

FutureFuel Corp.  
Form 10-K  
March 15, 2012

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

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2011  
or  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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  
(I.R.S. Employer  
Identification No.)

8235 Forsyth Blvd., Suite 400  
Clayton, Missouri 63105  
(Address of Principal Executive Offices, including Zip Code)

(805) 565-9800  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value \$0.0001	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None  
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Note—Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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	Smaller reporting company	

(Do not check if a smaller reporting company)

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter. \$171,337,015

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date: 41,319,057

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## PART I

### Item 1. Business.

#### General Development of the Business

##### The Company

FutureFuel Corp. (sometimes referred to as the “Company” or “we” or “us” or “our” and includes our wholly-owned subsidiaries) is a Delaware corporation incorporated on August 12, 2005 under the name “Viceroy Acquisition Corporation”. We were formed to serve as a vehicle for the acquisition of one or more operating businesses in the oil and gas industry. On July 12, 2006, we completed our initial public offering. On July 21, 2006, we entered into an acquisition agreement with Eastman Chemical Company to acquire its wholly-owned subsidiary, Eastman SE, Inc., a chemical manufacturer which had just launched a biobased products platform. Our shareholders approved the acquisition of Eastman SE, Inc. on October 27, 2006 and, on October 31, 2006, the acquisition of Eastman SE, Inc. was consummated and Eastman SE, Inc. became our wholly-owned subsidiary. In connection with such closing, we changed our name to FutureFuel Corp. and Eastman SE, Inc. changed its name to FutureFuel Chemical Company.

Prior to 2011, our shares of common stock were quoted on the Over-the-Counter Bulletin Board (or OTC Bulletin Board). The OTC Bulletin Board is an electronic trading service offered by the National Association of Security Dealers that shows real-time quotes, last sale prices, and volume information for over-the-counter equity securities. On March 8, 2011, the New York Stock Exchange (or NYSE) approved the listing of our common stock for trading on the exchange. Trading of our common stock on the NYSE commenced on March 23, 2011 under the symbol “FF”, and our common stock ceased to be quoted on the OTC Bulletin Board at that time.

On February 10, 2011, we filed with the United States Securities and Exchange Commission (or 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. This registration statement became effective on March 10, 2011. Pursuant to this registration statement, on May 11, 2011, we commenced an “At-the-Market” offering under which we may from time to time over the succeeding three years sell up to 3 million shares of our common stock. During 2011, we issued 1,313,985 shares of our common stock pursuant to this At-the-Market offering.

On February 7, 2011, we declared a special cash dividend of \$0.10 per share on our common stock. On April 5, 2011, we declared normal quarterly cash dividends of \$0.10 per share for the remainder of 2011. On November 18, 2011, we declared normal quarterly cash dividends of \$0.10 per share on our common stock for the calendar year 2012.

##### FutureFuel Chemical Company

FutureFuel Chemical Company is a Delaware corporation incorporated on September 1, 2005 under the name Eastman SE, Inc. It owns approximately 2,200 acres of land six miles southeast of Batesville in north central Arkansas fronting the White River. Approximately 500 acres of the site are occupied with batch and continuous manufacturing facilities, laboratories, and associated infrastructure, including on-site liquid waste treatment. It has approximately 500 full-time employees. FutureFuel Chemical Company manufactures diversified chemical products, biobased products comprised of biofuels, and biobased specialty chemical products.

In 2011, demand for our existing product lines in our chemical segment generally faced negative economic pressures. So far, 2012 has seen a continuance of these economic pressures. Notwithstanding that, we continue to focus on building and maintaining our reputation as a technology-driven competitive chemical producer. Further, we

retain a strong emphasis on cost control and efficiency improvements that, we believe, will enable us to take advantage of growth opportunities that exist as a result of conditions in the worldwide chemical industry.

With respect to our biofuels segment, in 2010, we redesigned our continuous line to produce biodiesel from feedstock with high fatty acids. By the end of 2011, daily production volumes from the redesigned line demonstrated a production capacity of approximately 35 million gallons of biodiesel per year. Additional debottlenecking has increased annualized production to in excess of 45 million gallons per year. However, there continues to be 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) whether or not government mandates remain in effect. See the discussion below, including “Risk Factors” beginning at page 17 below.

## Financial Information about Segments

Unless otherwise noted, the financial data presented herein represents our consolidated operations for the twelve-month periods ended December 31, 2011, December 31, 2010, and December 31, 2009. The following table sets forth: (i) our consolidated revenues from external customers for the years ended December 31, 2011, 2010, and 2009; (ii) our consolidated net income for the years ended December 31, 2011, 2010, and 2009; and (iii) our total assets at December 31, 2011, 2010, and 2009.

(Dollars in thousands)

Period	Revenues from		Total Assets
	External Customers	Net Income	
Year ended December 31, 2011	\$309,885	\$34,509	\$385,244
Year ended December 31, 2010	\$219,183	\$23,094	\$343,156
Year ended December 31, 2009	\$196,711	\$16,992	\$246,007

We have two business reporting “segments” as defined by accounting principles generally accepted in the United States (or GAAP): chemicals and biofuels. We are not able to allocate net income and total assets between these two business segments. However, revenues from external customers and gross margins can be allocated between the two business segments as set forth in the following table.

(Dollars in thousands)

Period	Revenues	Revenues	Total	Gross	Gross	Gross
	from	from	Revenues	Margin	Margin	
	Chemical	Biofuels	from	from	from	Margin
	Segment	Segment	External	Chemical	Biofuels	
			Customers	Segment	Segment	
Year ended December 31, 2011	\$168,237	\$141,648	\$309,885	\$42,685	\$19,070	\$61,755
Year ended December 31, 2010	\$178,280	\$40,903	\$219,183	\$41,433	\$(149)	\$41,284
Year ended December 31, 2009	\$143,759	\$52,952	\$196,711	\$33,007	\$1,430	\$34,437

See note 21 to our consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data” for adjustments to segment gross margins to arrive at net income.

## Narrative Description of Our Business

## Principal Executive Offices

Our principal executive offices are located at 8235 Forsyth Blvd., 4th Floor, Clayton, Missouri 63105. Our telephone number is (805) 565-9800. FutureFuel Chemical Company’s principal executive offices are located at 2800 Gap Road, Highway 394 South, Batesville, Arkansas 72501-9680. Its telephone number at such office is (870) 698-3000.

## The Company

We completed our initial public offering on July 12, 2006 and acquired FutureFuel Chemical Company on October 31, 2006. On July 11, 2008, our common stock began to be quoted on the OTC Bulletin Board under the symbol “FTFL”. On March 8, 2011, the NYSE approved the listing of our common stock for trading on the

exchange. Trading of our common stock on the NYSE commenced on March 23, 2011 under the symbol “FF”, and our common stock ceased to be quoted on the OTC Bulletin Board at that time.



We own approximately 2,200 acres of land six miles southeast of Batesville in north central Arkansas fronting the White River. Approximately 500 acres of the site are occupied with batch and continuous manufacturing facilities, laboratories, and associated infrastructure, including on-site liquid waste treatment. Land and support infrastructure are available to support expansion and business growth. In November 2011, we acquired a warehouse in Batesville, Arkansas approximately 8 miles from our plant.

For the year ended December 31, 2011, approximately 50% of our revenue was derived from manufacturing specialty chemicals for specific customers (“custom manufacturing”) with 4% of revenues being derived from multi-customer specialty chemicals (“performance chemicals”) and 46% from biofuels. Custom manufacturing involves producing unique products for individual customers, generally under long-term contracts. Our custom manufacturing product portfolio includes a bleach activator for a major detergent manufacturer, a proprietary herbicide and intermediates for a major life sciences company, chlorinated polyolefin adhesion promoters and antioxidant precursors for a major chemical company, and a biocide intermediate for another major diversified chemical company. In 2012, we will be selling commercial quantities of an intermediate anode powder as a component of high-performance graphite anode materials for lithium-ion batteries to a major petrochemical company as a custom manufacturing product. Our performance chemicals product portfolio includes polymer (nylon and polyester) modifiers and several small-volume specialty chemicals and solvents for diverse applications.

We are committed to growing our chemical and biofuels businesses. We also intend to pursue commercialization of other products, including building block chemicals. In pursuing this strategy, we will continue to establish a name identity in the biofuels business, leverage our technical capabilities and quality certifications, secure local and regional markets, and expand marketing efforts to fleets and regional/national customers. These items are discussed in greater detail below.

## Biofuels Business Segment

### Overview of the Segment

Our biofuels segment was established in early 2005 as an initiative of the then site management team to leverage their plant’s technical and operational expertise as well as available manufacturing capacity to pursue business growth opportunities outside of their legacy specialty chemicals business.

### Biofuel Products

Our biofuels business segment primarily produces and sells biodiesel. In addition, we sell petrodiesel in blends with our biodiesel and, from time to time, with no biodiesel added. Our biofuels segment also includes the operation of a granary in central Arkansas that we acquired in March 2009. Finally, we are a shipper of refined petroleum products on a common carrier pipeline and, from time-to-time, we buy and sell petroleum products to maintain our active shipper status on this pipeline.

Biodiesel is a renewable energy consisting of mono-alkyl esters of fatty acids. The mono-alkyl esters are typically produced from vegetable oil, fat, or grease feedstocks. Biodiesel is used primarily as a blend with petrodiesel (usually 5% (commonly referred to as B5) to 20% (commonly referred to as B20) by volume). A major advantage of biodiesel is that it can be used in most existing diesel engines and fuel injection equipment in blends up to B20 with no material impact to engine performance. As an additional benefit, biodiesel is the only alternative fuel to meet all testing requirements of the Clean Air Act and, in 1998, Congress approved the use of biodiesel as an Energy Policy Act compliance strategy (which allows federal, state, and public fleets covered by this Act to meet their alternative fuel vehicle purchase requirements simply by buying biodiesel and burning it in new or existing diesel vehicles in at least a B20 blend). Finally, biodiesel also benefits from favorable properties compared to petrodiesel (e.g., negligible sulfur

content and lower particulate matter and greenhouse gas emissions). See Status and Issues for Biodiesel in the United States, National Renewable Energy Laboratory, Robert L. McCormick, Teresa Alleman, Aaron Williams, Yoshio Coy, Andrew Hudgins, and Wendy Dafoe, October 2009 and Pew Center on Global Climate Change, <http://www.pewclimate.org/technology/factsheet/biodiesel> (sometimes we refer to this as the “Pew Center”).

Biodiesel commercialization was achieved at our Batesville plant in October 2005. Technical and operational competency developed as a supplier of specialty chemicals enabled the development of a flexible manufacturing process which can utilize the broadest possible range of feedstock oils, including soy oil, cottonseed oil, pork lard, poultry fat, crude corn oil, yellow grease, inedible tallow, choice white grease, and beef tallow. Our Batesville plant produces biodiesel, which is sometimes referred to as B100. A blend is currently used in the facility's diesel fleet and is available for retail sale at the site. In 2009, we began offering B100, biodiesel blended with petrodiesel (B2, B5, B10, and B20 blends), and petrodiesel at our leased storage facility in Little Rock, Arkansas. In addition, we deliver blended product to a small group of customers within our region.

#### Biodiesel Production/Capacity

Biodiesel can be made from renewable sources such as: (i) crude and refined virgin vegetable oils; (ii) crude and refined animal fats; and (iii) used cooking oils and trap grease. In general, the choice of feedstock to be used in producing biodiesel is determined primarily by the price and availability of each feedstock variety, the yield loss of lower quality feedstock, and the capabilities of the producer's biodiesel production facility. In addition, the chemical properties of the biodiesel (e.g., cloud point, pour point, and cetane number) depend on the type of feedstock used. See Pew Center.

In the United States, the majority of biodiesel historically has been made from domestically produced crude soybean oil due to its relatively low price. See Pew Center. However, since January 2006, the cost of crude soybean oil has increased due in part to its use in biodiesel production and competing food demands. As a result, the biodiesel feedstock market in the United States is in a transition from this increasingly expensive first-generation soy feedstock to alternative second-generation lower-cost, non-food feedstocks such as used vegetable oil, tallow, and algae. See <http://www.emerging-markets.com/biodiesel/default.asp>. Accordingly, we redesigned our continuous line to produce biodiesel from these second-generation lower-cost feedstocks with high fatty acids. By the end of 2011, daily production volumes from the redesigned line demonstrated a production capacity in excess of 35 million gallons of biodiesel per year. Debottlenecking has increased the annual rate to in excess of 45 million gallons per year. Projects are currently in progress to further debottleneck the plant to run at higher rates.

#### Legislative Incentives

The acceptance of biodiesel in the United States in the latter part of the 20th Century and continuing into this Century has been driven to a great degree by legislative initiatives at both the federal and state levels. Those legislative initiatives are discussed in greater detail below.

#### Federal Mandate

The largest incentive at this time is the federal mandate enacted by Congress as part of the Energy Policy Act of 2005 (or the 2005 Act). The 2005 Act included a number of provisions intended to spur the production and use of biodiesel. In particular, the 2005 Act's provisions included biodiesel as part of the minimum volume (i.e., a mandate) of renewable fuels (the renewable fuels standard or RFS) to be included in the nationwide gasoline and diesel pool. More specifically, the RFS required a specific amount of renewable fuel to be used each year in the nationwide gasoline and diesel pool. The volume increased each year, from 4 billion gallons per year in 2006 to 7.5 billion gallons per year in 2012. The 2005 Act required the Environmental Protection Agency (or USEPA), beginning in 2006, to publish "renewable fuel obligations" that will be applicable to refiners, blenders, and importers in the contiguous 48 states. The renewable fuel obligations were required to be expressed in terms of a volume percentage of gasoline sold or introduced into commerce and consisted of a single applicable percentage that applied to all categories of refiners, blenders, and importers. The renewable fuel obligations were to be based on estimates that the Energy Information Association provided to the USEPA on the volumes of gasoline it expected would be sold or

introduced into commerce. The USEPA released the final rules to implement the RFS on April 10, 2007. Under those rules, the RFS compliance period did not begin until September 1, 2007. The applicable volume of renewable fuel under this program was 4.7 billion gallons for 2007, 5.4 billion gallons for 2008, 11.1 billion gallons for 2009, and 12.95 billion gallon for 2010. However, no differentiation was made among the various types of renewable fuels (such as biodiesel or ethanol).

On December 19, 2007, the Energy Independence and Security Act of 2007 (or the 2007 Act) was enacted which, among other things, expanded the RFS (the RFS2). Prior to the enactment of the 2007 Act, the RFS requirement of the 2005 Act had mostly been filled by ethanol. In contrast to the 2005 Act, this bill provided a renewable fuel standard carve-out applicable specifically to biodiesel. Beginning January 1, 2009, the 2007 Act mandated that 500 million gallons of biomass-based diesel (biodiesel) be used per year. On November 21, 2008, the USEPA announced that the 2009 RFS2 for refiners, importers, and blenders was 10.21%, which represented 11.1 billion gallons of total renewable fuel and included 500 million gallons of biodiesel. The biodiesel mandate under the 2007 Act increased each year and reached 1 billion gallons per year in 2012. Beyond 2012, the mandate is to be determined by the USEPA in coordination with the secretaries of energy and agriculture, but with a minimum of that mandated in 2012, thus a 1 billion gallons per year floor. The USEPA finalized the 2010 and 2011 RFS2 biodiesel volumes at 650 million and 800 million gallons, respectively.

The following table shows the RFS/RFS2 requirements for the period 2006 through 2022, inclusive, for biomass-based diesel (biodiesel), cellulosic biofuel, total advanced biofuel, and total renewable fuel (including ethanol).

(Gallons in billions)

Year	Advanced Biofuel		Total Advanced Biofuel	Total Renewable Fuel
	Biomass-Based Diesel (biodiesel)	Cellulosic Biofuel		
2006	n/a	n/a	n/a	4.00
2007	n/a	n/a	n/a	4.70
2008	n/a	n/a	n/a	9.00
2009	0.50	n/a	0.60	11.10
2010	0.65	0.10	0.95	12.95
2011	0.80	0.25	1.35	13.95
2012	1.00	0.50	2.00	15.20
2013	1.00	1.00	2.75	16.55
2014	1.00	1.75	3.75	18.15
2015	1.00	3.00	5.50	20.50
2016	1.00	4.25	7.25	22.25
2017	1.00	5.50	9.00	24.00
2018	1.00	7.00	11.00	26.00
2019	1.00	8.50	13.00	28.00
2020	1.00	10.50	15.00	30.00