

FutureFuel Corp.  
Form 10-Q  
May 10, 2018

**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 March 31, 2018

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

(Exact Name of Registrant as Specified in Its Charter)

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

**8235 Forsyth Blvd., Suite 400**

**St. Louis, Missouri 63105**

(Address of Principal Executive Offices)

(314) 854-8352

(Registrant's Telephone Number, Including Area Code)

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

Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer	Smaller reporting
(do not check if a smaller reporting company)	company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 10, 2018:  
43,741,670

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

The following sets forth our unaudited consolidated balance sheet as of March 31, 2018, our audited consolidated balance sheet as of December 31, 2017, our unaudited consolidated statements of operations and comprehensive income for the three-month periods ended March 31, 2018 and 2017, and our unaudited consolidated statements of cash flows for the three-month periods ended March 31, 2018 and 2017.

**FutureFuel Corp.****Consolidated Balance Sheets**

**As of March 31, 2018 and December 31, 2017**

**(Dollars in thousands)**

	<b>(Unaudited)</b>	
	<b>March 31, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 135,393	\$ 114,627
Accounts receivable, inclusive of the blenders' tax credit of \$42,428 and \$0 and net of allowances for bad debt of \$0 and \$0, at March 31, 2018 and December 31, 2017, respectively	62,840	21,973
Accounts receivable – related parties	2,242	165
Inventory	59,525	43,754
Income tax receivable	5,143	6,937
Prepaid expenses	1,406	1,660
Prepaid expenses – related parties	12	12
Marketable securities	97,179	120,699
Deferred financing costs	144	144
Other current assets	1,247	387
Total current assets	365,131	310,358
Property, plant and equipment, net	107,395	109,735
Intangible assets	1,408	1,408
Deferred financing costs	144	180
Other assets	3,953	3,882
Total noncurrent assets	112,900	115,205

<b>Total Assets</b>	\$ 478,031	\$ 425,563
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	\$ 35,040	\$ 18,396
Accounts payable – related parties	2,577	1,183
Deferred revenue – short-term	5,858	2,736
Dividends payable	7,874	10,498
Accrued expenses and other current liabilities	7,468	2,468
Total current liabilities	58,817	35,281
Deferred revenue – long-term	18,370	16,522
Other noncurrent liabilities	1,122	1,115
Noncurrent deferred income tax liability	17,429	21,049
Total noncurrent liabilities	36,921	38,686
Total liabilities	95,738	73,967
Commitments and contingencies:		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.0001 par value, 75,000,000 shares authorized, 43,741,670 and 43,741,670, issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	4	4
Accumulated other comprehensive income	3,847	8,433
Additional paid in capital	282,071	281,964
Retained earnings	96,371	61,195
Total stockholders' equity	382,293	351,596
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 478,031</b>	<b>\$ 425,563</b>

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 March 31, 2018 and 2017****(Dollars in thousands, except per share amounts)****(Unaudited)**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
Revenue	\$54,943	\$53,648
Revenues – related parties	804	463
Cost of goods sold	12,139	44,154
Cost of goods sold – related parties	4,729	2,898
Distribution	1,319	889
Distribution – related parties	53	40
<b>Gross profit</b>	<b>37,507</b>	<b>6,130</b>
Selling, general, and administrative expenses		
Compensation expense	1,275	1,264
Other expense	410	580
Related party expense	73	56
Research and development expenses	1,182	755
	2,940	2,655
<b>Income from operations</b>	<b>34,567</b>	<b>3,475</b>
Interest and dividend income	1,992	1,723
Interest expense	(43	) (43
Gain/(loss) on marketable securities	1,375	(131
Other expense	-	(31
	3,324	1,518
Income before income taxes	37,891	4,993
(Benefit)/provision for income taxes	(2,463	) 1,597
<b>Net income</b>	<b>\$40,354</b>	<b>\$3,396</b>
<b>Earnings per common share</b>		
Basic	\$0.92	\$0.08
Diluted	\$0.92	\$0.08

**Weighted average shares outstanding**

Basic	43,716,670	43,616,636
Diluted	43,722,194	43,622,843

**Comprehensive Income**

Net income	\$40,354	\$3,396
Other comprehensive income from unrealized net gain on available-for-sale securities	(5,818)	) 2,886
Income tax effect	1,232	(1,011)
Total unrealized (loss)/gain, net of tax	(4,586)	) 1,875
<b>Comprehensive income</b>	<b>\$35,768</b>	<b>\$5,271</b>

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

**FutureFuel Corp.****Consolidated Statements of Cash Flows****For the Three Months Ended March 31, 2018 and 2017****(Dollars in thousands)****(Unaudited)**

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows provided by operating activities</b>		
Net income	\$40,354	\$3,396
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,756	2,896
Amortization of deferred financing costs	36	36
Benefit for deferred income taxes	(2,388 )	(1,761 )
Change in fair value of derivative instruments	(1,789 )	1,202
Other than temporary impairment of marketable securities	286	177
Gain on the sale of investments	(1,661 )	(46 )
Stock based compensation	107	477
Losses on disposals of fixed assets	5	31
Noncash interest expense	7	6
Changes in operating assets and liabilities:		
Accounts receivable	(40,867 )	4,511
Accounts receivable – related parties	(2,077 )	(2,251 )
Inventory	(15,764 )	218
Income tax receivable	1,794	3,406
Prepaid expenses	254	151
Prepaid expenses – related parties	-	(11 )
Accrued interest on marketable securities	25	13
Other assets	(68 )	(8 )
Accounts payable	16,644	(5,418 )
Accounts payable – related parties	1,394	371
Accrued expenses and other current liabilities	5,000	1,385
Accrued expenses and other current liabilities – related parties	-	(142 )
Deferred revenue	(208 )	(451 )
Other noncurrent liabilities	-	94
<b>Net cash provided by operating activities</b>	<b>3,840</b>	<b>8,282</b>

<b>Cash flows from investing activities</b>		
Collateralization of derivative instruments	901	(1,223 )
Purchase of marketable securities	(5,844 )	(15,818 )
Proceeds from the sale of marketable securities	24,921	7,884
Capital expenditures	(428 )	(898 )
<b>Net cash provided by/(used in) investing activities</b>	<b>19,550</b>	<b>(10,055 )</b>
<b>Cash flows from financing activities</b>		
Payment of dividends	(2,624 )	(102,813)
<b>Net cash used in financing activities</b>	<b>(2,624 )</b>	<b>(102,813)</b>
Net change in cash and cash equivalents	20,766	(104,586)
Cash and cash equivalents at beginning of period	114,627	199,272
<b>Cash and cash equivalents at end of period</b>	<b>\$135,393</b>	<b>\$94,686</b>
Cash paid for interest	\$-	\$-
Cash paid for income taxes	\$-	\$1

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



**Notes to Consolidated Financial Statements of FutureFuel Corp.**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**1) NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

*Organization*

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

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

The biofuels business segment primarily produces and sells biodiesel. FutureFuel Chemical also sells petrodiesel in blends with the company’s biodiesel and, from time to time, with *no* biodiesel added. Finally, FutureFuel Chemical is a shipper of refined petroleum products on common carrier pipelines and buys and sells petroleum products to maintain an active shipper status on these pipelines.

*Basis of Presentation*

The accompanying unaudited consolidated financial statements have been prepared by FutureFuel in accordance and consistent with the accounting policies stated in FutureFuel’s 2017 audited consolidated financial statements and should be read in conjunction with the 2017 audited consolidated financial statements of FutureFuel.

In the opinion of FutureFuel, all normal recurring adjustments necessary for a fair presentation have been included in the unaudited consolidated financial statements. The unaudited consolidated financial statements have been prepared in compliance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, the financial statements do *not* include all the information and footnotes required by GAAP for complete financial statements, and do include amounts that are based upon management estimates and judgments. Future actual results could differ from such current estimates. The unaudited consolidated financial statements include assets, liabilities, revenues, and expenses of FutureFuel and its wholly owned subsidiaries; namely, FutureFuel Chemical, FFC Grain, L.L.C., FutureFuel Warehouse Company, L.L.C., and Legacy Regional Transport, L.L.C. Intercompany transactions and balances have been eliminated in consolidation.

## 2) **REINSTATEMENT OF THE BIODIESEL BLENDERS’ TAX CREDIT AND SMALL AGRI-BIODIESEL PRODUCER TAX CREDIT**

The biodiesel blenders’ tax credit (“BTC”) provides a \$1.00 per gallon tax credit to the blender of biomass-based diesel with at least 0.1% petroleum-based diesel fuel. When in effect, FutureFuel is the blender of record and recognizes the credit as a reduction to cost of goods sold. The BTC expired on *December 31, 2016* and was *not* reinstated for 2017 until it was signed into law as part of The Bipartisan Budget Act of 2018 passed by Congress on *February 9, 2018*. As this act was passed into law in 2018, FutureFuel recognized a receivable of \$42,428 as of *March 31, 2018* and a net estimated pretax benefit from the reinstatement in the biofuels segment of \$28,869 (a reduction in sales revenue of \$13,559 for customer rebates (“BTC Rebates”) upon reinstatement and a reduction in cost of goods sold of \$42,428). The gallons related to this credit were sold in the *twelve* months ended *December 31, 2017*.

As part of the law from which the BTC was reinstated, small agri-biodiesel producers with production capacity *not* in excess of 60 million gallons were eligible for an additional tax credit of \$0.10 per gallon on the *first 15* million gallons of agri-biodiesel sold (the “Small Agri-biodiesel Producer Tax Credit”). The benefit of the Small Agri-biodiesel Producer Tax Credit was recognized as a benefit in the tax provision in the *three* months ended *March 31, 2018*.

Neither the BTC nor the Small Agri-biodiesel Producer Tax Credit have been passed into law for 2018.

**Notes to Consolidated Financial Statements of FutureFuel Corp.**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**3 ) INVENTORY**

The carrying values of inventory were as follows as of:

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
At average cost (approximates current cost)		
Finished goods	\$25,947	\$ 22,998
Work in process	1,642	1,735
Raw materials and supplies	39,727	27,143
	67,316	51,876
LIFO reserve	(7,791 )	