

FutureFuel Corp.
Form 10-Q
August 09, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from _____

Commission file number: 0-52577

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

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20-3340900
(IRS Employer Identification
No.)

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

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

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

Yes No

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 9, 2010:
39,973,849

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

(do not check if a smaller reporting company)

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

The following sets forth our unaudited consolidated balance sheet as at June 30, 2010, our audited consolidated balance sheet as at December 31, 2009, our unaudited consolidated statements of operations and comprehensive income for the three- and six-month periods ended June 30, 2010 and June 30, 2009, and our consolidated statements of cash flows for the six-month periods ended June 30, 2010 and June 30, 2009.

FutureFuel Corp.
Consolidated Balance Sheets
As at June 30, 2010 and December 31, 2009
(Dollars in thousands)

	(Unaudited)	
	June 30, 2010	December 31, 2009
Assets		
Cash and cash equivalents	\$115,884	\$ 65,512
Accounts receivable, net of allowances of \$0	23,474	21,759
Inventory	29,287	26,444
Income taxes receivable	800	912
Prepaid expenses	760	1,297
Prepaid expenses - related parties	-	23
Marketable and auction rate securities	12,519	6,811
Other current assets	1,481	828
Total current assets	184,205	123,586
Property, plant and equipment, net	119,784	119,248
Intangible assets	151	208
Other assets	2,536	2,965
Total noncurrent assets	122,471	122,421
Total Assets	\$306,676	\$ 246,007
Liabilities and Stockholders' Equity		
Accounts payable	\$9,988	\$ 14,269
Accounts payable - related parties	272	556
Current deferred income tax liability	3,028	3,172
Deferred revenue – short-term	1,048	-
Accrued expenses and other current liabilities	4,688	2,832
Accrued expenses and other current liabilities - related parties	21	67
Total current liabilities	19,045	20,896
Deferred revenue – long-term	12,946	9,348
Contingent liability	427	-
Other noncurrent liabilities	1,408	1,376
Noncurrent deferred income tax liability	24,045	24,118
Total noncurrent liabilities	38,826	34,842
Total Liabilities	57,871	55,738
Commitments and contingencies		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, none issued and outstanding	-	-
	4	3

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Common stock, \$0.0001 par value, 75,000,000 shares authorized, 39,522,553 and 28,190,300 issued and outstanding as of June 30, 2010 and December 31, 2009, respectively

Accumulated other comprehensive income	98	38
Additional paid in capital	234,713	167,598
Retained earnings	13,990	22,630
Total stockholders' equity	248,805	190,269
Total Liabilities and Stockholders' Equity	\$306,676	\$ 246,007

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

FutureFuel Corp.
Consolidated Statements of Operations and Comprehensive Income
For the Three Months Ended June 30, 2010 and 2009
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,	
	2010	2009
Revenues	\$51,714	\$41,831
Cost of goods sold	43,484	34,153
Cost of goods sold – related parties	895	594
Distribution	932	1,211
Distribution – related parties	101	-
Gross profit	6,302	5,873
Selling, general and administrative expenses		
Compensation expense	731	798
Other expense	409	402
Related party expense	35	49
Research and development expenses	886	988
	2,061	2,237
Income from operations	4,241	3,636
Interest income	222	67
Interest expense	(5)	(6)
Loss on sale of marketable securities	(4)	-
Other income (expense)	18	(22)
	231	39
Income before income taxes	4,472	3,675
Provision for income taxes	1,709	825
Net income	\$2,763	\$2,850
Earnings per common share		
Basic	\$0.08	\$0.10
Diluted	\$0.07	\$0.10
Weighted average shares outstanding		
Basic	36,773,695	28,190,300
Diluted	37,522,593	28,199,548
Comprehensive Income		
Net income	\$2,763	\$2,850
Other comprehensive loss, net of tax of \$(41) in 2010 and \$- in 2009	(66)	-
Comprehensive income	\$2,697	\$2,850

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

FutureFuel Corp.
Consolidated Statements of Operations and Comprehensive Income
For the Six Months Ended June 30, 2010 and 2009
(Dollars in thousands, except per share amounts)
(Unaudited)

	Six Months Ended June 30,	
	2010	2009
Revenues	\$99,477	\$80,676
Revenues – related parties	-	892
Cost of goods sold	80,953	64,625
Cost of goods sold – related parties	2,363	2,497
Distribution	1,703	2,218
Distribution – related parties	215	-
Gross profit	14,243	12,228
Selling, general and administrative expenses		
Compensation expense	1,462	1,292
Other expense	905	896
Related party expense	70	113
Research and development expenses	1,786	1,999
	4,223	4,300
Income from operations	10,020	7,928
Interest income	344	289
Interest expense	(11)	(14)
Loss on foreign currency	-	(3)
Loss on sale of marketable securities	(4)	-
Other income (expense)	42	(19)
	371	253
Income before income taxes	10,391	8,181
Provision for income taxes	3,969	2,510
Net income	\$6,422	\$5,671
Earnings per common share		
Basic	\$0.19	\$0.20
Diluted	\$0.19	\$0.20
Weighted average shares outstanding		
Basic	33,040,280	28,190,300
Diluted	34,261,022	28,198,266
Comprehensive Income		
Net income	\$6,422	\$5,671
Other comprehensive income (loss), net of tax of \$37 in 2010 and \$(9) in 2009	60	(15)
Comprehensive income	\$6,482	\$5,656

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

FutureFuel Corp.
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2010 and 2009
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2010	2009
Cash flows provided by operating activities		
Net income	\$6,422	\$5,671
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,803	3,635
Provision for deferred income taxes	(253)	1,754
Change in fair value of derivative instruments	(430)	(2,072)
Loss on the sale of investments	4	-
Losses on disposals of fixed assets	42	-
Noncash interest expense	11	11
Changes in operating assets and liabilities:		
Accounts receivable	(1,715)	(1,741)
Accounts receivable – related parties	-	(26)
Inventory	(2,843)	2,246
Income taxes receivable	112	(1,915)
Prepaid expenses	537	443
Prepaid expenses – related parties	23	-
Accrued interest on marketable debt securities	(5)	3
Other assets	194	151
Accounts payable	(4,281)	(4,078)
Accounts payable – related parties	(284)	(426)
Accrued expenses and other current liabilities	1,856	1,300
Accrued expenses and other current liabilities – related parties	(47)	-
Deferred revenue	4,647	(335)
Other noncurrent liabilities	21	91
Net cash provided by operating activities	7,814	4,712
Cash flows from investing activities		
Collateralization of derivative instruments	9	2,673
Purchase of marketable securities	(6,034)	(19,999)
Proceeds from the sale of marketable securities	425	35,972
Sales of auction rate securities, net	-	3,150
Proceeds from the sale of commercial paper	-	15,424
Proceeds from the sale of fixed assets	-	2
Acquisition of a granary	-	(1,252)
Contingent purchase price payment	-	(177)
Capital expenditures	(3,896)	(11,769)
Net cash provided by (used in) investing activities	(9,496)	24,024
Cash flows from financing activities		
Proceeds from the issuance of stock	67,994	-
Purchase of warrants	(878)	-
Payment of dividend	(15,062)	-

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Net cash provided by financing activities	52,054	-
Net change in cash and cash equivalents	50,372	28,736
Cash and cash equivalents at beginning of period	65,512	27,455
Cash and cash equivalents at end of period	\$115,884	\$56,191
Cash paid for interest	\$-	\$3
Cash paid for income taxes	\$4,090	\$2,643

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

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

1) Nature of operations and basis of presentation

FutureFuel Corp.

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

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

Eastman SE, Inc.

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

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

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

The accompanying consolidated financial statements have been prepared by FutureFuel in accordance and consistent with the accounting policies stated in FutureFuel’s 2009 audited consolidated financial statements and should be read in conjunction with the 2009 audited consolidated financial statements of FutureFuel. Certain prior year balances have been reclassified to conform to the current year presentation.

In the opinion of FutureFuel, all normal recurring adjustments necessary for a fair presentation have been included in the unaudited consolidated financial statements. The unaudited consolidated financial statements have been prepared in compliance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) accounting principles generally accepted in the United States for interim financial information and with instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, the financial statements do

not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements, and do include amounts that are based upon management estimates and judgments. Future actual results could differ from such current estimates. The unaudited consolidated financial statements include assets, liabilities, revenues and expenses of FutureFuel and its wholly owned subsidiaries, FutureFuel Chemical and FFC Grain, L.L.C. Intercompany transactions and balances have been eliminated in consolidation.

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

2) Inventories

The carrying values of inventory were as follows as of:

	June 30, 2010	December 31, 2009
At first-in, first-out or average cost (approximates current cost)		
Finished goods	\$ 11,663	\$ 14,078
Work in process	1,606	1,841
Raw materials and supplies	21,579	16,451
	34,848	32,370
LIFO reserve	(5,561)	(5,926)
Total inventories	\$ 29,287	\$ 26,444

3) Derivative instruments

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

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

The fair value of FutureFuel's derivative instruments is determined based on the closing prices of the derivative instruments on relevant commodity exchanges at the end of an accounting period. Changes in fair value of the derivative instruments are recorded in the statement of operations as a component of cost of goods sold, and amounted to a gain of \$1,876 and a loss of \$1,101 for the three months ended June 30, 2010 and 2009, respectively, and gains of \$1,477 and \$372 for the six months ended June 30, 2010 and 2009, respectively.

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

	Asset/(Liability)			
	June 30, 2010		December 31, 2009	
	Quantity (Contracts)		Quantity (Contracts)	
	Long/ (Short)	Fair Value	Long/ (Short)	Fair Value
Regulated options, included in other current assets	(150)	\$ (1,387)	(150)	\$ (1,998)
Regulated fixed price future commitments, included in other current assets	(60)	\$ (113)	10	\$ 68

The margin account maintained with a broker to collateralize these derivative instruments carried an account balance of \$2,547 and \$2,556 at June 30, 2010 and December 31, 2009, respectively, and is classified as other current assets in the consolidated balance sheet. The carrying values of the margin account and of the derivative instruments are included, net, in other current assets.

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

4) Marketable securities

FutureFuel has made investments in certain auction rate securities. As of June 30, 2010, these securities had a maturity of August 2037. FutureFuel classified these instruments as current assets in the accompanying consolidated balance sheets as the issuers of these instruments have either exercised their right to repurchase or a liquid market still exists for these securities, which allows FutureFuel to exit its positions within a short period of time. FutureFuel anticipates these securities either being sold or repurchased within the next year. FutureFuel has designated these securities as being available-for-sale. Accordingly, these securities are carried at fair value, with unrealized gains and losses, net of taxes, reported as a component of stockholders' equity. No realized gains or losses have been incurred related to these securities through June 30, 2010.

The fair market value of these auction rate securities approximated their par value and, including accrued interest, totaled \$2,800 at both June 30, 2010 and December 31, 2009, respectively.

At June 30, 2010, FutureFuel had investments in certain preferred stock and trust preferred securities. These investments have been classified as current assets in the accompanying consolidated balance sheet. FutureFuel has designated these securities as being available for sale. Accordingly, they are recorded at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders' equity.

The fair market value of these preferred stock and trust preferred securities, including accrued interest, totaled \$9,719 and \$4,011 at June 30, 2010 and December 31, 2009, respectively.

5) Accrued expenses and other current liabilities

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

	June 30, 2010	December 31, 2009
Accrued employee liabilities	\$ 2,593	\$ 1,499
Accrued property, use and franchise taxes	1,558	1,064
Other	558	336
Total	\$ 4,709	\$ 2,899

6) Borrowings

In March 2007 FutureFuel Chemical entered into a \$50 million credit agreement with a commercial bank. The loan is a revolving facility the proceeds of which may be used for working capital, capital expenditures and the general corporate purposes of FutureFuel Chemical. The facility terminated on March 10, 2010 and was subsequently renewed and extended on March 14, 2010 expiring on June 30, 2013 with only slight modifications to the original credit agreement. Advances are made pursuant to a borrowing base comprised of 85% of eligible accounts plus 60% of eligible direct inventory plus 50% of eligible indirect inventory. Advances are secured by a perfected first priority security interest in accounts receivable and inventory. The interest rate floats at certain margins over the London Interbank Offered Rate ("LIBOR") or base rate based upon the leverage ratio from time to time as set forth in the following table.

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

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

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

At June 30, 2010, no borrowings were outstanding under this credit facility.

7) Provision for income taxes

	For the three months ended				For the six months ended June			
	June 30,		30,		2010		2009	
	2010	2009	2010	2009	2010	2009	2010	2009
Provision for income taxes	\$ 1,709	\$ 825	\$ 3,969	\$ 2,510				
Effective tax rate	38.2 %	22.4 %	38.2 %	30.7 %				

The effective tax rates for the three and six months ended June 30, 2010 and 2009 reflect FutureFuel's expected tax rate on reported operating earnings before income tax.

FutureFuel's unrecognized tax benefits, recorded as an element of other noncurrent liabilities, totaled \$559 at June 30, 2010 and December 31, 2009, the total amount of which, if recognized, would reduce FutureFuel's effective tax rate.

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

FutureFuel records interest and penalties net as a component of income tax expense. FutureFuel had accrued a balance of \$159 and \$138 at June 30, 2010 and December 31, 2009, respectively, for interest or tax penalties.

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

8) Earnings per share

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

	For the three months ended June			
	30,		30,	
	2010	2009	2010	2009
Net income available to common stockholders	\$ 2,763	\$ 2,850	\$ 6,422	\$ 5,671
Weighted average number of common shares outstanding	36,773,695	28,190,300	33,040,280	28,190,300
Effect of warrants	721,575	-	1,193,092	-
Effect of stock options	27,323	9,248	27,650	7,966
Weighted average diluted number of common shares outstanding	37,522,593	28,199,548	34,261,022	28,198,266

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Basic earnings per share	\$ 0.08	\$ 0.10	\$ 0.19	\$ 0.20
Diluted earnings per share	\$ 0.07	\$ 0.10	\$ 0.19	\$ 0.20

Certain warrants to purchase shares of FutureFuel's common stock were not included in the computation of diluted earnings per share for the three and six months ended June 30, 2009 as they were anti-dilutive for the period. The weighted average number of warrants excluded on this basis was 21,317,500. Additionally, certain options to purchase shares of FutureFuel's common stock were not included in the computation of diluted earnings per share for the three and six months ended June 30, 2010 and 2009 as they were anti-dilutive. The weighted average number of options excluded on this basis was 285,500 for the three months ended June 30, 2010, 283,000 for the six months ended June 30, 2010, and 105,000 for both the three and six months ended June 30, 2009.

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

9) Segment information

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

Chemicals

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

Biofuels

FutureFuel's biofuels business segment manufactures and markets biodiesel. Revenues are generated through the production and sale of biodiesel to customers through FutureFuel's distribution network from the Batesville Plant and through distribution facilities available at leased oil storage facilities at negotiated prices.

Summary of long-lived assets and revenues by geographic area

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

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