

FutureFuel Corp.  
Form 10-Q  
November 13, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from \_\_\_\_\_

Commission file number: 0-52577

FUTUREFUEL CORP.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

20-3340900  
(IRS Employer Identification  
No.)

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

(314) 854-8520  
(Registrant's Telephone Number)

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 13, 2008:  
28,150,500

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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

Non-accelerated filer

Accelerated filer

Smaller reporting company

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PART I  
FINANCIAL INFORMATION

## Item 1. Financial Statements.

The following sets forth our unaudited consolidated balance sheet as at September 30, 2008 and our audited consolidated balance sheet as at December 31, 2007, the unaudited consolidated statements of operations and comprehensive income for the three- and nine-month periods ended September 30, 2008 and September 30, 2007, and the unaudited consolidated statements of cash flow for the nine-month periods ended September 30, 2008 and September 30, 2007.

FutureFuel Corp.  
Consolidated Balance Sheets  
As at September 30, 2008 and December 31, 2007  
(Dollars in thousands)

	(Unaudited) September 30, 2008	December 31, 2007
<b>Assets</b>		
Cash and cash equivalents	\$ 27,427	\$ 54,655
Accounts receivable, net of allowances for doubtful accounts of \$0 at September 30, 2008 and \$42 at December 31, 2007	20,379	17,514
Inventory	25,242	24,192
Income taxes receivable	1,126	-
Prepaid expenses	335	1,200
Marketable debt and auction rate securities	57,519	15,086
Other current assets	1,212	541
<b>Total current assets</b>	<b>133,240</b>	<b>113,188</b>
Property, plant and equipment, net	104,756	95,036
Restricted cash and cash equivalents	-	3,263
Intangible assets	349	435
Other assets	3,148	4,191
<b>Total noncurrent assets</b>	<b>108,253</b>	<b>102,925</b>
<b>Total Assets</b>	<b>\$ 241,493</b>	<b>\$ 216,113</b>
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	\$ 14,209	\$ 12,622
Accounts payable – related parties	471	121
Income taxes payable	-	1,231
Current deferred income tax liability	4,105	4,597
Short term contingent consideration	400	197
Line of credit	343	-
Accrued expense and other current liabilities	4,139	3,370
<b>Total current liabilities</b>	<b>23,667</b>	<b>22,138</b>
Long term contingent consideration	1,569	1,989
Deferred revenue	9,032	1,571
Other noncurrent liabilities	1,221	1,126
Noncurrent deferred income tax liability	20,953	19,667
<b>Total noncurrent liabilities</b>	<b>32,775</b>	<b>24,353</b>
<b>Total Liabilities</b>	<b>56,442</b>	<b>46,491</b>
Commitments and contingencies		

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Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.0001 par value, 75,000,000 shares authorized, 26,835,000 issued and outstanding at September 30, 2008 and 26,700,000 issued and outstanding at December 31, 2007	3	3
Accumulated other comprehensive income	-	58
Additional paid in capital	159,461	158,436
Retained earnings	25,587	11,125
Total stockholders' equity	185,051	169,622
Total Liabilities and Stockholders' Equity	\$ 241,493	\$ 216,113

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

FutureFuel Corp.  
Consolidated Statements of Operations and Comprehensive Income  
For the Three Months Ended September 30, 2008 and 2007  
(Dollars in thousands, except per share amounts)  
(Unaudited)

	Three Months Ended	
	September 30, 2008	2007
Revenues	\$ 57,183	\$ 46,558
Revenues – related parties	3,402	-
Cost of goods sold	44,611	38,787
Cost of goods sold – related parties	3,950	451
Distribution	1,144	435
Gross profit	10,880	6,885
Selling, general and administrative expenses		
Compensation expense	652	926
Formation expense	-	43
Other expense	385	321
Related party expense	38	11
Research and development expenses	1,079	946
	2,154	2,247
Income from operations	8,726	4,638
Interest income	671	877
Interest expense	(6)	(5)
Gain (loss) on foreign currency	(89)	2
Loss on sale of marketable debt securities	(460)	-
	116	874
Income before income taxes	8,842	5,512
Provision for income taxes	3,453	2,169
Net income	\$ 5,389	\$ 3,343
Earnings per common share		
Basic	\$ 0.20	\$ 0.13
Diluted	\$ 0.19	\$ 0.10
Weighted average shares outstanding		
Basic	26,787,609	26,700,000
Diluted	28,821,986	32,286,294
Comprehensive Income		
Net income	\$ 5,389	\$ 3,343
Other comprehensive income (loss), net of tax of \$(52) in 2008 and \$11 in 2007	(87)	17
Comprehensive income	\$ 5,302	\$ 3,360

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

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FutureFuel Corp.  
Consolidated Statements of Operations and Comprehensive Income  
For the Nine Months Ended September 30, 2008 and 2007  
(Dollars in thousands, except per share amounts)  
(Unaudited)

	Nine Months Ended September 30,	
	2008	2007
Revenues	\$ 150,299	\$ 125,645
Revenues – related parties	3,402	40
Cost of goods sold	119,544	113,407
Cost of goods sold – related parties	5,532	1,064
Distribution	2,713	1,195
Gross profit	25,912	10,019
Selling, general and administrative expenses		
Compensation expense	1,980	1,687
Formation expense	-	117
Other expense	938	1,025
Related party expense	142	94
Research and development expenses	3,042	2,616
	6,102	5,539
Income from operations	19,810	4,480
Interest income	2,286	2,695
Interest expense	(17)	(18)
Gain on foreign currency	293	7
Loss on sale of marketable debt securities	(377)	-
Other income (expense)	6	(68)
	2,191	2,616
Income before income taxes	22,001	7,096
Provision for income taxes	7,539	2,886
Net income	\$ 14,462	\$ 4,210
Earnings per common share		
Basic	\$ 0.54	\$ 0.16
Diluted	\$ 0.53	\$ 0.13
Weighted average shares outstanding		
Basic	26,729,416	26,700,000
Diluted	27,419,338	32,274,327
Comprehensive Income		
Net income	\$ 14,462	\$ 4,210
Other comprehensive income (loss), net of tax of \$(35) in 2008 and \$11 in 2007	(58)	17
Comprehensive income	\$ 14,404	\$ 4,227

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



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FutureFuel Corp.  
 Consolidated Statements of Cash Flows  
 For the Nine Months Ended September 30, 2008 and 2007  
 (Dollars in thousands)  
 (Unaudited)

	Nine Months Ended September 30,	
	2008	2007
Cash flows provide by operating activities		
Net income	\$ 14,462	\$ 4,210
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,180	3,388
Provision for deferred income taxes	829	1,249
Change in fair value of derivative instruments	1,669	1,095
Loss on the sale of investments	377	-
Accretion of the discount of marketable debt securities	(103)	-
Losses on disposals of fixed assets	10	112
Stock based compensation	411	-
Noncash interest expense	16	16
Changes in operating assets and liabilities:		
Accounts receivable	(2,865)	6,554
Inventory	(1,806)	(2,351)
Income taxes receivable	(1,126)	-
Prepaid expenses	866	984
Accrued interest on marketable debt securities	50	-
Other assets	1,043	(1,017)
Accounts payable	1,587	5,909
Accounts payable – related parties	350	166
Income taxes payable	(1,231)	(1,490)
Accrued expense and other current liabilities	769	128
Accrued expense and other current liabilities – related parties	-	(40)
Deferred revenue	7,461	-
Other noncurrent liabilities	80	190
Net cash provided by operating activities	27,029	19,103
Cash flows used in investing activities		
Restricted cash	3,263	(109)
Collateralization of derivative instruments	(2,240)	1,352
Purchase of marketable securities	(56,807)	(14,803)
Proceeds from the sale of marketable securities	39,557	-
Net purchases of auction rate securities	(25,600)	-
Proceeds from the sale of fixed assets	8	-
Contingent purchase price payment	(218)	(140)
Capital expenditures	(13,177)	(14,419)
Net cash used in investing activities	(55,214)	(28,119)
Cash flows provided by (used in) financing activities		
Proceeds from line of credit	343	-
Proceeds from the issuance of stock	592	-
Excess tax benefit associated with stock options	22	-
Financing fee	-	(50)

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Net cash provided by (used in) financing activities	957	(50)
Net change in cash and cash equivalents	(27,228)	(9,066)
Cash and cash equivalents at beginning of period	54,655	63,129
Cash and cash equivalents at end of period	\$ 27,427	\$ 54,063
Cash paid for interest	\$ 1	\$ 3
Cash paid for taxes	\$ 8,967	\$ 2,992

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

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

1) Nature of operations and basis of presentation

FutureFuel Corp.

Viceroy Acquisition Corporation (“Viceroy”) was incorporated under the laws of the state of Delaware on August 12, 2005 to serve as a vehicle for the acquisition by way of 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 Viceroy completed an equity offering.

On July 21, 2006, Viceroy entered into an acquisition agreement with Eastman Chemical Company (“Eastman Chemical”) to purchase all of the issued and outstanding stock of Eastman SE, Inc. (“Eastman SE”). On October 27, 2006, a special meeting of the shareholders of Viceroy was held and the acquisition of Eastman SE was approved by the shareholders. On October 31, 2006, Viceroy acquired all of the issued and outstanding shares of Eastman SE from Eastman Chemical. Immediately subsequent to the acquisition, Viceroy changed its name to FutureFuel Corp. (“FutureFuel”) and Eastman SE changed its name to FutureFuel Chemical Company (“FutureFuel Chemical”).

Eastman SE, Inc.

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

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

In 2005, the Batesville Plant began the implementation of a biobased products platform. This includes the production of biofuels (biodiesel, bioethanol and lignin/biomass solid fuels) and biobased specialty chemical products (biobased solvents, chemicals and intermediates). In addition to biobased products, the Batesville Plant continues to manufacture fine chemicals and other organic chemicals.

The accompanying consolidated financial statements have been prepared by FutureFuel in accordance and consistent with the accounting policies stated in FutureFuel’s 2007 audited consolidated financial statements and should be read in conjunction with the 2007 audited consolidated financial statements of FutureFuel. Certain prior year balances have been reclassified to conform with the current year presentation.

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 are presented in conformity with generally accepted accounting principles in the United States and, of necessity, include some 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 subsidiary, FutureFuel Chemical. Intercompany transactions and balances have been eliminated in consolidation.

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

2) Inventories

The carrying values of inventory were as follows as of:

	September 30, 2008	December 31, 2007
At first-in, first-out or average cost (approximates current cost)		
Finished goods	\$ 11,857	\$ 8,993
Work in process	1,718	1,091
Raw materials and supplies	17,476	15,670
	31,051	25,754
LIFO reserve	(5,809)	(1,562)
Total inventories	\$ 25,242	\$ 24,192

3) Derivative instruments

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

	Asset/(Liability)			
	September 30, 2008		December 31, 2007	
	Quantity (Contracts) Long/ (Short)	Fair Market Value	Quantity (Contracts) Long/ (Short)	Fair Market Value
Regulated fixed price future commitments, included in prepaid expenses and other current assets	50	\$ (386)	-	\$ -
Regulated options, included in prepaid expenses and other current assets	(200)	\$ (1,530)	(100)	\$ (247)

The margin account maintained with a broker to collateralize these derivative instruments carried an account balance of \$3,028 and \$788 at September 30, 2008 and December 31, 2007, respectively, and is classified as other current assets in the consolidated balance sheet. The carrying values of the margin account and of the derivative instruments are included, net, in other current assets.

4) Marketable debt securities

At September 30, 2008, FutureFuel had investments in certain U.S. treasury bills and notes. These investments had maturity dates ranging from November 2008 to March 2009 and have been classified as current assets in the accompanying 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. The fair market value of these investments, including accrued interest, totaled \$31,900 at September 30, 2008. The fair market value of similar investments, including accrued interest, totaled \$15,086 at December 31, 2007.

Additionally, as of September 30, 2008, FutureFuel had made investments in certain auction rate securities. As of September 30, 2008, these securities had maturities ranging from June 2028 to July 2042. FutureFuel has classified

these instruments as current assets in the accompanying consolidated balance sheet as the issuers have either exercised their right to repurchase or a liquid market still exists for these securities, which allows FutureFuel to exit its positions within a short period of time. FutureFuel anticipates these securities either being sold or repurchased within the next year. Therefore, regardless of their maturity dates, FutureFuel has classified these investments as current. FutureFuel has designated these securities as being available-for-sale. Accordingly, these securities are carried at fair value, with unrealized gains and losses, net of taxes, reported as a component of stockholders' equity. No realized gains or losses have been incurred related to these securities through September 30, 2008.

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Notes to Consolidated Financial Statements of FutureFuel Corp.  
(Dollars in thousands, except per share amounts)  
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The fair market value of auction rate securities approximated their par value and, including accrued interest, totaled \$25,619 at September 30, 2008. No auction rate securities were held by FutureFuel at December 31, 2007.

5) Accrued expense and other current liabilities

Accrued expense and other current liabilities, including those associated with related parties, consisted of the following at:

	September 30, 2008	December 31, 2007
Accrued employee liabilities	\$ 2,412	\$ 1,722
Accrued property, use and franchise taxes	1,680	1,110
Accrued professional fees	-	30
Other	47	508
<b>Total</b>	<b>\$ 4,139</b>	<b>\$ 3,370</b>

6) Borrowings

In March 2007 FutureFuel Chemical entered into a \$50 million credit agreement with a commercial bank. The loan is a revolving facility the proceeds of which may be used for working capital, capital expenditures and the general corporate purposes of FutureFuel Chemical. The facility terminates in March 2010. Advances are made pursuant to a borrowing base comprised of 85% of eligible accounts plus 60% of eligible direct inventory plus 50% of eligible indirect inventory. Advances are secured by a perfected first priority security interest in accounts receivable and inventory. The interest rate floats at certain margins over the London Interbank Offered Rate ("LIBOR") or base rate based upon the leverage ratio from time to time as set forth in the following table.

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

There is an unused commitment fee of 0.25% per annum. Beginning December 31, 2007, and on the last day of each fiscal quarter thereafter, the ratio of EBITDA to fixed charges may not be less than 1.5:1. Beginning June 30, 2007, the ratio of total funded debt to EBITDA may not exceed 3.50:1, reduced to 3.25:1 at March 31, 2008, June 30, 2008 and September 30, 2008, and then 3:1 thereafter. FutureFuel has guaranteed FutureFuel Chemical's obligations under this credit agreement.

At September 30, 2008, borrowings of \$343 were outstanding under this credit facility.

7) Stock based compensation

The board of directors of FutureFuel adopted an omnibus incentive plan which was approved by the shareholders of FutureFuel at its 2007 annual shareholder meeting on June 26, 2007. The purpose of the plan is to:

- Encourage ownership in FutureFuel by key personnel whose long-term employment with or engagement by FutureFuel or its subsidiaries is considered essential to its continued progress and, thereby, encourage recipients to act in FutureFuel's shareholders' interests and share in its success;
  - Encourage such persons to remain in FutureFuel's employ or in the employ of its subsidiaries; and



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Notes to Consolidated Financial Statements of FutureFuel Corp.  
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- Provide incentives to persons who are not FutureFuel employees to promote FutureFuel's success.

The plan authorizes FutureFuel to issue stock options (including incentive stock options and nonqualified stock options), stock awards and stock appreciation rights. Eligible participants in the plan include: (i) members of FutureFuel's board of directors and its executive officers; (ii) regular, active employees of FutureFuel and any of its subsidiaries; and (iii) persons engaged by FutureFuel or any of its subsidiaries to render services to FutureFuel or its subsidiaries as an advisor or consultant.

Awards under the plan are limited to shares of FutureFuel's common stock, which may be shares acquired by FutureFuel, including shares purchased in the open market, or authorized but un-issued shares. Awards are limited to 10% of the issued and outstanding shares of FutureFuel's common stock in the aggregate.

The plan became effective upon its approval by FutureFuel's shareholders on June 26, 2007 and continues in effect for a term of ten years thereafter unless amended and extended by FutureFuel or unless otherwise terminated.

FutureFuel has adopted Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment ("SFAS No. 123(R)") and related interpretations and began recognizing compensation expense in its financial statements for stock based options based upon the grant-date fair value over the requisite service period.

In April 2008, FutureFuel granted a total of 250,000 stock options to members of its board of directors ("Director Options"). Additionally, it granted a total of 55,000 stock options to selected members of its management ("Management Options"). An additional 5,000 Management Options were issued in September 2008. The options awarded in April 2008 have an exercise price equal to the average of the bid and ask price of FutureFuel's common stock on the date of grant as established in private sales, which the board of directors determined to be the fair market value of such stock on that date. The Management Options awarded in September 2008 have an exercise price equal to the closing price of FutureFuel's common stock on the date of grant as quoted on the Over-the-Counter Bulletin Board. The Director Options vested immediately upon grant. Originally, one-third of the Management Options granted in April 2008 vested on each of the annual anniversary dates of the grant. Those Management Options were amended in September 2008 to provide for immediate vesting. The Management Options issued in September 2008 vested immediately upon grant. Both the Director Options and the Management Options awarded in April 2008 expire on April 7, 2013. The Management Options awarded in September 2008 expire on September 30, 2013. FutureFuel has utilized the Black Scholes Merton option pricing model, which relies on certain assumptions, to estimate the fair value of the options it granted.

The assumptions used in the determination of the fair value of the options granted are provided in the following table:

Assumptions	Director Options	April 2008 Management Options	September 2008 Management Options
Expected volatility rate	46.78%	48.74%	50.63%
Expected dividend yield	0.00%	0.00%	0.00%
Risk-free interest rate	2.03%	2.26%	2.22%
Expected forfeiture rate	0.00%	0.00%	0.00%
Expected term in years	2.50	3.50	2.50

The volatility rate for the options granted is derived from the historical stock price volatility of a peer group of companies over the same time period as the expected term of each stock option award. The volatility rate is derived by a mathematical formula utilizing the daily closing stock price data over the expected term. It is FutureFuel's expectation that volatility rates for future stock option grants will be based on FutureFuel's historical stock price volatility as FutureFuel develops a lengthier stock trading history.

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Notes to Consolidated Financial Statements of FutureFuel Corp.  
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The expected dividend yield is calculated using FutureFuel's expected dividend amount at the date of the option grant over the expected term divided by the fair market value of FutureFuel's common stock.

The risk-free interest rate is derived from the United States Federal Reserve's published interest rates of daily yields for the same time period as the expected term.

SFAS No. 123(R) specifies that only share-based awards expected to vest are to be included in share-based compensation expense. The estimated forfeiture rates are based upon FutureFuel's expected rate of forfeiture and are excluded from the quantity of awards included in share-based compensation expense.

FutureFuel has not historically granted stock options and therefore does not have a historical record of share-based award transactions on which to base an estimate of expected term. FutureFuel has therefore elected to utilize the "simplified" method of estimating expected term as discussed in Staff Accounting Bulletins No. 107 and No. 110.

For the three- and nine-month periods ended September 30, 2008, total share-based compensation expense (before tax) totaled \$84 and \$411, respectively. In the three-month period ended September 30, 2008, \$58, \$13 and \$13 of this balance was recorded as an element of selling, general and administrative expense, cost of goods sold and research and development expense, respectively. In the nine-month period ended September 30, 2008, \$382, \$15 and \$14 of this balance was recorded as an element of selling, general and administrative expense, cost of goods sold and research and development expense, respectively.

A summary of the activity of FutureFuel's stock option awards for the period beginning January 1, 2008 and ending September 30, 2008 is presented below:

	Options	Weighted-Average Exercise Price
Outstanding at January 1, 2008	-	-
Granted	310,000	\$ 4.04
Exercised	110,000	\$ 4.00
Cancelled, forfeited or expired	-	-
Outstanding at September 30, 2008	200,000	\$ 4.06
Weighted average remaining contractual life	4.53 years	
Options exercisable at September 30, 2008	200,000	\$ 4.06
Weighted average fair value of the options granted	n/a	\$ 1.33
Available for grant at September 30, 2008	2,360,000	n/a

The following table provides the remaining contractual term and weighted average exercise prices of stock options outstanding and exercisable at September 30, 2008:

Exercise Price	Number Outstanding at	Options Outstanding		Options Exercisable	
		Weighted-Average	Weighted-Average	Number Exercisable at September 30,	Weighted-Average
			Exercise	September 30,	Exercise

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	September 30, 2008	Remaining Contractual Life	Price	2008	Price
\$ 4.00	195,000	4.52 years	\$ 4.00	195,000	\$ 4.00
\$ 6.48	5,000	5.00 years	\$ 6.48	5,000	\$ 6.48

The weighted average remaining contractual life of all exercisable options is 4.53 years.

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(Dollars in thousands, except per share amounts)  
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The aggregate intrinsic values of total options outstanding and total options exercisable at September 30, 2008 are \$488 and \$488, respectively. Intrinsic value is the amount by which the last trade price of the common stock closest to September 30, 2008 exceeded the exercise price of the options granted.

The amendment of the Management Options in September 2008 referred to above resulted in the immediate recognition into expense of the estimated fair value of those options not previously recognized, which totaled \$74.

8) Provision for income taxes

	For the three months ended September 30,		For the nine months ended September 30,	
	2008	2007	2008	2007
Provision for income taxes	\$ 3,453	\$ 2,169	\$ 7,539	\$ 2,886
Effective tax rate	39.1%	39.4%	34.3%	40.7%

The effective tax rates for the three and nine months ended September 30, 2008 and 2007 reflect FutureFuel's expected tax rate on reported operating earnings before income tax.

FutureFuel's unrecognized tax benefits, recorded as an element of other noncurrent liabilities, totaled \$559 at September 30, 2008 and December 31, 2007, the total amount of which, if recognized, would reduce FutureFuel's effective tax rate.

FutureFuel does not expect its unrecognized tax benefits to change significantly over the next 12 months.

FutureFuel records interest and penalties net as a component of income tax expense. FutureFuel had accrued a balance of \$80 and \$0 at September 30, 2008 and December 31, 2007, respectively, for interest or tax penalties.

FutureFuel and its subsidiary, FutureFuel Chemical, file tax returns in the U.S. federal jurisdiction and with various state jurisdictions. FutureFuel was incorporated in 2005 and is subject to U.S., state and local examinations by tax authorities from 2005 forward. FutureFuel Chemical is subject to the effects of tax examinations that may impact the carry-over basis of its assets and liabilities.

9) Earnings per share

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

	2008	For the three months ended September 30,		For the nine months ended September 30,	
		2007	2008	2007	2008
Net income available to common stockholders	\$ 5,389	\$ 3,343	\$ 14,462	\$ 4,210	
Weighted average number of common shares outstanding	26,787,609	26,700,000	26,729,416	26,700,000	
Effect of warrants	1,948,721	5,586,294	649,574	5,574,327	
Effect of stock options	85,656	-	40,348	-	
	28,821,986	32,286,294	27,419,338	32,274,327	

Weighted average diluted number of  
common shares outstanding

Basic earnings per share	\$	0.20	\$	0.13	\$	0.54	\$	0.16
Diluted earnings per share	\$	0.19	\$	0.10	\$	0.53	\$	0.13

Certain warrants to purchase shares of FutureFuel's common stock were not included in the computation of diluted earnings per share for the nine-month period ended September 30, 2008 as they were anti-dilutive in the period. The weighted average number of warrants excluded on this basis was 15,000,000 for the nine months ended September 30, 2008.

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

10) Segment information

FutureFuel has determined that it 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 manufactures and markets biodiesel. Biodiesel revenues are generally derived in one of two ways. Revenues are generated under tolling agreements whereby customers supply key biodiesel feed stocks which FutureFuel then converts into biodiesel at the Batesville Plant in exchange for a fixed price processing charge per gallon of biodiesel produced. Revenues are also generated through the production and sale of biodiesel to customers through FutureFuel’s distribution network at the Batesville Plant and through distribution facilities available at a leased oil storage facility near Little Rock, Arkansas at negotiated prices.

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 for the three months ended September 30, 2008 and 2007 attributable to the United States and foreign countries (based upon the billing addresses of its customers) were as follows:

Three Months Ended	United States	All Foreign Countries	Total
September 30, 2008	\$ 49,618	\$ 10,967	\$ 60,585
September 30, 2007	\$ 36,884	\$ 9,674	\$ 46,558

FutureFuel’s revenues for the nine months ended September 30, 2008 and 2007 attributable to the United States and foreign countries (based upon the billing addresses of its customers) were as follows:

Nine Months Ended	United States	All Foreign Countries	Total
September 30, 2008	\$ 128,283	\$ 25,418	\$ 153,701
September 30, 2007	\$ 105,066	\$ 20,619	\$ 125,685

For the three months ended September 30, 2008 and 2007, revenues from Mexico accounted for 9% and 11%, respectively, of total revenues. For the nine months ended September 30, 2008 and 2007, revenues from Mexico accounted for 10% and 11%, respectively, of total revenues. Beginning in the third quarter of 2007, FutureFuel Chemical Company began selling significant quantities of biodiesel to companies in Canada, at which time revenues from Canada became a material component of total revenues. For both the three months ended September 30, 2008 and 2007, revenues from Canada accounted for 9% of total revenues. For the nine months ended September 30, 2008 and 2007, revenues from Canada accounted for 6% and 4%, respectively, of total revenues. Other than Mexico and Canada, revenues from a single foreign country during the three and nine months ended September 30, 2008 and 2007 did not exceed 2% of total revenues.



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Summary of business by segment

	For the three months ended September 30,		For the nine months ended September 30,	
	2008	2007	2008	2007
<b>Revenues</b>				
Chemicals	\$ 41,800	\$ 35,668	\$ 114,496	\$ 105,737
Biofuels	18,785	10,890	39,205	19,948
<b>Revenues</b>	<b>\$ 60,585</b>	<b>\$ 46,558</b>	<b>\$ 153,701</b>	<b>\$ 125,685</b>
<b>Segment gross margins</b>				
Chemicals	\$ 8,306	\$ 8,326	\$ 23,742	\$ 19,047
Biofuels	2,574	(1,441)	2,170	(9,028)
<b>Segment gross margins</b>	<b>10,880</b>	<b>6,885</b>	<b>25,912</b>	<b>10,019</b>
Corporate expenses	(2,154)	(2,247)	(6,102)	(5,539)
<b>Income before interest and taxes</b>	<b>8,726</b>	<b>4,638</b>	<b>19,810</b>	<b>4,480</b>
Interest and other income	671	877	2,585	2,695
Interest and other expense	(555)	(3)	(394)	(79)
Provision for income taxes	(3,453)	(2,169)	(7,539)	(2,886)
<b>Net income</b>	<b>\$ 5,389</b>	<b>\$ 3,343</b>	<b>\$ 14,462</b>	<b>\$ 4,210</b>

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.

Gross margin for the biodiesel segment for the nine months ended September 30, 2008 was favorably impacted by the receipt of \$2,000 from the State of Arkansas during the second quarter resulting from our biodiesel operating cost grant application under the Arkansas Alternative Fuels Development Program. This funding was attributable to our biodiesel production between January 1, 2007 and December 31, 2007 and was calculated as \$0.20 per gallon of biodiesel produced, capped at \$2,000. FutureFuel has applied for funding under this program for biodiesel produced during the period July 1 to September 30, 2008 but has not yet received notification that its application has been approved. Based on the characteristics of the Arkansas Alternative Fuels Development Program and the State funding behind this program, FutureFuel recognizes income in the period funding is received.

11) Fair value measurements

FutureFuel adopted Statement of Financial Accounting Standards (“SFAS”) No. 157, Fair Value Measurements, effective January 1, 2008. Under SFAS No. 157, 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. SFAS No. 157 also establishes 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.

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The following table provides information by level for assets and liabilities that are measured at fair value, as defined by SFAS No. 157, on a recurring basis.

Description	Fair Value at September 30, 2008	Asset/(Liability) Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Available for sale:				
U.S. treasury securities	\$ 31,900	\$ 31,900	\$ -	\$ -
Auction rate securities	\$ 25,619	\$ -	\$ 25,619	\$ -
Derivative instruments	\$ (1,916)	\$ (1,916)	\$ -	\$ -

12) Subsequent events

On October 1, 2008 FutureFuel declared a special cash dividend of U.S. \$0.70 per share on our common stock, with a record date of October 22, 2008 and a payment date of November 11, 2008.

## 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

#### In General

FutureFuel Chemical Company's historical revenues have been generated through the sale of specialty chemicals. FutureFuel Chemical Company breaks its chemicals business into two main product groups: custom manufacturing and performance chemicals. Major products in the custom manufacturing group include: (i) nonanoyloxybenzenesulfonate, a bleach activator manufactured exclusively for The Procter & Gamble Company for use in a household detergent; (ii) a proprietary herbicide (and intermediates) manufactured exclusively for Arysta LifeScience North America Corporation, a major life sciences company; and (iii) two other product lines (CPOs and DIPBs) produced under conversion contracts for Eastman Chemical Company. The major product line in the performance chemicals group is SSIPA/LiSIPA, polymer modifiers that aid the properties of nylon manufactured for a broad customer base. There are a number of additional small volume custom and performance chemical products that FutureFuel Chemical Company groups into "other products". In late 2005, FutureFuel Chemical Company began producing biodiesel as a product. Beginning in 2006, revenues and cost of goods sold for biofuels were treated as a separate business segment.

Revenues generated from the bleach activator are based on a supply agreement with the customer. The supply agreement stipulates selling price per kilogram based on volume sold, with price moving up as volumes move down, and vice-versa. The current contract expires in March 2013. FutureFuel Chemical Company pays for raw materials required to produce the bleach activator. The contract with the customer provides that the price received by FutureFuel Chemical Company for the bleach activator is indexed to changes in certain items, enabling FutureFuel Chemical Company to pass along most inflationary increases in production costs to the customer.

FutureFuel Chemical Company has been the exclusive manufacturer for its customer of a proprietary herbicide and certain intermediates. These products are beginning to face some generic competition, and no assurances can be given that FutureFuel Chemical Company will remain the exclusive manufacturer for this product line. The contracts automatically renew for successive one-year periods, subject to the right of either party to terminate the contract not later than 270 days prior to the end of the then current term for the herbicide and not later than 18 months prior to the then current term for the intermediates. No assurances can be given that these contracts will not be terminated. The customer supplies most of the key raw materials for production of the proprietary herbicide. There is no pricing mechanism or specific protection against cost changes for raw materials or conversion costs that FutureFuel Chemical Company is responsible for purchasing and/or providing.

CPOs are chemical intermediates that promote adhesion for plastic coatings and DIPBs are intermediates for production of Eastman Chemical Company products used as general purpose inhibitors, intermediates or antioxidants. As part of our acquisition of FutureFuel Chemical Company, FutureFuel Chemical Company entered into conversion agreements with Eastman Chemical Company that effectively provide a conversion fee to FutureFuel Chemical Company for DIPB based on volume manufactured, with a minimum annual fee for both products. In addition, the conversion agreements provide for revenue adjustments for actual price of raw materials purchased by FutureFuel Chemical Company at standard usages. Eastman Chemical Company provides key raw materials at no

cost. For the key raw materials, usage over standard is owed Eastman Chemical Company; likewise, any improvement over standard is owed to FutureFuel Chemical Company at the actual price Eastman Chemical Company incurred for the key raw material.

SSIPA/LiSIPA revenues are generated from a diverse customer base of nylon fiber manufacturers. Contract sales are indexed to key raw materials for inflation; otherwise, there is no pricing mechanism or specific protection against raw material or conversion cost changes.

Other products include agricultural intermediates and additives, imaging chemicals, fiber additives and various specialty pharmaceutical intermediates that FutureFuel Chemical Company has in full commercial production or in development. These products are currently sold in small quantities to a large customer base. Pricing for these products is negotiated directly with the customer (in the case of custom manufacturing) or is established based upon competitive market conditions (in the case of performance chemicals). In general, these products have no pricing mechanism or specific protection against raw material or conversion cost changes.

The year ended December 31, 2006 was the first full year that FutureFuel Chemical Company sold biodiesel. Capacity was initially 3 million gallons per year, increasing to 24 million gallons per year by the end of 2007 through a dedicated continuous processing line and, to a lesser extent, batch processing. During 2006 and 2007, FutureFuel Chemical Company sold for its own account and produced, for a fee, biodiesel for a third party under a tolling agreement. The tolling agreement terminated on September 30, 2007 and was not renewed. Today, FutureFuel Chemical Company procures all of its own feedstock and only sells biodiesel for its own account. In rare instances, FutureFuel Chemical Company purchases biodiesel from other producers for resale. FutureFuel Chemical Company has the capability to process multiple types of vegetable oils and animal fats, it can receive feedstock by rail or truck, and it has completed the construction of substantial storage capacity to acquire feedstock at advantaged prices when market conditions permit. We have plans to increase FutureFuel Chemical Company's production capacity to 59 million gallons of biodiesel per year by the first quarter of 2009 through the addition of a second continuous processing line. We believe we have successfully demonstrated our ability to keep our existing continuous processing line at or near capacity for sustained periods of time as well as our ability to both procure and logistically handle large quantities of feedstock. Uncertainty related to our future biodiesel production relates to changes in feedstock prices relative to biodiesel prices and also the \$1 per gallon federal blenders credit, which has been extended to the end of 2009. Please see Part II, Item 1.A. below for additional discussion of this risk.

The majority of our and FutureFuel Chemical Company's expenses are cost of goods sold. Cost of goods sold reflects raw material costs as well as both fixed and variable conversion costs, conversion costs being those expenses that are directly or indirectly related to the operation of FutureFuel Chemical Company's plant. Significant conversion costs include labor, benefits, energy, supplies and maintenance and repair. In addition to raw material and conversion costs, cost of goods sold includes environmental reserves and costs related to idle capacity. Finally, cost of goods sold includes hedging gains and losses recognized by us. Cost of goods sold is allocated to the chemical and biofuels business segments based on equipment and resource usage for most conversion costs and based on revenues for most other costs.

Operating costs include selling, general and administrative and research and development expenses. These expense categories include expenses that were directly incurred by us and FutureFuel Chemical Company.

The discussions of results of operations that follow are based on revenues and expenses in total and for individual product lines and do not differentiate related party transactions.

#### Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

Revenues: Revenues for the quarter ended September 30, 2008 were \$60,585,000 as compared to revenues for the quarter ended September 30, 2007 of \$46,558,000, an increase of 30%. The increase was mainly attributable to increased volumes and prices of biodiesel, the proprietary herbicide and intermediates and SSIPA; all product lines increased at least 3% over the third quarter of 2007. Revenues from biofuels increased 72% and accounted for 31% of total revenues in 2008 as compared to 23% in 2007. Revenues from chemicals increased 17% and accounted for 69% of total revenues in 2008 as compared to 77% in 2007. Within the chemicals segment, revenues for the third quarter of 2008 changed as follows as compared to the third quarter of 2007: revenues from the bleach activator increased 12%; revenues from the proprietary herbicide and intermediates increased 43%; revenues from CPOs increased 8%; revenues from DIPBs increased 3%; revenues from SSIPA/LiSIPA increased 41%; and revenues from other products increased 5%.

Sales volumes of the bleach activator during the quarter ended September 30, 2008 were slightly higher than the quarter ended September 30, 2007 and were generally in-line with expectations. The 12% increase in revenue was mainly attributable to higher prices that resulted from contractual inflationary increases of certain raw material prices. We have experienced relatively stable demand from this customer since the first quarter of 2007 and are not aware of any particular market or customer-specific dynamic that would materially change this trend in the fourth quarter of 2008 or in 2009.

At present, revenues from the bleach activator and the proprietary herbicide and intermediates are together the most significant components of FutureFuel Chemical Company's revenue base, together accounting for 51% of revenues in the quarter ended September 30, 2008 as compared to 56% in the quarter ended September 30, 2007. 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 certainty the revenues we will receive from this product in the future. We believe our customer for the proprietary herbicide has been able to maintain its volume in light of generic competition by being more price competitive, changing its North American distribution system and developing new applications. In addition, our customer has benefited from the general increase in planted acreage in the markets it serves.

Revenues from CPOs and DIPBs together increased 6% during the third quarter of 2008, due mainly to higher prices stemming from contractual inflationary increases of certain raw material prices and conversion costs. We believe our customer is actively seeking new customers and new applications for these products; if successful we may see modest volume improvement for one or both product lines in 2009. However, both of these products are late in their life cycle and both are negatively impacted by the automotive and housing slow down. As a result, future market conditions for both CPOs and DIPBs may be challenging.

The majority of the increased revenues from biodiesel stem from higher selling prices during the third quarter of 2008 as compared to the third quarter of 2007. In addition, gallons of biodiesel sold during the third quarter of 2008 were 20% greater than the same period of 2007; this volume increase was, in turn, due to stronger demand from certain key bulk customers. FutureFuel Chemical Company was able to support this increased demand by running at or near capacity production rates during most of the third quarter of 2008. There were no material shutdowns and we leveraged our newly built storage capacity and expanded infrastructure, as well as our fleet of leased railcars, to meet customer requirements during the peak demand season for biodiesel.

Cost of Goods Sold and Distribution: Total cost of goods sold and distribution for the quarter ended September 30, 2008 were \$49,705,000 as compared to total cost of goods sold and distribution for the quarter ended September 30, 2007 of \$39,673,000, an increase of 25%.

Cost of goods sold and distribution for the quarter ended September 30, 2008 for FutureFuel Chemical Company's chemicals segment were \$33,494,000 as compared to cost of goods sold and distribution for the quarter ended September 30, 2007 of \$27,342,000. On a percentage basis, cost of goods sold and distribution increased more than revenues. This is due to sharply higher raw material prices experienced during most of the third quarter of 2008. FutureFuel Chemical Company is able to pass the majority of raw material prices increases on to its customers via contractual inflationary price adjustments. However, increases in prices of finished products via these contractual adjustments lag increases in raw material prices by one quarter. Increased cost of goods sold and distribution for the chemicals segment were partially offset by increased sales of biodiesel during the third quarter of 2008, which in turn pulled a greater share of fixed cost away from the chemicals segment as compared to the third quarter of 2007.

Cost of goods sold and distribution for the third quarter of 2008 for FutureFuel Chemical Company's biofuels segment were \$16,211,000 as compared to cost of goods sold and distribution for the third quarter of 2007 of \$12,331,000. On a percentage basis, cost of goods sold and distribution increased 31% against increased revenues of 72%, resulting in increased margins on biodiesel for the third quarter of 2008 as compared to the third quarter of 2007. These increased margins are a result of economies of scale that result from higher volumes of biodiesel produced and sold. In addition, margins were favorably impacted by gains on hedging activity of \$2,290,000 during the third quarter of 2008 as compared to losses of \$1,563,000 during the third quarter of 2007. Excluding these gains the biofuels segment was still profitable on a fully allocated basis during the third quarter of 2008. Cost of goods sold and distribution for the biofuels segment does not include any funding from the State of Arkansas under the Arkansas Alternative Fuels Development Program, although we did submit an application for such funding. Under this program, biodiesel producers in the state of Arkansas are eligible to receive \$0.20 per gallon for every gallon of biodiesel produced during defined time periods, up to a maximum of \$2,000,000 per period. FutureFuel Chemical Company applied for



and received the maximum \$2,000,000 funding under this program for biodiesel produced between January 1, 2007 and June 30, 2008. The next eligible application period opened July 1, 2008 and closes June 30, 2009. FutureFuel Chemical Company has applied for the \$0.20 per gallon credit for biodiesel produced during the third quarter of 2008. Due to the uncertainty of funding from this program, we do not recognize a credit to cost of goods sold and distribution until such time as our application is approved and funding is received.

**Operating Expenses:** Operating expenses decreased from \$2,247,000 for the quarter ended September 30, 2007 to \$2,154,000 for the quarter ended September 30, 2008, or 4%. This decrease was primarily attributable to lower compensation expense which, in turn, resulted from lower director fees.

**Provision for Income Taxes:** The effective tax rates for the three months ended September 30, 2008 and 2007 reflect our expected tax rate on reported operating earnings before income taxes. We have determined that we do not believe that we have a more likely than not probability of realizing a portion of our deferred tax assets. As such, we have recorded a valuation allowance of \$935,000 at September 30, 2008.

#### Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

**Revenues:** Revenues for the nine months ended September 30, 2008 were \$153,701,000 as compared to revenues for the nine months ended September 30, 2007 of \$125,685,000, an increase of 22%. The increase was mainly attributable to increased volumes of biodiesel produced and sold; revenues for the chemical business as a whole increased 8%, contributing modestly to the overall increase. Revenues from biofuels increased 97% and accounted for 25% of total revenues in 2008 as compared to 16% in 2007. Revenues from chemicals increased 8% and accounted for 75% of total revenues in 2008 as compared to 84% in 2007. Within the chemicals segment, revenues for the first nine months of 2008 changed as follows as compared to the first nine months of 2007: revenues from the bleach activator increased 5%; revenues from the proprietary herbicide and intermediates increased 26%; revenues from CPOs increased 15%; revenues from DIPBs decreased 15%; revenues from SSIPA/LiSIPA increased less than 1%; and revenues from other products increased 12%.

Revenues from the bleach activator were generally in-line with expectations. We have experienced relatively stable demand from this customer since the first quarter of 2007 and are not aware of any particular market or customer-specific dynamic that would materially change this trend in the fourth quarter of 2008 or 2009.

At present, revenues from the bleach activator and the proprietary herbicide and intermediates are together the most significant components of FutureFuel Chemical Company's revenue base, together accounting for 55% of revenues in the first nine months of 2008 as compared to 61% in first nine months of 2007. 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 certainty the revenues we will receive from this product in the future. We believe our customer has been able to maintain its volume in light of generic competition by being more price competitive, changing its North American distribution system and developing new applications.

Revenues from CPOs and DIPBs together decreased 2% during the first nine months of 2008, due to a 15% reduction in DIPB revenues, which in turn is attributable to increased competition in our customer's market and the general decline in the housing and building industries, which are large consumers of DIPB end products. Revenues from DIPB steadily declined from the first quarter of 2007 through the second quarter of 2008 as these market conditions came into effect. The market stabilized during the third quarter of 2008 and revenues from DIPB increased modestly during this period. We believe our customer is actively seeking new customers and new applications for both products; if successful we may see modest volume improvement for one or both product lines in 2009. However, both of these products are late in their life cycle and both are negatively impacted by the automotive and housing slow down. As a result, future market conditions for both CPOs and DIPBs may be challenging.

Revenue from biodiesel increased in the first nine months of 2008 due to higher selling prices for biodiesel, increased capacity utilization and increased demand from certain core customers. FutureFuel Chemical Company's continuous production line was shut down from February 2007 to May 2007 as a result of a fire. This incident negatively impacted production in the first nine months of 2007. Production during the first nine months of 2008 has run without any material shutdowns and FutureFuel Chemical Company has demonstrated on a consistent and sustained basis its

ability to run at or near nameplate capacity of 24 million gallons per year.

**Cost of Goods Sold and Distribution:** Total cost of goods sold and distribution for the nine months ended September 30, 2008 were \$127,788,000 as compared to total cost of goods sold and distribution for the nine months ended September 30, 2007 of \$115,666,000, an increase of 10%.

Cost of goods sold and distribution for the nine months ended September 30, 2008 for FutureFuel Chemical Company's chemicals segment were \$90,753,000 as compared to cost of goods sold and distribution for the nine months ended September 30, 2007 of \$86,690,000. This reflects an increase of 5% which is generally in line with increased revenues during the nine month period of 8%. The modest increase in margins is attributable to increased volumes of biodiesel sold, which pulled fixed cost away from the chemicals segment. The decrease is also due to the results of plant-wide cost reduction efforts that had not yet been completed as of the end of the first nine months of 2007. These factors were partially offset by significant increases in raw material prices during the first nine months of 2008 (the second and third quarters in particular) as compared to the same period a year earlier. In some cases FutureFuel Chemical Company has price protection built into its long-term contracts and in other cases FutureFuel Chemical Company is able to pass along price increases to its customers. However, the contractual inflationary price adjustments to pricing under long-term contracts lag raw material price increases by one quarter.

Cost of goods sold and distribution for the nine months ended September 30, 2008 for FutureFuel Chemical Company's biofuels segment were \$37,035,000 as compared to cost of goods sold and distribution for the nine months ended September 30, 2007 of \$28,976,000. On a percentage basis, cost of goods sold and distribution for the biofuels segment increased 28% from 2007 to 2008 while revenues increased 97%. FutureFuel Chemical Company was able to offset volume-based increases in cost through the following initiatives. First, we received \$2 million from the State of Arkansas resulting from our biodiesel operating cost grant application under the Arkansas Alternative Fuels Development Program; there was no similar funding under this program received during the first nine months of 2007. As previously discussed, we have applied for additional funding under the program for biodiesel produced during the third quarter of 2008 but will not recognize a credit to cost of goods sold and distribution until our application is approved and funding is received. Second, we sold certain biodiesel feedstock during the second quarter of 2008 based on an analysis of market value relative to product margins from converting the feedstock; these sales are recorded as an offset to cost of goods sold and distribution. We intend to continue pursuing these opportunities where appropriate. Third, we produced biodiesel primarily in batch processes during the first quarter of 2007 as a result of the fire in early February that disabled our continuous line. During 2008, we produced almost entirely in the continuous line, with the exception of several weeks in June when produced in batch processes to meet a seasonal peak in demand. The continuous line is more efficient and produces higher volumes per reactor than the batch process and absorbs fewer overhead costs per gallon of biodiesel produced. We will continue to focus our production on our continuous line, utilizing batch processes only to achieve higher capacity rates when market conditions so warrant, to test new processing techniques, and to experiment with various alternative feedstock. Lastly, the biofuels segment recognized a loss of \$1,786,000 during the first nine months of 2008 related to hedging activities, less than the loss of \$5,090,000 recognized during the same period of 2007. These losses stem from increasing prices of heating oil and related energy commodities during the respective time periods; we generally sell futures contracts and/or options on futures contracts at the time we make volume and price commitments on feedstock purchases. In a rising price environment this strategy will result in losses on hedging activity. However, these losses are offset by larger than anticipated profits on the sale of physical inventory. Additionally, the use of hedging instruments enables us to commit to large feedstock purchases and to store both feedstock and biodiesel inventory for long periods of time without exposure to risk of swings in energy prices.

**Operating Expenses:** Operating expenses increased from \$5,539,000 for the nine months ended September 30, 2007 to \$6,102,000 for the nine months ended September 30, 2008, or approximately 10%. This increase was primarily attributable to two factors. First, compensation expense increased \$293, or 17%, during the first nine months of 2008; stock option expense, which had not been incurred prior to the second quarter of 2008, accounted for the majority of this increase. Second, research and development expense increased \$426, or 16%. This increase is a result of an influx of new opportunities in 2008 (both custom manufacturing and multi-customer proprietary projects) that require research and development hours to review.

Provision for Income Taxes: The effective tax rates for the nine months ended September 30, 2008 and 2007 reflect our expected tax rate on reported operating earnings before income taxes. The reduced rate in the first nine months of 2008 as compared to the first nine months of 2007 is a result of our investments in certain tax-free securities during 2008. We have determined that we do not believe that we have a more likely than not probability of realizing a portion of our deferred tax assets. As such, we have recorded a valuation allowance of \$935,000 at September 30, 2008.

## 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. All custom manufactured products are manufactured under written contracts. Performance chemicals and biodiesel are 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 volume discounts, 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. Bill and hold transactions for three specialty chemical customers in 2008 and two specialty chemical customers in 2007 related 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 \$34,088,000 and \$22,671,000 for the nine months ended September 30, 2008 and 2007, respectively. Bill and hold revenue was higher in 2008 primarily from converting one customer's product line entirely to a bill and hold arrangement.

## Liquidity and Capital Resources

Our consolidated net cash provided by (used in) operating activities, investing activities and financing activities for the nine months ended September 30, 2008 and 2007 are set forth in the following chart.

(Dollars in thousands)

	September 30, 2008	September 30, 2007
Net cash provided by operating activities	\$ 27,029	\$ 19,103
Net cash used in investing activities	\$ (55,214)	\$ (28,119)
Net cash provided by (used in) financing activities	\$ 957	\$ (50)

Operating Activities: Cash provided by operating activities increased from \$19,103 during the first nine months of 2007 to \$27,029 during the first nine months of 2008. The increase in cash provided by operating activities is a result of a \$10,252 increase in net income, a \$7,461 increase in cash provided by the change in deferred revenue and a \$2,060 increase in cash provided by the change in other assets. Partially offsetting these increases are a \$9,419 decrease in cash used in the change in accounts receivable, a \$4,322 decrease in cash used in the change in accounts payable and a \$1,126 decrease in cash used in the change in income taxes payable.

Other than the changes in cash discussed above, no single item resulted in a greater or less than \$1 million change in cash provided from operating activities between the two nine-month periods of 2007 and 2008.

Investing Activities: Cash used in investing activities increased from \$28,119 in the nine months ended September 30, 2007 to \$55,214 in the nine months ended September 30, 2008. \$25,600 of this \$27,095 increase resulted from the purchase of auction rate securities during the nine months ended September 30, 2008. These investments are further described below under "Capital Management".

Financing Activities: Cash used in financing activities was \$50 in the first nine months of 2007 as compared to cash provided by financing activities of \$957 in the first nine months of 2008. Financing activities during 2007 consisted solely of the payment of a bank financing fee. Financing activities during 2008 consisted primarily of proceeds from our line of credit and proceeds from the issuance of stock. The line of credit is used to manage fluctuations in

working capital. The issuance of stock consisted of the exercise of warrants and options.

## Credit Facility

FutureFuel Chemical Company entered into a \$50 million credit agreement with a commercial bank in March 2007. The loan is a revolving facility the proceeds of which may be used for working capital, capital expenditures and general corporate purposes of FutureFuel Chemical Company. The facility terminates in March 2010. Advances are made pursuant to a borrowing base. Advances are secured by a perfected first priority security interest in accounts receivable and inventory. The interest rate floats at certain margins over LIBOR or base rate based upon certain leverage ratio from time to time.

There is an unused commitment fee. Beginning December 31, 2007, and on the last day of each fiscal quarter thereafter, the ratio of EBITDA to fixed charges may not be less than 1.5:1. Beginning June 30, 2007, the ratio of total funded debt to EBITDA may not exceed 3.50:1, reduced to 3.25:1 at March 31, 2008, June 30, 2008 and September 30, 2008, and then 3:1 thereafter. We have guaranteed FutureFuel Chemical Company's obligations under this credit agreement.

FutureFuel Chemical Company had \$343,000 of borrowings under this \$50 million credit agreement as of September 30, 2008 and no borrowings as of December 31, 2007.

We intend to fund future capital requirements for FutureFuel Chemical Company's chemical and biofuels segments from cash flow generated by FutureFuel Chemical Company as well as from existing cash and borrowings under the credit facility. We do not believe there will be a need to issue any securities to fund such capital requirements.

## Special Dividend

On October 1, 2008, we declared a special cash dividend of U.S. \$0.70 per share on our common stock, with a record date of October 22, 2008 and a payment date of November 11, 2008.

## Off-Balance Sheet Arrangements

Our only off-balance sheet arrangements were: (i) the financial assurance trusts established for the benefit of the Arkansas Department of Environmental Quality; and (ii) hedging transactions. The financial assurance trusts were established to provide assurances to the Arkansas Department of Environmental Quality that, in the event the Batesville facility is closed permanently, any reclamation activities necessitated under applicable environmental laws would be completed. The amounts held in trust were included in restricted cash and cash equivalents on our balance sheet. The closure liabilities are included in other noncurrent liabilities, but only on a present value basis. These financial assurance trusts were terminated on August 8, 2008 and were replaced by our guaranty. This guaranty is not expected to have a material adverse effect upon our financial condition.

We engage in two types of hedging transactions. First, we hedge our biodiesel sales through the purchase and sale of futures contracts and options on futures contracts of energy commodities. This activity was captured on our balance sheet at September 30, 2008 and December 31, 2007. Second, we hedge our biodiesel feedstock through the execution of purchase contracts and supply agreements with certain vendors. These hedging transactions are recognized in earnings and were not recorded on our balance sheet at September 30, 2008 or December 31, 2007 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 biodiesel 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 FutureFuel Chemical Company has committed to a certain volume of feedstock in a future period and has fixed the basis for that volume.

## Capital Management



Over approximately the last eighteen months, the global financial markets have experienced significant volatility and fluctuations in credit market liquidity. In some instances, these market conditions have caused companies to reconsider the classification of certain investments on their balance sheets and, in some cases, to record losses on the reduced fair market value of those investments. To date, as more fully described in the following paragraphs, we have been able to avoid these problems through our active management of our short-term investments and cash.

As a result of our initial equity offering and the subsequent positive operating results of FutureFuel Chemical Company, we have accumulated excess working capital. Subsequent to the payment of the previously announced special dividend of \$0.70 per common share, we intend to retain all remaining cash to fund infrastructure and capacity expansion at FutureFuel Chemical Company and to pursue complimentary acquisitions in the oil and gas and chemical industries. While in the present state of having excess working capital, we intend to manage these assets in such a way as to generate sufficient returns on these funds. Third parties have not placed significant restrictions on our working capital management decisions.

In the first nine months of 2008, the management of these funds has largely taken the form of investments in U.S. treasury bills and bonds, investments in foreign denominated government bonds, investments in auction rate securities, investments in foreign currency and the holding of cash in money market or similar bank accounts.

Beginning in late 2007, we made investments in certain U.S. treasury bills and notes. As of September 30, 2008, our investments in U.S. treasury debt securities carried maturity dates ranging from November 2008 to March 2009. We have designated these securities as being available-for-sale. Accordingly, these securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported as a separate component of stockholders' equity. The fair market value of these securities, including accrued interest, totaled \$31,900,000 at September 30, 2008.

In 2008 we made an investment in treasury bonds of a certain foreign government. As of September 30, 2008, the instruments comprising this investment had matured or been sold and no subsequent, similar investments had been made.

We have selectively made investments in certain auction rate securities that we believe offer sufficient yield along with sufficient liquidity. To date, all the auction rate securities in which we have invested have maintained a mechanism for liquidity, meaning that the respective auctions have not failed, the issuers have called the instruments, or a secondary market exists for liquidation of the securities. We have classified these instruments as current assets in the accompanying consolidated balance sheet and carry them at their estimated fair market value. The fair market value of these instruments approximated their par value and, including accrued interest, totaled \$25,619,000 at September 30, 2008. Auction rate securities are typically long term bonds issued by an entity for which there is a series of auctions over the life of the bond that serve to reset the interest rate on the bonds to a market rate. These auctions also serve as a mechanism to provide liquidity to the bond holders; as long as there are sufficient purchasers of the auction rate securities, the then owners of the auction rate securities are able to liquidate their investment through a sale to the new purchasers. In the event of an auction failure, a situation when there are more sellers than buyers of a particular issue, the current owners of an auction rate security issue may not be able to liquidate their investment. As a result of an auction failure, a holder may be forced to hold the particular security either until maturity or until a willing buyer is found. Even if a willing buyer is found, however, there is no guarantee that this willing buyer will purchase the security for its carrying value, which would result in a loss being realized on the sale. The liquidity problems currently experienced in the U.S. auction rate securities markets have generally been focused on closed-end fund and student loan auction rate securities, asset classes that we have avoided.

In 2008, we made investments in certain foreign currencies. We exited from these investments prior to September 30, 2008.

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

#### Other Matters

We entered into an agreement with a customer to construct at a fixed price a processing plant and produce a certain chemical for the customer. We engaged a third party to act as general contractor on the construction of this plant for a guaranteed price. That general contractor defaulted on its obligations under its contract with us and abandoned the

project. As a result, we have undertaken the general contractor role ourselves. We also filed suit against our former contractor to recoup any damages that we may incur as a result of his default. The former contractor has counterclaimed against us for amounts he asserts are due him under our contract with him. At this time, we are unable to determine what effect the general contractor's default and/or his counterclaim will have on us or on our financial condition.

A customer entered into a contract with us for the purchase of approximately one million gallons of biodiesel. The customer defaulted on a portion of the contract approximately one month later by which time the market price of biodiesel had declined substantially. Pursuant to the general terms and conditions of the contract which we had previously agreed to with the customer, we filed with the American Arbitration Association to recoup our damages that resulted from the customer's default. The customer claims that we breached the contract and has brought suit in court for a declaratory judgment that we repudiated the contract; that the customer does not owe us any damages; and for recovery of its court costs and attorneys fees. At this time we are unable to determine the probability that we will be successful in recovering our damages. We do not expect that the customer's claim against us will have a material impact on our financial condition.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

In recent years, general economic inflation has not had a material adverse impact on FutureFuel Chemical Company's 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, biofuel 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, so raw material price risk remains a significant risk.

In order to manage price risk caused by market fluctuations in biofuel prices, we may enter into exchange traded commodity futures and options contracts. We account for these derivative instruments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133 Accounting for Derivative Instruments and Hedging Activities, as amended. Under these standards, 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 2008 or 2007. 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 quarter to quarter due to the timing of the change in value of the derivative instruments relative to the sale of biofuel being sold. As of September 30, 2008 and December 31, 2007, the fair values of our derivative instruments were a net liability in the amount of \$1,916,000 and \$247,000, 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 animal fat, electricity, caustic soda, coal and natural gas. The availability and price of all of these items are subject to wide fluctuations due to unpredictable factors such as weather conditions, overall economic conditions, farmers' planting decisions, governmental policies 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 in the first nine months of 2008. 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 commodities listed below would result in the following change in annual gross profit:

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Item	Volume(a) Requirements	Units	Hypothetical Adverse Change in Price	Decrease in Gross Profit	Percentage Decrease in Gross Profit
Animal fat	77,358,801	LB	10.0%	\$ 3,447,000	13.3%
Electricity	68,388	MWH	10.0%	\$ 369,000	1.4%

(a) Volume requirements and average price information are based upon volumes used and prices obtained for the nine months ended September 30, 2008. Volume requirements may differ materially from these quantities in future years as the business of FutureFuel Chemical Company evolves.

As of September 30, 2008 and December 31, 2007, we had either insignificant or no borrowings and, as such, we were not exposed to a significant amount of interest rate risk.

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 (“Exchange Act”)) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and our Principal Financial Officer have concluded that these disclosure controls and procedures as of September 30, 2008 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 Securities and Exchange Commission’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.

Neither we nor our subsidiary are a party to, nor is any of ours or their property subject to, any material pending legal proceedings, other than ordinary routine litigation incidental to their businesses.

From time to time, FutureFuel Chemical Company and its operations may be parties to, or targets 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 such matters currently pending, we do not believe that the ultimate resolution of any such pending matters will have a material adverse effect on our overall financial condition, results of operations or cash flows. However, adverse developments could negatively impact earnings or cash flows in future periods.

Item 1A. Risk Factors.

See our Amendment No. 3 to Form 10 Registration Statement filed with the Securities and Exchange Commission on April 9, 2008 for a description of "Risk Factors" relating to an investment in us. There are no material changes from the risk factors disclosed in such filing except as follows.

The federal excise tax credit for biodiesel expires on December 31, 2009 and Congress has not enacted legislation to extend this credit. If the credit expires, FutureFuel Chemical Company's cost of producing biodiesel will be increased, which could have an adverse effect on our financial position.

In October 2004, Congress passed a biodiesel tax incentive, structured as a federal excise tax credit, as part of the American Jobs Creation Act of 2004. The credit amounts to one cent for each percentage point of vegetable oil or animal fat biodiesel that is blended with petrodiesel (and one-half cent for each percentage point of recycled oils and other non-agricultural biodiesel). For example, blenders that blend B20 made from soy, canola and other vegetable oils and animal fats receive a 20¢ per gallon excise tax credit, while biodiesel made from recycled restaurant oils (yellow grease) receive half of this credit. The tax incentive generally is taken by petroleum distributors and is passed on to the consumer. It is designed to lower the cost of biodiesel to consumers in both taxable and tax-exempt markets. The tax credit was scheduled to expire at the end of 2006, but was extended in the Energy Policy Act of 2005 to December 31, 2008 and most recently it was extended to December 31, 2009.

Congress has not enacted any legislation to extend this tax credit beyond December 31, 2009. If the tax credit is not extended, FutureFuel Chemical Company's biodiesel production costs will increase by \$1.00 per gallon. If biodiesel feedstock costs do not decrease significantly relative to biodiesel prices by the beginning of 2010, FutureFuel Chemical Company would realize a negative biodiesel production margin. As a result, we would cease producing biodiesel, which could have an adverse effect on our financial condition.

The U.S. biodiesel manufacturing base is contracting. This contraction may adversely affect FutureFuel Chemical Company's ability to sell biodiesel.

At least 275 million gallons of biodiesel production/new construction has been halted or suspended since January 1, 2008. Further industry consolidation is expected. This industry contraction could affect the willingness of potential customers to purchase biodiesel if they perceive that the biodiesel market is not a stable long-term supply of product, which could adversely affect our sales and results of operations.

Anti-subsidy and anti-dumping complaints have been filed with the European Commission concerning imports of biodiesel originating in the United States. The existence of such complaints, and an adverse decision by the European Commission, could reduce demand for biodiesel produced in the United States.

Anti-subsidy and anti-dumping complaints have been filed with the European Commission concerning imports of biodiesel originating in the United States. Although we are not a target of such complaints and do not import biodiesel into the European community, the existence of such complaints, and an adverse decision by the European Commission, could reduce demand for biodiesel produced in the United States. Such a reduction in demand could reduce the amount of biodiesel that FutureFuel Chemical Company sells, which could have an adverse effect on our financial condition.



Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to Vote of Security Holders

None

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K

Exhibit No.	Description
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 principal financial officer
32	Section 1350 Certification of chief executive officer and principal financial officer

Forward Looking Information

This Form contains or incorporates by reference “forward-looking statements”. When used in this document, the words “anticipate,” “believe,” “estimate,” “expect,” “plan,” and “intend” and similar expressions, as they relate to us, FutureFuel Chemical Company or our respective management, are intended to identify forward-looking statements. These forward-looking statements are based on current management assumptions and are subject to uncertainties and inherent risks that could cause actual results to differ materially from those contained in any forward-looking statement. We caution you therefore that you should not rely on any of these forward-looking statements as statements of historical fact or as guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions as well as, but not limited to, the following:

- conflicts of interest of our officers and directors;
- potential future affiliations of our officers and directors with competing businesses;
- the control by our founding shareholders of a substantial interest in us;
- the highly competitive nature of the chemical and alternative fuel industries;
- fluctuations in energy prices may cause a reduction in the demand or profitability of the products or services we may ultimately produce or offer or which form a portion of our business;
- changes in technology may render our products or services obsolete;
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failure to comply with governmental regulations could result in the imposition of penalties, fines or restrictions on operations and remedial liabilities;

- the operations of FutureFuel Chemical Company's biofuels business may be harmed if the applicable government were to change current laws and/or regulations;

- our board may have incorrectly evaluated FutureFuel Chemical Company's potential liabilities;
- our board may have FutureFuel Chemical Company engage in hedging transactions in an attempt to mitigate exposure to price fluctuations in petroleum product transactions and other portfolio positions which may not ultimately be successful; and
- we may not continue to have access to capital markets and commercial bank financing on favorable terms and FutureFuel Chemical Company may lose its ability to buy on open credit terms.

Although we believe that the expectations reflected by such forward-looking statements are reasonable based on information currently available to us, no assurances can be given that such expectations will prove to have been correct. All forward-looking statements included in this Form and all subsequent oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as to their particular dates.

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/ Douglas D. Himmert  
Douglas D. Himmert, Executive Vice President, Secretary  
and Treasurer

Date: November 13, 2008