318,123	40,509,810
Diluted	41,472,775	40,687,188
Comprehensive Income		
Net income	\$28,135	\$23,888
Other comprehensive income/(loss) from unrealized gains/(losses) on available-for-sale securities, net of tax of \$2,105 and \$(1,887) in 2012 and 2011, respectively	3,376	(3,016
Comprehensive income	\$31,511	\$20,872

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

FutureFuel Corp.
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2012 and 2011
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Cash flows provided by operating activities		
Net income	\$28,135	\$23,888
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,789	6,351
Provision for deferred income taxes	42	3,453
Change in fair value of derivative instruments and marketable securities	(855)	869
(Gain)/loss on the sale of investments	(281)	414
Losses on disposals of fixed assets	62	93
Stock based compensation	281	502
Noncash interest expense	18	16
Changes in operating assets and liabilities:		
Accounts receivable	15,668	9,399
Accounts receivable – related parties	(824)	(81)
Inventory	8,361	(6,344)
Income taxes receivable	-	519
Prepaid expenses	1,050	827
Prepaid expenses – related parties	(32)	-
Accrued interest on marketable securities	-	(123)
Other assets	(62)	544
Accounts payable	(2,556)	877
Accounts payable – related parties	(1,939)	(222)
Income taxes payable	3,670	4,570
Accrued expenses and other current liabilities	2,214	2,781
Accrued expenses and other current liabilities – related parties	(29)	35
Deferred revenue	1,427	11,743
Net cash provided by operating activities	62,139	60,111
Cash flows from investing activities		
Restricted cash	-	21,086
Collateralization of derivative instruments	1,212	(2,162)
Purchase of marketable securities	(37,389)	(83,350)
Proceeds from the sale of marketable securities	17,638	30,979
Proceeds from the sale of fixed assets	247	12
Capital expenditures	(6,724)	(18,849)
Net cash used in investing activities	(25,016)	(52,284)
Cash flows from financing activities		
Proceeds from the issuance of stock	100	15,798
Excess tax benefits associated with stock options	21	-
Payment of dividends	(12,396)	(12,126)
Net cash (used in) provided by financing activities	(12,275)	3,672
Net change in cash and cash equivalents	24,848	11,499

Edgar Filing: FutureFuel Corp. - Form 10-Q

Cash and cash equivalents at beginning of period	89,745	91,057
Cash and cash equivalents at end of period	\$ 114,593	\$ 102,556
Cash paid for interest	\$3	\$-
Cash paid for income taxes	\$ 13,539	\$4,896
Non-cash capital expenditures	\$-	\$ 1,390

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

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

1) Nature of operations and basis of presentation

FutureFuel Corp.

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

On October 31, 2006, Viceroy acquired all of the issued and outstanding shares of Eastman SE, Inc. (“Eastman SE”) from Eastman Chemical Company (“Eastman Chemical”). Immediately subsequent to the acquisition, Viceroy changed its name to FutureFuel Corp. (“FutureFuel”) and Eastman SE changed its name to FutureFuel Chemical Company (“FutureFuel Chemical”).

Eastman SE, Inc.

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

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

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

The accompanying consolidated financial statements have been prepared by FutureFuel in accordance and consistent with the accounting policies stated in FutureFuel’s 2011 audited consolidated financial statements and should be read in conjunction with the 2011 audited consolidated financial statements of FutureFuel.

In the opinion of FutureFuel, all normal recurring adjustments necessary for a fair presentation have been included in the unaudited consolidated financial statements. The unaudited consolidated financial statements have been prepared in compliance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) accounting principles generally accepted in the United States for interim financial information and with instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, the financial statements do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements, and do include amounts that are based upon management estimates and judgments. Future actual results could differ from such current estimates. The unaudited consolidated financial statements include assets, liabilities, revenues, and expenses of FutureFuel and its wholly owned subsidiaries, FutureFuel Chemical, FFC Grain, L.L.C., and FutureFuel Warehouse Company, LLC. Intercompany transactions and

balances have been eliminated in consolidation.

6

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

2) Inventory

The carrying values of inventory were as follows as of:

	September 30, 2012	December 31, 2011
At average cost (approximates current cost)		
Finished goods	\$ 34,849	\$ 19,481
Work in process	1,261	3,643
Raw materials and supplies	25,301	47,833
	61,411	70,957
LIFO reserve	(12,333)	(13,518)
Total inventory	\$ 49,078	\$ 57,439

3) Derivative instruments

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

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

The fair value of FutureFuel's derivative instruments is determined based on the closing prices of the derivative instruments on relevant commodity exchanges at the end of an accounting period. Changes in fair value of the derivative instruments are recorded in the statement of operations as a component of cost of goods sold, and amounted to a loss of \$(2,154) and a gain of \$1,779 for the three months ended September 30, 2012 and 2011, respectively, and a gain of \$3,065 and a loss of \$14 for the nine months ended September 30, 2012 and 2011, respectively.

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

	September 30, 2012		December 31, 2011	
	Quantity (Contracts) Long/ (Short)	Fair Value	Quantity (Contracts) Long/ (Short)	Fair Value
Regulated options, included in other current assets	(450)	\$ (1,599)	(300)	\$ (2,221)
Regulated fixed price future commitments, included in other	-	\$ -	(71)	\$ (232)

current assets

The margin account maintained with a broker to collateralize these derivative instruments carried an account balance of \$3,151 and \$4,363 at September 30, 2012 and December 31, 2011, respectively. The carrying values of the margin account and of the derivative instruments are included, net, in other current assets.

7

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

4) Marketable securities

At September 30, 2012 and December 31, 2011, FutureFuel had investments in certain preferred stock, trust preferred securities, and other equity instruments. At September 30, 2012, FutureFuel also had investments in certain municipal auction rate securities. These investments are classified as current assets in the consolidated balance sheet. FutureFuel has designated these securities as being available-for-sale. Accordingly, they are recorded at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders' equity. These securities were comprised of the following at:

	September 30, 2012			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity instruments	\$ 40,238	\$ 6,808	\$ (550)	\$ 46,496
Preferred stock	21,393	1,977	-	23,370
Trust preferred securities	10,969	182	(10)	11,141
Municipal debt securities	800	-	-	800
Total	\$ 73,400	\$ 8,967	\$ (560)	\$ 81,807

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

The aggregate fair value of instruments with unrealized losses totaled \$13,116 and \$13,283 at September 30, 2012 and December 31, 2011, respectively. As of September 30, 2012 and December 31, 2011, FutureFuel had a total of \$3,525 and \$257 invested in marketable securities that were in an unrealized loss position for a greater than 12-month period, respectively.

5) Accrued expenses and other current liabilities

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

	September 30, 2012	December 31, 2011
Accrued employee liabilities	\$ 4,581	\$ 1,710
Accrued property, use, and franchise taxes	854	1,521
Other	18	37
Total	\$ 5,453	\$ 3,268

6) Borrowings

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

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

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

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

As of September 30, 2012 and December 31, 2011 borrowings under this credit agreement totaled \$0 and \$0, respectively.

7) Provision for income taxes

The following table summarizes the provision for income taxes.

	For the three months ended September 30,				For the nine months ended September 30,				
	2012		2011		2012		2011		
Provision for income taxes	\$	7,921	\$	7,268	\$	17,004	\$	13,437	
Effective tax rate		38.7	%	36.3	%	37.7	%	36.0	%

The effective tax rates for the three and nine months ended September 30, 2012 and 2011 reflect FutureFuel's expected tax rate on reported operating earnings before income tax and includes the impact of the elimination of the agri-biodiesel production credit for 2012 and of the change of the valuation allowance associated with certain deferred tax assets. FutureFuel had determined that it did not believe that it had a more likely than not probability of realizing a portion of its deferred tax assets. As such, it recorded a valuation allowance of \$0 and \$25 at September 30, 2012 and December 31, 2011, respectively.

Unrecognized tax benefits totaled \$0 and \$0 at September 30, 2012 and December 31, 2011, respectively.

FutureFuel records interest and penalties net as a component of income tax expense. At September 30, 2012 and December 31, 2011, respectively, FutureFuel recorded \$0 and \$0 in accruals for interest and tax penalties.

FutureFuel and its subsidiaries file tax returns in the U.S. federal jurisdiction and with various state jurisdictions. FutureFuel is subject to U.S., state, and local examinations by tax authorities from 2009 forward. FutureFuel Chemical is subject to the effects of tax examinations that may impact the carry-over basis of its assets and liabilities.

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

8) Earnings per share

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Net income available to common stockholders	\$ 12,549	\$ 12,733	\$ 28,135	\$ 23,888
Weighted average number of common shares outstanding	41,320,427	41,297,834	41,318,123	40,509,810
Effect of stock options	150,946	180,171	154,652	177,378
Weighted average diluted number of common shares outstanding	41,471,373	41,478,005	41,472,775	40,687,188
Basic earnings per share	\$ 0.30	\$ 0.31	\$ 0.68	\$ 0.59
Diluted earnings per share	\$ 0.30	\$ 0.31	\$ 0.68	\$ 0.59

Certain options to purchase shares of FutureFuel's common stock were not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2012 and 2011 as they were anti-dilutive. The weighted average number of options excluded on this basis was 240,000 and 200,000 for the three and nine month periods ended September 30, 2012, respectively. The weighted average number of options excluded on this basis was 120,000 and 80,000 for the three and nine month periods ended September 30, 2011, respectively.

9) Segment information

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

Chemicals

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

Biofuels

FutureFuel's biofuels business segment manufactures and markets biodiesel. Biodiesel revenues are generated through the sale of biodiesel to customers through FutureFuel's distribution network at the Batesville Plant, through distribution facilities available at leased oil storage facilities, and through a network of remotely located tanks.

Summary of long-lived assets and revenues by geographic area

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

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

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
September 30, 2012	\$ 85,763	\$ 2,513	\$ 88,276
September 30, 2011	\$ 85,811	\$ 4,496	\$ 90,307

Nine Months Ended	United States	All Foreign Countries	Total
September 30, 2012	\$ 267,169	\$ 10,071	\$ 277,240
September 30, 2011	\$ 210,901	\$ 9,375	\$ 220,276

For the three months ended September 30, 2012 and 2011, revenues from Mexico accounted for 2% and 4%, respectively, of total revenues. For the nine months ended September 30, 2012 and 2011, revenues from Mexico accounted for 3% and 4%, respectively, of total revenues. Other than Mexico, revenues from a single foreign country during the three or nine months ended September 30, 2012 and 2011 did not exceed 1% of total revenues.

Summary of business by segment

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Revenues				
Chemicals	\$ 40,327	\$ 42,184	\$ 119,628	\$ 123,731
Biofuels	47,949	48,123	157,612	96,545
Revenues	\$ 88,276	\$ 90,307	\$ 277,240	\$ 220,276
Segment gross profit				
Chemicals	\$ 15,357	\$ 13,064	\$ 38,277	\$ 27,907
Biofuels	6,606	8,931	10,887	14,516
Segment gross margins	21,963	21,995	49,164	42,423
Corporate expenses	(2,782)	(2,637)	(7,828)	(7,189)
Income before interest and taxes	19,181	19,358	41,336	35,234
Interest and other income	1,295	955	3,824	2,542
Interest and other expense	(6)	(312)	(21)	(451)

Edgar Filing: FutureFuel Corp. - Form 10-Q

Provision for income taxes	(7,921)	(7,268)	(17,004)	(13,437)
Net income	\$ 12,549	\$ 12,733	\$ 28,135	\$ 23,888

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 September 30, 2012 and December 31, 2011.

Description	Fair Value at September 30, 2012	Asset/(Liability) Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Derivative instruments	\$ (1,599)	\$ (1,599)	\$ -	\$ -
Preferred stock, trust preferred securities, municipal debt securities, and other equity instruments	\$ 81,807	\$ 81,807	\$ -	\$ -

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

11) Legal matters

From time to time, FutureFuel and its operations are parties to, or targets of, lawsuits, claims, investigations, and proceedings, which are being handled and defended in the ordinary course of business. While FutureFuel is unable to predict the outcomes of these matters, it does not believe, based upon currently available facts, that the ultimate resolution of any such pending matters will have a material adverse effect on its overall financial condition, results of operations, or cash flows. However, adverse developments could negatively impact earnings or cash flows in a particular future period.

12) Related party transactions

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

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

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

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

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

Liquidity and Capital Resources

Our net cash provided by (used in) operating activities, investing activities, and financing activities for the nine months ended September 30, 2012 and 2011 are set forth in the following chart.

(Dollars in thousands)

	September 30, 2012	September 30, 2011
Net cash provided by operating activities	\$62,139	\$60,111
Net cash used in investing activities	\$(25,016)	\$(52,284)
Net cash (used in) provided by financing activities	\$(12,275)	\$3,672

Operating Activities

Cash provided by operating activities increased from \$60,111,000 during the first nine months of 2011 to \$62,139,000 during the first nine months of 2012, a net increase of \$2,028,000. This increase was primarily attributed to: (i) the timing and amount of cash receipts from customers and (ii) a decrease in our inventory balances. Accounts receivable, including accounts receivable from related parties, increased cash provided by operating activities by \$14,844,000 in the first nine months of 2012, as compared to \$9,318,000 in the first nine months of 2011. This increase was primarily due to the timing and amount of receipts of customer payments. Additionally, a decrease in our inventory balance increased cash provided by operating activities by \$8,361,000 in the first nine months of 2012. In the first nine months of 2011 our inventory balance increased, which reduced cash provided by operating activities by \$6,344,000.

Partially offsetting these increases in cash provided by operating activities were decreases attributable to: (i) accounts payable, including accounts payable to related parties; (ii) income taxes payable, including income taxes receivable; and (iii) deferred revenues. In the first nine months of 2011, accounts payable, including accounts payable to related parties, increased cash provided by operating activities \$655,000. In the first nine months of 2012, accounts payable, including accounts payable to related parties, decreased cash provided by operating activities by \$4,495,000. This change was primarily attributable to differences in the timing and amount of payments to suppliers. In the first nine months of 2011, income taxes payable and income taxes receivable increased cash provided by operating activities by a total of \$5,089,000. In the first nine months of 2012, income taxes payable combined with income taxes receivable increased cash provided by operating activities by a comparatively smaller \$3,670,000. This change is a result of the timing and amount of our income tax payments. In the first nine months of 2012, deferred revenue increased our cash provided by operating activities by \$1,427,000. In the first nine months of 2011, deferred revenue increased our cash provided by operating activities by \$11,743,000. This change occurred as the construction related to capital projects we undertook on behalf of certain of our customers was largely completed and payments for those capital expenditures were received.

Investing Activities

Cash used in investing activities decreased from \$52,284,000 in the first nine months of 2011 to \$25,016,000 in the first nine months of 2012. This decrease was primarily attributable to a reduction in the net purchases of marketable securities in the first nine months of 2012 compared to the first nine months of 2011. Such net purchases totaled \$52,371,000 in the first nine months of 2011 and \$19,751,000 in the first nine months of 2012. Additionally, capital expenditures decreased from \$18,849,000 in the first nine months of 2011 to \$6,724,000 in the first nine months of 2012. This decrease was attributable to the completion of certain capital projects undertaken on behalf of certain of our customers. Our capital expenditures and customer reimbursements are summarized in the table below. Partially offsetting these decreases in cash used in investing activities was a \$21,086,000 change in restricted cash incurred in the first nine months of 2011 that was not experienced in the first nine months of 2012. We did not have restricted cash in 2012.

(Dollars in thousands)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash paid for capital expenditures	\$6,724	\$18,849
Cash received as reimbursement of capital expenditures	(289)	(10,807)
Cash paid, net of reimbursement, for capital expenditures	\$6,435	\$8,042

Financing Activities

Cash provided by financing activities decreased from \$3,672,000 in the first nine months of 2011 to \$12,275,000 of cash used in financing activities in the first nine months of 2012. This change was primarily the result of \$15,763,000 of cash being generated in the first nine months of 2011 as a result of shares sold through our at-the-market offering (discussed below). No shares were sold through this offering in the first nine months of 2012.

Credit Facility

We entered into a \$50 million credit agreement with a commercial bank in March 2007. The loan is a revolving facility the proceeds of which may be used for our working capital, capital expenditures, and general corporate purposes. The facility terminates on June 30, 2013. Advances are made pursuant to a borrowing base. Advances are secured by a perfected first priority security interest in our accounts receivable and inventory. The interest rate floats at certain margins over LIBOR or base rate based upon the leverage ratio from time to time. There is an unused commitment fee. The ratio of total funded debt to EBITDA may not be less than 3:1. We had no borrowings under this credit agreement at September 30, 2012 or December 31, 2011.

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

Dividends

In the first three quarters of 2012, we declared regular cash dividends in the amount of \$0.10 per share on our common stock, per quarter. The regular cash dividend amounted to \$4,132,000 in each of these quarters, for aggregate dividend payments of \$12,396,000 in the first nine months of 2012.

In the first quarter of 2011, we declared a special cash dividend in the amount of \$0.10 per share on our common stock. The special cash dividend amounted to approximately \$3,998,000. In the second quarter of 2011, we declared regular cash dividends in the amount of \$0.10 per share on our common stock for the remainder of 2011. Such dividend payments amounted to \$3,998,000 in the second quarter of 2011 and \$4,130,000 in the third quarter of 2011, for aggregate dividend payments of \$12,126,000 in the first nine months of 2011.

Capital Management

As a result of our initial equity offering, our subsequent positive operating results, the exercise of warrants, and the issuance of shares in our at-the-market offering (discussed below), we accumulated funds in excess of our working capital needs. Some of this excess working capital has been paid out as special and regular cash dividends. We anticipate regular cash dividends will also be paid out for the remainder of 2012 as previously reported. Third parties have not placed significant restrictions on our working capital management decisions.

The excess working capital was predominantly held in cash or cash equivalents at multiple financial institutions. In the first three quarters of 2012 and 2011, we also had investments in certain preferred stock, trust preferred securities, other equity instruments, and municipal debt securities. We classify these investments as current assets in the accompanying consolidated balance sheets and designate them as being “available-for-sale”. Accordingly, they are recorded at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders’ equity. The fair value of these preferred stock, trust preferred securities, other equity instruments, and municipal debt securities totaled \$81,807,000 and \$56,294,000 at September 30, 2012 and December 31, 2011, respectively.

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

Results of Operations

In General

We break our chemicals business into two main product groups: custom manufacturing and performance chemicals. Custom manufacturing consists of products made for specific customers based upon specifications provided by such customers. Major products in the custom manufacturing group include: (i) nonanoyloxybenzene-sulfonate (or NOBS), a bleach activator manufactured for The Procter & Gamble Company for use in a household detergent; (ii) a proprietary herbicide (and intermediates) manufactured exclusively for Arysta LifeScience North America Corporation; (iii) chlorinated polyolefin adhesion promoters (or CPOs) and antioxidant precursors (or DIPB) for a customer; and (iv) a biocide intermediate for another customer. The custom manufacturing group also includes agrochemicals as well as industrial and consumer products (cosmetics and personal care products, specialty polymer, photographic and imaging chemicals, food additives, and an intermediate anode powder to be used as a component of high-performance graphite anode materials for lithium-ion batteries).

Revenues generated from the bleach activator are based on a supply agreement with the customer. The supply agreement stipulates selling price per kilogram based on volume sold, with price moving up as volumes move down, and vice-versa. On August 28, 2012, we signed an amendment to our existing agreement with the bleach activator customer. Among other things, the amendment: (i) extended the term of the agreement to December 31, 2016 (unless terminated earlier in accordance with the provisions of the agreement); and (ii) allows us to sell certain formulations of the bleach activator to third parties as a performance chemical. 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. Sales of the bleach activator for the nine months ended September 30, 2012 declined by 9% from sales for the nine months ended September 30, 2011. We continue to work collaboratively with our customer to assess their future demand, which demand may continue to decline.

We (and our predecessor at our Batesville plant) have been the primary manufacturer of a proprietary herbicide and certain intermediates for a customer (and its predecessors) since approximately 1993. However, in recent years, these products have faced generic competition, both from other suppliers to our customer and from others who compete

with our customer for the sale of herbicides and from other agricultural chemicals present in the market place. In response to its perceptions of this competition, in 2011 the customer initiated discussions with us to reduce volume and alter other terms of the contracts. Sales of these products to our customer for the nine months ended September 30, 2012 declined by 33% from sales for the nine months ended September 30, 2011. We are of the opinion that the current contracts do not adequately provide a framework to support our mutual efforts. Our contracts with our customer automatically renew for successive one-year periods, subject to the right of either party to terminate the contract. Accordingly, we exercised our rights to terminate these contracts, effective September 1, 2013 for the proprietary herbicide and October 1, 2013 for the intermediates. We anticipate that we will continue to do business with our customer after those dates provided we can reach mutually acceptable terms.

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

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

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

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

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

For our biofuels segment, we procure all of our own feedstock and only sell biodiesel for our own account. We have the capability to process multiple types of vegetable oils and animal fats, we can receive feedstock by rail or truck, and we have completed the construction of substantial storage capacity to acquire feedstock at advantaged prices when market conditions permit. In 2010, we redesigned our continuous line to produce biodiesel from feedstock with high fatty acids. By September 30, 2012, daily production volumes from the redesigned line demonstrated a sustainable production capacity in excess of 45 million gallons of biodiesel per year. Projects are currently in progress to further debottleneck the plant to run at higher rates.

There currently is uncertainty as to whether we will produce biodiesel in the future. This uncertainty results from: (i) changes in feedstock prices relative to biodiesel prices; and (ii) the permanency of government mandates. See "Risk Factors" contained in our Form 10-K for the year ended December 31, 2011 filed with the SEC on March 15, 2012. A copy can also be obtained at our website at <http://ir.futurefuelcorporation.com/sec.cfm>.

While biodiesel is the principal component of the biofuels segment, we also generate revenue from the sale of petrodiesel both in blends with our biodiesel and, from time to time, with no biodiesel added. Petrodiesel and biodiesel blends are available to customers at our Batesville plant, at leased storage facilities, and through a network of remotely operated tanks. In addition, we deliver blended product to a small group of customers within our region. We also sell refined petroleum products from time to time on common carrier pipelines in part to maintain our status as a shipper on the pipeline.

The majority of our expenses are cost of goods sold. Cost of goods sold include raw material costs as well as both fixed and variable conversion costs, conversion costs being those expenses that are directly or indirectly related to the operation of our plant. Significant conversion costs include labor, benefits, energy, supplies, depreciation, and maintenance and repair. In addition to raw material and conversion costs, cost of goods sold includes environmental

reserves and costs related to idle capacity. Finally, cost of goods sold includes hedging gains and losses recognized by us related to our biofuels segment. Cost of goods sold is allocated to the chemicals and biofuels business segments based on equipment and resource usage for most conversion costs and based on revenues for most other costs.

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

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

Three Months Ended September 30, 2012 Compared to Three Months September 30, 2011

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

(Dollars in thousands other than per share amounts)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Dollar Change	% Change
Revenues	\$88,276	\$90,307	\$(2,031)	(2.2%)
Income from operations	\$19,181	\$19,358	\$(177)	(0.9%)
Net income	\$12,549	\$12,733	\$(184)	(1.4%)
Earnings per common share - basic	\$0.30	\$0.31	\$(0.01)	(3.2%)
Earnings per common share – diluted	\$0.30	\$0.31	\$(0.01)	(3.2%)
Capital expenditures (net of customer reimbursements and grants)	\$2,656	\$3,173	\$(517)	(16.3%)
Adjusted EBITDA	\$23,991	\$20,046	\$3,945	19.7%

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 our liquidity relative to a performance and liquidity based on GAAP results. In our view, adjusted EBITDA isolates the effects of (i) depreciation and amortization, which may vary among our operating segments without any correlation to their underlying operating performance; (ii) non-cash stock-based compensation expense, which is a non-cash expense that varies widely among similar companies; and (iii) gains and losses on derivative instruments, whose immediate recognition can cause net income to be volatile from period to period due to the timing of the valuation change in the derivative instruments relative to the sale of biofuel.

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

(Dollars in thousands)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
Adjusted EBITDA	\$23,991	\$20,046
Depreciation	(2,611)	(2,467)
Non-cash stock-based compensation	(22)	-
Interest and dividend income	1,144	955
Interest expense	(6)	(6)
Loss/(gain) on disposal of property and equipment	45	(66)
(Losses)/gains on derivative instruments	(2,154)	1,779
Other income/(expense), net	83	(240)
Income tax expense	(7,921)	(7,268)
Net income	\$12,549	\$12,733

A table reconciling adjusted EBITDA with cash flows from operations, the most directly comparable GAAP liquidity financial measure, is set forth below under Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011.

Revenues

Revenues for the three months ended September 30, 2012 were \$88,276,000 as compared to revenues for the three months ended September 30, 2011 of \$90,307,000, a decrease of 2%. Revenues from biofuels were essentially unchanged and accounted for 54% of total revenues in the third quarter of 2012 as compared to 53% in the third quarter of 2011. Revenues from chemicals decreased 4% and accounted for 46% of total revenues in the third quarter of 2012 as compared to 47% in the third quarter of 2011. Within the chemicals segment, revenues for the three months ended September 30, 2012 changed as follows compared to the three months ended September 30, 2011: (i) revenues from the bleach activator decreased 20%; (ii) revenues from the proprietary herbicide and intermediates decreased 23%; (iii) revenues from CPOs decreased 2%; (iv) revenues from DIPB increased 14%; and (v) revenues from other custom products increased 83%.

Revenue from the bleach activator and the proprietary herbicide and intermediates are together the most significant components of our chemicals business revenue base, accounting for 26% of total revenues for the three months ended September 30, 2012 as compared to 31% of total revenues for the three months ended September 30, 2011. These products comprised a smaller percentage of our total revenues in the third quarter of 2012 due to growth in the biofuels segment and period-to-period decreases of these chemical products. The future volume of and revenues from the bleach activator depend on both consumer demand for the product containing the bleach activator and the manufacturing, sales, and marketing priorities of our customer. We are unable to predict with any certainty the revenues we will receive from this product in the future. With respect to the proprietary herbicide and intermediates, the decrease in revenue for the three months September 30, 2012 as compared to the three months ended September 30, 2011 was primarily attributable to reduced volumes in 2012. See the discussion above as to the future business with this herbicide and intermediates customer.

Revenues from CPOs and DIPB together increased 8% during the third quarter of 2012 compared to the third quarter of 2011. The combined increased revenues from these two products were attributable to increased sales volumes, along with an increased sales price, of DIPB.

Revenues from other custom chemical products increased 83% in the third quarter of 2012 as compared to the third quarter of 2011. The increase was due to sales during 2012 of a product we periodically produce for a customer and additional sales of other miscellaneous specialty chemicals and by-products. In the third quarter of 2011, we did not make any sales of the periodically produced product. Revenues from proprietary chemicals increased 3% for the third quarter of 2012 as compared to the third quarter of 2011 and accounted for approximately 4% of total revenues for the three months ended September 30, 2012. The increase was due to increased sales of multiple products, including crude glycerin.

Revenues from biofuels decreased from \$48,123,000 in the three months ended September 30, 2011 to \$47,949,000 in the three months ended September 30, 2012. The reinstatement of the \$1.00 per gallon federal blenders credit in December 2010 along with the government mandated renewable fuel standard for biodiesel combined to improve the economics of biodiesel in 2011. However, the blenders credit expired on December 31, 2011 and has not been reinstated. While we have not experienced a material decrease in demand for our biodiesel as a result of the loss of the blenders credit, the loss of the credit has adversely affected our biofuels segment gross profit by approximately \$1.00 per gallon of biodiesel sold by us. We have continued to debottleneck and increase our production capacity over the course of 2011 and 2012. Most of these process improvements were in place in the third quarter of 2011. A substantial portion of our biodiesel sold in the three months ended September 30, 2012 and 2011 was to a major refiner in the United States and no assurances can be given that we will continue to sell to such major refiner or, if we do sell, the volume that will be sold or the profit margin that will be realized. We continue to develop our regional fuel distribution business.

Cost of Goods Sold and Distribution

Total cost of goods sold and distribution for the third quarter of 2012 were \$66,313,000 as compared to \$68,312,000 for the third quarter of 2011, a decrease of 3%, which compares to a 2% decrease in revenues for the period.

Cost of goods sold and distribution for the three months ended September 30, 2012 for our chemicals segment totaled \$24,970,000 as compared to \$29,120,000 for the three months ended September 30, 2011. On a percentage basis, total cost of goods sold and distribution decreased approximately 14% for the three months ended September 30, 2012 compared to the three months ended September 30, 2011. This compares against a 4% decrease in chemical segment revenue for that period. This difference was largely a result of us experiencing reductions in our operating costs due to an ongoing effort to minimize such expenditures, a reduction in cost of goods sold resulting from adjustments in our inventory carrying value as determined utilizing the LIFO method of inventory accounting and changes in capitalized inventory costs resulting from the change in product mix in inventory at September 30, 2012.

Cost of goods sold and distribution for the third quarter of 2012 in our biofuels segment were \$41,343,000 as compared to \$39,192,000 for the third quarter of 2011. On a percentage basis, cost of good sold and distribution increased 5% versus a slight decrease in revenues. This difference was partially a result of the receipt of approximately \$1,900,000 under the USDA Section 9005 – Advanced Biofuel Producers program – in the third quarter of 2011. This award totaled approximately \$753,000 in the third quarter of 2012. The receipt of this award has been recorded as a reduction in cost of good sold and distribution in both the third quarter of 2012 and 2011. At June 30, 2012 we maintained an inventory of RINs, or renewable identification numbers. These RINs were sold in the three months ended September 30, 2012. The sales of these RINs in the third quarter of 2012 increased sales revenues from biofuels without a corresponding increase to cost of goods sold and distribution in the biofuels segment. Additionally, cost of goods sold and distribution for the third quarter of 2012 in our biofuels segment was also reduced by the before mentioned adjustments in our inventory carrying value as determined utilizing the LIFO method of inventory accounting. Despite these positive impacts on the profitability of the biofuels segment there was a general reduction in biofuel profit margins as a result of fluctuations in the biodiesel market and the expiration of the \$1.00 per gallon federal blenders credit on December 31, 2011 (prior to 2012, we generally included the credit as a reduction to cost of

goods sold).

Operating Expenses

Operating expenses increased 5% from \$2,637,000 in the third quarter of 2011 to \$2,782,000 in the third quarter of 2012. This increase was primarily attributable to increased expenditures incurred at a recently acquired warehouse facility and increased legal expenditures related to ongoing litigation. These increases were partially offset by slightly reduced research and development expenses.

Provision for Income Taxes

The effective tax rates for the three months ended September 30, 2012 and 2011 reflect our expected tax rate on reported operating earnings before income taxes and includes the impact of any change of the valuation allowance associated with certain deferred tax assets. We had determined that we did not believe that we had a more likely than not probability of realizing a portion of our deferred tax assets at September 30, 2011. As such, we had recorded a valuation allowance of \$397,000 at September 30, 2011. This valuation allowance totaled \$0 at September 30, 2012.

Edgar Filing: FutureFuel Corp. - Form 10-Q

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

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

(Dollars in thousands other than per share amounts)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Dollar Change	% Change	
Revenues	\$277,240	\$220,276	\$56,964	25.9	%
Income from operations	\$41,336	\$35,234	\$6,102	17.3	%
Net income	\$28,135	\$23,888	\$4,247	17.8	%
Earnings per common share - basic	\$0.68	\$0.59	\$0.09	15.3	%
Earnings per common share – diluted	\$0.68	\$0.59	\$0.09	15.3	%
Capital expenditures (net of customer reimbursements and grants)	\$6,435	\$8,042	\$(1,607)	(20.0)	%
Adjusted EBITDA	\$46,515	\$42,101	\$4,414	10.5	%

See the discussion above regarding our use of adjusted EBITDA. The following table reconciles adjusted EBITDA with net income, the most directly comparable GAAP performance financial measure.

(Dollars in thousands)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Adjusted EBITDA	\$46,515	\$42,101
Depreciation	(7,789)	(6,351)
Non-cash stock-based compensation	(281)	(502)
Interest and dividend income	3,431	2,542
Interest expense	(21)	(176)
Loss on disposal of property and equipment	(62)	(93)
Gains (losses) on derivative instruments	3,065	(14)
Other income, net	281	(182)
Income tax expense	(17,004)	(13,437)
Net income	\$28,135	\$23,888

Edgar Filing: FutureFuel Corp. - Form 10-Q

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

(Dollars in thousands)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Adjusted EBITDA	\$46,515	\$42,101
Provision for deferred income taxes	42	3,453
Interest and dividend income	3,431	2,542
Income tax expense	(17,004)	(13,437)
Gains (losses) on derivative instruments	3,065	(14)
Change in fair value of derivative instruments and marketable securities	(855)	869
Changes in operating assets and liabilities, net	26,948	24,525
Other	(3)	72
Net cash provided by operating activities	\$62,139	\$60,111

Revenues

Revenues for the nine months ended September 30, 2012 were \$277,240,000 as compared to revenues for the nine months ended September 30, 2011 of \$220,276,000, an increase of 26%. Revenues from biofuels increased 63% and accounted for 57% of total revenues in the first nine months of 2012 as compared to 44% in the first nine months of 2011. Revenues from chemicals decreased 3% and accounted for 43% of total revenues in the first nine months of 2012 as compared to 56% in the first nine months of 2011. Within the chemicals segment, revenues for the first nine months of 2012 changed as follows compared to the first nine months of 2011: (i) revenues from the bleach activator decreased 9%; (ii) revenues from the proprietary herbicide and intermediates decreased 33%; (iii) revenues from CPOs decreased 15%; (iv) revenues from DIPB increased 4%; and (v) revenues from other custom products increased 71%.

Revenue from the bleach activator and the proprietary herbicide and intermediates are together the most significant components of our chemicals business revenue base, accounting for 23% of total revenues for the nine months ended September 30, 2012 as compared to 36% of total revenues for the nine months ended September 30, 2011. These products comprised a smaller percentage of our total revenues in 2012 due to growth in the biofuels segment and year-to-year decreases of these chemical products. Revenues from the bleach activator decreased 9% during the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011. The decrease was attributable to reduced volumes sold in 2012, partially offset by increased per unit prices. The future volume of and revenues from the bleach activator depend on both consumer demand for the product containing the bleach activator and the manufacturing, sales, and marketing priorities of our customer. We are unable to predict with any certainty the revenues we will receive from this product in the future. As noted above, on August 28, 2012, we signed an amendment to our existing agreement with the bleach activator customer. With respect to the proprietary herbicide and intermediates, the 33% decrease in revenue for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011 was primarily attributable to reduced volumes in 2012. See the discussion above as to the future business with this herbicide and intermediates customer.

Revenues from CPOs and DIPB together decreased 4% during the first nine months of 2012 compared to the first nine months of 2011. The combined decreased revenues from these two products were attributable to reduced sales volumes of CPOs. Some of the impact of the reduced CPO sales volume was partially offset by an increase in per unit

prices. The end market for CPOs generally is the automotive industry. Demand for this product can fluctuate significantly from year to year.

Revenues from other custom chemical products increased 71% in the first nine months of 2012 as compared to the first nine months of 2011. The increase was due to continued sales of a product we periodically produce for a customer and, to a lesser extent, commercial sales of lithium ion battery material. In the first nine months of 2011, we did not make any sales of the lithium ion battery material and sales of the periodically produced product were limited. Revenues from proprietary chemicals increased 14% for the first nine months of 2012 as compared to the first nine months of 2011 and accounted for approximately 4% of total revenues for the first nine months of 2012. The increase was due to increased sales of multiple products, including crude glycerin.

Revenues from biofuels increased from \$96,545,000 in the nine months ended September 30, 2011 to \$157,612,000 in the nine months ended September 30, 2012. The reinstatement of the \$1.00 per gallon federal blenders credit in December 2010 along with the government mandated renewable fuel standard for biodiesel combined to improve the economics of biodiesel in 2011. However, the blenders credit expired on December 31, 2011 and has not been reinstated. While we have not experienced a material decrease in demand for our biodiesel as a result of the loss of the blenders credit, the loss of the credit has adversely affected our biofuels segment gross profit by approximately \$1.00 per gallon of biodiesel sold by us. We have continued to debottleneck and increase our production capacity. Sales and production of biodiesel increased in the first nine months of 2012 as we were producing and selling a larger quantity of biodiesel for the entire period; sales in the first nine months of 2011 were limited due to the initial conversion to lower grade biodiesel feedstocks and adaptation to the improvement in biodiesel economics. Revenues from biofuels have also been benefited by our sales of refined petroleum products as a supplier on a common carrier pipeline. Such sales totaled \$8,881,000 in the first nine months of 2012 compared to \$2,749,000 in the first nine months of 2011. Such sales generate little gross profit. A substantial portion of our biodiesel sold in the first nine months of 2012 was to a major refiner in the United States and no assurances can be given that we will continue to sell to such major refiner or, if we do sell, the volume that will be sold or the profit margin that will be realized. We continue to develop our regional fuel distribution business.

Cost of Goods Sold and Distribution

Total cost of goods sold and distribution for the first nine months of 2012 were \$228,076,000 as compared to \$177,853,000 for the first nine months of 2011, an increase of 28%, which compares to a 26% increase in revenues for the period.

Cost of goods sold and distribution for the first nine months of 2012 for our chemicals segment totaled \$81,351,000 as compared to \$95,824,000 for the first nine months of 2011. On a percentage basis, the 15% decrease in cost of goods sold and distribution expense for the first nine months of 2012 was greater than the 3% decrease in chemicals segment revenues for that period. This difference was largely a result of a combination of the following: (i) a reduction in our cost of goods sold resulting from adjustments in our inventory carrying value as determined utilizing the LIFO method of inventory accounting; (ii) we experienced certain reductions in our operating costs due to an ongoing effort to minimize such expenditures; and (iii) changes in capitalized inventory costs resulting from the change in product mix in inventory at September 30, 2012.

Cost of goods sold and distribution for the first nine months of 2012 in our biofuels segment were \$146,725,000 as compared to \$82,029,000 for the first nine months of 2011. On a percentage basis, cost of goods sold and distribution increased 79% versus an increase in revenues of 63%. This difference was largely a result of a combination of the following: (i) the expiration of the \$1.00 per gallon federal blenders credit on December 31, 2011 (prior to 2012, we generally included the credit as a reduction to cost of goods sold); (ii) in the first nine months of 2011 we received approximately \$1,900,000 from the USDA from its Section 9005 – Advanced Biofuel Producers program. In the first nine months of 2011, such receipt was recorded as a reduction to the cost of goods sold and distribution of the biofuels segment. In the first nine months of 2012, \$753,000 was received under this program; and (iii) a reduction in cost of goods sold resulting from adjustments in our inventory carrying value as determined utilizing the LIFO method of inventory accounting.

Operating Expenses

Operating expenses increased 9%, from \$7,189,000 in the nine months ended September 30, 2011 to \$7,828,000 in the nine months ended September 30, 2012. This increase was primarily attributable to certain reductions in other operating expenditures which were realized in the first nine months of 2011, but did not repeat in the first nine months of 2012. Other causes for the increase stem from increased expenditures related to the operations of a newly acquired

warehouse and increased legal fees associated with ongoing litigation.

Provision for Income Taxes

The effective tax rates for the nine months ended September 30, 2012 and 2011 reflect our expected tax rate on reported operating earnings before income taxes and includes the impact of any change of the valuation allowance associated with certain deferred tax assets. We had determined that we did not believe that we had a more likely than not probability of realizing a portion of our deferred tax assets at December 31, 2011. As such, we had recorded a valuation allowance of \$25,000 at December 31, 2011. This valuation allowance totaled \$0 at September 30, 2012.

Critical Accounting Estimates

Revenue Recognition

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

Revenue from bill and hold transactions in which a performance obligation exists is recognized when the total performance obligation has been met and title to the product has transferred. Bill and hold transactions for five specialty chemical products in the first three quarters of 2012 and four in the first three quarters of 2011 related to revenue that was recognized in accordance with contractual agreements based on product produced and ready for use. These sales were subject to written monthly purchase orders with agreement that production was reasonable. The inventory was custom manufactured and stored at the customer's request and could not be sold to another buyer. Credit and payment terms for bill and hold customers are similar to other specialty chemical customers. Sales revenue under bill and hold arrangements were \$14,166,000 and \$15,305,000 for the three months ended September 30, 2012 and 2011, respectively, and \$37,635,000 and \$47,201,000 for the nine month ended September 30, 2012 and 2011, respectively.

Off-Balance Sheet Arrangements

We engage in two types of hedging transactions. First, we hedge our biofuels sales through the purchase and sale of futures contracts and options on futures contracts of energy commodities. This activity was captured on our balance sheet at September 30, 2012 and December 31, 2011. Second, we hedge our biofuels feedstock through the execution of purchase contracts and supply agreements with certain vendors. These hedging transactions are recognized in earnings and were not recorded on our balance sheet at September 30, 2012 or December 31, 2011 as they do not meet the definition of a derivative instrument as defined under accounting principles generally accepted in the U.S. The purchase of biofuels feedstock generally involves two components: basis and price. Basis covers any refining or processing required as well as transportation. Price covers the purchases of the actual agricultural commodity. Both basis and price fluctuate over time. A supply agreement with a vendor constitutes a hedge when we have committed to a certain volume of feedstock in a future period and have fixed the basis for that volume.

Other Matters

We entered into an agreement with a customer to construct at a fixed price a processing plant and produce a certain chemical for the customer. We engaged a third party to act as general contractor on the construction of this plant for a guaranteed price. That general contractor defaulted on its obligations under its contract with us and abandoned the project. The general contractor's default did not have a material adverse effect on us or our financial condition, results of operations, or cash flows. As a result of the contractor's default, we undertook the general contractor role ourselves. We also filed suit against our former contractor to recoup any damages that we incurred as a result of his default. The former contractor counterclaimed against us for amounts he asserted were due him under our contract with him. The trial was conducted on this matter and the jury determined that we were not the breaching party under the contract but rather the general contractor was the breaching party and that the general contractor did not substantially complete his obligations under the contract. The jury did however award the contractor certain amounts that the jury determined we owed him under the contract for services rendered through the date of breach. Upon our motion, the court reduced the amount awarded by the jury. Such amount does not have a material adverse effect on

our overall financial condition, results of operations, or cash flows. Both we and the contractor appealed certain rulings made in the course of this case and those appeals are pending. We do not believe that the effect of these appeals will have a material adverse effect our overall financial condition, results of operations, or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

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

In order to manage price risk caused by market fluctuations in biofuels prices, we may enter into exchange traded commodity futures and options contracts. We account for these derivative instruments in accordance with ASC 815-20-25, Derivatives and Hedging, Hedging-General, Recognition. Under this standard, the accounting for changes in the fair value of a derivative instrument depends upon whether it has been designated as an accounting hedging relationship and, further, on the type of hedging relationship. To qualify for designation as an accounting hedging relationship, specific criteria must be met and appropriate documentation maintained. We had no derivative instruments that qualified under these rules as designated accounting hedges in the first three quarters of 2012 or 2011. Changes in the fair value of our derivative instruments are recognized at the end of each accounting period and recorded in the statement of operations as a component of cost of goods sold.

Our immediate recognition of derivative instrument gains and losses can cause net income to be volatile from period to period due to the timing of the change in value of the derivative instruments relative to the sale of biofuel being sold. As of September 30, 2012 and December 31, 2011, the fair values of our derivative instruments were a net liability in the amount of \$1,599,000 and \$2,453,000, respectively.

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

We prepared a sensitivity analysis of our exposure to market risk with respect to key raw materials and conversion costs for which we do not possess contractual market price adjustment protections, based on average prices for the first nine months of 2012. We included only those raw materials and conversion costs for which a hypothetical adverse change in price would result in a 1% or greater decrease in gross profit. Assuming that the prices of the associated finished goods could not be increased and assuming no change in quantities sold, a hypothetical 10% change in the average price of the commodity listed below would result in the following change in annual gross profit.

(Volume and dollars in thousands)

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

Crude corn oil and yellow grease	246,680,625	LB	10%	\$10,607	21.6%
Petrodiesel	4,534,150	GAL	10%	\$1,441	2.9%
Methanol	25,439,349	LB	10%	\$494	1.0%

(a) Volume requirements and average price information are based upon volumes used and prices obtained for the nine months ended September 30, 2012. Volume requirements may differ materially from these quantities in future years as our business evolves.

We had no borrowings as of September 30, 2012 or December 31, 2011 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 (or the Exchange Act), as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and our principal financial officer have concluded that these disclosure controls and procedures as of September 30, 2012 were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

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

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

We are not a party to, nor is any of our property subject to, any material pending legal proceedings, other than ordinary routine litigation incidental to our business. However, from time to time, we may be 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. Please see above for additional discussion on our legal matters.

Item 1A. Risk Factors.

See Item 1A of our Form 10-K, Annual Report for the year ended December 31, 2011 filed with the SEC on March 15, 2012, as supplemented by Item 1A of our Form 10-Q for the quarter ended June 30, 2012, filed August 9, 2012, for a description of "Risk Factors" relating to an investment in us. There are no material changes from the risk factors disclosed in such filing except as follows.

We are reliant upon two customers for a substantial amount of our chemical segment sales.

All sales of the bleach activator are made to The Procter & Gamble Company and all sales of a proprietary herbicide and certain other intermediates used in the production of this herbicide are made to Arysta LifeScience North America Corporation. These two customers represented approximately 35% of our revenues for the year ended December 31, 2011. The loss of these two companies as customers would have a material adverse effect on us.

In the second quarter of 2011, we received notification from the customer of the bleach activator stating their intention to reduce the quantities of the bleach activator they purchase beginning as soon as possible from the date of such notice. The amount of such decrease was not stated. Revenues from the bleach activator decreased 20% for the three month ended September 30, 2012 compared to the three months ended September 30, 2011, and decreased 9% for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. We continue to work collaboratively with our customer of the bleach activator to assess their future demand, which demand may continue to decline. On August 28, 2012, we signed an amendment to our existing agreement with the bleach activator customer, which extended the term of the agreement to December 31, 2016 (unless terminated earlier in accordance with the provisions of the agreement).

In 2011, the customer of the proprietary herbicide (and intermediates) initiated discussions with us to reduce volume and alter other terms of their contracts with us. Sales of these products to our customer for the nine months ended September 30, 2012 declined by 33% from sales for the nine months ended September 30, 2011. We are of the opinion that the current contracts do not adequately provide a framework to support our mutual efforts. Our contracts with our customer automatically renew for successive one-year periods, subject to the right of either party to terminate the contract. Accordingly, we exercised our rights to terminate these contracts, effective September 1, 2013 for the proprietary herbicide and October 1, 2013 for the intermediates. We anticipate that we will continue to do business with our customer after those dates provided we can meet mutually acceptable terms.

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.

26

Item 5. Other Information.

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

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

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

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

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

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

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

Item 6. Exhibits.

Exhibit	Description
10.1.	Third Amendment to the Purchase Agreement made and entered into as of August 28, 2012 between The Procter & Gamble Manufacturing Company, The Procter & Gamble Distributing LLC, Procter & Gamble Home Products Limited and Procter & Gamble International Operations SA, as buyer, and FutureFuel Chemical Company, as seller (portions of the exhibit have been omitted pursuant to a request for confidential treatment).
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” 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/ Ann P. Faitz
Ann P. Faitz, Secretary
Date: November 8, 2012

By: /s/ Rose M. Sparks
Rose M. Sparks, Principal Financial
Officer
Date: November 8, 2012