FutureFuel Corp.
Form 10-Q
August 07, 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 June 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 Incorporation or Organization)	(IRS Employer Identification No.)

8235 Forsyth Blvd., Suite 400

St. Louis, Missouri 63105

(Address of Principal Executive Offices)

(805) 565-9800

(Registrant's Telephone Number, Including Area Code)

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

Yes √ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes √ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 August 7, 2014: 43,606,118

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

The following sets forth our unaudited consolidated balance sheet as at June 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 six-month periods ended June 30, 2014 and June 30, 2013, and our unaudited consolidated statements of cash flows for the six-month periods ended June 30, 2014 and June 30, 2013.

FutureFuel Corp.

Consolidated Balance Sheets

As of June 30, 2014 and December 31, 2013

(Dollars in thousands)

	(Unaudited) June 30, 2014	**December 31, 2013**
Assets		
Cash and cash equivalents	$ 84,552	$ 86,463
Accounts receivable, net of allowances of $0 and $0 at June 30, 2014 and December 31, 2013, respectively	21,031	28,620
Accounts receivable – related parties	2,691	4,629
Inventory	67,341	42,164
Income tax receivable	15,761	14,732
Prepaid expenses	1,005	1,843
Marketable securities	95,308	104,271
Other current assets	1,708	566
Total current assets	289,397	283,288
Property, plant and equipment, net	129,608	128,671
Other assets	2,598	2,488
Total noncurrent assets	132,206	131,159
Total Assets	$ 421,603	$ 414,447
Liabilities and Stockholders' Equity		
Accounts payable	$ 12,025	$ 14,927
Accounts payable – related parties	6,818	857

Current deferred income tax liability	9,255	8,787
Deferred revenue – short-term	7,306	6,869
Contingent liability – short-term	1,151	1,151
Accrued expenses and other current liabilities	7,600	7,802
Accrued expenses and other current liabilities – related parties	63	3
Total current liabilities	44,218	40,396
Deferred revenue – long-term	14,519	13,522
Other noncurrent liabilities	2,703	2,690
Noncurrent deferred income tax liability	28,400	29,249
Total noncurrent liabilities	45,622	45,461
Total liabilities	89,840	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, 43,606,118 and 43,342,830 issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	4	4
Accumulated other comprehensive income	9,183	7,436
Additional paid in capital	276,567	276,328
Retained earnings	46,009	44,822
Total stockholders' equity	331,763	328,590
Total Liabilities and Stockholders' Equity	$ 421,603	$ 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 June 30, 2014 and 2013

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended	
	June 30,	
	2014	**2013**
Revenues	$66,933	$104,031
Revenues – related parties	1,106	2,032
Cost of goods sold	59,048	75,492
Cost of goods sold – related parties	1,427	1,725
Distribution	907	1,107
Distribution – related parties	79	113
Gross profit	6,578	27,626
Selling, general, and administrative expenses		
Compensation expense (inclusive of $204 of stock based compensation for the three months ended June 30, 2014)	855	1,015
Other expense	536	762
Related party expense	147	83
Research and development expenses	869	791
	2,407	2,651
Income from operations	4,171	24,975
Interest and dividend income	1,567	1,689
Interest expense	(7)	(6)
Gain on marketable securities	2,949	2,030
Other income	(64)	(34)
	4,445	3,679
Income before income taxes	8,616	28,654
Provision for income taxes	3,269	10,498
Net income	$5,347	$18,156
Earnings per common share		
Basic	$0.12	$0.42
Diluted	$0.12	$0.42
Weighted average shares outstanding		
Basic	43,352,836	43,334,441
Diluted	43,550,129	43,361,555

Comprehensive Income

Net income	$5,347	$18,156
Other comprehensive income/(loss) from unrealized net gains/(losses) on available-for-sale securities, net of tax of $1,597 in 2014 and of ($1,143) in 2013	2,511	(1,836)
Comprehensive income	$7,858	$16,320

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

FutureFuel Corp.

Consolidated Statements of Operations and Comprehensive Income

For the Six Months Ended June 30, 2014 and 2013

(Dollars in thousands, except per share amounts)

(Unaudited)

	Six Months Ended June 30,	
	2014	**2013**
Revenues	$147,236	194,802
Revenues – related parties	3,000	3,426
Cost of goods sold	127,979	134,789
Cost of goods sold – related parties	4,096	12,345
Distribution	1,791	1,858
Distribution – related parties	190	229
Gross profit	16,180	49,007
Selling, general, and administrative expenses		
Compensation expense (inclusive of $204 of stock based compensation for the six months ended June 30, 2014)	1,609	1,941
Other expense	1,167	1,268
Related party expense	211	166
Research and development expenses	1,571	1,707
	4,558	5,082
Income from operations	11,622	43,925
Interest income	3,937	2,842
Interest expense	(13)	(12)
Gains on marketable securities	2,900	2,089
Other income/(expense)	166	(34)
	6,990	4,885
Income before income taxes	18,612	48,810
Provision for income taxes	6,991	16,604
Net income	$11,621	32,206
Earnings per common share		
Basic	$0.27	0.75
Diluted	$0.27	0.75
Weighted average shares outstanding		
Basic	43,348,195	43,132,398
Diluted	43,471,880	43,156,827
Comprehensive Income		
Net income	$11,621	32,206

Other comprehensive income from unrealized gains on available for sale securities, net of tax of $1,088 in 2014 and $2,210 in 2013	1,747	3,543
Comprehensive income	$13,368	35,749

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

FutureFuel Corp.

Consolidated Statements of Cash Flows

For the Six Months Ended June 30, 2014 and 2013

(Dollars in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2014	**2013**
Cash flows provided by operating activities		
Net income	$11,621	$32,206
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,527	5,384
Benefit for deferred income taxes	(1,469)	(759)
Change in fair value of derivative instruments	1,966	723
Impairment of fixed assets	247	382
Gain on the sale of investments	(2,900)	(2,089)
Losses on disposals of fixed assets	4	-
Stock based compensation	204	**-**
Noncash interest expense	13	12
Changes in operating assets and liabilities:		
Accounts receivable	7,589	(1,844)
Accounts receivable – related parties	1,938	(4,399)
Inventory	(25,177)	(8,634)
Income tax receivable	(1,029)	-
Prepaid expenses	1,052	697
Accrued interest on marketable securities	15	(200)
Other assets	(110)	(291)
Accounts payable	(2,902)	5,452
Accounts payable – related parties	5,961	(437)
Income taxes payable	-	1,756
Accrued expenses and other current liabilities	(202)	2,914
Accrued expenses and other current liabilities – related parties	60	100
Deferred revenue	1,434	(1,445)
Net cash provided by operating activities	2,842	29,528
Cash flows from/(used in) investing activities		
Collateralization of derivative instruments	(3,337)	(2,189)
Purchase of marketable securities	(18,247)	(21,291)
Proceeds from the sale of marketable securities	32,945	18,335
Capital expenditures	(5,715)	(5,733)
Net cash provided by/(used in) investing activities	5,646	(10,878)
Cash flows from/(used in) financing activities		

Proceeds from the issuance of stock	-	19,292
Minimum tax withholding on stock options exercised	(54)	-
Excess tax benefits associated with stock options	89	-
Payment of dividends	(10,434)	(9,534)
Net cash (used in)/provided by financing activities	(10,399)	9,758
Net change in cash and cash equivalents	(1,911)	28,408
Cash and cash equivalents at beginning of period	86,463	58,737
Cash and cash equivalents at end of period	$84,552	$87,145
Cash paid for income taxes	$7,000	$13,387

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 chemical products, biobased products comprised of biofuels, and biobased specialty 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. Historically, the chemicals segment has relied upon two customers for a substantial amount of its revenues.

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:

	June 30, 2014	**December 31, 2013**
At average cost (approximates current cost)		
Finished goods	$25,111	$ 13,590
Work in process	1,906	1,569
Raw materials and supplies	50,343	36,292
	77,360	51,451
LIFO reserve	(10,019)	(9,287)
Total inventory	$67,341	$ 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 amounted to a loss of $232 and a gain of $2,327 for the three months ended June 30, 2014 and 2013, respectively and a loss of $294 and a gain of $3,666 for the six months ended June 30, 2014 and 2013, respectively.

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

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

Regulated options, included in other current assets	(325)	$(2,378)	(50)	$(328)
Regulated fixed price future commitments, included in other current assets	(41)	$83	4	$-

The margin account maintained with a broker to collateralize these derivative instruments carried an account balance of $3,817 and $479 at June 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 June 30, 2014 and December 31, 2013, FutureFuel had investments in certain preferred stock, trust preferred securities, exchange traded debt instruments, and other equity instruments. These investments are classified as current assets in the consolidated balance sheet. FutureFuel has designated these securities as being available-for-sale. Accordingly, they are recorded at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders' equity. These securities were comprised of the following at:

	June 30, 2014			
	Adjusted Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Equity instruments	$41,165	$ 12,218	$ (178)	$53,205
Preferred stock	18,596	1,421	-	20,017
Trust preferred securities	18,253	1,285	-	19,538
Exchange traded debt instruments	2,387	161	-	2,548
Total	$80,401	$ 15,085	$ (178)	$95,308

Notes to Consolidated Financial Statements of FutureFuel Corp.

(Dollars in thousands, except per share amounts)

(Unaudited)

	December 31, 2013			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair 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 $2,678 and $26,321 at June 30, 2014 and December 31, 2013, respectively. As of June 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:

	June 30, 2014	December 31, 2013
Accrued employee liabilities	$5,478	$ 5,010
Accrued property, use, and franchise taxes	1,824	2,558
Other	361	237
Total	$7,663	$ 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 base rate based upon the leverage ratio from time to time as set forth in the following table.

Leverage Ratio	**Base Rate Margin**	**LIBOR Margin**
≥ 3	-0.55%	1.70%
≥ 2 < 3	-0.70%	1.50%
≥ 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 June 30, 2014 or December 31, 2013.

7) Provision for income taxes

The following table summarizes the provision for income taxes.

Notes to Consolidated Financial Statements of FutureFuel Corp.

(Dollars in thousands, except per share amounts)

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Provision for income taxes	$3,269	$10,498	$6,991	$16,604
Effective tax rate	37.9 %	36.6 %	37.6 %	34.0 %

The effective tax rate for the three months ended June 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 six months ended June 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 production tax credit, which was recognized in the three and six months ended June 30, 2013 as a discrete item. As a result of this treatment, FutureFuel's effective tax rate for the three and six months ended June 30, 2013 was abnormally low.

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

FutureFuel records interest and penalties net as a component of income tax expense. At June 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.

8) Earnings per share

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

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Net income available to common stockholders	$5,347	$18,156	$11,621	$32,206
Weighted average number of common shares outstanding	43,352,836	43,334,441	43,348,195	43,132,398
Effect of stock options and other awards	197,293	27,114	123,685	24,429
Weighted average diluted number of common shares outstanding	43,550,129	43,361,555	43,471,880	43,156,827
Basic earnings per share	$0.12	$0.42	$0.27	$0.75
Diluted earnings per share	$0.12	$0.42	$0.27	$0.75

No options to purchase shares of FutureFuel's common stock were excluded from the computation of diluted earnings per share for the three and six months ended June 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 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
June 30, 2014	$66,461	$ 1,578	$68,039
June 30, 2013	$102,901	$ 3,162	$106,063

Six Months Ended	United States	All Foreign Countries	Total
June 30, 2014	$146,389	$ 3,848	$150,236
June 30, 2013	$190,879	$ 7,349	$198,228

For the three months ended June 30, 2014 and 2013, revenues from Mexico accounted for 2% and 3%, respectively, of total revenues. For the six months ended June 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 six months ended June 30, 2014 and June 30, 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 ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Revenues				
Chemicals	$32,609	$42,026	$62,885	$82,162
Biofuels	35,430	64,037	87,351	116,066
Revenues	$68,039	$106,063	$150,236	$198,228
Segment gross profit				
Chemicals	$7,131	$14,784	$16,165	$27,850
Biofuels	(553)	12,842	15	21,157
Segment gross margins	6,578	27,626	16,180	49,007
Corporate expenses	(2,407)	(2,651)	(4,558)	(5,082)
Income before interest and taxes	4,171	24,975	11,622	43,925
Interest and other income	4,516	3,719	7,003	4,931
Interest and other expense	(71)	(40)	(13)	(46)
Provision for income taxes	(3,269)	(10,498)	(6,991)	(16,604)
Net income	$5,347	$18,156	$11,621	$32,206

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 June 30, 2014 and December 31, 2013.

Description	Asset/(Liability) Fair Value at June 30, 2014	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Derivative instruments	$2,295	$2,295	$ -	$ -
Preferred stock, trust preferred securities, exchange traded debt instruments, and other equity instruments	$95,308	$95,308	$ -	$ -

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 June 30, 2014

(net of tax)	
Balance at March 31, 2014	$6,672
Other comprehensive income before reclassifications	6,042
Amounts reclassified from accumulated other comprehensive income	(3,531)
Net current-period other comprehensive income	2,511
Balance at June 30, 2014	$9,183

Changes in Accumulated Other Comprehensive Income

Unrealized Gains and Losses on Available-for-Sale Securities

For The Six Months Ended June 30, 2014

(net of tax)	
Balance at December 31, 2013	$7,436
Other comprehensive income before reclassifications	5,266
Amounts reclassified from accumulated other comprehensive income	(3,519)
Net current-period other comprehensive income	1,747
Balance at June 30, 2014	$9,183

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 six months ended June 30, 2014:

Reclassifications from Accumulated Other Comprehensive Income

	Three Months Ended June 30, 2014	**Six Months Ended June 30, 2014**	**Affected Line Item in Statement of Operations**
Unrealized gains on available-for-sale securities	$ 5,732	$ 5,713	Gain on marketable securities
Total before tax	5,732	5,713	
Tax expense	(2,201)	(2,194)	
Total reclassifications	$ 3,531	$ 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.

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

Revenues

Total revenues for the three months ended June 30, 2014 decreased 36% to $68,039,000 as compared to revenues for the three months ended June 30, 2013 of $106,063,000. There were substantial decreases in revenues in both our chemical and biodiesel segments.

Revenues from biofuels decreased 45% to $35,430,000, a decrease of $28,607,000 from the second quarter of 2013 and accounted for 52% of total revenues in the second quarter of 2014 as compared to 60% in the second quarter of 2013. We experienced both decreased biodiesel demand and reduced biodiesel selling prices in the second quarter of 2014 as compared to the second quarter of 2013. The biodiesel industry is suffering severely from the absence of the both the 2014 final renewable fuel mandate from the government and the federal $1.00 per gallon 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 $1.00 as of June 30, 2013, at which time the $1.00 per gallon federal blenders' credit was in effect. RINs at June 30, 2014 traded for just over $0.50, and the $1.00 federal blenders' credit has not been available in 2014. The change in biodiesel RIN value and the absence of the $1.00 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 June 30, 2014 and 2013 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. 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 slightly in the second quarter of 2014, however, from our sales of refined petroleum products as a supplier on a common carrier pipeline. Such sales totaled $784,000 and $0 in the three months ended June 30 of 2014 and 2013, respectively.

Revenues from chemicals decreased 22% during the most recent quarter compared to the second quarter of 2013, accounting for 48% of total revenues compared to 40% in the same quarter a year ago. Within the chemicals segment, revenues for the three months ended June 30, 2014 changed as follows compared to the three months ended June 30, 2013: (i) revenues from our bleach activator decreased 19%; (ii) revenues from the two proprietary herbicides and associated intermediates decreased 51% relative to the revenues recognized in the prior period from the original customer; (iii) revenues from the industrial intermediate utilized in the antimicrobial industry and other custom chemicals decreased 38%; (iv) revenues from antioxidant precursors (DIPB) and chlorinated polyolefin adhesion promoters (CPOs) increased 7%; and (v) revenues from other performance chemicals increased 33%.

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 20% of total revenues for the three months ended June 30, 2014 as compared to 18% of total revenues in June 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 June 30, 2014, partially offset by increased per unit prices. 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.

With respect to the two proprietary herbicide and associated intermediates, the decrease in revenue for the three months June 30, 2014 as compared to the three months ended June 30, 2013 primarily was attributable to decreased sales volumes from our original proprietary herbicide customer. We now sell to this customer on a revised toll manufacturing, purchase order, basis. Since the beginning of 2014, we began selling another herbicide intermediate to a new customer. The contract with the new customer is effective through December 31, 2016 (unless terminated earlier in accordance with the provisions of the agreement). No assurances can be given, however, that the agreement will be extended past 2016. Combined revenues from these two customers in the first six months of 2014, however, still decreased substantially from revenues recognized on the original proprietary herbicide for the first six months of 2013.

For CPOs and DIPB, the combined 7% increase in revenues this quarter was attributable to increased sales volumes to our primary customer.

Revenues from other custom chemical products decreased 45% in the second quarter of 2014 as compared to the second quarter of 2013. The decrease was primarily related to loss of sales of a product to a substantial customer and discontinued production of another custom chemical product for lack of demand.

A bright spot was a 33% increase in revenues from performance chemicals for the second quarter of 2014 as compared to the same quarter last year, accounting for approximately 8% of total revenues for the three months ended June 30, 2014. Sales of a new product and increased demand for another existing product accounted for most of this increase.

Cost of Goods Sold, Distribution, and Segment Gross Profit

Total cost of goods sold and distribution for the second quarter of 2014 were $61,461,000 as compared to $78,437,000 for the second quarter of 2013, a decrease of 22%. By comparison, our revenues decreased 36% for the period. Due to the significant fixed cost component of our operating structure, decreases in revenues have a disproportionate impact on profitability. A build-up of finished goods inventory (primarily biodiesel) and increased fixed costs during the quarter also contributed to this disparity.

Cost of goods sold and distribution for the second quarter of 2014 in our biofuels segment were $35,983,000 as compared to $51,195,000 for the second quarter of 2013. On a percentage basis, cost of goods sold and distribution decreased 30% from the three months ended June 30, 2013 as compared to a 45% 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) hedging losses were $232,000 in the second quarter of 2014 as compared to hedging gains in the second quarter of 2013 of $2,327,000; (ii) the impact of not having the benefit of the $1.00 per gallon blenders' credit on quantities of biodiesel sold in the second quarter of 2014; (iii) reduced biodiesel RIN values; and (iv) reduced production yields from the mix of feedstock purchased. Additionally, at June 30, 2014 we held in inventory certain quantities of biodiesel RINs. We do not allocate production cost to internally generated RINs. The benefit of the sale of our RINs is recognized in the period the sale is completed. Minimal RINs were held in inventory at June 30, 2013. Partially offsetting the reduced gross profit was the benefit of a larger fixed cost allocation to the chemical segment, which included a reduction in the change in LIFO reserve for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013.

Cost of goods sold and distribution for the three months ended June 30, 2014 for our chemicals segment totaled $25,478,000 as compared to $27,242,000 for the three months ended June 30, 2013. On a percentage basis, total cost

of goods sold and distribution decreased approximately 6% for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. This compares against a 22% decrease in chemical segment revenue for the same comparison periods.

The reduction in chemical segment gross profit was primarily the result of reduced sales volumes, particularly volumes of: (i) the original proprietary herbicide intermediate; (ii) two other custom chemicals we no longer sell; (iii) the bleach activator; and (iv) timing of shipment of particular products when compared quarter to quarter. Chemical segment gross profit was also negatively impacted by reduced production yields for certain products. These reduced production yields are not expected to continue. Additionally, higher maintenance and repairs costs were incurred for waste treatment activities during the second quarter of 2014, which should be non-recurring. These reductions in gross profit were partially offset by a reduction in the LIFO reserve for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013.

Operating Expenses

Operating expenses decreased 9% from $2,651,000 in the second quarter of 2013 to $2,408,000 in the second quarter of 2014. This decrease was primarily attributable to reduced compensation expense. Partially offsetting this reduction was a restricted stock award for 250,000 shares granted on May 9, 2014 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 $4,195,000 and will be recognized into expense equally over the three year service period.

Provision for Income Taxes and Net Income

The effective tax rate for the three months ended June 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 June 30, 2013 reflected our expected tax rate on reported operating earnings before tax. Net income for the quarter ended June 30, 2014 decreased 71% to $5,347,000 from $18,156,000 during the same quarter a year ago.

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 Ended June 30, 2014	Three Months Ended June 30, 2013	Dollar Change	% Change
Revenues	$68,039	$106,063	$(38,024)	(35.9)%
Income from operations	$4,171	$24,975	$(20,804)	(83.3)%
Net income	$5,347	$18,156	$(12,809)	(70.5)%
Earnings per common share - basic	$0.12	$0.42	$(0.30)	(70.6)%
Earnings per common share – diluted	$0.12	$0.42	$(0.30)	(70.6)%
Capital expenditures (net of reimbursements)	$2,641	$2,345	$296	12.6 %
Adjusted EBITDA	$6,709	$25,340	$(18,631)	(73.5)%

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 per gallon 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 June 30, 2014	Three Months Ended June 30, 2013
Adjusted EBITDA	$ 6,709	$ 25,340
Depreciation	(2,167)	(2,726)
Non-cash stock based compensation	(204)	-
Interest and dividend income	1,567	1,689
Interest expense	(7)	(6)
Gain on disposal of property and equipment	1	-
(Losses)/gains on derivative instruments	(232)	2,327
Other income, net	2,949	2,030
Income tax expense	(3,269)	(10,498)
Net income	$ 5,347	$ 18,156

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

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Revenues

Revenues for the six months ended June 30, 2014 decreased 24% to $150,236,000 as compared to $198,228,000 in revenues for the six months ended June 30, 2013. These six months results further reflect the disappointing three month results discussed above. Revenues from biofuels for the six months just ended decreased 25% and accounted for 58% of total revenues in the first six months of 2014, relatively unchanged from last year. Revenues from chemicals decreased 23% and accounted for 42% of total revenues in the first six months of 2014.

Revenues from biofuels decreased from $116,066,000 in the six months ended June 30, 2013 to $87,351,000 in the six months ended June 30, 2014. The expiration of the $1.00 per gallon blenders' 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 six months of 2013 included a positive impact from the retroactive reinstatement of the 2012 $1.00 per gallon blenders' credit. A substantial portion of our biodiesel sold in the first six 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 have been positively impacted this year by our sales of refined petroleum products as a supplier on a common carrier pipeline, totaling $9,213,000 in the first six months of 2013 compared to $1,478,000 in the first six months of 2014.

Within the chemicals segment, revenues for the first six months of 2014 changed as follows compared to the first six months of 2013: (i) revenues from the bleach activator decreased 21%; (ii) revenues from the proprietary herbicide and intermediates decreased 57%; (iii) revenue from the industrial intermediate utilized in the antimicrobial industry and other custom revenue decreased 37%; (iv) revenue from CPOs and DIPB increased 12%; and (v) revenues from performance chemical products increased 30%.

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 six months ended June 30, 2014 as compared to 20% of total revenues for the six months ended June 30, 2013. Revenues from the bleach activator decreased 21% during the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. The decrease was attributable to reduced volumes sold in 2014, partially offset by increased per unit prices. 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 are unable to predict with any certainty the revenues we will receive from this product in the future. With respect to the proprietary herbicide and intermediates, the 57% decrease in revenue for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 was attributable to reduced volumes in 2014. See the discussion above as to the future business with both herbicide and intermediates customers.

Revenues from CPOs and DIPB together increased 12% during the first six months of 2014 compared to the first six months of 2013. The combined increased revenues from these two products were attributable to increased sales volumes. Demand for these products can fluctuate significantly from year to year.

Revenues from other custom chemical products decreased 42% in the first six months of 2014 as compared to the first six months of 2013. The decrease was largely the result of: (i) discontinued sales of two custom chemical products; and (ii) reduced sales demand for two other custom products.

Revenues from proprietary chemicals increased 30% for the first six months of 2014 as compared to the first six months of 2013 and accounted for approximately 6% of total revenues for the first six months of 2014. The increase was due to timing of campaigned products and to increased demand on the SSIPA/LISIPA products.

Cost of Goods Sold, Distribution, and Segment Gross Profit

Total cost of goods sold and distribution for the first six months of 2014 were $134,056,000 as compared to $149,221,000 for the first six months of 2013, a decrease of 10%, which compares to a 24% decrease in revenues for the period.

Cost of goods sold and distribution for the first six months of 2014 in our biofuels segment was $87,336,000 as compared to $94,909,000 for the first six months of 2013. On a percentage basis, cost of goods sold and distribution decreased 8% 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 blenders' tax credit on December 31, 2013; (ii) the first six months of 2013 including the benefit of the retroactive reinstatement of the 2012 blenders' tax credit of $2,535,000; (iii) hedging losses totaling $294,000 in the first six months of 2014 as compared to hedging gains in the first six months of 2013 of $3,666,000; and (iii) the establishment of an inventory of biodiesel RINs at June 30, 2014 when minimal inventory was present at June 30, 2013. We do not allocate production costs to internally generated RINs, and, from time to time, we enter into sales of biodiesel on a "RINs-free" basis. Such method of selling results in us maintaining possession of the applicable RINs. The benefit derived from the eventual sale of the RINs is not reflected in our results of operations until such time as the RIN sale has been completed, which may lead to variability in our reported operating results.

Cost of goods sold and distribution for the first six months of 2014 for our chemicals segment totaled $46,720,000 as compared to $54,312,000 for the first six months of 2013. On a percentage basis, cost of goods sold and distribution decreased 14% versus a decrease of 23% in revenues. The reduction in chemical segment gross profit was largely the result of reduced sales volumes, particularly volumes of: (i) the original proprietary herbicide intermediate; (ii) two other custom chemicals we no longer sell; (iii) the bleach activator; and (iv) timing of shipment of particular products when compared quarter to quarter. Chemical segment gross profit was also negatively impacted by reduced production yields for certain chemical processes. These reduced production yields are not expected to continue.

Operating Expenses

Operating expense decreased 10%, from $5,082,000 in the six months ended June 30, 2013 to $4,559,000 in the six months ended June 30, 2014. The majority of the decrease was attributed to reduced compensation expense which was partially offset by a restricted stock award for 250,000 shares of stock on May 9, 2014 issued 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 $4,195,000 and will be recognized into expense equally over the three year service period. For the six months ended June 30, 2014, the compensation expense was $204,000.

Provision for Income Taxes and Net Income

The effective tax rates for the six months ended June 30, 2014 and 2013 reflect our expected tax rate on reported operating earnings before income taxes. The effective tax rate for the six months ended June 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 six months ended June 30, 2013 is lower than it otherwise would be. Net income for the six months ended June 30, 2014 decreased 64% to $11,621,000, from $32,206,000 during the same period last year.

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 $18,204,000 and $24,243,000 for the six months ended June 30, 2014 and 2013, respectively.

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

(Dollars in thousands other than per share amounts)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	Dollar Change	% Change
Revenues	$150,236	$198,228	$(47,992)	(24.2 %)
Income from operations	$11,622	$43,925	$(32,303)	(73.5 %)
Net income	$11,621	$32,206	$(20,585)	(63.9 %)
Earnings per common share - basic	$0.27	$0.75	$(0.48)	(64.0 %)
Earnings per common share – diluted	$0.27	$0.75	$(0.48)	(64.0 %)
Capital expenditures (net of customer reimbursements and grants)	$5,119	$3,606	$1,513	42.0 %
Adjusted EBITDA	$16,817	$43,074	$(26,257)	(61.0 %)

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.

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Adjusted EBITDA	$16,817	$43,074
Depreciation and amortization	(4,527)	(5,384)
Non-cash stock-based compensation	(204)	-
Retroactive reinstatement of 2012 $1 blender credit	-	2,535
Interest and dividend income	3,937	2,842
Interest expense	(13)	(12)
Loss on disposal of property and equipment	(4)	-
(Losses)/gains on derivative instruments	(294)	3,666
Other income, net	2,900	2,089
Income tax expense	(6,991)	(16,604)
Net income	$11,621	$32,206

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

	Six Months Ended June 30, 2014	**Six Months Ended June 30, 2013**
Adjusted EBITDA	$16,817	$43,074
Benefit from deferred income taxes	(1,469)	(759)
Impairment of fixed assets	247	382
Retroactive reinstatement of 2012 $1.00 blenders credit	-	2,535
Interest and dividend income	3,937	2,842
Income tax expense	(6,991)	(16,604)
(Losses)/gains on derivative instruments	(294)	3,666
Change in fair value of derivative instruments and marketable securities	1,966	723
Changes in operating assets and liabilities, net	(11,371)	(6,331)
Other	-	-
Net cash provided by operating activities	$2,842	$29,528

Liquidity and Capital Resources

Our net cash provided by (used in) operating activities, investing activities, and financing activities for the six months ended June 30, 2014 and 2013 are set forth in the following chart.

(Dollars in thousands)

	June 30, 2014	June 30, 2013
Net cash provided by operating activities	$2,842	$29,528
Net cash provided by/(used) in investing activities	$5,646	$(10,878)
Net cash (used in)/provided by financing activities	$(10,399)	$9,758

Operating Activities

Cash from operating activities decreased from $29,528,000 of cash provided by operating activities in the first six months of 2013 to $2,842,000 of cash provided by operating activities in the first six months of 2014. This decrease was primarily attributable to an increase in our inventory and a decrease in net income, offset by a decrease in accounts receivable balances for the first six months of 2014 as compared to the first six months of 2013. In the first six months of 2013, changes in inventory carrying values decreased cash provided from operating activities by $8,634,000. In the first six months of 2014, changes in inventory carrying values decreased cash from operating activities by $25,177,000. The increase in the inventory carrying value in the first six months of 2014 is primarily due to an increase in biodiesel and from the timing and amount of purchases made on a common carrier pipeline. In the first six months of 2014, accounts receivable, including accounts receivable from related parties, increased cash provided by operating activities by $9,527,000. In the first six months of 2013, accounts receivable, including accounts receivable from related parties, decreased cash from operating activities by $6,243,000. The decrease in accounts receivable balances in 2014 was primarily related to a decrease in biodiesel customer balances as well reduced balances from the timing of shipments on the common carrier pipeline. Net income in the first six months of 2013 totaled $32,206,000, while in the first six months of 2014 net income totaled $11,621,000. Partially offsetting these decreases to cash from operating activities was a smaller increase in accounts payable, including accounts payable to related parties. In the first six months of 2013, changes in accounts payable, including accounts payable to related parties, increased cash from operating activities by $5,015,000. In the first six months of 2014, changes in accounts payable, including accounts payable to related parties, increased cash from operating activities by $3,059,000. This smaller increase was primarily due to the timing and amount of payments to vendors and suppliers.

Investing Activities

Cash from investing activities increased from $10,878,000 of cash used in investing activities in the first six months of 2013 to $5,646,000 of cash provided in the first six months of 2014. This change was primarily the result of an increase in the net sales of marketable securities in the first six months of 2014 compared to the first six months of 2013. The net sales totaled $14,698,000 in the first six months of 2014 and the net purchases in the first six months of 2013 totaled $2,956,000. Our capital expenditures and customer reimbursements for capital expenditures are summarized in the following table:

(Dollars in thousands)

	Six Months Ended June 30, 2014	**Six Months Ended June 30, 2013**
Cash paid for capital expenditures	$ 5,715	$ 5,733
Cash received as reimbursement of capital expenditures	(596)	(2,127)
Cash paid, net of reimbursement, for capital expenditures	$ 5,119	$ 3,606

Financing Activities

Cash from financing activities changed from $9,758,000 of cash provided by financing activities for the first six months of 2013 to $10,399,000 of cash used by financing activities in the first six months of 2014. This change is primarily the result of a decrease in proceeds from the issuance of stock. In the first six 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 six 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 June 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 two 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 and $5,233,000 in the second quarter of 2014, for aggregate dividend payments of $10,434,000 in the first six months of 2014.

In the first two 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 the first quarter of 2013 and $4,767,000 in the second quarter of 2013, for aggregate dividend payments of $9,534,000 in the first six 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. Additional, regular cash dividends will be 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 June 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 $95,308,000 and $104,271,000 at June 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 June 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 June 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.

Subsequent Events

On July 2, 2014, FutureFuel Chemical Company hired Paul M. Flynn to become its new Executive Vice President of Business and Marketing. Mr. Flynn is a global business executive with 25 years of international experience in the chemical and biotech industries. For the last six years Mr. Flynn has been employed in corporate strategy at Monsanto Company. Prior to joining Monsanto, he led strategy and business development for Specialty Plastics, a division of Eastman Chemical. He received an MBA from Kellogg School of Management, Northwestern University in Evanston, Illinois and graduated with a Bachelor of Science Degree in Polymer Technology from Athlone Institute in Ireland. Mr. Flynn will start work with us on September 2, 2014.

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 term sale 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. 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 June 30, 2014 and December 31, 2013, the fair values of our derivative instruments were a net liability in the amount of $2,295,000 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 six 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	137,280	LB	10	%	$ 4,420	27.3	%
Petrofuels	12,482	GAL	10	%	$ 3,773	23.3	%
Methanol	55,977	LB	10	%	$ 1,444	8.9	%
Natural Gas	636	MCF	10	%	$ 365	2.3	%
Electricity	50	MWH	10	%	$ 262	1.6	%
Coal	24,328	Ton	10	%	$ 203	1.3	%
Sodium methylate	3,623	LB	10	%	$ 177	1.1	%

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

We had no borrowings as of June 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 June 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. Please see the discussion above under Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Other Matters for additional discussion on our legal matters.

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 6. Exhibits.

Exhibit	Description
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, a 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.

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: August 7, 2014

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

Financial Officer
Date: August 7, 2014