FutureFuel Corp.
Form 10-12G/A
June 26, 2007

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 26, 2007.

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

AMENDMENT NO. 1 TO

FORM 10
REGISTRATION STATEMENT
PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

FUTUREFUEL CORP.
(Exact name of registrant as specified in its charter)

DELAWARE	20-3340900
(State of incorporation)	(IRS Employer Identification No.)

8235 FORSYTH BLVD., 4TH FLOOR
CLAYTON, MISSOURI 63105
(805) 565-9800
(Address, including zip code and telephone number, of registrant's principal executive offices)

DOUGLAS D. HOMMERT, EXECUTIVE VICE PRESIDENT
FUTUREFUEL CORP.
8235 FORSYTH BLVD., 4TH FLOOR
CLAYTON, MISSOURI 63105
(314) 854-8520

(Name, address, including zip code, and telephone number of agent for service)

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

Title of each class to be so registered	Name of each exchange on which each class is to be registered
n/a	n/a

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

Common Stock
(Title of class)

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT OR TO WHICH WE HAVE REFERRED YOU. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT. THIS DOCUMENT MAY ONLY BE USED WHERE IT IS LEGAL TO SELL THESE SECURITIES. THE INFORMATION IN THIS DOCUMENT MAY ONLY BE ACCURATE ON THE DATE OF THIS DOCUMENT.

ITEM 1. – BUSINESS

GENERAL DEVELOPMENT OF THE BUSINESS

The Company

FutureFuel Corp. (the "COMPANY" or "WE", "OUR" or "US") is a Delaware corporation incorporated on August 12, 2005 under the name "Viceroy Acquisition Corporation". We were formed to serve as a vehicle for the acquisition by way of an asset acquisition, merger, capital stock exchange, share purchase or similar transaction (a "business combination") of one or more operating businesses in the oil and gas industry ("target business").

On July 12, 2006, we completed an offering of 22,500,000 units, each unit consisting of one share of our common stock and one warrant to acquire one share of our common stock. The units were issued at $8.00 per unit. In connection with the offering, our shares and warrants were listed on the Alternative Investment Market ("AIM") of the London Stock Exchange plc under the ticker symbols "VAC" and "VACW", respectively.

The net proceeds of the offering in the amount of $172,500,000 were deposited into a trust fund maintained by Continental Stock Transfer & Trust Company, as trustee. The trust fund was to be released by the trustee for, among other things, a business combination approved by the holders of our common stock. Moreover, the trust fund was to be released in its entirety upon the completion of a business combination which, either on its own or when combined with all previous business combinations, had an aggregate transaction value of at least 50% of the initial trust amount (which initial trust amount excluded certain deferred placing fees) (a "qualified business combination").

On July 21, 2006, we entered into an acquisition agreement with Eastman Chemical Company to purchase all of the issued and outstanding stock of its subsidiary, Eastman SE, Inc. The terms of the acquisition agreement were negotiated by our executive officers, Paul A. Novelly, Lee E. Mikles and Douglas D. Hommert, with representatives of Eastman Chemical Company, and were set based upon such negotiations and the experience of our executive officers in similar transactions. The acquisition agreement provided for the sale by Eastman Chemical Company of all of its stock in Eastman SE, Inc. to us in exchange for: (i) $75,000,000 cash, subject to possible reduction if Eastman SE, Inc.'s net working capital as of the closing date was less than $17,562,527; plus (ii) 2(cents) per gallon of biodiesel sold by Eastman SE, Inc. during the three year period following the closing. Following the closing, Eastman SE, Inc. would become our wholly-owned subsidiary. The acquisition agreement contained the following additional material terms.

- The closing of the acquisition was to take place on the later of October 31, 2006 or the third business day after the date on which certain closing conditions have been satisfied or waived.

- The acquisition agreement contained various representations and warranties by us relating to: our proper organization and good standing; the corporate authorization and enforceability of the acquisition agreement; required consents and approvals; absence of conflicts with other agreements and laws; absence of litigation against the acquisition; available financing to consummate the acquisition; and no reliance upon representations, warranties, forecasts and the like except as specifically set forth in the acquisition agreement.

- The acquisition agreement contained various representations and warranties of Eastman Chemical Company relating to: proper organization and good standing of Eastman Chemical Company and Eastman SE, Inc.; the authorization and enforceability of the acquisition agreement; required consents; absence of conflicts with other agreements and laws; the capitalization of Eastman SE, Inc.; the preparation of Eastman SE, Inc.'s financial statements; liabilities of Eastman SE, Inc.; the absence of certain developments regarding Eastman SE, Inc.; Eastman SE, Inc.'s taxes; Eastman SE, Inc.'s real property; Eastman SE, Inc.'s tangible personal property and other assets; Eastman SE, Inc.'s intellectual property; Eastman SE, Inc.'s contracts; Eastman SE, Inc.'s employee benefits; labor matters affecting Eastman SE, Inc.; litigation affecting Eastman SE, Inc.; compliance by Eastman SE, Inc. with laws and permits; environmental matters affecting Eastman SE, Inc.; Eastman SE, Inc.'s customers and suppliers; and product liability matters affecting Eastman SE, Inc.

- The acquisition agreement contained certain covenants imposed upon Eastman Chemical Company relating to: our access to documents; obtaining the necessary consents and satisfying Eastman Chemical Company's conditions to the closing (including making the appropriate filings under the Hart-Scott-Rodino Act); public statements; confidential information; no solicitation of other acquisition proposals regarding Eastman SE, Inc. or its business; inspections by us; no competition against Eastman SE, Inc; and no solicitation of Eastman SE, Inc.'s employees.

- The acquisition agreement contained certain covenants imposed upon us relating to: confidentiality; public statements; obtaining the necessary consents and satisfying our conditions to the closing (including making the appropriate filings under the Hart-Scott-Rodino Act); Eastman Chemical Company's access to documents; no solicitation of Eastman Chemical Company's customers; employee matters; no competition against Eastman Chemical Company; and no solicitation of Eastman SE, Inc.'s employees.

- All representations and warranties contained in the acquisition agreement generally terminate 18 months after the closing date with certain exceptions.

- Except with respect to environmental matters, Eastman Chemical Company agreed to indemnify, defend, and hold us harmless from and against any and all losses actually incurred by us to the extent arising out of or resulting from: (i) any breach as of the closing date of a representation or warranty made by Eastman Chemical Company in the acquisition agreement; (ii) any breach of any covenant or agreement of Eastman Chemical Company in the acquisition agreement; (iii) pre-closing taxes not included in working capital; and (iv) any liability of Eastman SE, Inc. relating to product liability and not disclosed to us in a schedule to the acquisition agreement or included in closing working capital.

- Eastman Chemical Company is not liable for any losses with respect to any breach as of the closing date of a representation or warranty made by Eastman Chemical Company in the acquisition agreement unless: (i) a claim is asserted prior to the relevant survival period for such representation or warranty; and (ii) the aggregate of all such losses exceeds, on a cumulative basis, $750,000 (and then only to the extent of such excess). In addition, Eastman Chemical Company will not be required to pay an aggregate amount in excess of $7,500,000 in respect of all losses with respect to any breach as of the closing date of a representation or warranty made by Eastman Chemical Company in the acquisition agreement (exclusive of environmental matters). These limitations do not apply to losses attributable to: (a) any breach of any covenant or agreement of Eastman Chemical Company in the acquisition agreement; (b) any pre-closing taxes not included in working capital; and (c) any liability of Eastman SE, Inc. relating to product liability and not disclosed to us in a schedule to the acquisition agreement or included in working capital.

o Except with respect to environmental matters, we agreed to indemnify and hold Eastman Chemical Company harmless from and against any and all losses actually incurred by it to the extent arising out of or resulting from: (i) any breach as of the closing date of a representation or warranty made by us in the acquisition agreement; and (ii) any breach by us of any covenant or agreement in the acquisition agreement.

o On the closing of the acquisition, we and Eastman Chemical Company agreed to obtain an environmental insurance policy to provide insurance coverage for environmental conditions existing at Eastman SE, Inc.'s manufacturing facility. We and Eastman Chemical Company each agreed to pay 50% of the insurance premium. Such insurance policy was to have a policy limit of $10,000,000 with a per claim deductible of $150,000 and a term of ten years following the closing. During the first five years of the term, we will pay the first $75,000 of the deductible and Eastman Chemical Company will pay the second $75,000.

o Subject to a $15,000,000 cap (which is inclusive of the $10,000,000 environmental insurance policy limit), during the five-year period beginning with the closing date, Eastman Chemical Company agreed to retain liability for and to indemnify, defend and hold us and Eastman SE, Inc.

harmless from, against and with respect to any losses actually incurred by it to the extent arising out of or resulting from: (i) any breach of any environmental representation or warranty of Eastman Chemical Company contained in the acquisition agreement; (ii) any liability under CERCLA or RCRA or any state law based on CERCLA or RCRA, or under any other environmental law, for costs of response or the costs of complying with an injunctive or other order under RCRA or under any other environmental law, at a hazardous waste site (other than Eastman SE, Inc.'s owned real property) and attributable to the activities of Eastman Chemical Company, its affiliates (including Eastman SE, Inc.) or the operation of Eastman SE, Inc.'s business prior to closing; (iii) an environmental condition at any of Eastman SE, Inc.'s owned real property which existed at or prior to the closing (notwithstanding the foregoing, Eastman Chemical Company is not liable for an environmental condition: (a) unless an investigation or remediation of the environmental condition is required by law or by an order issued to us or Eastman SE, Inc. by an environmental authority; or (b) to the extent the environmental condition is attributable to the activities of Eastman SE, Inc. or us or the operation of Eastman SE, Inc.'s business after the closing); and (iv) any violation of, or non-compliance with, any environmental law by Eastman SE, Inc.'s business to the extent that such violation or non-compliance existed at or prior to the closing.

- We agreed to assume liability for and indemnify and hold Eastman Chemical Company and Eastman Chemical Company's affiliates harmless from, against and with respect to any losses actually incurred by or asserted against Eastman Chemical Company or such affiliates to the extent arising out of or resulting from: (i) any liability under CERCLA or any state law based on CERCLA for costs of response at a property other than Eastman SE, Inc.'s owned real property attributable to the activities of us, our affiliates or the operation of Eastman SE, Inc.'s business after the closing; (ii) any environmental condition at or associated with any of Eastman SE, Inc.'s owned real property first arising after the closing; (iii) any violation of, or non-compliance with, any environmental law by us, our affiliates or Eastman SE, Inc.'s business that did not exist prior to or at the time of the closing; and (iv) our utilization of certain financial assurances given by Eastman Chemical Company to the Arkansas Department of Environmental Quality on behalf of Eastman SE, Inc.

- Except as with respect to the indemnifications described above, we agreed that, in connection with Eastman SE, Inc.'s business or owned real property, we will assert no claim against Eastman Chemical Company and that Eastman Chemical Company is released from and will have no liability or obligation whatsoever to us or our successors or assigns with respect to any losses arising under, related to or associated with the environment, environmental authorities, environmental authorizations, environmental conditions, environmental law, and environmental liabilities. Except as with respect to the indemnifications described above, Eastman Chemical Company agreed that, in connection with Eastman SE, Inc.'s business or owned real property, it will assert no claim against us or Eastman SE, Inc. and that we and Eastman SE, Inc. are released from and will have no liability or obligation whatsoever to Eastman Chemical Company or its successors or assigns with respect to any losses arising under, related to or associated with the environment, environmental authorities, environmental authorizations, environmental conditions, environmental law, and environmental liabilities.

- Upon closing, Eastman SE, Inc. was to enter into a conversion agreement with Eastman Chemical Company pursuant to which Eastman SE, Inc. will produce certain chlorinated polyolefin products on Eastman Chemical Company's behalf. The initial term was to be for five years and thereafter will automatically renew for successive one year renewal terms unless canceled by either party within 180 days of the original term or renewal term, as applicable. Eastman Chemical Company will have the right to terminate the agreement earlier upon the payment of certain early termination fees. Eastman SE, Inc. was to also enter into a conversion agreement with Eastman Chemical Company pursuant to which Eastman SE, Inc. will produce di-isopropylbenzene and derivative products on Eastman Chemical Company's behalf. The initial term was to be for five years and thereafter automatically renews for successive one year renewal terms unless canceled by either party within 180 days of the original term or renewal term, as applicable. Eastman

Chemical Company will have the right to terminate the agreement earlier upon the payment of certain early termination fees.

- In connection with the consummation of the acquisition, Eastman Chemical Company and Eastman SE, Inc. agreed to enter into supply contracts. Under these contracts, Eastman Chemical Company will after the closing date sell to Eastman SE, Inc. certain chemicals and Eastman SE, Inc. will after the closing date sell to Eastman Chemical Company certain chemicals. The contracts will continue for one to three years and continue year-to-year thereafter unless terminated upon 180 days prior written notice by either party.

- In connection with the consummation of the acquisition, Eastman Chemical Company and Eastman SE, Inc. agreed to enter into a technology transfer agreement pursuant to which, on the closing date, Eastman Chemical Company will transfer to Eastman SE, Inc. certain intellectual property related to Eastman SE, Inc.'s business.

- In connection with the consummation of the acquisition, Eastman Chemical Company and Eastman SE, Inc. agreed to enter into a software license agreement pursuant to which, on the closing date, Eastman Chemical Company agreed to grant to Eastman SE, Inc. a royalty-free, non-exclusive license to use certain software solely in support of Eastman SE, Inc.'s internal business operations. The license continues until terminated by Eastman SE, Inc.

- In connection with the consummation of the acquisition, Eastman Chemical Company and Eastman SE, Inc. agreed to enter into a transition services agreement pursuant to which Eastman Chemical Company will provide certain transition services to Eastman SE, Inc. following the closing of the acquisition. These services generally are those provided to Eastman SE, Inc. by Eastman Chemical Company prior to the execution of the acquisition agreement. The services will be provided for six months following the closing date (with certain exceptions). There is a monthly service charge for most fees, although some service fees are based upon an hourly charge.

The consummation of the acquisition was subject to approval by our shareholders. If approved by our shareholders, the acquisition would constitute both a business combination and a qualified business combination.

On July 24, 2006 and following the public announcement of the execution of the acquisition agreement with Eastman Chemical Company, trading in our shares and warrants was suspended by AIM.

On October 6, 2006, we mailed to our shareholders an admission document containing a proxy statement and other material required by AIM, notifying our shareholders of a special meeting to be held on October 27, 2006 to approve, among other things, the acquisition of Eastman SE, Inc. and the acquisition agreement with Eastman Chemical Company. On October 9, 2006 and following the mailing of the admission document to our shareholders, trading in our shares and warrants on AIM recommenced.

Our shareholders approved the acquisition of Eastman SE, Inc. on October 27, 2006. On October 31, 2006: (i) the trust amount was distributed to us; (ii) the acquisition of Eastman SE, Inc. was consummated (effective after the close of business on that day); (iii) Eastman SE, Inc. became our wholly-owned subsidiary; and (iv) Eastman SE, Inc. and Eastman Chemical Company entered into the conversion agreements, supply contracts, technology transfer agreement, software license agreement and transition services agreement described above. In connection with such closing, we changed our name to FutureFuel Corp. and Eastman SE, Inc. changed its name to FutureFuel Chemical Company.

Consummation of the acquisition of Eastman SE, Inc. constituted a reverse takeover of us within the rules of AIM as promulgated by the London Stock Exchange plc. Where a transaction constitutes a reverse takeover, trading on AIM in the company's shares and warrants is cancelled and readmission to AIM is required to be sought in the same manner as any other applicant applying for admission of its securities for the first time. On October 31, 2006, we applied for readmission to AIM. Our shares of common stock and warrants were readmitted to AIM on that date under the ticker symbols "FFU" and "FFUW", respectively.

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FutureFuel Chemical Company

FutureFuel Chemical Company is a Delaware corporation incorporated on September 1, 2005 under the name Eastman SE, Inc. as a wholly-owned subsidiary of Eastman Chemical Company. It owns approximately 2,200 acres of land six miles southeast of Batesville in north central Arkansas fronting the White River. Approximately 500 acres of the site are occupied with batch and continuous manufacturing facilities, laboratories and infrastructure, including on-site liquid waste treatment. The plant is staffed by approximately 450 non-union employees.

The Batesville facility was constructed by Eastman Kodak Company on an undeveloped "green field" site in 1977, initially to produce proprietary photographic chemicals. In 1982, the plant's business scope was broadened to include other specialty chemicals, with the construction of facilities to support Eastman Chemical Company's hydroquinone and antioxidant business. Other facility enhancements occurred in subsequent years to expand the specialty chemicals and custom manufacturing business at the site. In 1994, Eastman Chemical Company split from Eastman Kodak Company. Following that split, the facility continued to transition from manufacturing photographic imaging chemicals and, in recent years, has been engaged almost exclusively in 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 the late 1990's, Eastman Chemical Company attempted to focus the plant's custom manufacturing on the pharmaceuticals market, but this was abandoned in 2001 due to capital and business constraints. The specialty chemicals custom manufacturing business in North America became increasingly competitive due to off-shoring to India and China, among other countries. For example, see https://www.frost.com/prod/servlet/market-insight-top.pag?

docid=88875033&ctxixpLink=FcmCtx1&ctxixpLabel=FcmCtx2. This factor, coupled with Eastman Chemical Company's changing business focus, resulted in a maturing product portfolio at the site and declining net cash flows. Employment declined from a peak of about 750 in the late 1990's to about 400 in early 2005 through a series of reductions-in-force.

Faced with declining net cash flows from a mature product portfolio and substantial competitive pressure in existing businesses, plant management began to actively pursue new businesses in which to focus their manufacturing capabilities. This management team became convinced that the plant was suited relative to geography and capabilities to manufacture products for the emerging alternative fuels markets. With nominal corporate direction and support, a local biobased products platform was launched in early 2005, comprising biofuels (biodiesel, bioethanol and lignin/biomass solid fuels) and biobased specialty chemical products (biobased solvents, chemicals and intermediates). With minimal capital expenditures, and using local technical resources, the management team was able to initiate biodiesel batch production in October 2005 at a capacity of 3 million gallons per year, subsequently expanded to 24 million gallons per year from a combination of batch and continuous processing. Entry into the biofuels business was accomplished with excess plant capacity and without any reduction in production of specialty chemicals.

In mid 2005, Eastman Chemical Company decided that specialty chemicals would no longer be a core business and that it would seek to divest the Batesville plant. In anticipation of such divestiture, Eastman Chemical Company incorporated FutureFuel Chemical Company (under the then name of Eastman SE, Inc.). Effective January 1, 2006, Eastman Chemical Company began to transfer the facility and certain of its related assets to FutureFuel Chemical Company. FutureFuel Chemical Company's management team continued its development of the biobased products business throughout this divestiture process.

Background of the Acquisition

In March 2006, our executive chairman (Mr. Paul A. Novelly) had initial discussions with Eastman Chemical Company about acquiring Eastman Chemical Company's manufacturing plant in Batesville, Arkansas. Those discussions did not result in any meaningful dialogue. In June 2006, our executive chairman again expressed interest to Eastman Chemical Company about acquiring the Batesville plant. At that time, Eastman Chemical Company agreed to engage in discussions with us about the sale of the Batesville facility. On June 22, 2006, initial discussions were held and we commenced a due diligence investigation into Eastman SE, Inc. Those discussions and the due diligence investigation ultimately resulted in the execution by us on July 21, 2006 of the acquisition agreement with Eastman Chemical Company discussed above.

Purpose for the Acquisition

We were organized to pursue business combinations with target businesses engaged in the oil and gas industry. In 2005, FutureFuel Chemical Company began the implementation of a biobased products platform, including biofuels (biodiesel, bioethanol and lignin/biomass solid fuels) and biobased specialty products (biobased lubricants, solvents and intermediates). At the time we began discussions with Eastman Chemical Company in June 2006, the Batesville plant had commercialized biodiesel and was capable of producing approximately 9 million gallons of biodiesel per year by batch processing. Production capacity was subsequently scheduled to increase to 24 million gallons per year through a continuous processing line. The purpose of the acquisition was to acquire FutureFuel Chemical Company, a target business in the oil and gas industry that we believed could be a meaningful participant in the alternative fuels markets.

Plan of Operation for the Consolidated Company

Our strategy in relation to the acquired operations is to build upon and expand FutureFuel Chemical Company's biobased products platform and to continue FutureFuel Chemical Company's chemical manufacturing activities.

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

The core infrastructure projects included:

- adding methanol recovery and biodiesel feedstock pretreatment capabilities to the plant - scheduled for completion in the third quarter of 2007;
- constructing additional storage at the plant to support increased movements of feedstocks, methanol, glycerin and biodiesel on and off the site and to facilitate on-site blending of B5, B10 and B20 grade fuel - scheduled for completion in the third quarter of 2007;
- expanding on-site rail siding and railcar loading and unloading facilities to accommodate the increased number of railcars expected at the plant - scheduled for completion in the third quarter of 2007;
- obtaining storage/thruput in Little Rock, Arkansas on the Arkansas River so that biodiesel can be shipped by barge to larger markets and feedstocks can be brought in to the plant by barge and truck - a lease agreement was signed with Center Point Terminal Company concurrent with the closing of the acquisition of FutureFuel Chemical Company;
- acquiring a fleet of tanker trucks to transport the biofuels and feedstocks between the plant and these storage facilities on such rivers - this project is substantially completed until logistical requirements require a larger internal truck fleet; and

- procuring railcars to transport raw goods to the plant and deliver biodiesel from the plant to customers - this project is substantially completed until logistic requirements require a larger railcar fleet.

Construction is in progress for the first three site infrastructure projects described above. As indicated, the last three projects are complete or substantially complete. We believe that FutureFuel Chemical Company will be able to

timely obtain the materials to complete these projects as scheduled, although no assurances can be given that the scheduled timetables will be achieved or that they will not be revised based upon market conditions.

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

At the time that we suspended expansion of the biodiesel capacity, we determined that any future expansions of biodiesel production capacity would be dictated by changing market conditions. Justification for capacity expansion is dependent upon two primary factors: (i) the price of crude oil, and more specifically the price of petrodiesel; and (ii) the price of feedstock oils/fats required to produce biodiesel. For example, see http://greenfuels.org/biodiesel/economics.htm. Biodiesel is generally sold as a blend with petrodiesel, which is its primary competitive product, and must be priced close to parity with petrodiesel in order to be competitive in the marketplace. Feedstock cost is the largest single component of biodiesel production costs and therefore has a substantial impact on production costs. See http://www.eia.doe.gov/oiaf/analysispaper/biodiesel/. In the second quarter of 2007, crude oil prices strengthened (see http://www.dallasfed.org/research/energy/en0702.cfm) and, despite corresponding increases in feedstock oil prices, we judged these and future market conditions to be supportive of biodiesel capacity expansion and therefore resumed a project to expand capacity by 35 million gallons per year (for a total capacity of 59 million gallons per year) through a new continuous processing line, projected to be operational on April 1, 2008. However, no assurances can be given that the scheduled timetable will be achieved or that it will not be revised based upon market conditions such as those discussed above.

Please see "Item 2. - Financial Information - Management's Discussion and Analysis of Financial Condition and Results of Operations" below for an estimate of the capital cost of the capital projects discussed above. The storage and procurement of railcars are not capital projects; rather, they affect cash flow through ongoing lease commitments. These lease commitments are included in footnote 16 of our consolidated financial statements for the year ended December 31, 2006 contained elsewhere herein. Based upon our budget, the remaining cash from our July 2006 offering and the proceeds from the $50 million credit facility described below, we do not believe that it will be necessary for us to raise additional funds to meet the expenditures required for operating the business as set forth above.

FINANCIAL INFORMATION ABOUT SEGMENTS

Historically, the business and assets included in FutureFuel Chemical Company were accounted for by Eastman Chemical Company in various segments of Eastman Chemical Company's overall business. Although FutureFuel Chemical Company was incorporated on September 1, 2005, Eastman Chemical Company did not begin transferring assets into FutureFuel Chemical Company until January 1, 2006 and completed the transfer in subsequent periods prior to the closing of our acquisition of FutureFuel Chemical Company. Notwithstanding that FutureFuel Chemical Company was a separately incorporated entity, Eastman Chemical Company did not prepare separate financial statements for FutureFuel Chemical Company nor was Eastman Chemical Company required to do so under local law or accounting rules. Rather, the operations of the Batesville plant were reported within Eastman Chemical Company based upon the underlying products and the revenues and expenses of the plant were effectively spread throughout Eastman Chemical Company's financial statements. In addition, allocations to the plant of Eastman Chemical Company overhead (such as insurance, employee benefits, legal expenses and the like) were based upon assumptions made by Eastman Chemical Company and such assumptions historically did not reflect expenses which FutureFuel Chemical Company would have incurred had it been a stand-alone entity. Since we did not acquire or succeed to all of the assets and liabilities of Eastman Chemical Company, "carve-out" financial statements have been prepared for the acquired component business, excluding the continuing operations retained by Eastman Chemical Company. As the acquisition is deemed to be a reverse acquisition with FutureFuel Chemical Company being the accounting acquiror, the selected financial data represents our consolidated operations for the three-month period ended March 31, 2007 and the operations of the Batesville plant for the twelve-month periods ended December 31, 2006, 2005 and 2004 (which includes our operations for the period beginning with the date of acquisition (beginning of business on November 1, 2006) and ending December 31, 2006).

The following table sets forth: (i) revenues from external customers for the three-month period ended March 31, 2007 and for the years ended December 31, 2006, 2005 and 2004; (ii) net income (loss) for the three-month period ended March 31, 2007 and for the years ended December 31, 2006, 2005 and 2004; and (iii) total assets at March 31, 2007 and at December 31, 2006, 2005 and 2004.

(Dollars in thousands)

	REVENUES FROM EXTERNAL	NET INCOME

PERIOD	CUSTOMERS	(LOSS)
March 31, 2007	$ 37,506	$ (1,952)
December 31, 2006	$ 134,168	$ 2,137
December 31, 2005	$ 104,364	$ 381
December 31, 2004	$ 127,945	$ (14,867)

For the years ended December 31, 2004 and 2005 and the ten months ended October 31, 2006, revenues from external customers excludes all revenues from Eastman Chemical Company. Beginning November 1, 2006, revenues from external customers equals total revenues. See note 14 to our annual financial statements included elsewhere herein for revenues from Eastman Chemical Company for the years ended December 31, 2004 and 2005 and the ten months ended October 31, 2006.

Prior to the initiation of its biofuels program in 2005, the Batesville plant did not have business reporting "segments" as defined by U.S. generally accepted accounting principles. After the initiation of the biobased products program in 2005, it had two segments: chemicals and biofuels. FutureFuel Chemical Company is not able to allocate net income (loss) and total assets between its two business segments. However, revenues from external customers can be allocated between the two business segments as set forth in the following chart.

(Dollars in thousands)

PERIOD	REVENUES FROM CHEMICAL SEGMENT	REVENUES FROM BIOFUELS SEGMENT
March 31, 2007	$ 35,654	$ 1,852
December 31, 2006	$ 120,828	$ 13,340
December 31, 2005	$ 104,364	$ -
December 31, 2004	$ 127,945	$ -

NARRATIVE DESCRIPTION OF THE BUSINESS

Principal Executive Offices

Our principal executive offices are located at 8235 Forsyth Blvd., 4th Floor, Clayton, Missouri 63105. Our telephone number is (805) 565-9800. FutureFuel Chemical Company's principal executive offices are located at 2800 Gap Road, Highway 394 South, Batesville, Arkansas 72501-9680. Its telephone number at such office is (870) 698-1811.

The Company

We completed the offering described above on July 12, 2006 and acquired FutureFuel Chemical Company at the close of business on October 31, 2006. We have not conducted any other material business operations.

FutureFuel Chemical Company

FutureFuel Chemical Company owns approximately 2,200 acres of land six miles southeast of Batesville in north central Arkansas fronting the White River. Approximately 500 acres of the site are occupied with batch and continuous manufacturing facilities, laboratories and infrastructure, including on-site liquid waste treatment. The plant is staffed by approximately 450 non-union employees. Land and support infrastructure are available to support expansion and business growth.

The Batesville facility was constructed by Eastman Kodak Company as a green field site in 1977, initially to produce proprietary photographic chemicals. In 1982, the plant's business scope was broadened to include other specialty chemicals, including facilities to support Eastman Chemical Company's hydroquinone and antioxidant business. Other facility enhancements occurred in subsequent years to expand the specialty chemicals and custom manufacturing business at the site. In 1994, Eastman Chemical Company split from Eastman Kodak Company. Following that split, the facility continued to transition from manufacturing photographic imaging chemicals and, in recent years, has been engaged almost exclusively in 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 the late 1990's, Eastman Chemical Company attempted to focus the plant's custom manufacturing on the pharmaceuticals market, but this was abandoned in 2001 due to capital and business constraints. Since that time, the specialty chemicals custom manufacturing business in North America has become increasingly competitive due to off-shoring to India and China, among other countries. For example, see https://www.frost.com/prod/servlet/marketinsighttop.pag?docid=88875033&ctxixpLink=FcmCtx1&ctxixpLabel=FcmCtx2. This factor, coupled with Eastman Chemical Company's changing business focus, resulted in a maturing product portfolio at the site and declining net cash flows as revenues from new business did not offset declining revenues from existing products. Employment declined from a peak of about 750 in the late 1990's to about 400 in early 2005 through a series of reductions-in-force.

Faced with declining net cash flows from a mature product portfolio and substantial competitive pressure in existing businesses, plant management began to actively pursue new businesses in which to focus the Batesville plant's manufacturing capabilities. This management team became convinced that the plant was ideally suited relative to geography and capabilities to manufacture products for the emerging alternative fuels markets. With nominal corporate direction and support, a local biobased products platform was launched in early 2005, comprising biofuels (biodiesel, bioethanol and lignin/biomass solid fuels) and biobased specialty chemical products (biobased solvents, chemicals and intermediates). With minimal capital expenditures, and using local technical resources, the management team was able to initiate biodiesel batch production in October 2005 at a capacity of 3 million gallons per year (subsequently expanded to 9 million gallons per year), while pursuing expansion via continuous processing to an aggregate plant capacity of 24 million gallons per year. The 24 million gallon per year capacity threshold was reached in October 2006. Entry into the biofuels business was accomplished with excess plant capacity and without any reduction in production of specialty chemicals.

In mid 2005, Eastman Chemical Company decided that specialty chemicals would no longer be a core business and that it would seek to divest the Batesville plant. Eastman Chemical Company executed an acquisition agreement with us on July 21, 2006 pursuant to which we agreed to purchase all of the issued and outstanding stock of FutureFuel Chemical Company (then known as Eastman SE, Inc.). The material terms of the acquisition agreement are discussed above. The acquisition closed on October 31, 2006. FutureFuel Chemical Company's management team continued its development of the bio-based products business throughout this divestiture process.

For the year ended December 31, 2006, approximately 85% of site revenue was derived from manufacturing specialty chemicals for specific customers ("custom manufacturing") with 6% of revenues being derived from multi-customer specialty chemicals ("performance chemicals") and 9% from biodiesel. Custom manufacturing involves producing unique products for individual customers, generally under long-term contracts. The plant's custom manufacturing product portfolio includes a bleach activator for a major detergent manufacturer, a proprietary herbicide for a major life sciences company and chlorinated polyolefin adhesion promoters and antioxidant precursors for Eastman Chemical Company. The performance chemicals product portfolio includes polymer (nylon) modifiers and several small-volume specialty chemicals for diverse applications.

We will continue the specialty chemical business of FutureFuel Chemical Company. However, we expect that FutureFuel Chemical Company's biofuels platform will become the core segment of the business. We intend to increase production capacity of biodiesel within FutureFuel Chemical Company as set forth above, and will make future capacity expansions when the market conditions discussed above support such an increase, and to pursue commercialization of other biofuel products, including lignocellulosic fuel pellets and cellulosic-derived ethanol. In pursuing this strategy, FutureFuel Chemical Company will continue to establish a name identity in the biofuels business, leverage its BQ-9000 quality certification, secure local and regional markets and expand marketing efforts to fleets and regional/national customers. Concurrent efforts will also seek to enhance margins via: (i) volume increases; (ii) conversion cost reductions by transition to continuous processing; (iii) expansion of feedstock options; (iv) legislative incentives; and (v) value-enhancing applications for glycerin co-product (from the biodiesel manufacturing process). These items are discussed in greater detail below.

Biofuels Business Segment

Overview of the Segment

FutureFuel Chemical Company's biofuels segment was established in early 2005 as an initiative of the site management team to leverage site technical and operational expertise as well as available manufacturing capacity to pursue business growth opportunities in addition to the legacy specialty chemicals business. Management targeted this segment in recognition of three factors: (i) the abundance and diversity of biomass raw materials in the immediate area of the plant site; (ii) the ability to rapidly convert under-utilized facilities to biofuels production at substantially advantaged capital cost relative to new construction; and (iii) the existence of technical and operational expertise to position the business as a high quality, low-cost industry leader. The biofuels segment had no revenues for the year ended December 31, 2004, inconsequential revenue for the year ended December 31, 2005, revenue of $13,340,000 for the year ended December 31, 2006 and revenue of $1,852,000 for the three months ended March 31, 2007.

Biofuel Products

FutureFuel Chemical Company's biofuels business segment currently targets three products: biodiesel, lignocellulose solid fuel pellets and bioethanol.

Biodiesel

Biodiesel is a sustainable, renewable transportation fuel with a growing market in the United States and internationally. For example, see http://www.emerging-markets.com/biodiesel/default.asp. Under current and projected market conditions, there are significant amounts of unsatisfied demand for biodiesel. As an alternative to petrodiesel and other petroleum-based fuels, biodiesel has several advantages, including:

- extending domestic diesel fuel supplies;
- reducing dependence on foreign crude oil supplies;
- expanding markets for domestic and international agricultural products;
- reducing emissions of greenhouse gases and other gases that are regulated by the United States Environmental Protection Agency (see, e.g., http://www.cyberlipid.org/glycer/biodiesel.htm); and
- being usable by existing diesel engines while extending their useful lives (see, e.g., http://www.cyberlipid.org/glycer/biodiesel.htm).

As a result of the benefits that are expected from the widespread use of biodiesel, federal and state laws, including tax laws, and governmental policy favor and in some jurisdictions require the increasing use of biodiesel instead of petrodiesel. See "Legislative Incentives" below.

Biodiesel commercialization was achieved by FutureFuel Chemical Company in October 2005, five months following initiation of that project. Technical and operational competency developed as a supplier of specialty

chemicals enabled the development of a flexible manufacturing process which can utilize the broadest possible range of feedstock oils, including soy oil, cottonseed oil, palm oil, pork lard, poultry fat and beef tallow. The Batesville plant produces B100 (100% biodiesel) and B99.9 (99.9% biodiesel; ..1% petrodiesel blend), the latter product priced net of the federal excise tax credit for those customers who do not wish to establish themselves as tax-qualified blenders. B20 (20% biodiesel; 80% petrodiesel) is currently used in the facility's diesel fleet and became available for retail sale at the site in March 2007. During the third or fourth quarter of 2007, FutureFuel Chemical Company intends to begin blending biodiesel with petrodiesel at a liquid bulk storage facility in Little Rock, Arkansas and selling B2, B5, B10 and B20 grades.

Lignocellulose Solid Fuel

Lignocellulose solid fuel was commercialized in March 2007 utilizing locally available hardwood products and residues. This product is sold as a low-ash, high BTU premium fuel pellet for use in residential and light commercial heating applications. See http://www.eere.energy.gov/consumer/your_home/space_heating_cooling/index.cfm/mytopic=12570. A small specialty market uses these pellets in specially-designed outdoor barbeque grills. For example, see http://www.bbqrsdelight.com/. Market analysis conducted by FutureFuel Chemical Company indicates a growing demand for premium fuel pellets in residential heating applications. For example, see http://www.magnumheat.com/pressroom.cfm?tabID=1&pID=39. In addition, FutureFuel Chemical Company recognized the opportunity to develop a regional market for bulk product sales to light commercial applications, such as poultry houses and greenhouses, where renewable fuel pellets could be competitive on a BTU cost basis with propane and natural gas. For example, see http://asae.frymulti.com/abstract.asp?aid=21163&t=2. The final reason for entry into hardwood fuel pellet manufacturing was as a component technology for the envisioned cellulosic ethanol plant described below. Such a facility, utilizing the planned biochemical technology route described below, would generate substantial volumes of a lignocellulosic co-product stream, which is well-suited for fuel purposes. See http://cat.inist.fr/?aModele=afficheN&cpsidt=17795323. We expect that production of premium fuel pellets from this cellulosic ethanol co-product stream will create more value for FutureFuel Chemical Company than the alternative outlet for the co-product (which is boiler fuel) and we see this to be important to the overall process economics for the planned cellulosic ethanol project. However, we can give no assurances that the planned cellulosic ethanol project will come to fruition for the reasons set forth below.

Bioethanol

Bioethanol is a fuel for internal-combustion engines that is made from ethyl alcohol obtained from biological material and is typically sold as a retail blend with conventional gasoline. FutureFuel Chemical Company is pursuing production of bioethanol from cellulosic biomass raw materials. Cellulosic-derived ethanol can be produced from a great diversity of biomass including waste from urban, agricultural and forestry sources. See http://www.eia.doe.gov/oiaf/analysispaper/biomass.html. Unlike corn-based ethanol, whose raw material competes with food chain products, cellulosic ethanol derives from abundant and diverse sources of plant and wood products. See http://www.eia.doe.gov/oiaf/analysispaper/biomass.html. FutureFuel Chemical Company is pursuing the "biochemical" technology platform to produce cellulosic-derived bioethanol, which incorporates four distinct processing steps: (i) pretreatment; (ii) hydrolysis; (iii) fermentation; and (iv) distillation.

As discussed below in greater detail, cellulosic-derived ethanol technology is developmental throughout the industry and has only been demonstrated at laboratory and pilot scale. FutureFuel Chemical Company to date has only evaluated cellulosic ethanol technologies at laboratory scale. The most-recognized pilot scale unit which has been publicized to date is the ~1 million gallon per year Iogen facility in Ottawa discussed below. Also, the U.S. Department of Energy has awarded six grants to facilitate the construction of the initial commercial-scale demonstration facilities. See http://www.doe.gov/news/4827.htm. FutureFuel Chemical Company initiated its cellulosic ethanol research and development program in December 2005 and incurred costs associated therewith through May 2007 of approximately $350,000. While FutureFuel Chemical Company expects to continue its research program on cellulosic ethanol, initiatives and timelines to progress the technology to pilot and/or commercial scale are dependent upon results and progress in developing the technology and no assurances can be given that FutureFuel Chemical Company will be successful or, if successful, when. Testing and results of the cellulosic ethanol program to date are not yet complete. On May 29, 2007, FutureFuel Chemical Company submitted a letter of intent to apply and abstract in response to the Department of Energy Funding Opportunity Announcement DE-PS36-07GO97003, for a project to be entitled: "Prototype Integrated Cellulosic Ethanol Biorefinery." This grant, if received, would enable progression of the research program to the pilot or

demonstration stage. There is no assurance that FutureFuel Chemical Company will be successful in obtaining such a grant, nor is progress of the cellulosic ethanol program totally dependant upon receipt of this federal grant. FutureFuel Chemical Company has also engaged in discussions with the State of Arkansas, primarily through the Arkansas Economic Development Commission, regarding the potential for state grant support for the cellulosic ethanol program. To date these interactions have not progressed past the feasibility discussion stage. As of the date of this Registration Statement, FutureFuel Chemical Company has only evaluated cellulosic based ethanol technologies at laboratory scale and has not commenced commercial production using these technologies.

Cellulose is composed of long chains of glucose molecules. In the hydrolysis process, these chains are broken down to "free" the sugar to make it available for fermentation to alcohol. There are two major hydrolysis processes: a chemical reaction using acids and an enzymatic reaction. Chemical hydrolysis is performed by attacking the cellulose with an acid. Dilute acid may be used under high heat and high pressure, or more concentrated acid can be used at lower temperatures and atmospheric pressure. A de-crystalized cellulosic mixture of acid and sugars reacts in the presence of water to complete hydrolysis to individual sugar molecules. The product from this hydrolysis is then neutralized and yeast fermentation is used to produce ethanol. A significant obstacle to the dilute acid process is that the hydrolysis is so harsh that toxic degradation products are produced which can inhibit fermentation. Concentrated acid must be separated from the sugar stream for recycling to be commercially attractive. In addition, the aggressive acid conditions require more expensive materials of construction for process equipment.

Cellulose chains can also be deconstructed into glucose molecules by cellulase enzymes (enzymatic hydrolysis). This is the sort of reaction that occurs at body temperature in the stomach of ruminants such as cows and sheep where the enzymes are produced by bacteria. If the enzymatic hydrolysis process is accomplished with previously isolated enzymes, a supply of the cellulase enzymes is needed. Several major and start-up enzyme manufacturers are pursuing development and commercialization of enzymes specifically for cellulosic ethanol production. See, for example, http://en.wikipedia.org/wiki/Cellulosic_ethanol. These companies seek to produce large volumes of cellulase, xylanase and hemicellulase enzymes which can be utilized to convert agricultural residues such as corn stover, distiller grains, wheat straw and sugar cane bagasse, wood products and wastes, and energy crops such as switch grass into fermentable sugars which may be used to produce cellulosic ethanol.

This is the biochemical technology platform which FutureFuel Chemical Company is pursuing. There are four stages to the overall process:

- a "pre-treatment" phase to make the raw material such as wood or straw amenable to hydrolysis;
- enzymatic hydrolysis to break down the cellulose and hemicellulose into oligomers and sugars;
- yeast fermentation of the sugar solution; and
- distillation and drying to produce ethyl alcohol meeting fuel-grade ASTM standards.

An alternative to the biochemical technology platform is the thermo-chemical route. Also called the "gasification" process, it does not rely on chemical decomposition of the cellulose chain. Instead of breaking the cellulose into sugar molecules for fermentation, the carbon in the cellulosic raw material is converted into synthesis gas. The resulting carbon monoxide, carbon dioxide and hydrogen may then be fed into a specially designed fermentor. Instead of yeast, which operates on sugar, this process uses a microorganism to convert the synthesis gas products to ethanol. The thermo-chemical process can be broken into three steps:

- gasification -- complex carbon based molecules are broken apart to access the carbon as carbon monoxide, carbon dioxide and hydrogen are produced.
- fermentation -- the carbon monoxide, carbon dioxide and hydrogen are converted into ethanol using developed organisms such as the Clostridium ljungdahlii organism.
- distillation -- ethanol is separated from water and other co-products and dried to meet fuel-grade ASTM standards.

Ethanol today is produced in the United States mostly from sugars or starches obtained from fruits and grains, corn being the predominant raw material. See http://www.ars.usda.gov/research/publications/publications.htm?SEQ_NO_115=160162. In contrast, cellulosic ethanol is obtained from cellulose, the main component of wood, straw and plants. See http://www.eia.doe.gov/oiaf/analysispaper/biomass.html. Since cellulose cannot be digested by humans, the production of cellulose does not compete with the production of food. The price per ton of the raw material is thus much cheaper than grains or fruits. Moreover, since cellulose is the main components of wood and plants, the potential volume of available raw material is much greater than for agricultural food crops.

As noted above, cellulosic-derived ethanol technology is developmental throughout the industry and has only been demonstrated at laboratory and pilot scale. Under 1 million gallons per year is considered pilot scale, greater than 1 million gallons per year but less than 10 million gallons per year is defined as commercial demonstration, while a plant that produces 10 million gallons per year or greater is considered commercial scale. In April 2004, Iogen Corporation, a Canadian biotechnology firm, became the first business to commercially sell cellulosic ethanol, though in very small quantities. See http://www.iogen.ca/key_messages/overview/cellulose_ethanol_ready_to_go.html. Another company which appears to be nearing commercialization of cellulosic ethanol is Abengoa Bioenergy, operating in Spain. See http://www.abengoabioenergy.com/research/index.cfm?page=3&lang=1. Abengoa is building a 5 million gallon per year cellulosic ethanol facility in Spain and has recently entered into a strategic research and development agreement with Dyadic International, Inc. to create enzyme mixtures which may be used to improve both the efficiencies and cost structure of producing cellulosic ethanol. See http://www.dyadic.com/wt/dyad/pr_1161957317. On December 21, 2006, SunOpta Inc. announced a joint venture with GreenField Ethanol. See http://phx.corporate-ir.net/phoenix.zhtml?c=82712&p=irolnewsArticle&t=Regular&id=944112. The joint venture intends to build a series of large-scale plants that will make ethanol from wood chips. The first of these plants will be 10 million gallons per year. Despite the commercial demonstration cellulosic ethanol plants SunOpta has been involved with, media reports continue to state that cellulosic ethanol is an unproven, experimental technology. For example, see http://www.alternatefuelsworld.com/the-war-of-the-alcohols.html. The 10 million gallon per year SunOpta/GreenField cellulosic ethanol plant is intended to demonstrate that large-scale cellulosic ethanol is commercially viable. See http://en.wikipedia.org/wiki/Cellulosic_ethanol. However, as of the date of this Registration Statement, this plant has not been constructed.

The production of cellulosic ethanol by FutureFuel Chemical Company through the biochemical route is in the research and development stage as discussed above. FutureFuel Chemical Company has entered into discussions with various parties to develop some of the necessary technology for the commercial production of cellulosic ethanol, also as discussed above. We can give no assurances, however, that FutureFuel Chemical Company will be able to bring cellulosic ethanol to commercial realization.

Emerging Biodiesel Industry

Diesel fuel is the motor fuel that is used in a compression-ignition engine which causes fuel to combust not by igniting the fuel with a spark but by injecting the fuel into a highly pressurized combustion chamber. There are two principal types of diesel fuel: petrodiesel and biodiesel. Petrodiesel is made from petroleum feedstock and comprises substantially all of the diesel fuel sold in the United States and elsewhere. Diesel fuel made from renewable vegetable oil or animal fat feedstock is called biodiesel. To be sold and distributed as biodiesel, the fuel must meet governmental standards, such as ASTM D6751 in the United States and EN14214:2003 in the European Union. The ASTM biodiesel specification defines biodiesel fuel as a fuel comprised of mono-alkyl esters of long-chain fatty acids derived from vegetable oils or animal fats. In Europe, the biodiesel specification is defined as fatty acid methyl esters. Biodiesel can be used in its pure form, known as B100, or blended in any ratio with conventional petrodiesel. Typical biodiesel blends are 2% (B2), 5% (B5) and 20% (B20).

Petrodiesel currently comprises more than 99% of the diesel transportation fuel market. According to the Energy Information Association of the U.S. Department of Energy, on-highway petrodiesel consumption in 2005 was approximately 38 billion gallons in the United States (see http://tonto.eia.doe.gov/dnav/pet/pet_cons_821dsta_dcu_nus_a.htm). We believe that use of diesel fuel will increase as a percentage of total on-highway ground transportation in the United States for several reasons, including:

- after compliance with the new low-sulfur requirements, diesel fuel will become less toxic;

- diesel fuel is more fuel efficient than gasoline;
- diesel engines are being installed in a larger number of commercially successful automobiles; and
- clean diesel light vehicles provide government-owned fleets with an option for increasing vehicle efficiency.

According to the 2005 Ricardo diesel report, sales of clean diesel vehicles are projected to increase from 43,000 units in 2004 to over 1.5 million in 2015, driving increased diesel fuel sales for those vehicles. See http://www.ricardo.com/media/pressreleases/pressrelease.aspx?page=18.

Despite these trends that indicate increased demand for diesel fuel, the price of petrodiesel closely tracks the cost of petroleum crude oil. Significantly since 2002, worldwide demand for petroleum-based products has been growing faster than supply. See http://www.eia.doe.gov/emeu/steo/pub/special/high-oil-price.html.

Beginning on June 1, 2006, new federal laws went into effect that are likely to significantly affect the market for petrodiesel. These laws limit the amount of sulfur content allowed in diesel fuel, reducing the portion of sulfur allowed in diesel fuel for on-highway use by more than 95%. Consequently, ultra low sulfur diesel may result in price increases to users of the fuel.

Petrodiesel currently has several advantages over biodiesel, including the following.

- Petrodiesel costs less to make per gallon than biodiesel.
- Infrastructure is in place to transport great quantities of petrodiesel (such as pipelines and bulk storage facilities).
- The petrodiesel industry has solved cold temperature limitations of petrodiesel.

- The petrodiesel industry has solved storage stability issues with petrodiesel.

- Petrodiesel meeting fuel quality standards is relatively easy to manufacture.

- Biodiesel contains 8% less energy per gallon than petrodiesel. See http://www.nrel.gov/vehiclesandfuels/npbf/pdfs/40555.pdf

Notwithstanding the foregoing, the biodiesel industry has emerged as an alternative to petrodiesel based principally on the advantages of biodiesel over petrodiesel. Those advantages include:

- Biodiesel is made from renewable sources.

- When burned, biodiesel results in a substantial reduction of unburned hydrocarbons, carbon monoxide and particulate matter as compared to petrodiesel.

- Biodiesel is biodegradable and nontoxic and is not considered a hazardous material when spilled.

- Biodiesel is essentially free of sulfur and aromatics.

- The overall ozone forming potential of the hydrocarbon exhaust emissions from biodiesel is nearly 50% less than that for petrodiesel.

- Biodiesel is registered as a fuel and fuel additive with the U.S. Environmental Protection Agency and B100 biodiesel has been designated as an alternative fuel by the U.S. Departments of Energy and Transportation.

- Biodiesel can use domestic feedstock, reducing the amount of crude oil imported into the U.S.

- Public policy, both as enacted into law and as enunciated by governmental agencies in the United States, favors the production and use of biodiesel.

- Biodiesel can be blended with petrodiesel in any ratio.

See, for example, http://www.biodiesel.org/pdf_files/fuelfactsheets/Benefits%20of%20Biodiesel.Pdf.

Based on these advantages, we believe that demand for biodiesel will continue to grow at accelerated rates both in the United States and internationally over the next several years. The rising demand for biodiesel may also reflect or track the increasing amounts of biodiesel that are forecasted to be produced in the U.S. Although the existence of production capacity does not necessarily result in increased demand, we believe that increased availability of biodiesel as an alternative fuel to petrodiesel will result in wider voluntary consumer adoption and increased production of both diesel vehicles capable of burning blends of biodiesel and petrodiesel as well as vehicles that will burn mixes in which biodiesel predominates.

Although biodiesel use is still in its infancy, biodiesel production has grown substantially since 1999. The National Biodiesel Board's estimate of biodiesel production in the United States for the period 1999 through 2005 inclusive is set forth in the following chart. See http://www.biodiesel.org/pdf_files/fuelfactsheets/Biodiesel_Sales_Graph.pdf. FutureFuel Chemical Company is a member in the National Biodiesel Board.

TABLE 1

[Refer to Exhibit 99.1]

ESTIMATED GALLONS OF BIODIESEL PRODUCED IN THE UNITED STATES

[BAR GRAPH]

The United States Department of Agriculture estimates that biodiesel production reached 225 million gallons in 2006. See http://www.eia.doe.gov/bookshelf/brochures/diesel/index.html.

As of June 7, 2007, the National Biodiesel Board listed 148 operating biodiesel facilities in the United States, including FutureFuel Chemical Company, with a combined estimated capacity of 1.39 billion gallons per year. See http://www.biodiesel.org/pdf_files/fuelfactsheets/Production_Capacity.pdf. Furthermore, the Board projected that 96 new facilities were under construction and 5 existing plant expansions were underway for a total of approximately 1.89 billion gallons per year of new capacity by mid-2008. Id. According to the National Biodiesel Board, biodiesel is available nationwide. See http://www.biodiesel.org/buyingbiodiesel/guide/.

For the above-cited reasons, we believe that a substantial market for biodiesel is emerging in the United States. However, the industry faces several challenges to wide biodiesel acceptance, including cold temperature limitations, storage stability, fuel quality standards and exhaust emissions. FutureFuel Chemical Company is actively engaged in addressing these challenges.

Biodiesel from nearly all feedstocks has cold temperature limitations in that it freezes at higher temperatures than conventional petrodiesel. Although not free from doubt, it appears that, at low temperatures, the long chain molecules of methyl ester align alongside each other and set into a crystalline structure which may continue to attract other molecules until the crystal reaches a massive size and can be seen in the fluid as a haze and then, after a certain time, wax. Conventional petrodiesel also exhibits cold temperature flow problems; however, the petrochemical industry developed both additives and a high temperature catalytic process which isomerizes the long chain molecules, thereby improving cold flow. The challenge for biodiesel is to achieve effective cold flow properties. FutureFuel Chemical Company is acquiring fundamental knowledge on this characteristic through its internal research program. Cold-solvent extraction, solubilization, additives and other approaches are being investigated for their potential to mitigate these cold temperature limitations.

The relatively poor oxidative and hydrolytic stabilities of biodiesel are a concern with respect to fuel quality during storage. We believe that FutureFuel Chemical Company may be one of the first biodiesel producers to store biodiesel in large off-site storage tanks. Experience gathered in the use of such tankage, including cleaning and handling methods, stabilization additives and the use of water draws, will assist FutureFuel Chemical Company in ensuring fuel quality during storage and distribution.

A challenge facing the biodiesel industry relates to compliance of product to established fuel quality standards reflected in ASTM D6751. A national fuel quality testing project co-funded by the National Biodiesel Board and the National Renewable Energy Laboratory found that one-third of biodiesel samples tested between November 2005 and July 2006 did not comply with these specifications. See http://www.rendermagazine.com/December2006/BiodieselBulletin.html. FutureFuel Chemical Company strives to ensure that all biodiesel produced by it meets ASTM D6751 through process control and product testing protocols that have been certified to the industry BQ-9000 quality standard. In addition, FutureFuel Chemical Company is actively participating in industry and ASTM-led programs to further improve biodiesel testing methodology and specifications in an effort to enhance biodiesel fitness-for-use under the broadest possible range of temperature and handling conditions.

We believe that the industry, with support from producers such as FutureFuel Chemical Company, can resolve in a commercially reasonable manner the quality and fitness-for-use issues facing the emerging biodiesel market, although no assurances can be given that the industry will ultimately be successful with respect to all of these challenges or that biodiesel will, in fact, achieve wide-spread acceptance.

Volatile Margins

The profit margin generated in the production of biodiesel, on a per gallon basis, is calculated as sales price less feedstock and production costs. Sales price is generally based on the spot price of petrodiesel, plus federal credits, plus or minus small regional and/or market-specific variances. Feedstock costs include the cost of vegetable oil, animal fat or waste grease. Production costs include the cost of methanol, a catalyst, direct labor and variable and fixed costs associated with the operation of a biodiesel plant.

Looking first at sales price, we are not aware of any public postings of daily biodiesel prices for the entire year of 2006.(a) However, such prices tend to follow the price of petrodiesel plus the $1.00 per gallon federal blending credit. Biodiesel producers may also need to account for regional and/or market-specific factors in setting their sales price for biodiesel. These factors may include the size of the local market, the distance that product must be shipped to reach local or other markets, the availability of storage and distribution infrastructure, the premium that local markets may place on alternative fuels and the feedstock source used in producing biodiesel. Of the three price components, the price of petrodiesel is the most significant and also the most volatile. The spot prices of one gallon of low sulfur No. 2 petrodiesel in the U.S. Gulf Coast during 2006 are set forth in the following chart.