

FutureFuel Corp.  
Form 10-K  
March 16, 2009

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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, 2008

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  
(IRS Employer Identification  
No.)

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

(805) 565-9800  
(Registrant's Telephone Number)

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

Title Of Each Class	Name Of Each Exchange On Which Registered
n/a	n/a

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

Common Stock

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(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

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

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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 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   
Non-accelerated filer  (Do not check if a smaller reporting company)   
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. \$90,831,900.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 28,190,300.

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## PART I

### Item 1. Business.

#### General Development of the Business Since January 1, 2008

##### The Company

FutureFuel Corp. (the “Company” or “we”, “our” or “us”) 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 by way of an asset acquisition, merger, capital stock exchange, share purchase or similar transaction of one or more operating businesses in the oil and gas industry. On July 12, 2006, we completed an offering of 22,500,000 units, each unit consisting of one share of our common stock and one warrant to acquire one share of our common stock. These units were issued at \$8.00 per unit. In connection with the offering, our shares and warrants were listed on the Alternative Investment Market (“AIM”) of the London Stock Exchange plc. 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. On October 31, 2006, the acquisition of Eastman SE, Inc. was consummated (effective after the close of business on that day) 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.

As part of our initial offering in July 2006, we agreed to use our reasonable commercial efforts to maintain our listing on AIM until at least July 12, 2008. However, because the trading of our shares and warrants on AIM was limited and a market for our shares and warrants had been developed in the United States, we recommended to our shareholders that they approve the cancellation of admission of our securities to AIM. Our shareholders approved such cancellation on June 24, 2008 and admission of our shares and warrants to AIM was canceled on July 14, 2008.

In connection with such cancellation, a market maker applied to have our shares of common stock quoted on the Over-the-Counter Bulletin Board (“OTCBB”). The OTCBB is an electronic trading service offered by the National Association of Security Dealers (“NASD”) that shows real-time quotes, last sale prices and volume information for over-the-counter equity securities. The NASD approved the application and our shares of common stock began to be quoted on the OTCBB on July 11, 2008. Since our warrants must be in certificated form for the reasons set forth below in Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities -- Market Information, our warrants do not qualify for quotation on the OTCBB. As such, our warrants are not listed or quoted on any established exchange.

##### 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. The plant is staffed by approximately 460 non-union full-time employees. FutureFuel Chemical Company manufactures diversified chemical products. In addition, in 2005, it launched a biobased products platform, comprising biofuels and biobased specialty chemical products.

##### Plan of Operation for the Consolidated Company

Our strategy in relation to the acquired operations is to build a diversified biofuels and chemical manufacturing organization. Our intention is to leverage the knowledge, expertise and resources of FutureFuel Chemical Company to develop an industry-leading biofuels business, while maintaining a focus on the core chemical business. We believe there are substantial growth opportunities not only in the biofuels area, but also in both preserving existing and attracting new custom chemical customers, and also in adding significantly to our proprietary chemicals product line. Growth in all areas of the business will follow a consistent strategy of dedicating idle capacity to those opportunities that we believe provide the highest return, offer the most attractive long-term risk-reward dynamics, and create the most value through synergies with existing business lines.

We initially planned to increase the plant's biodiesel capacity to 40 million gallons per year by May 2007 and to 160 million gallons per year by November 2007, with substantial complementary expenditures on infrastructure to support this increased capacity. After closing on our acquisition of FutureFuel Chemical Company on October 31, 2006, we and, to our knowledge, the industry as a whole witnessed a rapid erosion in margins for producing biodiesel. See <http://www.thehindubusinessline.com/2006/12/21/stories/2006122103701200.htm>. As a result of these decreased margins, in January 2007 we determined that it was not in our shareholders' best interest to proceed on an accelerated basis to increase capacity and, therefore, we suspended the biodiesel capacity expansion. However, we continued with (and in most cases have already completed) certain core infrastructure projects as described below. We believe these projects will bring efficiency, operational flexibility and cost savings to FutureFuel Chemical Company's existing biodiesel and chemical business lines.

The core infrastructure projects included:

- adding methanol recovery and biodiesel feedstock pretreatment capabilities to the plant - the biodiesel feedstock pretreatment system has been completed and the methanol recovery system is scheduled for completion in April 2009;
- constructing additional storage and related infrastructure at the plant to support increased movements of feedstocks, methanol and biodiesel on and off the site - this project is complete;
- expanding on-site rail siding and railcar loading and unloading facilities to accommodate the increased number of railcars expected at the plant - this project is complete;
- obtaining storage/thruput in Little Rock, Arkansas on the Arkansas River so that biodiesel can be shipped by barge to larger markets and feedstocks can be brought in to the plant by barge and truck - a lease agreement was signed with Center Point Terminal Company concurrent with the closing of the acquisition of FutureFuel Chemical Company;
- acquiring a fleet of tanker trucks to transport biofuels and feedstocks between the plant and customer locations or leased storage facilities - this project is complete until logistical requirements dictate a larger internal truck fleet; and
- procuring railcars to transport raw goods to the plant and deliver biodiesel from the plant to customers - this project is complete until logistical requirements dictate a larger railcar fleet.

Construction is in progress for the first site infrastructure project as described above, while the remaining projects are complete. We believe that FutureFuel Chemical Company will be able to timely obtain the materials to complete the first project as scheduled, although no assurances can be given that the scheduled timetable will be achieved or that such timetable will not be revised based upon market conditions.

In December 2006 and January 2009, FutureFuel Chemical Company commenced storage of its biodiesel at a liquid bulk storage facility in Little Rock, Arkansas and Chesapeake, Virginia, respectively. Additional locations will be assessed as market conditions dictate (e.g., FutureFuel Chemical Company's need for additional storage space, the availability of such space and the cost of such space). FutureFuel Chemical Company has already acquired tanker trucks and has leased methanol and biodiesel railcars. The need for additional tanker trucks and/or railcars will be assessed as demand for FutureFuel Chemical Company's biodiesel and logistics dictate. We believe that implementation of the above strategy has helped and will continue to help FutureFuel Chemical Company remain a substantial participant in the biofuels market.



At the time that we suspended expansion of the biodiesel capacity, we determined that any future expansions of biodiesel production capacity would be dictated by changing market conditions. Justification for capacity expansion is dependent upon three primary factors: (i) the price of crude oil, and more specifically the price of petrodiesel; (ii) the price of feedstock oils/fats required to produce biodiesel; and (iii) tax incentives, grants, and volume m a n d a t e s . F o r e x a m p l e , s e e <http://www.wilsoncenter.org/news/docs/Brazil.Biofuels%202007%20Report%20-%20McKinsey%20-%202007.pdf>. Biodiesel is generally sold as a blend with petrodiesel, which is its primary competitive product, and must be priced close to parity with petrodiesel in order to be competitive in the marketplace. Feedstock cost is the largest single component of biodiesel production costs and therefore has a

substantial impact on production costs. See <http://www.eia.doe.gov/oiaf/analysispaper/biodiesel/>. In the second quarter of 2007, crude oil prices strengthened (see <http://www.dallasfed.org/research/energy/en0702.cfm>) and, despite corresponding increases in feedstock oil prices, soybean oil in particular, we judged these and future market conditions to be supportive of biodiesel capacity expansion and therefore resumed a project to expand capacity by 35 million gallons per year (for a total capacity of 59 million gallons per year) through a new continuous processing line, projected to be operational by April 2009. However, no assurances can be given that the scheduled timetable will be achieved or that it will not be revised based upon market conditions such as those discussed above. We continued this expansion in 2008 notwithstanding declines in energy prices during the year because these declines were mostly offset by corresponding declines in feedstock prices. For example, the front-month heating oil contract on the New York Mercantile Exchange declined 40% in price during 2008. During the same time period, the front-month soybean oil contract on the Chicago Board of Trade declined 32% in price and the reported price of edible technical tallow reported by the Jacobsen pricing service declined 40% in price.

Please see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Capital Expenditures and Commitments” below for an estimate of the capital cost of the capital projects discussed above. The storage and procurement of railcars are not capital projects; rather, they affect cash flow through ongoing lease commitments. These lease commitments are included in footnote 21 of our consolidated financial statements for the year ended December 31, 2008 contained elsewhere herein. Based upon our budget, existing cash and the proceeds from the \$50 million credit facility described below, we do not believe that it will be necessary for us to raise additional funds to meet the expenditures required for operating the business as set forth above.

#### Financial Information about Segments

Historically, the business and assets included in FutureFuel Chemical Company were accounted for by Eastman Chemical Company in various segments of Eastman Chemical Company’s overall business. Although FutureFuel Chemical Company was incorporated on September 1, 2005, Eastman Chemical Company did not begin transferring assets into FutureFuel Chemical Company until January 1, 2006 and completed the transfer in subsequent periods prior to the closing of our acquisition of FutureFuel Chemical Company. Notwithstanding that FutureFuel Chemical Company was a separately incorporated entity, Eastman Chemical Company did not prepare separate financial statements for FutureFuel Chemical Company nor was Eastman Chemical Company required to do so under local law or accounting rules. Rather, the operations of the Batesville plant were reported within Eastman Chemical Company based upon the underlying products and the revenues and expenses of the plant were effectively spread throughout Eastman Chemical Company’s financial statements. In addition, allocations to the plant of Eastman Chemical Company overhead (such as insurance, employee benefits, legal expenses and the like) were based upon assumptions made by Eastman Chemical Company and such assumptions historically did not reflect expenses which FutureFuel Chemical Company would have incurred had it been a stand-alone entity. Since we did not acquire or succeed to all of the assets and liabilities of Eastman Chemical Company, “carve-out” financial statements have been prepared for the acquired component business, excluding the continuing operations retained by Eastman Chemical Company. As our acquisition of Eastman SE, Inc. was accounted for through purchase accounting, a presentation of the historical financial results of the Batesville plant occurring before November 1, 2006 is not made within our historical financial results. The financial data presented herein represents our consolidated operations for the twelve-month periods ended December 31, 2008, December 31, 2007 and December 31, 2006, the “carve-out” operations of the Batesville plant for the ten-month period ended October 31, 2006 and, where noted, the combined results of us and FutureFuel Chemical Company for the twelve months ended December 31, 2006.

The following table sets forth: (i) our consolidated revenues from external customers for the years ended December 31, 2008 and 2007, and our consolidated revenues from external customers for the year ended December 31, 2006 plus FutureFuel Chemical Company’s revenues from external customers for the ten-month period

ended October 31, 2006; (ii) our consolidated net income for the years ended December 31, 2008 and 2007, and our consolidated income for the year ended December 31, 2006 less FutureFuel Chemical Company's net loss for the ten-month period ended October 31, 2006; and (iii) our total assets at December 31, 2008, 2007 and 2006. Our and FutureFuel Chemical Company's information has been combined for the twelve-month period ended December 31, 2006 solely for comparative purposes.

(Dollars in thousands)

Period	Revenues from External		Total Assets
	Customers	Net Income	
Year ended December 31, 2008	\$ 198,330	\$ 22,675	\$ 238,126
Year ended December 31, 2007	\$ 169,788	\$ 8,408	\$ 216,113
Year ended December 31, 2006	\$ 134,168	\$ 2,242	\$ 203,059

For the ten months ended October 31, 2006, FutureFuel Chemical Company's revenues from external customers exclude all revenues from Eastman Chemical Company. Beginning November 1, 2006, revenues from external customers equals total revenues. See note 8 to FutureFuel Chemical Company's annual financial statements included elsewhere herein for revenues from Eastman Chemical Company for the ten months ended October 31, 2006.

Prior to the initiation of its biofuels program in 2005, the Batesville plant did not have business reporting "segments" as defined by U.S. generally accepted accounting principles. After the initiation of the biobased products program in 2005, it had two segments: chemicals and biofuels. FutureFuel Chemical Company is not able to allocate net income and total assets between its two business segments. However, revenues from external customers can be allocated between the two business segments as set forth in the following chart. The amounts in the following chart include: (i) our consolidated revenues from external customers for the years ended December 31, 2008 and 2007; and (ii) our consolidated revenues from external customers for the year ended December 31, 2006 plus FutureFuel Chemical Company's revenues from external customers for the ten-month period ended October 31, 2006. Our and FutureFuel Chemical Company's information has been combined for the twelve-month period ended December 31, 2006 solely for comparative purposes.

(Dollars in thousands)

Period	Revenues from Chemical Segment	Revenues from Biofuels Segment	Total Revenues from External Customers
	Year ended December 31, 2008	\$ 155,553	\$ 42,777
Year ended December 31, 2007	\$ 144,474	\$ 25,314	\$ 169,788
Year ended December 31, 2006	\$ 120,828	\$ 13,340	