

FutureFuel Corp.
Form 10-Q
August 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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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 August 9, 2012:
41,319,057

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

The following sets forth our unaudited consolidated balance sheet as at June 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 six-month periods ended June 30, 2012 and June 30, 2011, and our consolidated statements of cash flows for the six-month periods ended June 30, 2012 and June 30, 2011.

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

| | (Unaudited) June 30, 2012 | December 31, 2011 |
|---|------------------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 112,031 | \$ 89,745 |
| Accounts receivable, net of allowances of \$0 and \$10 at June 30, 2012 and December 31, 2011, respectively | 26,451 | 35,554 |
| Accounts receivable – related parties | 120 | 123 |
| Inventory | 43,357 | 57,439 |
| Prepaid expenses | 881 | 1,460 |
| Marketable securities | 66,937 | 56,294 |
| Other current assets | 16 | 1,910 |
| Total current assets | 249,793 | 242,525 |
| Property, plant and equipment, net | 139,237 | 140,517 |
| Other assets | 2,189 | 2,202 |
| Total noncurrent assets | 141,426 | 142,719 |
| Total Assets | \$ 391,219 | \$ 385,244 |
| Liabilities and Stockholders' Equity | | |
| Accounts payable | \$ 17,930 | \$ 18,665 |
| Accounts payable – related parties | 346 | 3,023 |
| Income taxes payable | 1,846 | 1,123 |
| Current deferred income tax liability | 4,559 | 6,162 |
| Deferred revenue – short-term | 3,770 | 3,558 |
| Accrued expenses and other current liabilities | 5,713 | 3,225 |
| Accrued expenses and other current liabilities – related parties | 17 | 43 |
| Total current liabilities | 34,181 | 35,799 |
| Deferred revenue – long-term | 29,144 | 29,256 |
| Contingent liability – long-term | 2,521 | 2,521 |
| Other noncurrent liabilities | 936 | 924 |
| Noncurrent deferred income tax liability | 28,585 | 28,506 |
| Total noncurrent liabilities | 61,186 | 61,207 |
| Total Liabilities | 95,367 | 97,006 |
| Commitments and contingencies | - | - |

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| | | |
|--|-----------|-----------|
| Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, none issued and outstanding | | |
| Common stock, \$0.0001 par value, 75,000,000 shares authorized, 41,319,057 and 41,308,446 issued and outstanding as of June 30, 2012 and December 31, 2011, respectively | 4 | 4 |
| Accumulated other comprehensive income | 1,756 | 1,803 |
| Additional paid in capital | 253,844 | 253,505 |
| Retained earnings | 40,248 | 32,926 |
| Total stockholders' equity | 295,852 | 288,238 |
| Total Liabilities and Stockholders' Equity | \$391,219 | \$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 June 30, 2012 and 2011
(Dollars in thousands, except per share amounts)
(Unaudited)

| | Three Months Ended June 30, | |
|---|-----------------------------|------------|
| | 2012 | 2011 |
| Revenues | \$97,609 | \$73,963 |
| Revenues – related parties | 5,628 | 765 |
| Cost of goods sold | 86,466 | 56,962 |
| Cost of goods sold – related parties | 752 | 1,407 |
| Distribution | 1,476 | 829 |
| Distribution – related parties | 143 | 101 |
| Gross profit | 14,400 | 15,429 |
| Selling, general, and administrative expenses | | |
| Compensation expense excluding stock-based compensation | 806 | 818 |
| Stock-based compensation | 259 | 502 |
| Other expense | 848 | 521 |
| Related party expense | 86 | 71 |
| Research and development expenses | 829 | 861 |
| | 2,828 | 2,773 |
| Income from operations | 11,572 | 12,656 |
| Interest income | 1,147 | 811 |
| Interest expense | (9 | (36 |
| Loss on marketable securities | (116 | (37 |
| Other (expense) income | 96 | (22 |
| | 1,118 | 716 |
| Income before income taxes | 12,690 | 13,372 |
| Provision for income taxes | 4,217 | 4,933 |
| Net income | \$8,473 | \$8,439 |
| Earnings per common share | | |
| Basic | \$0.21 | \$0.21 |
| Diluted | \$0.20 | \$0.21 |
| Weighted average shares outstanding | | |
| Basic | 41,319,057 | 40,234,242 |
| Diluted | 41,462,594 | 40,438,023 |
| Comprehensive Income | | |
| Net income | \$8,473 | \$8,439 |
| Other comprehensive loss from unrealized losses on available-for-sale securities, net of tax of \$(730) in 2012 and of \$(346) in 2011 | (1,173 | (553 |
| Comprehensive income | \$7,300 | \$7,886 |

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

| | Six Months Ended June 30, | |
|--|---------------------------|------------|
| | 2012 | 2011 |
| Revenues | \$182,446 | \$126,179 |
| Revenues – related parties | 6,518 | 3,790 |
| Cost of goods sold | 157,422 | 102,349 |
| Cost of goods sold – related parties | 1,738 | 5,610 |
| Distribution | 2,340 | 1,349 |
| Distribution – related parties | 263 | 234 |
| Gross profit | 27,201 | 20,427 |
| Selling, general, and administrative expenses | | |
| Compensation expense excluding stock-based compensation | 1,555 | 1,627 |
| Stock-based compensation | 259 | 502 |
| Other expense | 1,439 | 691 |
| Related party expense | 121 | 119 |
| Research and development expenses | 1,672 | 1,614 |
| | 5,046 | 4,553 |
| Income from operations | 22,155 | 15,874 |
| Interest income | 2,287 | 1,587 |
| Interest expense | (15 |) (170 |
| Gain on marketable securities | 198 | 58 |
| Other (expense) income | 44 | (27 |
| | 2,514 | 1,448 |
| Income before income taxes | 24,669 | 17,322 |
| Provision for income taxes | 9,083 | 6,169 |
| Net income | \$15,586 | \$11,153 |
| Earnings per common share | | |
| Basic | \$0.38 | \$0.28 |
| Diluted | \$0.38 | \$0.28 |
| Weighted average shares outstanding | | |
| Basic | 41,316,958 | 40,109,268 |
| Diluted | 41,477,864 | 40,285,249 |
| Comprehensive Income | | |
| Net income | \$15,586 | \$11,153 |
| Other comprehensive(loss)/ income from unrealized (losses)/gains on available-for-sale securities, net of tax of \$(29) and \$272 in 2012 and 2011, respectively | (47 |) 434 |
| Comprehensive income | \$15,539 | \$11,587 |

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, 2012 and 2011
(Dollars in thousands)
(Unaudited)

| | Six Months Ended June 30, | |
|---|---------------------------|------------|
| | 2012 | 2011 |
| Cash flows provided by operating activities | | |
| Net income | \$15,586 | \$11,153 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 5,178 | 3,884 |
| Provision for (benefit from) deferred income taxes | (1,495) |) 478 |
| Change in fair value of derivative instruments and marketable securities | 745 | 984 |
| (Gain)/Loss on the sale of investments | (198) |) 148 |
| Losses on disposals of fixed assets | 107 | 27 |
| Stock based compensation | 259 | 502 |
| Noncash interest expense | 12 | 11 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 9,103 | 4,915 |
| Accounts receivable – related parties | 3 | (247) |
| Inventory | 14,082 | (3,004) |
| Income taxes receivable | - | 519 |
| Prepaid expenses | 579 | 386 |
| Accrued interest on marketable securities | - | (123) |
| Other assets | (3) |) 274 |
| Accounts payable | (735) |) (368) |
| Accounts payable – related parties | (2,677) |) (50) |
| Income taxes payable | 723 | 1,849 |
| Accrued expenses and other current liabilities | 2,047 | 1,832 |
| Accrued expenses and other current liabilities – related parties | (26) |) 23 |
| Deferred revenue | 100 | 11,602 |
| Net cash provided by operating activities | 43,390 | 34,795 |
| Cash flows from investing activities | | |
| Restricted cash | - | 21,086 |
| Collateralization of derivative instruments | 1,606 | (1,920) |
| Purchase of marketable securities | (24,892) |) (70,072) |
| Proceeds from the sale of marketable securities | 14,371 | 27,090 |
| Proceeds from the sale of fixed assets | 63 | 12 |
| Capital expenditures | (4,068) |) (15,325) |
| Net cash used in investing activities | (12,920) |) (39,129) |
| Cash flows from financing activities | | |
| Proceeds from the issuance of stock | 72 | 15,798 |
| Excess tax benefits associated with stock options | 8 | - |
| Payment of dividends | (8,264) |) (7,996) |
| Net cash (used in) provided by financing activities | (8,184) |) 7,802 |
| Net change in cash and cash equivalents | 22,286 | 3,468 |
| Cash and cash equivalents at beginning of period | 89,745 | 91,057 |
| Cash and cash equivalents at end of period | \$112,031 | \$94,525 |

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| | | |
|-------------------------------|---------|---------|
| Cash paid for interest | \$2 | \$- |
| Cash paid for income taxes | \$9,847 | \$2,857 |
| Non-cash capital expenditures | \$- | \$1,134 |

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

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

1) Nature of operations and basis of presentation

FutureFuel Corp.

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

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

Eastman SE, Inc.

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

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

In 2005, the Batesville Plant began the implementation of a biobased products platform. This 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 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.

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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, 2012 | December 31, 2011 |
|---|-----------------|----------------------|
| At average cost (approximates current cost) | | |
| Finished goods | \$23,684 | \$19,481 |
| Work in process | 1,565 | 3,643 |
| Raw materials and supplies | 33,113 | 47,833 |
| | 58,362 | 70,957 |
| LIFO reserve | (15,005) | (13,518) |
| Total inventories | \$43,357 | \$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 gain of \$8,625 and \$1,957 for the three months ended June 30, 2012 and 2011, respectively, and a gain of \$5,219 and a loss of \$1,793 for the six months ended June 30, 2012 and 2011, respectively.

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

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

| | Asset/(Liability) | | | |
|---|---|------------|---|------------|
| | June 30, 2012 | | December 31, 2011 | |
| | Quantity (Contracts) Long/ (Short) | Fair Value | Quantity (Contracts) Long/ (Short) | Fair Value |
| Regulated options, included in accrued expenses and other current liabilities and in other current assets at June 30, 2012 and December 31, 2011, respectively | (200) | \$(2,254) | (300) | \$(2,221) |
| Regulated fixed price future commitments, included in accrued expenses and other current liabilities and in other current assets at June 30, 2012 and December 31, 2011, respectively | (150) | \$(944) | (71) | \$(232) |

The margin account maintained with a broker to collateralize these derivative instruments carried an account balance of \$2,757 and \$4,363 at June 30, 2012 and December 31, 2011, respectively. The carrying values of the margin account and of the derivative instruments are included, net, in accrued expenses and other current liabilities at June 30, 2012 and in other current assets at December 31, 2011.

4) Marketable securities

At June 30, 2012 and December 31, 2011, FutureFuel had investments in certain preferred stock, trust preferred securities, and other equity instruments. At June 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:

| | June 30, 2012 | | | |
|----------------------------|------------------|---------------------|----------------------|---------------|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Equity instruments | \$35,490 | \$3,252 | \$(1,057) | \$37,685 |
| Preferred stock | 19,689 | 565 | (44) | 20,210 |
| Trust preferred securities | 7,846 | 208 | (12) | 8,042 |
| Municipal debt securities | 1,000 | - | - | 1,000 |
| Total | \$64,025 | \$4,025 | \$(1,113) | \$66,937 |

| | December 31, 2011 | | | |
|--------------------|-------------------|---------------------|----------------------|---------------|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Equity instruments | \$33,442 | \$4,433 | \$(647) | \$37,228 |

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| | | | | | |
|----------------------------|----------|---------|----------|---|----------|
| 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 \$17,331 and \$13,283 at June 30, 2012 and December 31, 2011, respectively. As of June 30, 2012 and December 31, 2011, FutureFuel had a total of \$3,610 and \$257 invested in marketable securities that were in an unrealized loss position for a greater than 12-month period, respectively.

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

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, 2012 | December 31, 2011 |
|--|---------------|----------------------|
| Accrued employee liabilities | \$3,757 | \$1,710 |
| Accrued property, use, and franchise taxes | 1,101 | 1,521 |
| Other | 872 | 37 |
| Total | \$5,730 | \$3,268 |

6) Borrowings

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

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

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 June 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 June 30, | | For the six months ended June 30, | |
|----------------------------|--|---------|--------------------------------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Provision for income taxes | \$4,217 | \$4,933 | \$9,083 | \$ |