

FutureFuel Corp.
Form 10-Q
November 06, 2014

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, 2014

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

For the transition period from _____

Commission file number: 0-52577

FUTUREFUEL CORP.

(Exact Name of Registrant as Specified in Its Charter)

Delaware **20-3340900**
(State or Other Jurisdiction of (IRS Employer Identification No.)
Incorporation or Organization)

8235 Forsyth Blvd., Suite 400

St. Louis, Missouri 63105

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(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, 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)

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 6, 2014:
43,722,388

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

The following sets forth our unaudited consolidated balance sheet as at September 30, 2014, our audited consolidated balance sheet as at December 31, 2013, our unaudited consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2014 and 2013, and our unaudited consolidated statements of cash flows for the nine-month periods ended September 30, 2014 and 2013.

FutureFuel Corp.**Consolidated Balance Sheets**

As of September 30, 2014 and December 31, 2013

(Dollars in thousands)

	(Unaudited)	
	September	December
	30, 2014	31, 2013
Assets		
Cash and cash equivalents	\$ 88,632	\$ 86,463
Accounts receivable, net of allowances of \$46 and \$0 at September 30, 2014 and December 31, 2013, respectively	33,490	28,620
Accounts receivable – related parties	125	4,629
Inventory	59,184	42,164
Income tax receivable	11,196	14,732
Prepaid expenses	449	1,843
Marketable securities	106,246	104,271
Other current assets	5,649	566
Total current assets	304,971	283,288
Property, plant and equipment, net	128,375	128,671
Other assets	2,627	2,488
Total noncurrent assets	131,002	131,159
Total Assets	\$ 435,973	\$ 414,447
Liabilities and Stockholders' Equity		
Accounts payable	\$ 20,356	\$ 14,927

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Accounts payable – related parties	8,917	857
Current deferred income tax liability	12,023	8,787
Deferred revenue – short-term	1,842	6,869
Contingent liability – short-term	1,151	1,151
Accrued expenses and other current liabilities	6,358	7,802
Accrued expenses and other current liabilities – related parties	99	3
Total current liabilities	50,746	40,396
Deferred revenue – long-term	15,820	13,522
Other noncurrent liabilities	2,709	2,690
Noncurrent deferred income tax liability	28,801	29,249
Total noncurrent liabilities	47,330	45,461
Total liabilities	98,076	85,857
Commitments and contingencies		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.0001 par value, 75,000,000 shares authorized, 43,722,388 and 43,342,830 issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	4	4
Accumulated other comprehensive income	8,488	7,436
Additional paid in capital	277,192	276,328
Retained earnings	52,213	44,822
Total stockholders' equity	337,897	328,590
Total Liabilities and Stockholders' Equity	\$ 435,973	\$ 414,447

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, 2014 and 2013****(Dollars in thousands, except per share amounts)****(Unaudited)**

	Three Months Ended	
	September 30,	
	2014	2013
Revenues	\$93,418	\$118,758
Revenues – related parties	9,717	2,361
Cost of goods sold	67,249	92,721
Cost of goods sold – related parties	14,124	1,238
Distribution	817	1,047
Distribution – related parties	73	95
Gross profit	20,872	26,018
Selling, general, and administrative expenses		
Compensation expense (inclusive of \$776 and \$0 of stock based compensation for the three months ended September 30, 2014 and September 30, 2013, respectively)	1,425	864
Other expense	434	671
Related party expense	110	102
Research and development expenses	728	866
	2,697	2,503
Income from operations	18,175	23,515
Interest and dividend income	1,432	1,370
Interest expense	(6	) (6
Loss on marketable securities	-	(198
Other expense	(16	) (38
	1,410	1,128
Income before income taxes	19,585	24,643
Provision for income taxes	8,134	9,346
Net income	\$11,451	\$15,297
Earnings per common share		
Basic	\$0.26	\$0.35
Diluted	\$0.26	\$0.35
Weighted average shares outstanding		
Basic	43,361,123	43,339,000
Diluted	43,387,238	43,394,369

Comprehensive Income

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Net income	\$ 11,451	\$ 15,297
Other comprehensive loss from unrealized net losses on available-for-sale securities, net of tax benefit of (\$433) in 2014 and of (\$60) in 2013	(695)	(93)
Comprehensive income	\$ 10,756	\$ 15,204

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, 2014 and 2013****(Dollars in thousands, except per share amounts)****(Unaudited)**

	Nine Months Ended September 30,	
	2014	2013
Revenues	\$240,654	\$313,560
Revenues – related parties	12,717	5,787
Cost of goods sold	195,228	227,510
Cost of goods sold – related parties	18,220	13,583
Distribution	2,608	2,905
Distribution – related parties	263	324
Gross profit	37,052	75,025
Selling, general, and administrative expenses		
Compensation expense (inclusive of \$980 and \$0 of stock based compensation for the nine months ended September 30, 2014 and September 30, 2013, respectively)	3,034	2,805
Other expense	1,601	1,939
Related party expense	321	268
Research and development expenses	2,299	2,573
	7,255	7,585
Income from operations	29,797	67,440
Interest income	5,369	4,212
Interest expense	(19)	(18)
Gains on marketable securities	2,900	1,891
Other income/(expense)	150	(72)
	8,400	6,013
Income before income taxes	38,197	73,453
Provision for income taxes	15,125	25,950
Net income	\$23,072	\$47,503
Earnings per common share		
Basic	\$0.53	\$1.10
Diluted	\$0.53	\$1.10
Weighted average shares outstanding		
Basic	43,352,552	43,202,022
Diluted	43,395,566	43,236,765
Comprehensive Income		
Net income	\$23,072	\$47,503

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Other comprehensive income from unrealized gains on available for sale securities, net of tax of \$656 in 2014 and \$2,150 in 2013	1,052	3,450
Comprehensive income	\$24,124	\$50,953

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, 2014 and 2013****(Dollars in thousands)****(Unaudited)**

	Nine Months Ended September 30, 2014 2013	
Cash flows (used)/provided by operating activities		
Net income	\$23,072	\$47,503
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,722	8,050
Provision/(benefit) for deferred income taxes	2,132	(1,499)
Change in fair value of derivative instruments	1,923	715
Other than temporary impairment of marketable securities	-	336
Impairment of fixed assets	247	17,963
Gain on the sale of investments	(2,900)	(2,227)
Losses on disposals of fixed assets	15	87
Stock based compensation	980	-
Noncash interest expense	19	18
Changes in operating assets and liabilities:		
Accounts receivable	(4,870)	(5,384)
Accounts receivable – related parties	4,504	(6,122)
Inventory	(17,020)	(5,700)
Income tax receivable	3,536	-
Prepaid expenses	1,608	1,253
Accrued interest on marketable securities	118	109
Other assets	(3,012)	(230)
Accounts payable	5,429	12,646
Accounts payable – related parties	8,060	(707)
Income taxes payable	-	514
Accrued expenses and other current liabilities	(1,444)	4,984
Accrued expenses and other current liabilities – related parties	96	155
Deferred revenue	(2,729)	(15,184)
Net cash provided by operating activities	26,486	57,280
Cash flows from/(used in) investing activities		

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Collateralization of derivative instruments	(4,465)	(1,572)
Purchase of marketable securities	(30,312)	(39,565)
Proceeds from the sale of marketable securities	32,945	30,907
Proceeds from the sale of fixed assets	3	55
Capital expenditures	(6,691)	(13,431)
Net cash used in investing activities	(8,520)	(23,606)
Cash flows from/(used in) financing activities		
Proceeds from the issuance of stock	-	19,292
Minimum tax withholding on stock options exercised and stock awards	(175)	40
Excess tax benefits associated with stock options and stock awards	59	-
Payment of dividends	(15,681)	(14,301)
Net cash (used in)/provided by financing activities	(15,797)	5,031
Net change in cash and cash equivalents	2,169	38,705
Cash and cash equivalents at beginning of period	86,463	58,737
Cash and cash equivalents at end of period	\$88,632	\$97,442
Cash paid for income taxes	\$7,000	\$26,900

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

Organization

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

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

The biofuels segment leverages the Batesville Plant’s technical and operational expertise as well as available manufacturing capacity to compete in the emerging biofuels industry.

Basis of Presentation

The accompanying consolidated financial statements have been prepared by FutureFuel in accordance and consistent with the accounting policies stated in FutureFuel’s 2013 audited consolidated financial statements and should be read in conjunction with the 2013 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 Company, FFC Grain, L.L.C., FutureFuel Warehouse Company, LLC, and Legacy Regional Transport, L.L.C. Intercompany transactions and balances have been eliminated in consolidation.

2) Inventory

The carrying values of inventory were as follows as of:

	September 30, 2014	December 31, 2013
At average cost (approximates current cost)		
Finished goods	\$ 24,263	\$ 13,590
Work in process	1,676	1,569
Raw materials and supplies	43,242	36,292
	69,181	51,451
LIFO reserve	(9,997)	(9,287)
Total inventory	\$ 59,184	\$ 42,164

Notes to Consolidated Financial Statements of FutureFuel Corp.

(Dollars in thousands, except per share amounts)

(Unaudited)

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 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 in addition to the realized gains/losses on settled derivative transactions, amounted to a gain of \$5,239 and a loss of \$1,947 for the three months ended September 30, 2014 and 2013, respectively, and a gain of \$4,945 and \$1,719 for the nine months ended September 30, 2014 and 2013, respectively.

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

Asset/(Liability)	
September 30,	December
2014	31, 2013
Quantity	Quantity
Fair Value	Fair Value
(Contracts)	(Contracts)
Long/	Long/

	(Short)	(Short)
Regulated options, included in other current assets	(675) \$(2,251)	(50) \$(328)
Regulated fixed price future commitments, included in other current assets	- \$-	4 \$-

The margin account maintained with a broker to collateralize these derivative instruments carried an account balance of \$4,944 and \$479 at September 30, 2014 and December 31, 2013, respectively. The carrying values of the margin account and of the derivative instruments are included, net, in other current assets.

4) Marketable securities

At September 30, 2014 and December 31, 2013, FutureFuel had investments in certain preferred stock, trust preferred securities, exchange traded debt instruments, and other equity instruments primarily consisting of publicly traded partnerships and common stock. 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, 2014			
	Adjusted	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
Equity instruments	\$49,478	\$ 12,116	\$ (834	) \$60,760
Preferred stock	21,100	1,237	(2	) 22,335
Trust preferred securities	18,127	1,118	(3	) 19,242
Exchange traded debt instruments	3,762	147	-	3,909
Total	\$92,467	\$ 14,618	\$ (839	) \$106,246

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

	December 31, 2013			
	Adjusted	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
Equity instruments	\$51,711	\$ 11,597	\$ (278)	) \$63,030
Preferred stock	18,519	893	(299)	) 19,113
Trust preferred securities	19,726	386	(235)	) 19,877
Exchange traded debt instruments	2,243	34	(26)	) 2,251
Total	\$92,199	\$ 12,910	\$ (838)	) \$104,271

The aggregate fair value of instruments with unrealized losses totaled \$14,227 and \$26,321 at September 30, 2014 and December 31, 2013, respectively. As of September 30, 2014 and December 31, 2013, FutureFuel had a total of \$0 and \$0 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, 2014	December 31, 2013
Accrued employee liabilities	\$ 4,897	\$ 5,010
Accrued property, use, and franchise taxes	1,171	2,558
Other	389	237
Total	\$ 6,457	\$ 7,805

6) Borrowings

Effective June 30, 2013, FutureFuel Chemical extended the term of its \$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, 2018. Advances are made pursuant to a borrowing base comprised of 85% of eligible accounts receivable 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 a base rate based upon the leverage ratio from time to time as set forth in the following table.

Leverage Base Rate LIBOR

Ratio	Margin	Margin
≥ 3	-0.55%	1.70%
≥ 2 < 3	-0.70%	1.50%
≥ 1 < 2	-1.00%	1.25%
< 1	-1.00%	1.00%

There is an unused commitment fee of 0.25% 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.

There were no borrowings under this credit agreement at September 30, 2014 or December 31, 2013.

Notes to Consolidated Financial Statements of FutureFuel Corp.

(Dollars in thousands, except per share amounts)

(Unaudited)

7) Provision for income taxes

The following table summarizes the provision for income taxes.

	For the three months		For the nine months	
	ended September 30,		ended September 30,	
	2014	2013	2014	2013
Provision for income taxes	\$8,134	\$9,346	\$15,125	\$25,950
Effective tax rate	41.5 %	37.9 %	39.6 %	35.3 %

The effective tax rate for the three and nine months ended September 30, 2014 reflects our expected tax rate on reported operating earnings before income tax and reflects the elimination of the small agri-biodiesel producer tax credit and the elimination of the tax credit for increasing research activities for 2014.

The effective tax rate for the three and nine months ended September 30, 2013 reflected FutureFuel's expected tax rate on reported operating earnings before income tax and included the impact of the retroactive reinstatement of the 2012 agri-biodiesel producer tax credit, which was recognized in the three and nine months ended September 30, 2013 as a discrete item. As a result of this treatment, FutureFuel's effective tax rate for the three and nine months ended September 30, 2013 was abnormally low.

Unrecognized tax benefits totaled \$1,718 and \$1,718 at September 30, 2014 and December 31, 2013, respectively.

FutureFuel records interest and penalties net as a component of income tax expense. At September 30, 2014 and December 31, 2013, 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 2010 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

We compute earnings per share using the two-class method in accordance with Accounting Standards Codification Topic No. 260, "Earnings Per Share." The two-class method is an allocation of earnings between the holders of common stock and a company's participating security holders. Our outstanding nonvested shares of restricted stock contain non-forfeitable rights to dividends and, therefore, are considered participating securities for purposes of computing earnings per share pursuant to the two-class method. We had no other participating securities at September 30, 2014 or 2013.

Contingently issuable shares associated with outstanding service-based restricted stock units were not included in the earnings per share calculations for the three-month and nine-month periods ended September 30, 2014 as the vesting conditions had not been satisfied. No such restricted stock units existed in 2013.

	For the three months ended September 30,		For the nine months ended September 30,	
Numerator:	2014	2013	2014	2013
Net income	\$ 11,451	\$ 15,297	\$ 23,072	\$ 47,503
Less: distributed earnings allocated to nonvested restricted stock	(42)	) -	(72)) -
Less: undistributed earnings allocated to nonvested restricted stock	(50)	) -	(60)) -
Numerator for basic earnings per share	\$ 11,359	\$ 15,297	\$ 22,940	\$ 47,503
Effect of dilutive securities:				
Add: undistributed earnings allocated to nonvested restricted stock	50	-	60	-
Less: undistributed earnings allocated to nonvested restricted stock	(50)	) -	(60)) -
Numerator for diluted earnings per share	\$ 11,359	\$ 15,297	\$ 22,940	\$ 47,503
Denominator:				
Weighted average shares outstanding - basic	43,361,123	43,339,000	43,352,552	43,202,022
Effect of dilutive securities:	26,115	55,369	43,014	34,743

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Stock options and other awards

Weighted average shares outstanding – diluted	43,387,238	43,394,369	43,395,566	43,236,765
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Basic earnings per share	\$0.26	\$0.35	\$0.53	\$1.10
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Diluted earnings per share	\$0.26	\$0.35	\$0.53	\$1.10
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No options to purchase shares of FutureFuel's common stock were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2014 or 2013.

Notes to Consolidated Financial Statements of FutureFuel Corp.

(Dollars in thousands, except per share amounts)

(Unaudited)

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 specialty chemicals for specific customers); and “performance chemicals” (multi-customer specialty chemicals).

Biofuels

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

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:

Three Months Ended	United States	All Foreign Countries	Total
September 30, 2014	\$100,925	\$ 2,210	\$103,135
September 30, 2013	\$116,472	\$ 4,647	\$121,119

Nine Months Ended	United States	All Foreign Countries	Total
September 30, 2014	\$247,314	\$ 6,057	\$253,371
September 30, 2013	\$307,351	\$ 11,996	\$319,347

For the three months ended September 30, 2014 and 2013, revenues from Mexico accounted for 2% and 3%, respectively, of total revenues. For the nine months ended September 30, 2014 and 2013, revenues from Mexico accounted for 2% and 3%, respectively, of total revenues. Other than Mexico, revenues from a single foreign country during the three and nine months ended September 30, 2014 and 2013 did not exceed 1% of total revenues.

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

	For the three months		For the nine months	
	ended September 30,		ended September 30,	
	2014	2013	2014	2013
Revenues				
Chemicals	\$ 44,939	\$ 43,685	\$ 107,824	\$ 125,847
Biofuels	58,196	77,434	145,547	193,500
Revenues	\$ 103,135	\$ 121,119	\$ 253,371	\$ 319,347
Segment gross profit				
Chemicals	\$ 17,824	\$ 13,827	\$ 33,989	\$ 41,678
Biofuels	3,048	12,191	3,063	33,347
Segment gross margins	20,872	26,018	37,052	75,025
Corporate expenses	(2,697)	(2,503)	(7,255)	(7,585)
Income before interest and taxes	18,175	23,515	29,797	67,440
Interest and other income	1,432	1,370	8,419	6,103
Interest and other expense	(22)	(242)	(19)	(90)
Provision for income taxes	(8,134)	(9,346)	(15,125)	(25,950)
Net income	\$ 11,451	\$ 15,297	\$ 23,072	\$ 47,503

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, 2014 and December 31, 2013.

Description	Asset/(Liability)			
	Fair Value at September 30, 2014	Fair Value Measurements Using		
		Inputs Considered as		
		Level 1	Level 2	Level 3
Derivative instruments	\$(2,251)	\$(2,251)	\$ -	\$ -
Preferred stock, trust preferred securities, exchange traded debt instruments, and other equity instruments	\$106,246	\$106,246	\$ -	\$ -

Description	Asset/(Liability)			
	Fair Value at December 31, 2013	Fair Value Measurements Using		
		Inputs Considered as		
		Level 1	Level 2	Level 3
Derivative instruments	\$(328)	\$(328)	\$ -	\$ -
Preferred stock, trust preferred securities, exchange traded debt instruments, and other equity instruments	\$104,271	\$104,271	\$ -	\$ -

11) Reclassifications from accumulated other comprehensive income:

The following tables summarizes changes in accumulated other comprehensive income from unrealized gains and losses on available-for-sale securities.

Changes in Accumulated Other Comprehensive Income

Unrealized Gains and Losses on Available-for-Sale Securities

For The Three Months Ended September 30, 2014

(net of tax)

Balance at June 30, 2014	\$9,183
Other comprehensive loss before reclassifications	(695)
Amounts reclassified from accumulated other comprehensive income	-
Net current-period other comprehensive loss	(695)
Balance at September 30, 2014	\$8,488

Changes in Accumulated Other Comprehensive Income

Unrealized Gains and Losses on Available-for-Sale Securities

For The Nine Months Ended September 30, 2014

(net of tax)

Balance at December 31, 2013	\$7,436
Other comprehensive income before reclassifications	4,571
Amounts reclassified from accumulated other comprehensive income	(3,519)
Net current-period other comprehensive gain	1,052
Balance at September 30, 2014	\$8,488

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

The following tables summarizes amounts reclassified from accumulated other comprehensive income in the three and nine months ended September 30, 2014:

Reclassifications from Accumulated Other Comprehensive Income			
	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014	Affected Line Item in Statement of Operations
Unrealized gains on available-for-sale securities	\$ -	\$ 5,713	Gain on marketable securities
Total before tax	-	5,713	
Tax benefit	-	(2,194)	
Total reclassifications	\$ -	\$ 3,519	

12) Legal matters

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

13) Related party transactions

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

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

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

14) Asset impairment

On July 29, 2013, FutureFuel received a notice from the chemicals segment customer for the intermediate anode powder. The notice stated that, in accordance with the terms of the contract, the customer would terminate the contract effective August 9, 2014. As a result of this notice, FutureFuel assessed the carrying values of its fixed assets and deferred revenue associated with this product and recorded an impairment loss of \$17,580 for the equipment based on the scrap value method less disposition costs and recorded a reduction of deferred revenue as an element of cost of goods sold in the amount of \$16,160 in the three months ended September 30, 2013. The net impact of this impairment was \$1,420 for the three months ended September 30, 2013 and was recorded in cost of goods sold. During the third quarter of 2014, FutureFuel received the final shortfall revenue payment and recognized the prior year shortfall payment as revenue for a total of \$8,816. No material adjustments were necessary as a result of the final grant settlement with the Department of Energy

15) Restricted Stock Compensation Awards

On May 9, 2014, a restricted stock compensation award for 250,000 shares was granted to Paul A. Novelly, our Chief Executive Officer, pursuant and subject to the terms and conditions of the Company's 2007 Omnibus Incentive Plan. The restricted shares vest in three annual installments on the first, second, and third anniversaries of the grant date as service to the Company is fulfilled. The total expense for the award is \$4,195 and will be recognized into expense equally over the three year service period.

On July 2, 2014 a restricted stock compensation award for 125,000 shares was granted to Paul Flynn, the new Executive Vice President of Business and Marketing for FutureFuel Chemical Company. Upon commencement of employment, 20% or 25,000 shares vested immediately. The remaining shares will vest equally over the next four years. The total expense for the award is \$2,136.

For the three and nine months ended September 30, 2014, the total compensation expense related to both restricted stock awards was \$776 and \$980, respectively. No such awards existed in 2013.

16) Recently Issued Accounting Statements

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

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.

Results of Operations

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Revenues

Total revenues for the three months ended September 30, 2014 decreased 15% to \$103,135,000 as compared to revenues for the three months ended September 30, 2013 of \$121,119,000. During the third quarter final shortfall revenue of \$8,816,000 was recognized related to the production of the graphite anode material. The shortfall revenue recognized in the three months ended September 30, 2013 was \$2,264,000. Excluding the impact of the shortfall revenue for both years, total revenue for the current three months ended decreased 21% as compared to the same quarter for the prior year.

Revenues from biofuels decreased 25% to \$58,196,000, a decrease of \$19,238,000 from the third quarter of 2013 and accounted for 56% of total revenues in the third quarter of 2014 as compared to 64% in the third quarter of 2013. We experienced both decreased biodiesel demand and reduced biodiesel selling prices in the third quarter of 2014 as compared to the third quarter of 2013. The biodiesel industry continues to suffer severely from the absence of both the 2014 final renewable fuel mandate from the federal government and the \$1.00 per gallon federal blenders' credit. The lack of the 2014 mandate has depressed the value of biodiesel RINs, which in turn has impacted biodiesel demand and revenue. For comparison, biodiesel RINs traded for just over \$0.62 as of September 30, 2013, at which time the \$1.00 per gallon federal blenders' credit was in effect. RINs at September 30, 2014 traded for just over \$0.50, and the \$1.00 per gallon federal blenders' credit has not been available in 2014. The change in biodiesel RIN value with the absence of the \$1.00 per gallon federal blenders' credit combined to have a significant impact on biodiesel profitability and, therefore, biodiesel demand. Unless or until these regulatory provisions change, we anticipate continued depressed conditions in the market for our biodiesel products.

A substantial portion of our biodiesel sold in the three months ended September 30, 2014 was to two major refiners in the United States. In the three months ended September 30, 2013 a substantial portion of our biodiesel sold was to a single major refiner in the United States. No assurances can be given that we will continue to sell to such major refiner(s) or, if we do sell, the volume that will be sold or the profit margin that will be realized. See “Risk Factors” contained in our Form 10-K for the year ended December 31, 2013 filed with the SEC on March 17, 2014. A copy can also be obtained at our website at <http://ir.futurefuelcorporation.com/sec.cfm>. Biofuel revenues have benefited in the third quarter of 2014, from our sales of refined petroleum products as a supplier on a common carrier pipeline. Such gross sales totaled \$10,990,000 and \$0 in the three months ended September 30, 2014 and 2013, respectively.

Revenues from chemicals increased 3% during the most recent quarter compared to the third quarter of 2013, accounting for 44% of total revenues compared to 36% in the same quarter a year ago. Exclusive of shortfall revenues, chemical revenue decreased 13% as compared to the same quarter for the prior year. Within the chemicals segment, revenues for the three months ended September 30, 2014 changed as follows compared to the three months ended September 30, 2013: (i) revenues from our bleach activator decreased 21%; (ii) revenues from the two proprietary herbicides and associated intermediates increased 19% relative to the revenues recognized in the prior period from the original customer; (iii) revenues from other custom chemicals decreased 22% exclusive of shortfall revenue; and (iv) revenues from other performance chemicals increased 12%.

Revenue from the bleach activator and the two proprietary herbicide and associated intermediates are together the most significant components of our chemicals business revenue base, accounting for 18% of total revenues for the three months ended September 30, 2014 as compared to 17% of total revenues for the three months ended September 30, 2013. 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. Revenues for the bleach activator decreased on reduced volumes in the three months ended September 30, 2014. Sales revenues and sales volume of the bleach activator have, generally, decreased over the last several years. We continue to work collaboratively with our customer to assess their future demand, which demand may continue to decline. We are currently working to develop new markets and product applications for proprietary bleach activator technology. No assurance can be given that success of additional bleach activator sales will be obtained.

Revenues from the two proprietary herbicide and associated intermediates increased for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. The increased revenue was from a new herbicide intermediate we began selling to a new customer at the beginning of this year. We are transitioning the production capacity of our original herbicide customer to produce new herbicide intermediates for other customers.

Revenues from other custom chemical products decreased 22% in the third quarter of 2014, exclusive of shortfall revenue, as compared to the third quarter of 2013. This decrease resulted from discontinuation of two products. In addition, sales of one product were deferred to October due to a process disruption.

Performance chemicals revenue increased 12% in the third quarter of 2014 as compared to the same quarter last year, accounting for approximately 4% of total revenues for the three months ended September 30, 2014. Increased demand for two existing products and a product we added in the second quarter accounted for most of this increase.

Cost of Goods Sold, Distribution, and Segment Gross Profit

Total cost of goods sold and distribution for the third quarter of 2014 were \$82,263,000 as compared to \$95,101,000 for the third quarter of 2013, a decrease of 13%. By comparison, our revenues decreased 21% for the period, after excluding the benefit from shortfall revenue in both periods.

Cost of goods sold and distribution for the third quarter of 2014 in our biofuels segment were \$55,148,000 as compared to \$65,243,000 for the third quarter of 2013. On a percentage basis, cost of goods sold and distribution decreased 15% from the three months ended September 30, 2013 as compared to a 25% reduction in revenues for the same period. The reduction in biofuel segment gross profit was primarily the result of a combination of the following: (i) feedstock acquisition prices have not declined in proportion to the decline in biodiesel prices; (ii) the impact of not having the benefit of the \$1.00 per gallon federal blender's credit on quantities of biodiesel sold in the third quarter of 2014; (iii) reduced biodiesel RIN prices; and (iv) reduced production yields from the mix of feedstock purchased. Partially offsetting the reduced gross profit was the benefit of an increase in the hedging gain in the third quarter 2014 of \$5,239,000 as compared to a loss of \$1,947,000 in the third quarter of 2013. In addition, the biofuels segment benefited from a larger fixed cost allocation to the chemical segment for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 due to chemical revenues comprising a larger percentage of consolidated revenues.

Cost of goods sold and distribution for the three months ended September 30, 2014 for our chemicals segment totaled \$27,115,000 as compared to \$29,858,000 for the three months ended September 30, 2013. On a percentage basis, total cost of goods sold and distribution decreased approximately 9% for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. This compares against a 13% decrease in chemical segment revenue for the same comparison periods exclusive of the shortfall revenue from the graphite anode material.

The reduction in chemical segment gross profit was primarily the result of reduced sales volumes, particularly volumes of: (i) two other custom chemicals we no longer sell; (ii) reduced sales volumes of other custom chemicals, in part from production disruption; and (iii) the impact of a larger fixed cost allocation as previously noted. Chemical segment gross profit benefited from the absence of an asset impairment. In the third quarter of 2013, there was an impairment charge of \$1,420,000 related to the graphite anode material and no such impairment charge existed in the third quarter of 2014.

Operating Expenses

Operating expenses increased 8% from \$2,503,000 in the third quarter of 2013 to \$2,697,000 in the third quarter of 2014. This increase was primarily attributable to compensation expense from two restricted stock awards. A restricted stock award for 125,000 shares was granted on July 2, 2014 to Paul Flynn, FutureFuel Chemical Company's new Vice President of Business & Marketing, pursuant and subject to the terms and conditions of the Company's 2007 Omnibus Incentive Plan. Upon commencement of Mr. Flynn's employment on September 2, 2014, 20% or 25,000 shares vested immediately. The remaining shares vest equally over the remaining annual installments on the first, second, third, and four anniversaries of the commencement of employment as service to the company is fulfilled. The total expense for the award was \$2,136,000 and will be recognized as expense equally over the fourth year service period. The expense for the third quarter was \$426,000. The second restricted stock award was issued on May 9, 2014 to Paul A. Novelly, our Chief Executive Officer, with an expense recognized in the third quarter for \$350,000. This award vests annually with the expense recognized equally over the three year service period. No such stock awards existed in 2013. Partially offsetting this increase was reduced: (i) compensation expense from a smaller bonus accrual; (ii) legal expense; and (iii) research and development expense.

Provision for Income Taxes

The effective tax rate for the three months ended September 30, 2014 reflects our expected tax rate on reported operating earnings before income tax and reflects the elimination of the small agri-biodiesel producer tax credit and the elimination of the tax credit for increasing research activities for 2014. The effective tax rate for the three months ended September 30, 2013 reflected our expected tax rate on reported operating earnings before tax.

Set forth below is a summary of certain financial information regarding EBITDA for the three month periods indicated.

(Dollars in thousands other than per share amounts)

	Three Months	Three Months			
	Ended	Ended	Dollar	%	
	September	September	Change	Change	
	30,	30,			
	2014	2013			
Revenues	\$ 103,135	\$ 121,119	\$ (17,984)	(14.8)%
Income from operations	\$ 18,175	\$ 23,515	\$ (5,340)	(22.7)%
Net income	\$ 11,451	\$ 15,297	\$ (3,846)	(25.1)%
Earnings per common share - basic	\$ 0.26	\$ 0.35	\$ (0.09)	(25.7)%
Earnings per common share – diluted	\$ 0.26	\$ 0.35	\$ (0.09)	(25.7)%
Capital expenditures (net of reimbursements)	\$ 671	\$ 7,570	\$ (6,899)	(91.1)%
Adjusted EBITDA	\$ 15,902	\$ 28,177	\$ (12,275)	(43.6)%

We use adjusted EBITDA, a non-GAAP financial measure, as an operating metric to measure both performance and liquidity. 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, other non-operating income or expenses, and, in 2013, the impact from the retroactive reinstatement of the 2012 \$1.00 biodiesel blenders tax credit. 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.

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

(Dollars in thousands)

	Three Months Ended	Three Months Ended
	September 30, 2014	September 30, 2013
Adjusted EBITDA	\$ 15,902	\$ 28,177
Depreciation	(2,195)	(2,666)
Non-cash stock based compensation	(776)	-
Interest and dividend income	1,432	1,370
Interest expense	(6)	(6)
Loss on disposal of property and equipment	(11)	(87)
Gains/(losses) on derivative instruments	5,239	(1,947)
Other expense, net	-	(198)
Income tax expense	(8,134)	(9,346)
Net income	\$ 11,451	\$ 15,297

A table reconciling adjusted EBITDA with cash flows from operations, the most directly comparable GAAP liquidity measure, is set forth below under *Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013*.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Revenues

Revenues for the nine months ended September 30, 2014 decreased 21% to \$253,371,000 as compared to \$319,347,000 in revenues for the nine months ended September 30, 2013. Revenues from biofuels for the nine months just ended decreased 25% and accounted for 57% of total revenues in the first nine months of 2014, as compared to 61% in the prior year period. Revenues from chemicals decreased from \$125,847,000 to \$107,824,000 and accounted for 43% of total revenues in the first nine months of 2014. Exclusive of the shortfall revenue, chemical revenues declined 20%.

Revenues from biofuels decreased from \$193,500,000 in the nine months ended September 30, 2013 to \$145,547,000 in the nine months ended September 30, 2014. The expiration of the \$1.00 per gallon federal blender's credit on December 31, 2013 along with the absence of the government mandated renewable fuel standard for biodiesel for 2014 combined to negatively impact the biodiesel industry and our biodiesel segment. Additionally, our results for the first nine months of 2013 included a positive impact from the retroactive reinstatement of the 2012 \$1.00 per gallon federal blender's credit. A substantial portion of our biodiesel sold in the first nine months of 2014 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. Revenues from biofuels also include our gross sales of refined petroleum products as a supplier on a common carrier pipeline. Such gross sales totaled \$10,990,000 in the first nine months of 2014, compared to \$9,213,000 in the first nine months of 2013.

Within the chemicals segment, revenues for the first nine months of 2014 changed as follows compared to the first nine months of 2013: (i) revenues from the bleach activator decreased 21%; (ii) revenues from the proprietary herbicide and intermediates decreased 31%; (iii) revenue from other custom chemicals decreased 24% exclusive of shortfall revenue; and (iv) revenues from performance chemical products increased 24%.

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 18% of total revenues for the nine months ended September 30, 2014 and September 30, 2013. Revenues from the bleach activator decreased 21% during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The decrease was attributable to reduced volumes sold in 2014. 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 continue to work collaboratively with our customer to assess their future demand, which demand may continue to decline. We are currently working to develop new markets and product applications for proprietary bleach activator technology. No assurance can be given that success of additional bleach activator sales will be obtained.

With respect to the proprietary herbicide and intermediates, the 31% decrease in revenue for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 was attributable to reduced volumes of the original herbicide partially offset by transitioning of assets to produce the new herbicide intermediate in 2014.

Revenues from other custom chemical products decreased 24% in the first nine months of 2014, exclusive of shortfall revenue, as compared to the first nine months of 2013. The decrease was largely the result of discontinuation of two chemical products and changes in unit pricing. In addition, sales of one product were deferred to October due to a production disruption.

Revenues from proprietary chemicals increased 24% for the first nine months of 2014 as compared to the first nine months of 2013 and accounted for approximately 5% of total revenues for the first nine months of 2014. The increase was due to a new product we added in the second quarter and increased demand of an existing product.

Cost of Goods Sold, Distribution, and Segment Gross Profit

Total cost of goods sold and distribution for the first nine months of 2014 were \$216,319,000 as compared to \$244,322,000 for the first nine months of 2013, a decrease of 11%, which compares to a 23% decrease in revenues for the period exclusive of shortfall revenue for both periods related to the graphite anode material.

Cost of goods sold and distribution for the first nine months of 2014 in our biofuels segment was \$142,484,000 as compared to \$160,153,000 for the first nine months of 2013. On a percentage basis, cost of goods sold and distribution decreased 11% versus a decrease in revenues of 25%. This reduction in biofuel segment gross profit was largely the result of a combination of the following: (i) expiration of the \$1.00 per gallon federal blenders' credit on December 31, 2013; (ii) the first nine months of 2013 including the benefit of the retroactive reinstatement of the 2012 \$1.00 per gallon federal blenders' credit of \$2,535,000; and (iii) feedstock prices have not declined in proportion to the decline in biodiesel prices. Partially offsetting the reduced gross profit was the benefit of an increase in the hedging gain in the first nine months of 2014 of \$4,945,000 as compared to \$1,719,000 in the first nine months of 2013. In addition, the biofuels segment benefited from a larger fixed cost allocation to the chemical segment for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 due to chemical revenues comprising a larger percentage of consolidated revenues.

Cost of goods sold and distribution for the first nine months of 2014 for our chemicals segment totaled \$73,835,000 as compared to \$84,169,000 for the first nine months of 2013. On a percentage basis, cost of goods sold and distribution decreased 12% versus a decrease of 20% in revenues exclusive of the final shortfall revenue from the graphite anode material. The reduction in chemical segment gross profit was largely the result of reduced sales volumes, particularly volumes of: (i) two other custom chemicals we no longer sell; (ii) the bleach activator; (iii) the original proprietary herbicide intermediate; (iv) deferred sales due to a production disruption; and (v) the impact of a larger fixed cost allocation as previously noted. Chemical segment gross profit benefited from the absence of an asset impairment. In the first nine months of 2013, there was an impairment charge related to the graphite anode material of \$1,420,000 and no such impairment charge existed in the first nine months of 2014.

Operating Expenses

Operating expense decreased 4%, from \$7,585,000 in the nine months ended September 30, 2013 to \$7,255,000 in the nine months ended September 30, 2014. The majority of the decrease was attributed to reduced compensation expense which was partially offset by two restricted stock awards. One issuance was for 250,000 shares of restricted stock on May 9, 2014 to Paul A. Novelty, our Chief Executive Officer pursuant and subject to the terms and conditions of the Company's 2007 Omnibus Incentive Plan. The restricted shares vest in three annual installments on the first, second, and third anniversaries of the grant date as service to the company is fulfilled. The total expense for the award to Mr. Novelty is \$4,195,000 and will be recognized into expense equally over the three year service period. The other issuance was for 125,000 shares of stock on July 2, 2014 to Paul Flynn, FutureFuel Chemical Company's new Executive Vice President of Business and Marketing. Upon commencement of employment, 20% or 25,000 shares vested immediately. The remainder will vest equally over the next four years. The total expense for the award is \$2,136,000, \$426,000 of which was recognized immediately and the remainder will be recognized equally over the next four years. For the nine months ended September 30, 2014, the total compensation expense related to both restricted stock awards was \$980,000. No such awards existed in 2013.

Provision for Income Taxes

The effective tax rates for the nine months ended September 30, 2014 and 2013 reflect our expected tax rate on reported operating earnings before income taxes. The effective tax rate for the nine months ended September 30, 2013 includes the full anticipated impact of the retroactive reinstatement of the 2012 agri-biodiesel production tax credit, which was recognized in the first quarter of 2013 as a discrete item. As a result of this treatment, our effective tax rate for the nine months ended September 30, 2013 is lower than it otherwise would be.

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 months of 2014 and 2013 relate 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 \$32,029,000 and \$38,079,000 for the nine months ended September 30, 2014 and 2013, respectively.

Set forth below is a summary of certain financial information regarding EBITDA for the nine month periods indicated.

(Dollars in thousands other than per share amounts)

	Nine Months	Nine Months		
	Ended	Ended	Dollar	%
	September 30,	September 30,	Change	Change
	2014	2013		
Revenues	\$ 253,371	\$ 319,347	\$(65,976)	(20.6 %)
Income from operations	\$ 29,797	\$ 67,440	\$(37,643)	(55.8 %)
Net income	\$ 23,072	\$ 47,503	\$(24,431)	(51.4 %)
Earnings per common share - basic	\$ 0.53	\$ 1.10	\$(0.57)	(51.8 %)
Earnings per common share – diluted	\$ 0.53	\$ 1.10	\$(0.57)	(51.8 %)
Capital expenditures (net of customer reimbursements and grants)	\$ 5,790	\$ 11,179	\$(5,389)	(48.2 %)
Adjusted EBITDA	\$ 32,719	\$ 71,251	\$(38,532)	(54.1 %)

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

	Nine Months	Nine Months	
	Ended	Ended	
	September 30,	September 30,	
	2014	2013	
Adjusted EBITDA	\$ 32,719	\$ 71,251	
Depreciation and amortization	(6,722)	(8,050)	
Non-cash stock-based compensation	(980)	-	
Retroactive reinstatement of 2012 \$1 blender credit	-	2,535	
Interest and dividend income	5,369	4,212	
Interest expense	(19)	(18)	
Loss on disposal of property and equipment	(15)	(87)	

Gains on derivative instruments	4,945	1,719
Other income, net	2,900	1,891
Income tax expense	(15,125)	(25,950)
Net income	\$ 23,072	\$ 47,503

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

Reconciliation of Adjusted EBITDA to Net Cash Provided by Operating Activities

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Adjusted EBITDA	\$ 32,719	\$ 71,251
Provision for/(benefit from) deferred income taxes	2,132	(1,499)
Impairment of fixed assets	247	17,963
Retroactive reinstatement of 2012 \$1.00 blenders credit	-	2,535
Interest and dividend income	5,369	4,212
Income tax expense	(15,125)	(25,950)
Gains on derivative instruments	4,945	1,719
Change in fair value of derivative instruments	1,923	715
Changes in operating assets and liabilities, net	(5,724)	(13,666)
Net cash provided by operating activities	\$ 26,486	\$ 57,280

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, 2014 and 2013 are set forth in the following chart.

(Dollars in thousands)

	September 30,	September 30,
	2014	2013
Net cash provided by operating activities	\$ 26,486	\$ 57,280
Net cash provided by/(used) in investing activities	\$ (8,520)	\$ (23,606)
Net cash (used in)/provided by financing activities	\$ (15,797)	\$ 5,031

Operating Activities

Cash provided from operating activities decreased from \$57,280,000 of cash provided by operating activities in the first nine months of 2013 to \$26,486,000 of cash provided by operating activities in the first nine months of 2014. This decrease was primarily attributable to a decrease in net income, an increase in inventory, and a decrease in accrued expense and other current liabilities. Partially increasing cash provided from operating activities was a smaller decrease in accounts receivable balances for the first nine months of 2014 as compared to the decrease in the first nine months of 2013. In the first nine months of 2013, changes in inventory carrying values decreased cash provided from operating activities by \$5,700,000. In the first nine months of 2014, changes in inventory carrying values decreased cash from operating activities by \$17,020,000. The increase in the inventory carrying value in the first nine months of 2014 was primarily due to an increase in biodiesel inventory and from the timing and amount of purchases made on a common carrier pipeline. Also decreasing cash provided from operating activities was the change in accrued expenses, including accrued expenses from related parties. In the first nine months of 2013, the change in accrued expenses increased cash from operating activities by \$5,139,000. In the first nine months of 2014, accrued expenses reduced cash by \$1,348,000. This reduction in accrued expenses in the first nine months of 2014 was primarily due to the timing and amount of payments to vendors and suppliers. Net income in the first nine months of 2013 totaled \$47,503,000, while in the first nine months of 2014 net income totaled \$23,072,000. Partially offsetting these decreases to cash from operating activities was the change in accounts receivable. In the first nine months of 2014, accounts receivable, including accounts receivable from related parties, decreased cash provided by operating activities by \$366,000. In the first nine months of 2013, accounts receivable, including accounts receivable from related parties, decreased cash from operating activities by \$11,506,000. This smaller use of cash in accounts receivable in 2014 was primarily related to the timing of shipments and payments from customers on the common carrier pipeline. Also increasing cash was a larger increase in accounts payable, including accounts payable to related parties. In the first nine months of 2013, changes in accounts payable, including accounts payable to related parties,

increased cash from operating activities by \$11,939,000. In the first nine months of 2014, changes in accounts payable, including accounts payable to related parties, increased cash from operating activities by \$13,489,000. This larger increase was primarily due to the timing and amount of payments to vendors and suppliers.

Investing Activities

Cash used in investing activities decreased from \$23,606,000 in the first nine months of 2013 to cash used of \$8,520,000 in the first nine months of 2014. This smaller use of cash was primarily from proceeds from net sales of marketable securities in the first nine months of 2014 of \$2,633,000 as compared to the first nine months of 2013 with net purchases of \$8,658,000. Our capital expenditures and customer reimbursements for capital expenditures also used less cash as summarized in the following table:

(Dollars in thousands)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Cash paid for capital expenditures	\$ 6,691	\$ 13,431
Cash received as reimbursement of capital expenditures	(901)	(2,252)
Cash paid, net of reimbursement, for capital expenditures	\$ 5,790	\$ 11,179

Financing Activities

Cash from/used in financing activities changed from \$5,031,000 of cash provided by financing activities for the first nine months of 2013 to \$15,797,000 of cash used by financing activities in the first nine months of 2014. This change is primarily the result of a decrease in proceeds from the issuance of stock. In the first nine months of 2013, 1,594,872 shares of FutureFuel's common stock were sold under its at-the-market offering, generating \$19,292,000 in net proceeds which completed the at-the-market offering. No new offering existed in the first nine months of 2014.

Credit Facility

We renewed a \$50 million credit agreement with a commercial bank effective June 30, 2013. 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, 2018. 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 more than 3:1. We had no borrowings under this credit agreement at September 30, 2014 or December 31, 2013.

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 2014, we paid a regular cash dividend in the amount of \$0.12 per share on our common stock. The regular cash dividend amounted to \$5,201,000 in the first quarter of 2014, \$5,233,000 in the second quarter of 2014, and \$5,247,000 in the third quarter of 2014, for aggregate dividend payments of \$15,681,000 in the first nine months of 2014.

In the first three quarters of 2013, we paid a regular cash dividend in the amount of \$0.11 per share on our common stock. The regular cash dividend amounted to \$4,767,000 in each of the first three quarters of 2013, for aggregate dividend payments of \$14,301,000 in the first nine months of 2013.

Capital Management

As a result of our initial equity offering, our subsequent positive operating results, the exercise of warrants and the issuance of shares in our at-the-market offering, we accumulated excess working capital. Some of this excess working capital has been paid out as special and regular cash dividends. Additionally, regular cash dividends are being paid in 2014, as previously reported. Third parties have not placed significant restrictions on our working capital management decisions.

A significant portion of these funds were held in cash or cash equivalents at multiple financial institutions. In the periods ended September 30, 2014 and December 31, 2013, we also had investments in certain preferred stock, trust preferred securities, exchange traded debt instruments, and other equity instruments. We classify these investments as current assets in the accompanying consolidated balance sheets and designate them as being “available-for-sale”. Accordingly, they are recorded at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders’ equity. The fair value of the preferred stock, trust preferred securities, exchange traded debt instruments, and other equity instruments totaled \$106,246,000 and \$104,271,000 at September 30, 2014 and December 31, 2013, respectively.

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

Off-Balance Sheet Arrangements

We engage in two types of hedging transactions. First, we hedge our biofuels sales through the purchase and sale of futures contracts and options on futures contracts of energy commodities. This activity was captured on our balance sheet at September 30, 2014 and December 31, 2013. 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, 2014 or December 31, 2013 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.

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 longterm sales 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. Because such price protections are not always obtained, however, some raw material price risk remains significant.

In order to manage price risk caused by market fluctuations in biofuels prices, we may enter into exchange traded commodity futures and options contracts. We account for these derivative instruments in accordance with ASC 815-20-25, *Derivatives and Hedging, Hedging-General, Recognition*. Under this standard, the accounting for changes in the fair value of a derivative instrument depends upon whether it has been designated as an accounting hedging relationship and, further, on the type of hedging relationship. To qualify for designation as an accounting hedging relationship, specific criteria must be met and appropriate documentation maintained. We had no derivative instruments that qualified under these rules as designated accounting hedges in the first three months of 2014 or 2013. 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 volume of biofuel being sold. As of September 30, 2014 and December 31, 2013, the fair values of our derivative instruments were a net liability in the amount of \$2,251,000 and \$328,000, 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 2014. We included only those raw materials and conversion costs for which a hypothetical adverse change in price would result in a 1% or greater decrease in gross profit. Assuming that the prices of the associated finished goods could not be increased and assuming no change in quantities sold, a hypothetical 10% change in the average price of the commodity listed below would result in the following change in gross profit.

(Volume and dollars in thousands)

Item	Volume (a) Requirements	Units	Hypothetical Adverse Change in Price	Decrease in Gross Profit	Percentage Decrease in Gross Profit	
Crude corn oil and yellow grease	206,614	LB	10	% \$ 6,860	18.5	%
Petrofuels	18,212	GAL	10	% \$ 5,469	14.8	%
Methanol	90,540	LB	10	% \$ 2,119	5.7	%
Natural Gas	927	MCF	10	% \$ 490	1.3	%
Electricity	77	MWH	10	% \$ 419	1.1	%

Volume requirements and average price information are based upon volumes used and prices obtained for the nine (a) months ended September 30, 2014. Volume requirements may differ materially from these quantities in future years as our business.

We had no borrowings as of September 30, 2014 or December 31, 2013 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, 2014 were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

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

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes to the risk factors we previously disclosed in Item 1A of our Form 10-K, Annual Report for the year ended December 31, 2013 filed with the SEC on March 17, 2014.

Item 2: Unregistered Sales of Equity Securities & Use of Proceeds

None.

Item 3: Defaults Upon Senior Securities

None.

Item 4: Mine Safety Disclosures

None.

Item 5: Other Information

None.

Item 6. Exhibits.

Exhibit Description

- 10.19.1 Employment Agreement dated July 2, 2014 between FutureFuel Chemical Company and Paul M. Flynn
- 10.19.2 Amendment to Employment Agreement dated July 2, 2014 between FutureFuel Chemical Company and Paul M. Flynn
- 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.

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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/ Paul A. Novelly
Paul A. Novelly,
Chairman and Chief
Executive

Officer
Date: November 6, 2014

By: /s/ Rose M. Sparks
Rose M. Sparks, Chief
Financial Officer and
Principal

Financial Officer
Date: November 6, 2014