FutureFuel Corp.
Form 10-12G/A
February 29, 2008

As filed with the Securities and Exchange Commission on February 29, 2008 .

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

AMENDMENT NO. 2 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)

Table of Contents

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

Explanatory Note

For purposes of preparing our financial statements, we initially accounted for the acquisition of Eastman SE, Inc. as a reverse acquisition and did not apply purchase accounting to such transaction. On July 27, 2007, we issued a Form 8-K pursuant to Item 4.02(a) of Form 8-K, informing investors that our 2006 Annual Financial Statements should not be relied upon for the reasons set forth therein. A copy of that Form 8-K may be obtained free of charge on our website at http://ir.futurefuelcorporation.com/sec.cfm or by requesting the same from us at FutureFuel Corp., 8235 Forsyth Blvd., 4th Floor, Clayton, Missouri 63105 Attn: Investors Relations. We have restated our 2006 financial statements to apply purchase accounting to our acquisition of Eastman SE, Inc., which 2006 financial statements are included herein. See Note 2 to our consolidated financial statements for the year ended December 31, 2006 included elsewhere herein for a detailed discussion of the effects of such restatement.

We are filing this Amendment No. 2 to the Form 10 Registration Statement originally filed with the Securities and Exchange Commission on April 24, 2007 and amended on June 26, 2007 to reflect the restatement of our audited consolidated financial statements for the year ended December 31, 2006, the financial information in the Selected Financial Data, and the unaudited financial statements for the quarter ended March 31, 2007.

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 unde 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¢ 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

1

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.

2

- 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.

- 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.

- 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 us or Eastman SE, Inc. 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

3

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.

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. 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 - the biodiesel feedstock pretreatment system has been completed and the methanol recovery system is scheduled for completion in the second half of 2008;

- constructing additional storage and related infrastructure at the plant to support increased movements of feedstocks, methanol, glycerin and biodiesel on and off the site - scheduled for completion in the first quarter of 2008;

- 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 first quarter of 2008;

- 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 logistical 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 three primary factors: (i) the price of crude oil, and more specifically the price of petrodiesel; (ii) the price of feedstock oils/fats required to produce biodiesel; and (iii) tax incentives and volume mandates. 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, soybean oil in particular, we judged these and future market conditions to be supportive of biodiesel capacity expansion and therefore resumed a project to expand capacity by 35 million gallons per year (for a total capacity of 59 million gallons per year) through a new continuous processing line, projected to be operational during the second half of 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 18 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 our acquisition of Eastman SE, Inc. was accounted for through purchase accounting, a presentation of the historical financial results of the Batesville plant occurring before November 1, 2006 is not made within our historical financial results. Thus, unless otherwise noted, the financial data presented herein represents our consolidated operations for the twelve-month period ended December 31, 2006 and the three-month period ended March 31, 2007, and the "carve-out" operations of the Batesville plant for the ten-month period ended October 31, 2006, the three-month period ended March 31, 2006 and the twelve-month periods ended December 31, 2005 and 2004.

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)

Period	Revenues from External Customers	Net Income (Loss)	Total Assets
Three months ended March 31, 2007	$ 37,506	$ (2,040)	$ 197,809
Year ended December 31, 2006	$ 134,168	$ 2,242	$ 203,516
Year ended December 31, 2005	$ 104,364	$ 381	$ 114,500
Year ended December 31, 2004	$ 127,945	$ (14,867)	$ 118,164

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 11 to Eastman SE, Inc.'s 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	Total Revenues from External Customers
Three months ended March 31, 2007	$ 35,654	$ 1,852	$ 37,506
Year ended December 31, 2006	$ 120,828	$ 13,340	$ 134,168
Year ended December 31, 2005	$ 104,364	$ 0	$ 104,364
Year ended December 31, 2004	$ 127,945	$ 0	$ 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/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 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 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 two products: biodiesel 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 first quarter of 2008, 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.

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 approximate 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 September 2007 of approximately $400,000. 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. FutureFuel Chemical Company 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. Subsequently, the State of Arkansas agreed to provide $2.1 million to fund, among other things, the purchase of equipment for a pilot scale autohydrolysis unit. The pilot scale autohydrolysis unit will pretreat cellulosic biomass prior to conversion to ethanol. Construction of the pilot scale autohydrolysis unit has not been scheduled at this time. 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.corporateir.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

Estimated Gallons of Biodiesel Produced in the United States

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) whereas the National Biodiesel Board

estimates this number at 250 million gallons (see http://www.biodiesel.org/pdf_files/fuelfactsheets/Biodiesel_Sales_Graph.pdf).

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.

_____

(a) This is changing for 2007 in that both OPIS and Platts are now publishing posted prices for biodiesel at various locations throughout the United States.

Table 2

Source: Department of Energy- http://tonto.eia.doe.gov/dnav/pet/hist/rdlusgd.htm.

While the net change in the spot price of petrodiesel was modest for 2006 as a whole, intra year price movements where characterized by relatively high volatility. As an example, the price of petrodiesel declined by $0.76 per gallon between August 30, 2006 and September 14, 2006, a 32% decrease in 15 days.

The three primary feedstocks for biodiesel include vegetable oil, animal fat and waste grease. See http://tonto.eia.doe.gov/FTPROOT/environment/biodiesel.pdf. The markets for animal fats and waste greases in the United States and worldwide are smaller and less liquid than those for vegetable oils. See http://www.iasc-oils.org/word%20docs/Campbell_speech.pdf. In addition, vegetable oils are generally a preferred feedstock as they contain lower free fatty acids and are easier to process into a fuel that meets industry specifications. See www.rpi.edu/dept/chem-eng/WWW/faculty/bequette/URP/Czech-report.pdf. In the United States, soybean oil comprises the largest percentage of the overall vegetable oil market (see http://www.epa.gov/ttnecas1/regdata/IPs/Vegetable%20Oil_IP.pdf), and is also the primary feedstock oil for producing biodiesel. As set forth above, according to the United States Department of Agriculture, soybean oil constitutes more than 90% of the feedstock for biodiesel. The following chart sets forth the closing spot price of soybean oil during the year 2006.

Table 3

Bloomberg

The net increase in the spot price of soybean oil during 2006 as a whole was 24%. Similar to petrodiesel prices, intra year price movements were characterized by relatively high volatility. As an example, between October 3, 2006 and December 1, 2006, soybean oil prices increased approximately 5.94¢ per pound, a 26% increase in 59 days. One gallon of biodiesel requires approximately 7.3 pounds of soybean oil, depending on the yield a biodiesel producer generates from the conversion of soybean oil into biodiesel, which in turn depends on that producer's technology and production techniques. See http://www.eere.energy.gov/afdc/altfuel/bio_market.html. The 5.94¢ per pound increase in soybean oil between October 3, 2006 and December 1, 2006 resulted in an increased feedstock cost for biodiesel producers of approximately $0.44 per gallon. Biodiesel producers can reduce feedstock costs by expanding or converting their processing methods to include animal fats and waste greases, which historically can be acquired at substantial discounts to soybean oil. See http://www.ciras.iastate.edu/bioindustry/info/AlternativeFeedstocksAndBiodieselProduction.pdf. FutureFuel Chemical Company is capable of processing several types of animal fat into biodiesel and is procuring and processing these feedstocks at present. However, soybean oil remains an important feedstock for FutureFuel Chemical Company and the primary feedstock for the industry as a whole and is the most relevant feedstock cost to consider when analyzing margins.

Production costs include the cost of methanol, a catalyst, direct labor and fixed and variable costs associated with operating a biodiesel plant. Fixed costs include such items as labor, energy, supplies, insurance, taxes and maintenance, among others. Although production costs can vary depending upon the processing method employed (batch processing versus continuous process, methanol recovery and the like), and other factors, they are considered somewhat stable. According to the United States Department of Agriculture, production costs for biodiesel average $0.50 per gallon industry wide. See http://www.usda.gov/oce/newsroom/congressional_testimony/Collins_011007.pdf.

While each of the three components of profit margin (sales price, feedstock cost and production cost) vary based on the location of a biodiesel producer, the size, proximity and logistical infrastructure of its regional market, the acceptance of alternative fuels in that market, the feedstock utilized, processing methods and techniques, and the efficiency and cost structure of individual producers, it is possible to utilize the data presented in the preceding discussion to calculate a hypothetical biodiesel margin per gallon between January 1, 2006 and December 31, 2006. This margin is calculated as follows:

	Basis of Daily Data
Sales Price	Spot price of one gallon of low sulfur No. 2 petrodiesel in the U.S. Gulf Coast plus $1.00 per gallon federal blending credit
Less: Feedstock Cost	USDA crude soybean oil spot price per pound times 7.3
Less: Production Cost	$0.50 per gallon industry wide average according to the United States Department of Agriculture
Equals: Hypothetical Margin	

Utilizing the calculation set forth above, biodiesel margins for 2006 would be as set forth in the following chart.

Table 4

Note: The margins set forth in the chart above do not include regional and/or market-specific factors, which may increase or decrease the sales price of biodiesel by as much as 10% or more. In addition, margins depicted above exclude transportation costs associated with moving soybean oil to a biodiesel plant or delivering biodiesel to end markets. These costs vary widely depending on a plant's proximity to soybean crushing facilities and end markets and cannot be estimated for the industry as a whole with any degree of accuracy.

Between October 3, 2006, the date that we sent our shareholders notice of the special meeting to approve the acquisition of FutureFuel Chemical Company, and December 31, 2006, the hypothetical margin on the production of biodiesel decreased from $0.50 per gallon to $0.15 per gallon, a 70% decrease. Although FutureFuel Chemical Company's actual sales price, feedstock cost and production costs varied from these hypothetical numbers (and no assurances can be given that FutureFuel Chemical Company's actual sales price, feedstock costs and/or production costs will approximate those hypothetical numbers in the future), its margins did decrease substantially during this same period.

We expect FutureFuel Chemical Company's margins to remain volatile in future years and no assurances can be given that such margins will be positive. We intend to address volatile margins through: (i) our current ability to process lower cost animal fat feedstocks; (ii) our research and development efforts aimed at developing methods of processing additional lower cost crude vegetable oils, animal fats and waste greases; (iii) cost efficiencies and economies of scale gained as we refine our processing methods, improve our methanol recovery capabilities and increase our biodiesel production capacity; and (iv) construction of storage capacity on-site and leases of storage capacity off-site to enable us to acquire large quantities of feedstock oils when market conditions are favorable or to store biodiesel when market conditions are not favorable.

As a final consideration, the two primary variables described above that affect biodiesel margins (and the volatility of those margins) are petrodiesel and soybean oil, both of which are actively traded on commodity exchanges. Through the purchase and sale of futures contracts or options on futures contracts, biodiesel producers can effectively hedge their sales price and feedstock cost when market conditions permit. FutureFuel Chemical Company has already pursued certain hedging strategies and intends to continue doing so in the future, as further described herein. However, no assurance can be given that such hedging strategies will be successful to protect us from all commodity price risks.

The Biodiesel Production Process

Biodiesel can be made from renewable sources such as:

- refined virgin vegetable oils;
- refined animal fats; and
- used cooking oils and trap grease.

The choice of feedstock is determined primarily by the price and availability of each feedstock variety and the capabilities of the producer's biodiesel production facility. In the United States, the majority of biodiesel historically has been made from domestically produced soybean oil. However, palm oil imported from Malaysia and Indonesia is being considered as a viable alternative due to price, availability and expected supply elasticity. See, for example, http://en.wikipedia.org/wiki/Palm_oil. FutureFuel Chemical Company's plant has been designed to process a wide variety of feedstocks to take advantage of fluctuating prices and availability of the various feedstocks.

The biodiesel manufacturing process has three distinct steps: the chemical reaction step, the separation step and the polishing step.

Table 5

Chemical Reaction. In the chemical reaction step, a mix of biodiesel glycerin and soap is created from the selected feedstock, methanol and a catalyst. The collection of equipment that performs this chemical reaction step in producing biodiesel is referred to as the "reactors." Depending upon the type of reactor used, the mix of biodiesel glycerin and soap produced requires differing degrees of further processing to separate the methyl esters comprising the biodiesel from the glycerin and soap, to clean or "polish" both the biodiesel and glycerin and to recover excess methanol from both the biodiesel and glycerin. Generally, the more efficient the reactor, the less downstream processing that is required. If the feedstock used is high in free fatty acids, an esterification step may be required. Esterification is a chemical reaction in which two chemicals (typically an alcohol and an acid) form an ester. Transesterification is the process of exchanging the alkoxy group of an ester compound by another alcohol.

Separation. The methyl esters are separated from the glycerin and soap produced during the chemical reaction step.

Polishing. The methyl esters are purified to remove residual catalysts and other impurities. Any excess water and methanol is also removed and may be recycled into earlier steps in the production process train.

Legislative Incentives

Agencies of the United States government, including the Department of Energy, the Environmental Protection Agency, the Internal Revenue Service and the Department of Agriculture, and many states offer biodiesel incentives or have mandates for the use of biodiesel, or both. There are other governmental incentives that do not directly reduce the net cost of producing or blending biodiesel but that drive the demand for biodiesel. For example, tax credits are available under the Internal Revenue Code for investment in qualifying refueling property, the Environmental Protection Agency will pay 50-100% of the cost for schools to upgrade and/or replace their buses, and programs administered by the Department of Energy indirectly require government fleet operators to purchase substantial amounts of biodiesel. The principal federal incentives that we believe will have the greatest positive effect on FutureFuel Chemical Company's business are discussed below.

The Energy Policy Act of 1992 requires government fleet operators to use a certain percentage of alternatively fueled vehicles. The Act established a goal of replacing 10% of motor fuels with non-petroleum alternatives by 2000, increasing to 30% by the year 2010. Currently, 75% of all new light-duty federal vehicles purchased are required to have alternative fuel capability to set an example for the private automotive and fuel industries.

Under the Energy Conservation Reauthorization Act of 1998, vehicle fleets that are required to purchase alternatively fueled vehicles can generate credit toward this requirement by purchasing and using biodiesel in a conventional vehicle. Since there are few cost-effective options for purchasing heavy-duty alternatively fueled vehicles, federal and state fleet providers can meet up to 50% of their heavy-duty alternatively fueled vehicle purchase requirements with biodiesel. The biodiesel fuel credit allows fleets to purchase and use 450 gallons of biodiesel in vehicles in excess of 8,500 pounds gross vehicle weight instead of alternatively fueled vehicles. Fleets must purchase and use the equivalent of 450 gallons of pure biodiesel in a minimum of a 20% blend to earn one credit. Covered fleets earn one vehicle credit for every light-duty alternatively fueled vehicle they acquire annually beyond their base vehicle acquisition requirements. Credits can be banked or sold.

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 a penny for each percentage point of vegetable oil or animal fat biodiesel that is blended with petrodiesel (and one-half penny 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 substantially 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 the end of 2008.

Congress enacted the Energy Policy Act of 2005 in August 2005 and included a number of provisions intended to spur the production and use of biodiesel. In particular, the Act's provisions include biodiesel as part of the minimum volume of renewable fuels (the renewable fuels standard or "RFS"), in the nationwide gasoline and

diesel pool, with the Environmental Protection Agency being directed to determine the share to be allocated to biodiesel and other details through its rulemaking process. The Act also extended the biodiesel tax credit to 2008 and included a new tax credit for renewable diesel. More specifically, the RFS requires a specific amount of renewable fuel to be used each year in the nationwide gasoline and diesel pool. The volume increases each year, from 4 billion gallons per year in 2006 to 7.5 billion gallons per year in 2012. The Act requires the Environmental Protection Agency, beginning in 2006, to publish by November 30th of each year, "renewable fuel obligations" that will be applicable to refineries, blenders and importers in the contiguous 48 states. There must be no geographic restrictions on where renewable fuel may be used or per-gallon obligations for the use of renewable fuel. The renewable fuel obligations are required to be expressed in terms of a volume percentage of gasoline sold or introduced into commerce and consist of a single applicable percentage that will apply to all categories of refineries, blenders and importers. The renewable fuel obligations are to be based on estimates that the Energy Information Association provides to the Environmental Protection Agency on the volumes of gasoline it expects will be sold or introduced into commerce. In terms of implementing the RFS for the year 2006, the Environmental Protection Agency released a rule determining that the RFS target for 2006, 4 billion gallons of renewable fuel in the gasoline and diesel pool, will be considered to be met, given the then-current expectations of production of both ethanol and biodiesel for that year. If the Environmental Protection Agency had determined the 2006 target was not being met, refiners, blenders and importers would be obligated to make up the shortfall in the year 2007. The Environmental Protection Agency released the final rules to implement the RFS on April 10, 2007. Under those rules, the RFS compliance period did not begin until September 1, 2007.

The Energy Policy Act of 2005 also created a new tax credit for small agri-biodiesel producers with production capacity not in excess of 60 million gallons, of 10¢ per gallon for the first 15 million gallons of agri-biodiesel produced. We believe that FutureFuel Chemical Company's 2007 biodiesel production capacity will not exceed 60 million gallons and thus will qualify for this credit.

On December 19, 2007, the Energy Independence and Security Act of 2007 ("Energy Bill of 2007") was enacted, which, among other things, expanded the RFS. In contrast to the Energy Bill of 2005, this bill provided a RFS carve-out applicable specifically to biodiesel. This is significant because the RFS requirement of the Energy Bill of 2005 had mostly been filled by ethanol. Beginning January 1, 2009, the Energy Bill of 2007 mandates that 500 million gallons of biomass-based diesel (biodiesel) be used per year. The mandate increases each year and reaches 1 billion gallons per year in 2012. Beyond 2012, the mandate is to be determined by the Environmental Protection Agency administrator in coordination with the secretaries of energy and agriculture, but with a minimum of that mandated in 2012, thus a 1 billion gallons per year floor. The Energy Bill of 2007 did not extend the biodiesel production tax incentive (set to expire at the end of 2008). An extension of this credit is part of a draft of the Farm Bill currently before Congress, although the ultimate outcome of such Farm Bill is unknown. The Energy Bill of 2007 also provides a RFS carve-out for cellulosic biofuel, starting at 100 million gallons per year in 2010 and reaches 16 billion gallons per year in 2022.

The federal government offers other programs as summarized in the table below.

Federal Agency that Administers/ Oversees	Type of Incentive	Who Receives Incentive	Commonly Known As	Summary
IRS	income tax credit	infrastructure providers	Alternative Fuel Infrastructure Credit	Provides a tax credit in an amount equal to 30% of the cost of any qualified non-residential alternatively fueled vehicle

				refueling property placed into service in the United States up to $30,000, subject to certain limits.
EPA	grant program	school districts	Clean School Bus Program	Reduces operating costs and children's exposure to harmful diesel exhaust by limiting bus idling, implementing pollution reduction technology, improving route logistics and switching to biodiesel. The Energy Bill of 2005

Federal Agency that Administers/ Oversees	Type of Incentive	Who Receives Incentive	Commonly Known As	Summary
				utilizes this program to grant up to a 50% cost share (depending on the age and emissions of the original bus) to replace school buses with buses that operate on alternative fuel or low-sulfur diesel, or up to 100% for retrofit projects.
USDA	grant program	agricultural producers and small businesses	Renewable Energy Systems and Energy Efficiency Improvements Grant	In 2005, the U.S. Department of Agriculture's Office of Rural Development made available $22.8 million in competitive grant funds and guaranteed loans for the purchase of renewable energy systems and energy improvements for agricultural producers and small rural businesses. Eligible projects include biofuels, hydrogen and energy efficiency improvements, as well as solar, geothermal and wind.
USDA/DOE	grant program	biobased fuels researchers	Biomass Research and Development Act of 2000	Funds research, development and demonstration biomass projects with respect to renewable energy resources from the agricultural and agro-forestry sectors. Biomass is defined as organic matter that is available on a renewable or recurring basis.

Many states are following the federal government's lead and are offering similar programs and incentives to spur biodiesel production and use. For example, Arkansas provides an income tax credit of 5% of the cost of the facilities and equipment used directly in the wholesale or retail distribution of biodiesel where the equipment has not been claimed in a previous tax year. In addition, Arkansas offers a tax refund of $0.50 for each gallon of biodiesel used by a supplier to produce a biodiesel/petrodiesel mixture of not more than 2% biodiesel. In April 2007, Arkansas passed legislation that provides for a $0.20 per gallon biodiesel producer credit (capped at $2 million) and up to $50,000 in grants per site for biodiesel producers and distributors to install distribution infrastructure.

Illinois and Minnesota have mandated the use of B2 in all diesel fuel sold in their respective states subject to certain conditions that include sufficient annual production capacity (defined as at least 8 million gallons). The mandate took effect in Minnesota in September 2005 and in Illinois in July 2006. Our review of state statutes reveals that approximately 35 states provide either user or producer incentives for biodiesel, several states provide both types of incentives and approximately 21 states provide incentives to biodiesel producers to build facilities in their states, typically offering tax credits, grants and other financial incentives. As FutureFuel Chemical Company expands its

business outside of Arkansas, it will evaluate these additional state incentives to determine if it qualifies for them.

FutureFuel Chemical Company will continue to identify and pursue other incentives to support its business. However, no assurances can be given that FutureFuel Chemical Company will qualify for any such incentives or, if it does qualify, what the amount of such incentives will be.

BQ-9000 Status

The BQ-9000 program was launched in late 2005 by the National Biodiesel Board. The program requires certified and accredited companies to possess a quality manual and quality control system and employ best practices in biodiesel sampling, testing, blending, shipping, storage and distribution. The goal of the program is to help assure quality of biodiesel from plant gate to consumer tank.

FutureFuel Chemical Company recognized the potential to establish itself as an industry quality leader through extension of its existing chemical ISO 9001 quality systems to biodiesel production. Management further recognized the need within this developing industry to provide a consistent ASTM standard product as an essential requirement for market expansion into fleet, government and on-the-road applications. In February 2006, shortly after the biodiesel industry established its comprehensive quality standard, BQ-9000, FutureFuel Chemical Company achieved the fourth such certification in the nation (as of October 15, 2007, only 19 biodiesel producers had achieved this quality standard - see http://www.bq-9000.org/companies/producers.aspx). Consistent with BQ-9000, all manufactured product is tested in on-site quality control laboratories and confirmed to meet the ASTM D6751 standard.

Future Strategy of the Enlarged Group

We intend to expand FutureFuel Chemical Company's biodiesel capacity utilizing available facilities as market conditions dictate as described above. All future capacity will be operated in continuous processing mode to realize operating economies and optimum throughput. Existing and future processes will accommodate a wide range of feedstock oils, allowing optimization relative to supply and pricing.

FutureFuel Chemical Company is pursuing the commercialization of cellulosic-based ethanol, initially to be produced from local hardwood biomass. FutureFuel Chemical Company's research and development program with respect to cellulosic-based ethanol includes collaboration with the National Renewable Energy Laboratory ("NREL") and other private-sector technology providers. These NREL collaborations consisted of an assessment of the proposed FutureFuel Chemical Company technologies for cellulosic ethanol and mapping of these unit operations to an existing production facility. NREL also supported FutureFuel Chemical Company in establishing analytical assay techniques for cellulosic biomass and its hydrolysates. Private sector collaborators have been major enzyme suppliers who have provided commercial and pre-commercial cellulose enzyme products, as well as technical support for their use. As with biodiesel, FutureFuel Chemical Company intends to leverage technical expertise and existing idle manufacturing assets to move this emerging technology from the development stage to commercial reality. The biochemical platform approach being pursued seeks to assemble demonstrated component technologies in a process design that leverages current facility infrastructure and capabilities.

Federal and state support incentives are anticipated to be available for cellulosic ethanol commercial development. We intend to take full advantage of incentives as they are promulgated into regulation and practice. However, no assurances can be given that FutureFuel Chemical Company will develop a commercially viable cellulosic-based ethanol manufacturing process.

In October 2006, a $2 million U.S. Department of Agriculture grant was awarded to Virent Energy Systems LLC to demonstrate the conversion of glycerin to propylene glycol at pilot plant scale. FutureFuel Chemical Company is Virent's research partner on the grant project. FutureFuel Chemical Company will be making in-kind contributions to the research effort by designing, engineering, installing and operating a subscale processing unit at its Batesville plant. FutureFuel Chemical Company will receive a portion of the grant to cover direct costs (which direct costs are estimated at approximately $418,000 and are expected to be incurred in the 4th quarter of 2007 and during 2008). We believe this technology, if successfully demonstrated, may be adapted as a key component technology to increase the

competitiveness of biodiesel production. However, no assurances can be given that FutureFuel Chemical Company will develop a commercially viable glycerin to propylene glycol manufacturing process.

Customers and Markets

FutureFuel Chemical Company currently markets its biodiesel products by truck and rail directly to customers in twelve midwest, southwest and western states. Through the utilization of liquid bulk storage facilities

and barge loading capabilities, FutureFuel Chemical Company is positioned to market biodiesel throughout the United States for transportation and home heating fuel usage. In addition, FutureFuel Chemical Company entered into a tolling agreement whereby, for a fee, it produced biodiesel for a third party (this tolling agreement terminated on September 30, 2007). For the twelve months ended December 31, 2006, two of FutureFuel Chemical Company's customers represented 50% of biodiesel revenues (5% of total revenues), five customers represented 65% of biodiesel revenues (6% of total revenues) and the tolling agreement represented 9% of biodiesel revenues (1% of total revenues). Although the regional market is still being developed, we estimate that the regional direct market available to FutureFuel Chemical Company at maturity will be at least 30 million gallons per year.

Competition

FutureFuel Chemical Company competes with other producers of biodiesel, both locally, regionally and nationally. There was one other operational biodiesel plant in the state of Arkansas (in Stuttgart, southeast of Little Rock), with capacity stated at 3 million gallon per year. However, that plant has closed and it is our understanding that it will not reopen. There are several operating facilities in surrounding states and announced biodiesel production facilities in Arkansas and surrounding states. We estimate that regional competitive producers may have approximately 150 million gallons of capacity by late 2007 or early 2008. National producers of biodiesel are described above.

In addition to biodiesel producers, FutureFuel Chemical Company competes with new technologies that are being developed as alternatives to biodiesel. For example, in December 2006, ConocoPhillips announced that commercial production of renewable diesel fuel had begun at its Whitegate refinery in Cork Island, Ireland. The production process, developed by ConocoPhillips, uses soybean and other vegetable oils to produce fuel that meets European diesel fuel standards. The fuel is produced using existing equipment at the refinery and is blended and transported with petroleum-based diesel. ConocoPhillips claims that renewable diesel is chemically similar to conventional petrodiesel and can be shipped through common carrier pipelines. ConocoPhillips is evaluating this technology for use in the United States. UOP, a major supplier to the petrochemical refining industry, has also reported the development of technology for the production of fungible fuels (diesel and gasoline) by hydro-processing of vegetable oils and cellulose. See http://www.alternatefuelsworld.com/greendiesel-greengasoline.html. We cannot give any assurances that renewable diesel fuel (or some other product) produced by these competing technologies will not supplant biodiesel as an alternative to conventional petrodiesel.

Supply and Distribution

As a result of its feedstock-neutral process, FutureFuel Chemical Company is able to source oils from a broad supplier base which includes pork, chicken and beef rendering facilities from both national and regional suppliers. Soy oil is also sourced from several national and regional producers. Cottonseed oil has been sourced from a regional cooperative. All feedstocks are currently supplied by either rail or truck. FutureFuel Chemical Company is currently exploring the possibility of importing palm oil feedstocks. We believe that an adequate supply of feedstocks can be sourced to support anticipated production.

We intend that biodiesel and other biofuels will be sold at the plant site as well as shipped to liquid bulk storage facilities for further distribution. Plant site sales are made by railcar and tank truck. Biodiesel is being delivered to liquid bulk storage facilities by company-owned tank trucks and common carriers for distribution there and for further transportation by barge.

Chemicals Business Segment

Overview of the Segment

FutureFuel Chemical Company's chemicals segment manufactures diversified chemical products that are sold externally to third party customers and to Eastman Chemical Company. This segment comprises two components: "custom manufacturing" (manufacturing chemicals for specific customers); and "performance chemicals" (multi-customer specialty chemicals). The chemicals segment had revenue of $35,654,000 for the three months ended March 31, 2007 and revenues of $137,430,000, $119,539,000 and $144,157,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

Chemical Products

Custom manufacturing involves producing unique products for individual customers, generally under long-term contracts. Many of these products are produced under confidentiality agreements in order to protect intellectual property. This is a service-based business where customers value technical capabilities, responsiveness and process improvement to continually improve costs and reliability. In recent years, a trend toward off-shoring (to China and India in particular) has placed significant downward pressure on margins. The plant's custom manufacturing product portfolio includes four large products or product families which are generally produced throughout the year: (i) nonanoyloxybenzenesulfonate ("NOBS"), a bleach activator for The Procter & Gamble Company, a major detergent and consumer products manufacturer; (ii) a proprietary herbicide for Arysta LifeScience North America Corporation, a major life sciences company; (iii) chlorinated polyolefin adhesion promoters ("CPOs") for Eastman Chemical Company; and (iv) antioxidant precursors ("DIPBs") for Eastman Chemical Company. The portfolio also contains a number of smaller products which are produced intermittently in a "batch campaign" mode, for diverse customers and end markets.

Performance chemicals comprises multi-customer products which are sold based upon specification and/or performance in the end-use application. This portfolio includes a family of polymer (nylon) modifiers and several small-volume specialty chemicals for diverse applications.

FutureFuel Chemical Company has historically manufactured CPOs and DIPBs at cost for Eastman Chemical Company. 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. Historically, revenues related to CPOs and DIPBs were exactly offset by cost of goods sold; hence there was no effect on gross profit for the years ended December 31, 2004 and 2005 or the ten-months ended October 31, 2006. As part of our acquisition of FutureFuel Chemical Company, FutureFuel Chemical Company entered into conversion agreements with Eastman Chemical Company whereby FutureFuel Chemical Company agreed to produce these products on Eastman Chemical Company's behalf. The conversion agreements effectively provide a conversion fee to FutureFuel Chemical Company based on volume manufactured, with a minimum annual fee. In addition, the conversion agreements provide for revenue adjustments for actual usage of raw materials versus a standard and stipulate that Eastman Chemical Company will pay for substantially all raw material expenses and allow for an annual inflation adjustment factor.

Future Strategy

To build on and maintain FutureFuel Chemical Company's reputation as a technology-driven competitive chemical producer, we believe that FutureFuel Chemical Company must continuously focus on cost control, operational efficiency and capacity utilization to maximize earnings. The ability to utilize large scale batch and continuous production processes and a continuous focus on process improvements allow FutureFuel Chemical Company to compete effectively in the custom manufacturing market and to remain cost competitive with, and for some products cost-advantaged over, its competitors. We intend to improve margins in this area of the FutureFuel Chemical Company business by careful management of product mix with regard to size of opportunity, timing to market, capital efficiency and matching of opportunities to assets and capabilities.

We expect to derive significant growth in the performance chemicals component primarily as a result of new biobased co-products derived from biofuels manufacturing, such as glycerin and derivatives. We believe that these products and applications will be competitive in the marketplace due to advantaged raw material costs derived from their co-product status. For example, for every gallon of biodiesel produced, approximately one pound of co-product glycerin is generated. See http://www.biodiesel.org/pdf_files/fuelfactsheets/prod_quality.pdf and http://www.harvestcleanenergy.org/conference/HCE6/Frear2.pdf. Based upon calculations made by FutureFuel

Chemical Company, we estimate that the production of glycerin from biodiesel represented 25% of U.S. domestic production of glycerin in 2005 and we estimate that it represented over 60% of the available U.S. domestic glycerin production in 2006. Production of glycerin from biofuels has significantly reduced the value of glycerin in the global marketplace and prices for refined glycerin have fallen by over 50% since late 2004. See http://www.purchasing.com/article/CA6341035.html?ref=nbcs and http://www.biodieselmagazine.com/article.jsp?article_id=1123. The crude form of glycerin derived directly from biodiesel processing has little or no value unless purified to an industrial grade quality. See http://www.biodieselmagazine.com/article.jsp?article_id=1123 and

http://www.ampc.montana.edu/policypaper/policy22.pdf . Many small biodiesel producers lack this purification capability and we believe that crude glycerin has become a disposal issue for many of these producers. See http://www.biodieselmagazine.com/article.jsp?article_id=1123, and http://www.biodieselmagazine.com/article.jsp?article_id=237&q=&page=all and http://www.ampc.montana.edu/policypaper/policy22.pdf. Leveraging its specialty chemicals expertise and infrastructure, FutureFuel Chemical Company is capable of refining glycerin to sufficient purity to derive commercial value as a co-product and/or converting glycerin through chemical processing to higher-value derivative products. Commercial development samples of refined glycerin (bulk quantities) are currently available for customer evaluations. In July 2006, Eastman SE, Inc. identified three key areas for the sale of glycerin: (i) sale of existing unrefined material; (ii) sale of highly refined material; and (iii) conversion of unrefined and refined material to higher value products. FutureFuel Chemical Company has offered unrefined glycerin to users thereof, which has led to sampling programs and field tests. However, no sales have been arranged on terms satisfactory to FutureFuel Chemical Company. It has refined glycerin in batch equipment and has provided samples to various potential customers, but no sales have been consummated. Conversion of glycerin to higher value products is still in the research and development stage (for example, see the discussion with respect to Virent Energy Systems LLC above).

Customers and Markets

FutureFuel Chemical Company's chemical products are used in a variety of market and end uses, including detergent, agrochemical, automotive, photographic imaging, coatings, nutrition and polymer additives. These products are generally non-cyclical; however, the customers are often the "brand owners" and therefore control factors related to demand, such as market development strategy. In many cases, FutureFuel Chemical Company may be unable to increase or maintain its level of sales revenue for these products.

All sales of NOBS are made to The Procter & Gamble Company pursuant to a supply contract that is set to expire in June 2008. No assurances can be given that such contract will be extended past June 2008 or, if extended, upon what terms. Sales of NOBS totaled $20,453,000 for the three months ended March 31, 2007 and $84,691,000, $66,959,000 and $73,607,000 for the years ended December 31, 2006, 2005 and 2004, respectively. Additionally, all sales of a proprietary herbicide and certain other intermediates used in the production of this herbicide are made to Arysta LifeScience North America Corporation pursuant to contracts which continue year-to-year unless terminated by notice given no later than 270 days prior to the end of the current term for the herbicide and not later than 18 months prior to the current term for the intermediates. No assurances can be given that these contracts will not be terminated. Sales of this herbicide and its intermediates totaled $5,291,000 for the three months ended March 31, 2007 and $23,685,000, $25,063,000 and $27,946,000 for the years ended December 31, 2006, 2005 and 2004, respectively. These two customers represented approximately 69% of revenues for the first three months of 2007 and 72%, 77% and 70% of revenues in 2006, 2005 and 2004, respectively.

Competition

Historically, there have been significant barriers to entry for competitors with respect to chemicals primarily due to the fact that the relevant technology and manufacturing capability has been held by a small number of companies. As technology and investment have increasingly moved outside of North America, competition from multinational chemical manufacturers has intensified, primarily from India and China. FutureFuel Chemical Company competes with these and other producers primarily based on price and, to a lesser extent, based on customer service, technology, quality and reliability. FutureFuel Chemical Company's major competitors in this segment include large multinational companies with specialty chemical business units, and smaller independent producers. The multinational competitors are often disadvantaged by poor responsiveness and customer service, while the small producers often have limited technology and financial resources. We believe that FutureFuel Chemical Company should be well-positioned for growth due to the combination of its scale of operations and technical capabilities.

Supply and Distribution

Specialty chemicals are generally high unit value products sold in packaged, or low-volume bulk form, for which distribution is a relatively minor component of cost. Most products are sold FOB the Batesville site for distribution globally. Similarly, raw materials for these products are comparatively higher-value components that

are sourced globally. An exception will be the biofuels co-products, which will be recovered from local processing and purified or further functionalized into other products at the site.

Backlog

The majority of FutureFuel Chemical Company's revenues are derived under tolling arrangements with specific customers. These customers generally provide FutureFuel Chemical Company with forecasts of demand on a monthly or quarterly basis. However, these forecasts are intended to enable FutureFuel Chemical Company to optimize the efficiency of its production processes and are not firm sales orders. As such, FutureFuel Chemical Company does not monitor or report backlog.

Management Team and Workforce

FutureFuel Chemical Company's executive management team consists of three individuals with a combined 70 plus years of experience in the chemicals industry, comprising technical, operational and business responsibilities. One of the three members of the executive team has international experience, including assignments in Europe and Asia. The third member, the chief financial officer, began employment concurrently with the closing of our acquisition of FutureFuel Chemical Company. The operational and commercial management group at the Batesville site includes nine additional degreed professionals with an average experience of over 20 years in the chemical industry.

The Batesville workforce comprises approximately 447 additional employees, with a total of 78 degreed professionals, including 17 chemists (10 PhDs) and 37 engineers (including 10 licensed professional engineers and 17 chemical engineers). The site is non-unionized. Operations personnel are highly skilled as all site manufacturing and infrastructure is fully automated and computer-controlled. The workforce is substantially self-sufficient in the range of required operational skills and experience due to the lack of locally-available process industry infrastructure. Voluntary attrition at the site has averaged less than 2% annually since 2001.

Cyclicality and Seasonality

FutureFuel Chemical Company's chemical products typically are not cyclical but they are sensitive to global economic conditions. Supply and demand dynamics determine profitability at different stages of cycles and global economic conditions affect the length of each cycle. Despite some sensitivity to global economic conditions, many of the products in the chemical segment provide a stable foundation of earnings.

Until such time as non-seasonal business (primarily on-road transportation) expands regionally, FutureFuel Chemical Company's biodiesel sales at grades greater than B5 are expected to be lower in winter months due to the end of farming activity, which is a major user of biodiesel. Also, cold weather usage and storage properties which reduce biodiesel demand during winter months require resolution in order to fully exploit year-round demand opportunities. Further, feedstock prices may make it more advantageous to produce and store biodiesel during winter months and sell it in the spring and winter months when prices are expected to be higher.

Intellectual Property

We consider FutureFuel Chemical Company's intellectual property portfolio to be a valuable corporate asset which we intend to expand and protect globally through a combination of trade secrets, confidentiality and non-disclosure agreements, patents and copyrights. As a producer of a broad and diverse portfolio of chemicals, FutureFuel Chemical Company's intellectual property relates to a wide variety of products and processes acquired through the development and manufacture of over 300 specialty chemicals during the history of the site. Our primary strategy regarding FutureFuel Chemical Company's intellectual property portfolio will be to appropriately protect all

innovations and know-how in order to provide FutureFuel Chemical Company's business segments with a technology-based competitive advantage, wherever possible. In the chemicals business segment, custom manufacturing projects are primarily conducted within the framework of confidentiality agreements with each customer to ensure that intellectual property rights are defined and protected. In the biofuels business segment, innovations and process know-how will be vigorously protected as appropriate. As may be necessary, we will seek to license technology from third parties that complements FutureFuel Chemical Company's strategic business objectives. Neither FutureFuel Chemical Company's business as a whole nor any particular segment is materially

dependent upon any one particular patent, copyright or trade secret. As the laws of many foreign countries do not protect intellectual property to the same extent as the laws of the United States, we cannot assure you that FutureFuel Chemical Company will be able to adequately protect all of its intellectual property assets.

Research and Development

FutureFuel Chemical Company devotes significant resources to its research and development programs which are primarily targeted towards two objectives:

- innovating, developing and improving biofuels processes, in particular biodiesel and bioethanol, including value-up technology and applications for co-products; and
- developing and improving processes for custom manufacturing products or performance chemicals.

FutureFuel Chemical Company's research and development capabilities comprise analytical chemistry competencies to assay and characterize raw materials and products, organic chemistry expertise applied across a breadth of reaction chemistries and materials and process engineering capabilities for batch and continuous processing of both solid and liquid materials. We believe that these core competencies, established in support of the legacy chemical business, are applicable to building a technology-based position in biofuels and associated biobased specialty products.

The research and development expenses incurred by FutureFuel Chemical Company during the three months ended March 31, 2007 were $991,000 and during the years ended December 31, 2006, 2005 and 2004 were $4,919,000, $5,975,000 and $9,919,000, respectively. Substantially all of such research and development expenses related to the development of new products, services and processes or the improvement of existing products, services and processes. Research and development expenses during this timeframe trended downwards due to: (i) reduced allocation of research and development overhead from Eastman Chemical Company in anticipation of the divestiture of Eastman SE, Inc.; and (ii) a reduction in research and development staffing at the Batesville site resulting from the general reduction-in-force which was effective May 2005. The 2007 and 2006 research and development expenses generally reflect the research and development staffing and program costs incurred at the Batesville site on a standalone basis.

Regulatory and Environmental Matters

Various aspects of FutureFuel Chemical Company's operations are subject to regulation by state and federal agencies. Oil and gas operations as well as chemical operations are subject to numerous, stringent and complex laws and regulations at the federal, state and local levels governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations may:

- require acquisition of permits regarding discharges into the air and discharge of waste waters;
- place restrictions on the handling and disposal of hazardous and other wastes; and
- require capital expenditures to implement pollution control equipment.

Compliance with such laws and regulations can be costly and noncompliance can result in substantial civil and even criminal penalties. Some environmental laws impose strict liability for environmental contamination, rendering a person liable for environmental damages and cleanup costs without regard to negligence or fault. Moreover, public interest in the protection of the environment has increased substantially in recent years. FutureFuel Chemical Company's operations could be adversely affected to the extent laws are enacted or other governmental action is taken

that imposes environmental protection requirements that result in increased costs to the oil and gas industry and/or the chemical manufacturing industry in general. The following provides a general discussion of some of the significant environmental laws and regulations that impact FutureFuel Chemical Company's activities.

The federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), and analogous state laws, impose joint and several liabilities, without regard to fault or the legality of the original act, on

certain classes of persons that contributed to the release of a hazardous substance into the environment. These persons include the owner and operator of the site where the release occurred, past owners and operators of the site, and companies that disposed or arranged for the disposal of hazardous substances found at the site. Responsible parties under CERCLA may be liable for the costs of cleaning up hazardous substances that have been released into the environment and for damages to natural resources. Additionally, it is not uncommon for third parties to assert claims for personal injury and property damage allegedly caused by the release of hazardous substances or other pollutants into the environment.

The federal Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act ("RCRA"), is the principal federal statute governing the management of wastes, including the treatment, storage and disposal of hazardous wastes. RCRA imposes stringent operating requirements, and liability for failure to meet such requirements, on a person who is either a generator or transporter of hazardous waste or an owner or operator of a hazardous waste treatment, storage or disposal facility. Many of the wastes generated in FutureFuel Chemical Company's manufacturing facility are governed by RCRA.

The federal Oil Pollution Act of 1990 ("OPA") and regulations thereunder impose liability on responsible parties for damages resulting from oil spills into or upon navigable waters, adjoining shorelines or in the exclusive economic zone of the United States. A responsible party includes the owner or operator of an onshore facility. OPA limits liability for onshore facilities to $350 million. These liability limits may not apply if a spill is caused by a party's gross negligence or willful misconduct, the spill resulted from violation of a federal safety, construction or operating regulation, or if a party fails to report a spill or to cooperate fully in a clean-up. Failure to comply with OPA's requirements may subject a responsible party to civil, criminal or administrative enforcement actions.

The federal Water Pollution Control Act ("Clean Water Act") imposes restrictions and controls on the discharge of pollutants into navigable waters. These controls have become more stringent over the years, and it is possible that additional restrictions may be imposed in the future. Permits must be obtained to discharge pollutants into state and federal waters. The Clean Water Act provides for civil, criminal and administrative penalties for discharges of oil and other pollutants, and imposes liability on parties responsible for those discharges for the costs of cleaning up any environmental damage caused by the release and for natural resource damages resulting from the release. Comparable state statutes impose liabilities and authorize penalties in the case of an unauthorized discharge of petroleum or its derivatives, or other pollutants, into state waters.

The federal Clean Air Act ("Clean Air Act"), and associated state laws and regulations, restrict the emission of air pollutants from many sources, including facilities involved in manufacturing chemicals and biofuels. New facilities are generally required to obtain permits before operations can commence, and new or existing facilities may be required to incur certain capital expenditures to install air pollution control equipment in connection with obtaining and maintaining operating permits and approvals. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with permits or other requirements of the Clean Air Act and associated state laws and regulations.

The federal Endangered Species Act, the federal Marine Mammal Protection Act, and similar federal and state wildlife protection laws prohibit or restrict activities that could adversely impact protected plant and animal species or habitats. Manufacturing activities could be prohibited or delayed in areas where such protected species or habitats may be located, or expensive mitigation may be required to accommodate such activities.

FutureFuel Chemical Company's policy is to operate its plants and facilities in a manner that protects the environment and the health and safety of its employees and the public. FutureFuel Chemical Company intends to continue to make expenditures for environmental protection and improvements in a timely manner consistent with its policies and with the technology available. In some cases, applicable environmental regulations such as those adopted under the Clean

Air Act and RCRA, and related actions of regulatory agencies, determine the timing and amount of environmental costs incurred by FutureFuel Chemical Company.

We establish reserves for closure/post-closure costs associated with the environmental and other assets we maintain. Environmental assets include waste management units such as incinerators, landfills, storage tanks and boilers. When these types of assets are constructed or installed, a reserve is established for the future costs anticipated to be associated with the closure of the site based on an expected life of the environmental assets, the applicable regulatory closure requirements and our environmental policies and practices. These expenses are

charged into earnings over the estimated useful life of the assets. Currently, we estimate the useful life of each individual asset up to 35 years.

In addition to our general environmental policies and policies for asset retirement obligations and environmental reserves, we accrue environmental costs when it is probable that we or one of our subsidiaries has incurred a liability and the amount can be reasonably estimated. In some instances, the amount cannot be reasonably estimated due to insufficient data, particularly in the nature and timing of the future performance. In these cases, the liability is monitored until such time that sufficient data exists. With respect to a contaminated site, the amount accrued reflects our assumptions about remedial requirements at the site, the nature of the remedy, the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number and financial viability of other potentially responsible parties. Changes in the estimates on which the accruals are based, unanticipated government enforcement action, or changes in health, safety, environmental, chemical control regulations, and testing requirements could result in higher or lower costs.

FutureFuel Chemical Company's cash expenditures related to environmental protection and improvement were approximately $13,300,000, $13,211,000 and $12,896,000 for the years ended December 31, 2006, 2005 and 2004, respectively. These amounts pertain primarily to operating costs associated with environmental protection equipment and facilities, but also include expenditures for construction and development. We do not expect future environmental capital expenditures arising from requirements of recently promulgated environmental laws and regulations to materially increase FutureFuel Chemical Company's planned level of annual capital expenditures for environmental control facilities.

We believe that FutureFuel Chemical Company has obtained in all material respects the necessary permits and licenses to carry on its operations as presently conducted. We have reviewed environmental investigations of the properties owned by FutureFuel Chemical Company and believe, on the basis of the results of the investigations carried out to date, that there are no material regulatory and/or environmental issues which adversely impact FutureFuel Chemical Company. In addition, under our acquisition agreement with Eastman Chemical Company, Eastman Chemical Company acquired environmental insurance with respect to environmental conditions at the Batesville plant existing as of the closing date and Eastman Chemical Company has agreed, subject to certain limitations, to indemnify FutureFuel Chemical Company with respect to such environmental conditions.

Objectives

Our business objectives for FutureFuel Chemical Company are to: (i) exploit growth opportunities in its two core business segments, biofuels and chemicals; and (ii) improve gross margins.

Exploit Growth Opportunities in Core Business Segments

We believe that FutureFuel Chemical Company can become a market leader in biofuels by leveraging its specialty chemicals technical expertise and by fully utilizing idle site assets and infrastructure headspace, with emphasis on:

- operational expertise to produce ASTM D6751 quality biodiesel from diverse feedstocks;
- leveraging BQ-9000 quality certification to supply demanding biodiesel applications;
- conversion of available capacity at below new-build costs;
- service to regional markets and enhanced distribution channels to national markets;

- process improvement to reduce costs of manufacturing; and
- adding value to co-products and by-products from biofuels production.

We believe that FutureFuel Chemical Company is one of the largest independent custom chemical manufacturers in North America and that it will continue to grow this business based upon:

- long term contracts for most custom manufacturing products;
- strong relationships with customers who are market leaders, leading to repeat business;
- technical capability to innovate processes, particularly the ability to apply both chemistry and engineering disciplines to solve complex technical problems;
- responsiveness and customer service from an entrepreneurial organization;
- ability to practice a range of manufacturing scale; and
- process improvement capability to achieve lowest-cost manufacturing position.

We intend to grow FutureFuel Chemical Company's multi-customer chemicals portfolio by producing marketable chemical co-products from biofuels production and biobased specialty products derived from biofuel products and/or raw materials. As an example, a significant co-product from biodiesel production is glycerin, which can be purified and sold and which may also be chemically converted into other chemical products and derivatives. See the discussion above. We intend that FutureFuel Chemical Company will exploit the potential for development of a "chemicals from biomass" platform, based upon the raw material and co-product streams associated with biofuels production.

Improve Gross Margins

We intend that FutureFuel Chemical Company will continue to work to maximize the value of core businesses by improving gross margins through:

- enhancing pricing processes and strategies, and optimizing biofuels channels to market;
- continuing to pursue cost reduction opportunities, including improved operational efficiency through business simplification;
- achieving high utilization of manufacturing assets;
- improving capital efficiency through high value de-bottlenecking opportunities and incremental expansions of existing assets and infrastructure; and
- enhancing custom manufacturing project selection and portfolio mix.

However, no assurances can be given that these objectives will be met, in whole or in part.

Financial Information about Geographic Areas

We do not derive revenues from customers in foreign countries. Most of FutureFuel Chemical Company's sales are FOB the Batesville plant, although some FOB points are in other states or at foreign ports. While many of FutureFuel Chemical Company'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 Chemical Company to the customer. Rarely is FutureFuel Chemical Company the exporter of record, never is FutureFuel Chemical Company the importer of record into foreign countries and FutureFuel Chemical Company is not always aware of the exact quantities of its products that are

moved into foreign markets by its customers. FutureFuel Chemical Company does track the addresses of its customers for invoicing purposes and uses this address to determine whether a particular sale is within or outside the United States. FutureFuel Chemical Company's revenues for the three months ended March 31, 2007 and for the last three fiscal years attributable to the United States and foreign countries (based upon the billing addresses of its customers) were as follows:

(Dollars in thousands)

Period	United States	All Foreign Countries	Total
Three months ended March 31, 2007	$ 32,300	$ 5,206	$ 37,506
Year ended December 31, 2006	$ 131,893	$ 18,877	$ 150,770
Year ended December 31, 2005	$ 105,719	$ 13,820	$ 119,539
Year ended December 31, 2004	$ 138,636	$ 5,521	$ 144,157

For the year ended December 31, 2004, revenues from a single foreign country did not exceed 2% of total revenues. Beginning in 2005, FutureFuel Chemical Company began invoicing Procter & Gamble International Operations Mexico, D.F. directly, at which time revenues from Mexico became a more significant component of total revenues. For the years ended December 31, 2005 and 2006 and the three months ended March 31, 2007, revenues from Mexico accounted for 10%, 11% and 13%, respectively, of total revenues. Other than Mexico, revenues from a single foreign country during 2005 and 2006 and the first three months of 2007 did not exceed 1% of total revenues.

All of our and FutureFuel Chemical Company's long-lived assets are located in the United States.

We have no foreign operations. See "Item 1A. - Risk Factors" at page 35for a discussion of risks attendant to FutureFuel Chemical Company's foreign operations.

Available Information

We make available free of charge, through the "Investor Relations - SEC Filings" section of our Internet website (http://www.FutureFuelCorporation.com), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the Securities and Exchange Commission ("SEC"). Once filed with the SEC, such documents may be read and/or copied at the SEC's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that electronically file with the SEC at http://www.sec.gov.

We make available free of charge, through the "Investor Relations - Corporate Governance" section of our website (http://www.FutureFuelCorporation.com), the corporate governance guidelines of our board of directors, the charters of each of the committees of our board of directors, and codes of ethics and business conduct for our directors, officers and employees. Such materials will be available in print upon the written request of any shareholder to FutureFuel Corp., 8235 Forsyth Blvd., 4th Floor, Clayton, Missouri 63105, Attention: Investor Relations.

Reports to Security Holders

In the investor rights agreement that we executed on July 12, 2006 in connection with our offering, we agreed, following completion of the acquisition of FutureFuel Chemical Company and until this Registration Statement became effective (which was June 23, 2007), to furnish to our shareholders annual, quarterly and current reports and to ensure that the proxy materials distributed to our shareholders in connection with a business combination are substantially similar to materials that would be required if such materials were subject to SEC requirements, but only to the extent that our board of directors in its business judgment determines that it would be reasonably practicable to provide such information, taking into account factors such as time, expense and other relevant considerations under the particular circumstances. Such annual reports were to contain financial information that has been examined and

reported on, with an opinion expressed by, an independent certified public accountant.

On August 22, 2006, AIM announced that non-European Economic Area companies whose shares are traded on AIM are not required to adopt International Financial Reporting Standards for financial reporting purposes but may use, among other things, U.S. generally accepted accounting principles without reconciliation to the

International Financial Reporting Standards. We are a non-European Economic Area company and have determined that we will prepare our financial statements in accordance with U.S. generally accepted accounting principles. International Financial Reporting Standards differ in certain significant respects from U.S. generally accepted accounting principles and our financial statements prepared in accordance with U.S. generally accepted accounting principles will not be comparable to financial statements prepared in accordance with International Financial Reporting Standards.

Item 1A. - Risk Factors

An investment in us involves a high degree of risk and may result in the loss of all or part of your investment. You should consider carefully all of the information set out in this document and the risks attaching to an investment in us, including, in particular, the risks described below. The information below does not purport to be an exhaustive list and should be considered in conjunction with the contents of the rest of this document.

Risks associated with FutureFuel Chemical Company.

The industries in which FutureFuel Chemical Company competes are highly competitive.

The oil and gas industry, as well as the chemical business, are highly competitive. There is competition within these industries and also with other industries in supplying the energy, fuel and chemical needs of industry and individual consumers. FutureFuel Chemical Company will compete with other firms in the sale or purchase of various goods or services in many national and international markets. FutureFuel Chemical Company will compete with large national and multi-national companies that have longer operating histories, greater financial, technical and other resources and greater name recognition than FutureFuel Chemical Company does. In addition, FutureFuel Chemical Company will compete with several smaller companies capable of competing effectively on a regional or local basis, and the number of these smaller companies is increasing. FutureFuel Chemical Company's competitors may be able to respond more quickly to new or emerging technologies and services and changes in customer requirements. As a result of competition, FutureFuel Chemical Company may lose market share or be unable to maintain or increase prices for its products and/or services or to acquire additional business opportunities, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. Although FutureFuel Chemical Company will employ all methods of competition which are lawful and appropriate for such purposes, no assurances can be made that they will be successful. A key component of FutureFuel Chemical Company's competitive position, particularly given the expected commodity-based nature of many of its products, will be its ability to manage expenses successfully, which requires continuous management focus on reducing unit costs and improving efficiency. No assurances can be given that FutureFuel Chemical Company will be able to successfully manage such expenses.

FutureFuel Chemical Company's competitive position in the markets in which it participates is, in part, subject to external factors in addition to those that FutureFuel Chemical Company can impact. Natural disasters, changes in laws or regulations, war or other outbreak of hostilities, or other political factors in any of the countries or regions in which FutureFuel Chemical Company operates or does business, or in countries or regions that are key suppliers of strategic raw materials, could negatively impact FutureFuel Chemical Company's competitive position and its ability to maintain market share.

Increases in the construction of biodiesel production plants may cause excess biodiesel production capacity in the market. Excess capacity may adversely affect the price at which FutureFuel Chemical Company is able to sell the biodiesel that it produces and may also adversely affect our anticipated results of operation and financial condition.

In 2005, approximately 75 million gallons of biodiesel were produced in the United States. Currently, there is a reported 1.39 billion gallons per year of biodiesel production capacity in the United States, with another 1.89 billion gallons per year under construction. With such an increase in biodiesel production capacity in the United States, compared to historical production levels, there is risk that there will be a significant amount of excess biodiesel production capacity. Although this existing and pending capacity growth is very large compared to historical production levels, we believe that the market will purchase as much biodiesel as is available, so long as the prices for biodiesel (net of the impact of tax credits and other similar incentives) are competitive with those of petrodiesel.

Fluctuations in commodity prices may cause a reduction in the demand or profitability of the products or services FutureFuel Chemical Company produces.

Prices for alternative fuels tend to fluctuate widely based on a variety of political and economic factors. These price fluctuations heavily influence the oil and gas industry. Lower energy prices for existing products tend to limit the demand for alternative forms of energy services and related products and infrastructure. Historically, the

markets for alternative fuels have been volatile, and they are likely to continue to be volatile. Wide fluctuations in alternative fuel prices may result from relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and other factors that are beyond our control, including:

- worldwide and domestic supplies of oil and gas;
- the price and/or availability of biodiesel feedstocks;
- weather conditions;
- the level of consumer demand;
- the price and availability of alternative fuels;
- the availability of pipeline and refining capacity;
- the price and level of foreign imports;
- domestic and foreign governmental regulations and taxes;
- the ability of the members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;
- political instability or armed conflict in oil-producing regions; and
- the overall economic environment.

These factors and the volatility of the commodity markets make it extremely difficult to predict future alternative fuel price movements with any certainty. There may be a decrease in the demand for FutureFuel Chemical Company's products or services and our profitability could be adversely affected.

FutureFuel Chemical Company is reliant on certain strategic raw materials for its operations.

FutureFuel Chemical Company is reliant on certain strategic raw materials (such as acetic anhydride, pelargonic acid, soybean oil and methanol) for its operations. We are implementing certain risk management tools, such as multiple suppliers and hedging, as appropriate, to mitigate short-term market fluctuations in raw material supply and costs. There can be no assurance, however, that such measures will result in cost savings or that all market fluctuation exposure will be eliminated. In addition, natural disasters, changes in laws or regulations, war or other outbreak of hostilities, or other political factors in any of the countries or regions in which FutureFuel Chemical Company operates or does business, or in countries or regions that are key suppliers of strategic raw materials, could affect availability and costs of raw materials.

While temporary shortages of raw materials may occasionally occur, these items have historically been sufficiently available to cover current requirements. However, their continuous availability and price are impacted by natural disasters, plant interruptions occurring during periods of high demand, domestic and world market and political conditions, changes in government regulation, and war or other outbreak of hostilities. In addition, as FutureFuel Chemical Company increases its biodiesel capacity, it will require larger supplies of raw materials which have not yet been secured and may not be available for the foregoing reasons, or may be available only at prices higher than current levels. FutureFuel Chemical Company's operations or products may, at times, be adversely affected by these

factors.

FutureFuel Chemical Company is reliant upon two customers for a substantial amount of its sales.

All sales of NOBS are made to The Procter & Gamble Company and all sales of a proprietary herbicide and certain other intermediates used in the production of this herbicide are made to Arysta LifeScience North America Corporation. These two customers represented approximately 69% of FutureFuel Chemical Company's revenues for the quarter ended March 31, 2007 and 72% of its revenues in 2006. The contract with The Procter & Gamble

Company is set to expire in June 2008 and no assurances can be given that such contract will be extended past June 2008 or, if extended, upon what terms. The contracts with Arysta LifeScience North America Corporation contain certain termination provisions and no assurances can be given that these contracts will not be terminated. The loss of these two companies as customers could have a material adverse effect on us.

Changes in technology may render FutureFuel Chemical Company's products or services obsolete.

The alternative fuel and chemical industries may be substantially affected by rapid and significant changes in technology. Examples include competitive product technologies, such as green gasoline and biodiesel produced from catalytic hydroforming of renewable feedstock oils and competitive process technologies such as advanced biodiesel continuous reactor and washing designs that increase throughput. These changes may render obsolete certain existing products, energy sources, services and technologies currently used by FutureFuel Chemical Company. We cannot assure you that the technologies used by or relied upon by FutureFuel Chemical Company will not be subject to such obsolescence. While we may attempt to adapt and apply the services provided by FutureFuel Chemical Company to newer technologies, we cannot assure you that we will have sufficient resources to fund these changes or that these changes will ultimately prove successful.

Failure to comply with governmental regulations could result in the imposition of penalties, fines or restrictions on operations and remedial liabilities.

The oil and gas and chemical industries are subject to extensive federal, state, local and foreign laws and regulations related to the general population's health and safety and those associated with compliance and permitting obligations (including those related to the use, storage, handling, discharge, emission and disposal of municipal solid waste and other waste, pollutants or hazardous substances or waste, or discharges and air and other emissions) as well as land use and development. Existing laws also impose obligations to clean up contaminated properties or to pay for the cost of such remediation, often upon parties that did not actually cause the contamination. Compliance with these laws, regulations and obligations could require substantial capital expenditures. Failure to comply could result in the imposition of penalties, fines or restrictions on operations and remedial liabilities. These costs and liabilities could adversely affect our operations.

Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly waste handling, storage, transport, disposal or cleanup requirements could require FutureFuel Chemical Company to make significant expenditures to attain and maintain compliance and may otherwise have a material adverse effect on its business segments in general and on our results of operations, competitive position or financial condition. We are unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would materially adversely increase FutureFuel Chemical Company's cost of doing business or affect its operations in any area.

Under certain environmental laws and regulations, FutureFuel Chemical Company could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether FutureFuel Chemical Company was responsible for the release or contamination, or if current or prior operations were conducted consistent with accepted standards of practice. Such liabilities can be significant and, if imposed, could have a material adverse effect on our financial condition or results of operations.

FutureFuel Chemical Company's biofuels operations may be harmed if the government were to change current laws and regulations.

Alternative fuels businesses benefit from tax credits and government subsidies. If any of the state or federal laws and regulations relating to the tax credits and government subsidies change, the ability to recover capital expenditures

from an alternative fuels business could be harmed. FutureFuel Chemical Company's biofuels platform is subject to federal, state, and local laws and regulations governing the application and use of alternative energy products, including those related specifically to biodiesel. For instance, biodiesel products benefit from being the only alternative fuel certified by the U.S. Environmental Protection Agency that fulfills the requirements of Section 211(B) of the Clean Air Act. If agency determinations, laws and regulations relating to the application and use of alternative energy are changed, the marketability and sales of biodiesel production could be materially adversely affected.

The value of FutureFuel Chemical Company may prove to be less than what we paid for FutureFuel Chemical Company because of uncertainties in evaluating future costs and/or potential liabilities.

Successful acquisitions require an assessment of a number of factors, including estimates of future biofuel prices, operating costs (including the costs of raw goods) and potential environmental and other liabilities. Such assessments are inexact and their accuracy is inherently uncertain. In connection with our due diligence assessment of FutureFuel Chemical Company, we performed a review of FutureFuel Chemical Company and its properties which we believe was generally consistent with industry practices. However, such a review will not reveal all existing or potential problems. In addition, our review may not have permitted us to become sufficiently familiar with FutureFuel Chemical Company's properties to fully assess their deficiencies and capabilities. As a result of these factors, the value of FutureFuel Chemical Company may ultimately be less than what we agreed to pay for its stock.

Market conditions or transportation impediments may hinder access to raw goods and distribution markets.

Market conditions, the unavailability of satisfactory transportation or the location of FutureFuel Chemical Company's manufacturing complex from more lucrative markets may hinder FutureFuel Chemical Company's access to raw goods and/or distribution markets. The availability of a ready market for biodiesel depends on a number of factors, including the demand for and supply of biodiesel and the proximity of the plant to trucking and terminal facilities. The sale of large quantities of biodiesel necessitates that FutureFuel Chemical Company transport its biodiesel to other markets since the Batesville, Arkansas regional market is not expected to absorb all of FutureFuel Chemical Company's contemplated production. Currently, common carrier pipelines are not transporting biodiesel. This leaves trucks, barges and rail cars as the means of distribution of FutureFuel Chemical Company's product from the plant to these storage terminals for further distribution. However, the current availability of rail cars is limited and at times unavailable because of repairs or improvements, or as a result of priority transportation agreements with other shippers. Additionally, the current availability of barges is limited, particularly heated barges to transport biodiesel during winter months. If transportation is restricted or is unavailable, FutureFuel Chemical Company may not be able to sell into more lucrative markets and consequently its cash flow from sales of biodiesel could be restricted.

The biodiesel industry also faces several challenges to wide biodiesel acceptance, including cold temperature limitations, storage stability, fuel quality standards and exhaust emissions. If the industry does not satisfy consumers that these issues have been resolved or are being resolved, biodiesel may not gain widespread acceptance which may have an adverse impact on FutureFuel Chemical Company's cash flow from sales of biodiesel.

FutureFuel Chemical Company's insurance may not protect it against its business and operating risks.

We maintain insurance for some, but not all, of the potential risks and liabilities associated with FutureFuel Chemical Company's business. For some risks, we may not obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially and, in some instances, certain insurance policies may become unavailable or available only for reduced amounts of coverage. As a result, we may not be able to renew our existing insurance policies or procure other desirable insurance on commercially reasonable terms, if at all. Although we will maintain insurance at levels we believe are appropriate for FutureFuel Chemical Company's business and consistent with industry practice, we will not be fully insured against all risks which cannot be sourced on economic terms. In addition, pollution and environmental risks generally are not fully insurable. Losses and liabilities from uninsured and underinsured events and delay in the payment of insurance proceeds could have a material adverse effect on our financial condition and results of operations.

If a significant accident or other event resulting in damage to FutureFuel Chemical Company's operations (including severe weather, terrorist acts, war, civil disturbances, pollution or environmental damage) occurs and is not fully covered by insurance or a recoverable indemnity from a customer, it could adversely affect our financial condition and results of operations.

FutureFuel Chemical Company depends on key personnel, the loss of any of whom could materially adversely affect our future operations.

Our success will depend to a significant extent upon the efforts and abilities of FutureFuel Chemical Company's executive officers. The loss of the services of one or more of these key employees could have a material adverse effect on us. FutureFuel Chemical Company's business will also be dependent upon its ability to attract and retain qualified personnel. Acquiring or retaining these personnel could prove more difficult to hire or cost substantially more than estimated. This could cause FutureFuel Chemical Company to incur greater costs, or prevent it from pursuing its expansion strategy as quickly as it would otherwise wish to do.

If FutureFuel Chemical Company is unable to effectively manage the commodity price risk of its raw materials or finished goods, FutureFuel Chemical Company may have unexpected losses.

We hedge FutureFuel Chemical Company's raw materials and/or finished products to some degree to manage the commodity price risk of such items. This requires the purchase or sale of commodity futures contracts and/or options on those contracts or similar financial instruments. We may be forced to make cash deposits available to counterparties as they mark to market these financial hedges. This funding requirement may limit the level of commodity price risk management that we are prudently able to complete. If we do not or are not capable of managing the commodity price risk of FutureFuel Chemical Company's raw materials and/or finished products, FutureFuel Chemical Company may incur losses as a result of price fluctuations with respect to these raw materials and/or finished products.

If FutureFuel Chemical Company is unable to acquire or renew permits and approvals required for its operations, it may be forced to suspend or cease operations altogether.

The operation of FutureFuel Chemical Company's manufacturing plant requires numerous permits and approvals from governmental agencies. FutureFuel Chemical Company may not be able to obtain all necessary permits (or modifications thereto) and approvals and, as a result, our operations may be adversely affected. In addition, obtaining all necessary renewal permits (or modifications to existing permits) and approvals for future expansions may necessitate substantial expenditures and may create a significant risk of expensive delays or loss of value if a project is unable to function as planned due to changing requirements.

The lack of business diversification may adversely affect our results of operations.

It is possible that we will not consummate more than one business combination with the proceeds from our July 2006 offering and FutureFuel Chemical Company may be the only target business that we acquire. Accordingly, the prospects for our success may be entirely dependent upon FutureFuel Chemical Company. Unlike other entities which may have the resources to complete several business combinations of entities operating in multiple industries or multiple areas of a single industry, it is possible that we will not have the resources to diversify effectively our operations or benefit from the possible spreading of risks or offsetting of losses.

FutureFuel Chemical Company's indebtedness may limit our ability to borrow additional funds or capitalize on acquisition or other business opportunities.

FutureFuel Chemical Company has entered into a $50 million revolving credit facility with Regions Bank and we have guaranteed FutureFuel Chemical Company's obligations thereunder. The restrictions governing this indebtedness (such as total debt to EBITDA limitations) may reduce our ability to incur additional indebtedness, engage in certain transactions or capitalize on acquisition or other business opportunities. If FutureFuel Chemical Company is unable to meet its future debt service obligations and other financial obligations, we could be forced to restructure or refinance

such indebtedness and other financial transactions, seek additional equity or sell assets.

We expect to have capital expenditure requirements, and we may be unable to obtain needed financing on satisfactory terms.

We expect to make capital expenditures for the expansion of FutureFuel Chemical Company's biofuels production capacity and complementary infrastructure. We intend to finance these capital expenditures primarily through cash flow from FutureFuel Chemical Company's operations, borrowings under the credit facility with

Regions Bank and the remaining proceeds of our July 2006 offering. However, if FutureFuel Chemical Company's capital requirements vary materially from those provided for in our current projections, we may require additional financing sooner than anticipated. A decrease in expected revenues or adverse change in market conditions could make obtaining this financing economically unattractive or impossible. As a result, we may lack the capital necessary to complete the projected expansions or capitalize on other business opportunities.

We may be unable to successfully integrate the FutureFuel Chemical Company acquisition or other future acquisitions with our operations or realize all of the anticipated benefits of these acquisitions.

Separation of FutureFuel Chemical Company from Eastman Chemical Company and integration of FutureFuel Chemical Company with us has been a complex, time-consuming and costly process. Failure to successfully integrate FutureFuel Chemical Company in a timely manner may have a material adverse effect on our business, financial condition, results of operations and cash flows. The difficulties of combining the acquired operations include, among other things:

- operating a significantly larger combined organization;
- consolidating corporate technological and administrative functions;
- integrating internal controls and other corporate governance matters; and
- diverting management's attention from other business concerns.

In addition, we may not realize all of the anticipated benefits from the acquisition of FutureFuel Chemical Company and other future acquisitions, such as increased earnings, cost savings and revenue enhancements, for various reasons, including difficulties integrating operations and personnel, higher and unexpected acquisition and operating costs, unknown liabilities and fluctuations in markets. If the FutureFuel Chemical Company acquisition benefits do not meet the expectations of financial or industry analysts, the market price of our shares of common stock may decline.

The scope of indemnity protection afforded to us under the acquisition agreement with Eastman Chemical Company is limited.

While we are confident that the due diligence process undertaken in relation to FutureFuel Chemical Company was sufficient and that material areas of potential exposure have been discovered, there can be no certainty that all significant exposures were uncovered by the due diligence process and it is unlikely that all existing or potential problems and/or liabilities have been revealed. The inspections that have been performed may not have revealed structural and environmental problems, such as groundwater contamination. We were not able to obtain contractual indemnities from Eastman Chemical Company for all liabilities that were created by Eastman Chemical Company or FutureFuel Chemical Company prior to the completion of the acquisition of FutureFuel Chemical Company and have only limited indemnity protection under the acquisition agreement with Eastman Chemical Company. As part of such acquisition agreement, we, through FutureFuel Chemical Company, assumed the risk of the physical condition of FutureFuel Chemical Company's properties in addition to the risk that the properties may not perform in accordance with expectations, as well as certain environmental and other unknown liabilities in excess of certain amounts.

If any such exposures materialize or the information provided as part of the due diligence exercise proves to be untrue or inaccurate, we will have to rely on the limited indemnity protection afforded to us under the acquisition agreement in order to seek compensation for any financial loss incurred as a result. By its nature, indemnity protection is limited in scope, being the product of a negotiation exercise between us and Eastman Chemical Company, and therefore we may not recover any or sufficient funds fully to cover any loss incurred.

In addition, even where potential areas of exposure are covered by the scope of indemnity protection provided under the acquisition agreement, there is no guarantee that Eastman Chemical Company will be in a financial position to support the level of indemnification for which it may be liable. Consequently, we may not recover any or sufficient funds fully to cover any loss incurred.

Risks associated with investing in AIM companies.

The market for our shares or warrants is relatively illiquid.

Our shares of common stock and warrants currently are traded on AIM and are not listed or traded on any established market in the United States. AIM is a market designed primarily for emerging or smaller companies. The AIM rules are less demanding than those of the Official List of the UK Listing Authority and other stock exchanges and also than those under federal securities laws. Neither the London Stock Exchange nor the SEC has approved the contents of this document. The future success of AIM and liquidity in the market for our shares of common stock and warrants cannot be guaranteed. In particular, the market for our shares of common stock and warrants may be, or may become, relatively illiquid and therefore may be or may become difficult to sell.

Investment in shares traded on AIM is perceived to carry a higher risk than an investment in shares quoted on exchanges with more stringent listing requirements, such as the London Stock Exchange, the New York Stock Exchange or the NASDAQ Global Market. This is because AIM imposes less stringent corporate governance and ongoing reporting requirements. AIM is also a new and more flexible market, which requires only semi-annual, rather than quarterly, financial update reports. Investors should be aware that the value of our shares of common stock and warrants may be influenced by many factors, some of which may affect quoted companies generally, including the depth and liquidity of the market, our performance, a large or small volume of trading in our securities, legislative changes and general economic, political or regulatory conditions, and that the prices may be volatile and subject to extensive fluctuations. Therefore, the market price of our shares of common stock and warrants may not reflect the underlying value. The value of an investment in us may increase or decrease; therefore investors may realize less than, or lose all of, their investment.

We will not adopt the International Financial Reporting Standards but rather will continue to prepare our financial statements and financial reporting in accordance with U.S. generally accepted accounting principles.

On August 22, 2006, AIM announced that non-European Economic Area companies whose shares are traded on AIM are not required to adopt International Financial Reporting Standards for financial reporting purposes but may use, among other things, U.S. generally accepted accounting principles without reconciliation to International Financial Reporting Standards. We are a non-European Economic Area company and have determined that we will prepare our financial statements in accordance with U.S. generally accepted accounting principles. International Financial Reporting Standards differ in certain significant respects from U.S. generally accepted accounting principles and our financial statements prepared in accordance with U.S. generally accepted accounting principles will not be comparable to financial statements prepared in accordance with International Financial Reporting Standards.

Risks associated with owning our shares and warrants.

Our shares will be represented by definitive certificates which could reduce the liquidity of our shares and warrants.

Our shares of common stock are represented by definitive certificates which contain the following legend.

Prior to investing in the securities or conducting any transactions in the securities, investors are advised to consult professional advisers regarding the restrictions on transfer summarized below and any other restrictions.

This security (or its predecessor) was originally issued in a transaction exempt from registration under the United States Securities Act of 1933, as amended (the “Securities Act”), and is a restricted security (as defined in Rule 144 under the Securities Act). This security may not be offered, sold or otherwise transferred in the absence of registration or an applicable exemption therefrom. Hedging transactions involving this security may not be conducted directly or

indirectly, unless in compliance with the Securities Act. Each purchaser of this security is hereby notified that the seller of this security may be relying on the

exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or Regulation S thereunder.

The holder of this security agrees for the benefit of the Company that (a) this security may be offered, resold, pledged or otherwise transferred, only (i) in the United States to a person whom the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) in a transaction meeting the requirements of Rule 144A, (ii) outside of the United States in an offshore transaction in accordance with Rule 903 or Rule 904 under the Securities Act, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (iv) pursuant to an effective registration statement under the Securities Act, in each of cases (i) through (iv) in accordance with any applicable securities laws of any state of the United States, and (b) the holder will, and each subsequent holder is required to, notify any purchaser of this security from it of the resale restrictions referred to in (a) above.

The securities represented by this certificate are subject to transfer restrictions which require that in addition to any certifications required from a transferor as set forth on the reverse of this certificate, prior to the expiration of a distribution compliance period of at least one year, the transferee certifies as to whether or not it is a US person within the meaning of Regulation S and provides certain other certifications and agreements. Prior to permitting any transfer, the Company may request an opinion of counsel reasonably satisfactory to the Company that such transfer is to be effected in a transaction meeting the requirements of Regulation S under the Securities Act or is otherwise exempt from registration under the Securities Act.

CREST Co., which is the Central Securities Depository for the U.K. markets (including AIM) and which operates the CREST system (CREST Co.'s real-time settlement system for UK and Irish shares and other corporate securities), does not allow electronic settlement on CREST until the legend has been removed and the certification requirements required under U.S. securities laws have expired. The filing and effectiveness of this Registration Statement will not result in the removal of this legend. As a result, our shares of common stock and warrants must be represented by definitive certificates. In order to transfer or sell our shares or warrants, holders must provide the definitive certificates to the transfer agent, who will require certain certifications as set forth in the legend, and on occasion legal opinions as set forth in the legend, prior to issuing new certificates to new security holders. The lack of a fully electronic settlement mechanism may have a material adverse effect on the liquidity and the price of our securities.

If our founding shareholders and Mr. Novelly or his designees exercise their registration rights, such exercise may have an adverse effect on the market price of our shares of common stock.

Those shareholders holding shares of our common stock prior to the July 2006 offering (the "founding shareholders"; see "Item 4. - Security Ownership of Certain Beneficial Owners and Management--Founding Shares Owned by the Founding Shareholders" at page 63 for a list of the founding shareholders) and Mr. Paul A. Novelly, our executive chairman of the board, or his designees, are entitled to demand that we register under the U.S. Securities Act of 1933, as amended (the "Securities Act"), the resale of their shares of our common stock issued prior to our July 2006 offering (the "founding shares") and their shares included in the units purchased in such offering. The demand may be made at any time after the date on which we have become a reporting company under the U.S. Securities Exchange Act of 1934, as amended, and their founding shares have been released from escrow. Except in limited circumstances, this date will not be before July 12, 2009. If our founding shareholders exercise their registration rights with respect to all of their shares of our common stock, there will be an additional 11,250,000 shares and/or up to 5,000,000 shares issued on exercise of their warrants eligible for trading in the public market. The presence of this additional number of shares eligible for trading in the public market may have an adverse effect on the market price of our shares.

Transfer of our shares and/or warrants, and the exercise of our warrants, are subject to stringent transfer and exercise requirements under the Securities Act.

Our shares of common stock and our warrants are subject to the conditions listed under section 903(b)(3) or Category 3 of Regulation S under the Securities Act. Under Category 3, offering restrictions (as defined under Regulation S) had to be in place in connection with our July 2006 offering and additional restrictions are imposed on resales of our securities as described elsewhere herein. All of our shares of common stock and our warrants are subject to these restrictions, regardless of whether the purchaser acquired the securities in a transaction pursuant to Rule 144A under the Securities Act or in a transaction pursuant to Regulation S. Our shares and warrants are considered "restricted securities" under Rule 144 and will, until the expiration of the applicable holding period with respect to the securities set forth in Rule 144 and the expiration of the one-year compliance period, bear restrictive legends, unless we determine otherwise in compliance with applicable law.

The Rule 144 holding period for our shares received upon exercise of our warrants may recommence upon the exercise of such warrants.

The Rule 144 holding period for the shares of our common stock received upon exercise of our warrants will start upon the exercise of such warrants. Even though the Rule 144(k) two-year holding period for the shares and warrants may have expired, enabling certificates for those securities to have the legend removed, the Rule 144 holding period for the shares received upon exercise of the warrants will start upon such exercise. Accordingly, holders of our warrants that exercise their warrants for cash will receive shares of our common stock subject to trading restrictions which are greater than those imposed on the trading of previously issued shares. Such restrictions may mean the value of the shares received upon exercise of the warrants may be significantly lower, at least until the two-year holding period has expired, than the shares originally issued.

We may not list our common stock or our warrants on a stock exchange other than AIM.

Under the investor rights agreement that we entered into on July 12, 2006 with CRT Capital Group LLC and KBC Peel Hunt Ltd, as promptly as practicable after this Registration Statement has been declared effective, we are obligated to use our commercially reasonable efforts to cause our shares of common stock to be authorized to be quoted and/or listed (to the extent applicable) on the American Stock Exchange, the New York Stock Exchange, the NASD Automated Quotation System or the NASDAQ National Market (or, in each case, a successor thereto) or a similarly recognized national trading platform, if our common stock so qualifies. However, no assurances can be given that our common stock will qualify to be quoted and/or listed on any such exchange or other similarly recognized national trading platform. Further, we have no such obligation with respect to our warrants and no assurances can be given that we will attempt to cause our warrants to be authorized to be quoted and/or listed on any such exchange or other similarly recognized national trading platform.

Internal Reporting Controls.

Our management has identified material weaknesses in our internal control over financial reporting; failure to achieve and maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404") could have a material adverse effect on our business and stock price.

We identified material weaknesses in our internal control over financial reporting in conjunction with the preparation of our December 31, 2006 financial statements. No assurances can be given that additional material weaknesses, significant deficiencies or control deficiencies in our internal control over financial reporting will not be identified in the future.

Our internal control over financial reporting does not currently meet all the standards contemplated by Section 404 that we will eventually be required to meet. As a public company, we are required to complete our initial assessment by the filing of our Form 10-K for the year ending December 31, 2008. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, this result may cause us to be unable to report on a timely basis and thereby subject us to adverse regulatory consequences, including sanctions by the SEC or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in the reliability of our financial statements.

We have and will incur incremental costs in order to sustain and, where appropriate, improve our internal control over financial reporting and comply with Section 404, including increased auditing and legal fees and costs associated with hiring additional accounting and administrative staff. This could harm our operating results and lead to a decline in our stock price.

Item 2. - Financial Information

Selected Financial Data

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 it 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 presented in various segments within 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, and allocations for overhead components described above have been effected.

The following tables set forth our and FutureFuel Chemical Company's summary historical financial and operating data for the periods indicated below. This summary historic financial and operating data has been derived from FutureFuel Chemical Company's "carve-out" financial statements as of and for the ten months ended October 31, 2006 (the period between January 1, 2006 and the date we acquired FutureFuel Chemical Company), the twelve months ended December 31, 2005 and 2004 (the two most recent complete fiscal years prior to 2006) and the three months ended March 31, 2006 (for purposes of comparison to our summary historic financial and operating data for the three months ended March 31, 2007) and our consolidated financial statements for the twelve months ended December 31, 2006 and the three months ended March 31, 2007, all of which are included elsewhere in this Registration Statement. The information presented in the table below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and notes thereto included elsewhere in this Registration Statement. The three years of selected financial data for FutureFuel Chemical Company represent the complete financial information prepared and provided by Eastman Chemical Company to us in conjunction with the carve out and sale of the Batesville plant to us for the twelve months ended December 31, 2004 and 2005, as well as the ten months ended October 31, 2006. The data related to the three months ended March 31, 2007 and the twelve months ended December 31, 2006 has been restated to reflect adjustments described in Note 2 of the consolidated financial statements of the Company for the year ended December 31, 2006 included elsewhere herein.

(Dollars in thousands, except per share amounts)

Item	Combined Twelve Months Ended December 31, 2006	FutureFuel Corp. Three Months Ended March 31, 2007	FutureFuel Corp. Twelve Months Ended December 31, 2006	Eastman SE, Inc. Ten Months Ended October 31, 2006	Eastman SE, Inc. Three Months Ended March, 31, 2006	Twelve Months Ended December 31, 2005	Twelve Months Ended December 31, 2004
Operating Revenues	$ 150,770	$ 37,506	$ 23,043	$ 127,727	$ 35,054	$ 119,539	$ 144,157
Net income (loss)	$ 2,242	$ (2,040)	$ 2,717	$ (475)	$ 767	$ 381	$ (14,867)
Earnings (loss) per common share							
Basic	$ 0.08	$ (0.08)	$ 0.10	NA	NA	NA	NA
Diluted	$ 0.07	$ (0.08)	$ 0.09	NA	NA	NA	NA
Total Assets	$ 203,516	$ 197,809	$ 203,516	NA	NA	$ 114,500	$ 118,164
Long-term obligations	$ 25,052	$ 24,955	$ 25,439	NA	NA	$ 24,830	$ 25,105
Cash dividends per common share	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net cash provided by (used in) operating activities	$ (3,960)	$ 4,797	$ (12,494)	$ 8,534	$ 61	$ 7,556	$ 19,044
Net cash provided by (used in) investing activities	$ (91,168)	$ (6,058)	$ (82,619)	$ (8,549)	$ (2,097)	$ (6,594)	$ (6,520)
Net cash provided by (used in) financing activities	$ 158,229	$ (50)	$ 158,214	$ 15	$ 2,036	$ (962)	$ (12,524)

For the combined year ended December 31, 2006, operating revenues, net income (loss) and earnings (loss) per common share combine our consolidated results for the entire twelve months ended December 31, 2006 and FutureFuel Chemical Company's results for the ten months ended October 31, 2006. This information is for illustrative purposes only. The consolidated company would likely have performed differently had they always been combined. The information should not be relied on as an indication of future results that the combined company will experience after the acquisition of FutureFuel Chemical Company because of a variety of factors, including access to additional information and changes in value. Also see "Item 1A. - Risk Factors" beginning at page 35.

Prior to the initiation of its biofuels program in 2005, the Batesville plant did not report financial results by business "segments" as defined by generally accepted accounting principles. After the initiation of such program and upon divestiture, it defined two segments: chemicals and biofuels.

In March 2007, FutureFuel Chemical Company entered into a $50 million credit facility with Regions Bank as described below. As of February 14, 2008, FutureFuel Chemical Company had no borrowings under such credit facility.

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 ours and FutureFuel Chemical Company's financial statements, including the notes thereto, in this Registration Statement. For the year ended December 31, 2006, the financial information presented combines our consolidated results for the entire twelve months ended December 31, 2006 and FutureFuel Chemical Company's results for the ten months ended October 31, 2006. For the three months ended March 31, 2006, the financial information presented combines our results for the three-month period with FutureFuel Chemical Company's results for the same period. This information is for illustrative purposes only. The consolidated company would likely have performed differently had the Company and FutureFuel Chemical Company always been combined. The information should not be relied on as an indication of future results that the combined company will experience after the acquisition of FutureFuel Chemical Company because of a variety of factors, including access to additional information and changes in value. Also see "Item 1A. - Risk Factors" beginning at

page 35. 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.

Restatement

For purposes of preparing our financial statements, we initially accounted for the acquisition of Eastman SE, Inc. as a reverse acquisition and did not apply purchase accounting to such transaction. On July 27, 2007, we issued a Form 8-K pursuant to Item 4.02(a) of Form 8-K, informing investors that our 2006 Annual Financial Statements should not be relied upon for the reasons set forth therein. A copy of that Form 8-K may be obtained free of charge on our website at http://ir.futurefuelcorporation.com/sec.cfm or by requesting the same from us at FutureFuel Corp., 8235 Forsyth Blvd., 4th Floor, Clayton, Missouri 63105 Attn: Investors Relations. We have restated our 2006 financial statements to apply purchase accounting to our acquisition of Eastman SE, Inc., which 2006 financial statements are included herein.

Results of Operations

In General

We were not incorporated until August 12, 2005, we did not complete our offering until July 12, 2006 and we did not complete the acquisition of FutureFuel Chemical Company until October 31, 2006. Other than the offering and the acquisition, we did not carry on any material business activities prior to November 1, 2006.

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) NOBS, a chemical additive 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; 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. All 2005 biodiesel revenues were classified as miscellaneous sales and recorded as a credit to cost of goods sold. Beginning in 2006, revenues and cost of goods sold for biofuels were treated as a separate business segment.

Revenues generated from NOBS are based on a supply agreement with the customer. The supply agreement stipulates selling price per kilogram based on volume produced, with price moving up as volumes move down, and vice-versa. The current contract expires in June 2008, and no assurances can be given that the contract will be extended past that date or, if extended, under what terms. FutureFuel Chemical Company pays for raw materials required to produce NOBS. The contract with the customer provides that the price to be received by FutureFuel Chemical Company for NOBS is indexed to changes in labor, energy, inflation and the key external raw materials, 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 Arysta LifeScience North America Corporation 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 current term for the intermediates. No assurances can be given that these contracts will not be terminated. Arysta LifeScience North America Corporation 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 that FutureFuel Chemical Company is responsible for purchasing, and we do not anticipate this to change going forward.

FutureFuel Chemical Company has historically manufactured CPOs and DIPBs at cost for Eastman Chemical Company. 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. Historically, revenues related to CPOs and DIPBs were exactly offset by cost of goods sold; hence there was no effect on gross profits historically. 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 with two customers are indexed to key raw materials for inflation; otherwise, there is no pricing mechanism or specific protection against raw material cost changes, and we do not anticipate this to change going forward.

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, for these products, there is no pricing mechanism or specific protection against raw material cost changes, and we do not anticipate this to change going forward.

The year ended December 31, 2006 was the first full year that FutureFuel Chemical Company sold biodiesel. In addition to selling for its own account, FutureFuel Chemical Company produced, for a fee, biodiesel for a third party under a tolling agreement. Under that tolling agreement, for every gallon of feedstock provided by that party to FutureFuel Chemical Company, FutureFuel Chemical Company was obligated to deliver one gallon of biodiesel, up to a maximum amount of 6 million gallons. The tolling agreement terminated on September 30, 2007 and was not renewed. FutureFuel Chemical Company delivered approximately 2.1 million gallons of biodiesel pursuant to that tolling agreement.

The majority of our and FutureFuel Chemical Company's expenses are cost of goods sold. Cost of goods sold reflect 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 and inventory reserves, asset impairment and restructuring charges, severance costs and costs related to idle capacity. Finally, cost of goods sold includes hedging gains and losses recognized by us. Cost of goods sold are allocated to the chemical and biofuels business segments based on equipment usage and reactor time 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 and, for periods prior to October 31, 2006, corporate expense allocations from Eastman Chemical Company. Allocations from Eastman Chemical Company of costs of goods sold, distribution and selling and general administrative expenses were made primarily based on a percentage of revenues and allocations of research and development expenses were made based upon actual time incurred; we believe both represent reasonable allocation methodologies. These allocations and estimates are not necessarily indicative of the costs and expenses that would have resulted if FutureFuel Chemical

Company had been operating as a separate entity. Beginning November 1, 2006, all operating expenses were directly incurred by us and FutureFuel Chemical Company. Please see footnote 1 of FutureFuel Chemical Company's financial statements set forth below for a more detailed discussion of corporate expense allocations.

The annual and quarterly financial statements provided herein prominently disclose related party transactions and the impact of those transactions on historical revenues and expenses. 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. See footnote 16 to our consolidated annual financial statements, footnote 1 and footnote 11 to FutureFuel Chemical Company's annual financial statements, and footnote 1 to FutureFuel Chemical Company's interim financial statements contained elsewhere herein for more details.

Quarter Ended March 31, 2007 Compared to Quarter Ended March 31, 2006

Revenues: Revenues for the quarter ended March 31, 2007 were $37,506,000 as compared to revenues for the quarter ended March 31, 2006 of $35,054,000, an increase of 7%. The increase was attributable to CPOs, DIPBs, SSIPA/LiSIPA, other products and biodiesel, partially offset by decreased revenues of the proprietary herbicide and intermediates; revenues from NOBS contributed modestly to the increase. Revenues from biodiesel accounted for 5% of total revenues in 2007 and increased more than 700% from March 31, 2006. Revenues from NOBS increased 4% and accounted for 55% of total revenues in 2007, compared to 56% in 2006. Revenues from the proprietary herbicide and intermediates decreased 33% and accounted for 14% of total revenues in 2007 as compared to 23% in 2006. Revenues from CPOs increased 19% in 2007 and accounted for 4% of total revenues in both 2007 and 2006. Revenues from DIPBs increased 56% and accounted for 8% of total revenues in 2007 as compared to 5% in 2006. Revenues from SSIPA/LiSIPA increased 32% and accounted for 5% of total revenues in 2007 as compared to 4% in 2006. Revenues from other products increased 39% and accounted for 10% of total revenues in the quarter ended March 31, 2007 as compared to 7% in the quarter ended March 31, 2006.

Revenues from NOBS posted strong increases during the first quarter of 2006 as the customer returned to a more typical marketing strategy; this strong demand has continued thus far in 2007. Revenues from the proprietary herbicide and intermediates declined more than 30% during the first quarter of 2007 due to both price concessions and reduced volumes sold. Price concessions were expected and were made in order to maintain market share in the face of generic product competition. Volume reductions resulted from a change the customer made in their distribution strategy to the end consumer and FutureFuel Chemical Company believes these reductions are temporary and that volume increases during the remainder of 2007 will offset reductions in the first quarter. At present, revenues from NOBS and the proprietary herbicide and intermediates are together the most significant components of FutureFuel Chemical Company's revenue base, together accounting for 69% of revenues in the quarter ended March 31, 2007 as compared to 79% in the quarter ended March 31, 2006. The future volume of and revenues from NOBS depends on both consumer demand for the product containing NOBS and the manufacturing, sales and marketing priorities of our NOBS customer. We are unable to predict with certainty the revenues we will receive from NOBS in the future. The prices for the proprietary herbicide and intermediates have been reduced by 10% from 2006 to 2007 due to continued competitive pressures as described above. This price decrease was partially offset by a June 1, 2007 price increase of approximately 4% to cover certain raw material cost increases that we had incurred beginning in the first quarter of 2007. We believe our customer has been able to maintain their volume in light of generic competition by being more price competitive, changing their North American distribution system and developing new applications. Forecasted product demand in 2008 is projected to be similar to 2007 with a 2-5% volume growth potential in 2009 at current pricing.

Revenues from CPOs and DIPBs together increased 41% during the first quarter of 2007. This increase is largely the result of new supply agreements and pricing mechanisms in place following the acquisition of FutureFuel Chemical Company.

Revenue from biodiesel increased in 2007 due to an increase in production capacity from 750,000 gallons per quarter at the end of 2006 to 6 million gallons per quarter at the end of 2007.

Cost of Goods Sold and Distribution: Total cost of goods sold and distribution for the quarter ended March 31, 2007 were $39,954,000 as compared to total cost of goods sold and distribution for the quarter ended March 31, 2006 of $31,933,000, an increase of 25%.

Cost of goods sold and distribution for the quarter ended March 31, 2007 for FutureFuel Chemical Company's chemicals segment were $30,207,000 as compared to cost of goods sold and distribution for the quarter ended March 31, 2006 of $31,491,000, a decrease of 4%. Cost of goods sold and distribution for CPOs, DIPBs, SSIPA/LiSIPA and other products, measured as a percent of total chemical revenues, were relatively constant at

24% during the first quarter of 2006 as compared to 22% during the first quarter of 2007. Cost of goods sold and distribution for NOBS increased from 37% of total chemical revenues in the first quarter of 2006 to 48% during the first quarter of 2007; this increase was largely the result of increased raw material prices resulting from new supply agreements and pricing mechanisms in place following the acquisition of FutureFuel Chemical Company. The dollar increase in NOBS cost of goods sold and distribution was offset by a decrease in cost of goods sold and distribution for the proprietary herbicide and intermediates from 29% of total chemical revenues in 2006 to 15% of total chemical revenues in 2007. This decrease is attributable to growth of FutureFuel Chemical Company's biodiesel segment. As more fully described below, biodiesel is made using the same assets utilized to manufacture the propriety herbicide and intermediates, and as biodiesel revenues increase this segment absorbs more cost away from other chemical products that utilize the assets, namely the propriety herbicide and intermediates.

Cost of goods sold and distribution for the quarter ended March 31, 2007 for FutureFuel Chemical Company’s biofuels segment were $9,747,000 as compared to cost of goods sold and distribution for the quarter ended March 31, 2006 of $442,000. The largest component of this increase was hedging losses of $4,026,000 in the first quarter of 2007; there were no gains or losses from hedging in the first quarter of 2006. Excluding the hedging losses, FutureFuel Chemical Company posted positive gross profit during the first quarter of 2007, and the increase in biofuels cost of goods sold and distribution more closely correlates to the increase in biofuels revenues. The biofuels segment began production in the batch plant and has continued to utilize the batch process to test new processing techniques, experiment with various alternative feedstocks and meet peak demand. The biodiesel segment also utilizes a continuous processing line that is more efficient and produces higher volumes per reactor than the batch process, and hence absorbs fewer overhead costs per gallon of biodiesel produced. FutureFuel Chemical Company is transitioning from primarily batch processing to primarily continuous processing, a strategy which is expected to significantly reduce fixed cost allocation and as a result reduce total cost of goods sold and distribution per gallon of biodiesel produced.

Operating Expenses: Operating expenses decreased from $2,414,000 for the quarter ended March 31, 2006 to $1,792,000 for the quarter ended March 31, 2007, or approximately 26%. This decrease was primarily the result of lower overall operating expenses incurred by FutureFuel Chemical Company on a standalone basis.

Fiscal Year Ended December 31, 2006 Compared to Fiscal Year Ended December 31, 2005

Revenues: Revenues for the year ended December 31, 2006 were $150,770,000 as compared to revenues for the year ended December 31, 2005 of $119,539,000, an increase of 26%. This increase was primarily a result of selling biodiesel for the full year and increased sales of NOBS. Revenues from biodiesel accounted for 9% of total revenues in 2006. Revenues from NOBS increased 26% and accounted for 56% of total revenues in 2006, the same percent of revenues as in 2005. Revenues from the proprietary herbicide and intermediates decreased 5% and accounted for 16% of total revenues in 2006 as compared to 21% in 2005. Revenues from CPOs increased 5% in 2006 and accounted for 3% of total revenues in 2006 compared to 4% in 2005. Revenues from DIPBs decreased 3% and accounted for 5% of total revenues in 2006 as compared to 6% in 2005. Revenues from SSIPA/LiSIPA decreased 9% and accounted for 4% of total revenues in 2006 as compared to 6% in 2005. Revenues from other products increased 26% and accounted for 7% of total revenues in 2006 and 2005.

During 2006, revenues for NOBS increased due to stronger demand from the customer as a result of changing consumer demand for their product. Revenue from the proprietary herbicide and intermediates declined due to price concessions to the customer in order to maintain market share in the face of generic product competition. See above for a discussion of current and expected pricing and demand considerations for these product lines.

Revenue from biodiesel increased in 2006 due to: (i) production during the entire 12 months as opposed to two months of production in 2005 which resulted in no revenues of consequence; and (ii) an increase in production capacity from 3 million gallons per year at the end of 2005 to 24 million gallons per year at the end of 2006.

Cost of Goods Sold and Distribution: Total cost of goods sold and distribution for the year ended December 31, 2006 were $139,675,000 as compared to total cost of goods sold and distribution for the year ended December 31, 2005 of $105,263,000, an increase of 33%.

Cost of goods sold and distribution for the year ended December 31, 2006 for FutureFuel Chemical Company's chemicals segment were $115,253,000 as compared to cost of goods sold and distribution for the year ended December 31, 2005 of $102,702,000, an increase of approximately 12%. The increase was entirely a result of increased sales; cost of goods sold and distribution for the chemicals segment as a percent of total chemical revenues decreased slightly from 86% in 2005 to 84% in 2006. The decrease was primarily a result of the addition of the biofuels segment in 2006. As previously discussed, FutureFuel Chemical Company allocates the vast majority of its costs to products as raw materials are processed into finished goods; with the addition of the biofuels segment in 2006, there was a larger revenue base across which to allocate costs. The greatest reduction in cost of goods sold and distribution as a percent of total revenues came from the proprietary herbicide and intermediates product line, where cost of goods sold and distribution decreased from 28% of chemical revenues in 2005 to 20% of chemical revenues in 2006. This large decrease is explained by the fact that FutureFuel Chemical Company utilizes the same assets used to produce the proprietary herbicide and intermediates product line to produce biodiesel, and hence the biodiesel segment absorbed more fixed costs from this product line than any other.

Cost of goods sold and distribution for the year ended December 31, 2006 for FutureFuel Chemical Company's biofuels segment were $24,422,000. Cost of goods sold and distribution for the biofuels segment exceeded biofuels revenues in 2006. FutureFuel Chemical Company began production of biodiesel in small individual batches utilizing several of the reactors in its batch plant. Costs incurred in the batch plant are allocated to products based on reactor time, and hence the biodiesel segment incurred costs based on the number of reactors it utilized and the duration of time it utilized those reactors. For much of 2006 the biodiesel product remained in a development phase and the biofuels segment did not always utilize the full capacity of the reactors under its control. This low utilization, combined with lower efficiency during the development phase, prevented the biofuels segment from generating sufficient revenues to cover the costs that were allocated during the year. During the second half of 2006, the biofuels segment initiated production from a continuous reaction line. Production from the continuous line is more efficient and produces higher volumes per reactor than the batch process, and hence absorbs fewer overhead costs per gallon of biodiesel produced. The biofuels segment has continued to utilize the batch process to test new processing techniques, experiment with various alternative feedstocks and meet peak demand. Ultimately, however, the biofuels segment will transition to continuous production only, which is expected to result in a material decrease in cost of goods sold and distribution.

Total cost of goods sold and distribution for 2005 included $99,000 of corporate expense allocations from Eastman Chemical Company and $2,462,000 of severance charges, none of which were allocated to segments. There were no corporate expense allocations or restructuring and impairment charges in 2006.

Operating Expenses: Operating expenses decreased from $13,637,000 for the year ended December 31, 2005 to $11,581,000 for the year ended December 31, 2006, or approximately 15%. This decrease was primarily the result of lower corporate expense allocations from Eastman Chemical Company, as well at the lower overall operating expenses incurred by FutureFuel Chemical Company on a standalone basis.

Fiscal Year Ended December 31, 2005 Compared to Fiscal year Ended December 31, 2004

Revenues: Revenues for the year ended December 31, 2005 for FutureFuel Chemical Company were $119,539,000 as compared to revenues for the year ended December 31, 2004 of $144,157,000, a decrease of approximately 17%. The decrease was a result of lower revenues across all product lines, with the exception of DIPBs, where revenues increased 10%, and SSIPA/LiSIPA, where revenues were flat. Revenues from NOBS decreased 9% and accounted for 56% of total revenues in 2005 as compared to 51% in 2004. Revenues from the proprietary herbicide decreased 10% and accounted for 21% of total revenues in 2005 as compared to 19% in 2004. Revenues from CPOs decreased 36% and accounted for 4% of total revenues in 2005 versus 5% in 2004. Revenues from DIPBs increased 10% and accounted for 6% of total revenues in 2005 versus 5% in 2004. Revenues from SSIPA/LiSIPA increased less than 1%

and accounted for 6% of total revenues in 2005 as compared to 5% in 2004. Revenues from other products decreased 62% and accounted for 7% of total revenues in 2005 as compared to 15% in 2004.

During 2005, revenues for NOBS declined due to reduced demand from the customer as a result of changing consumer demand for their product. Revenue from the proprietary herbicide declined due to price concessions to the customer in order to maintain market share in the face of generic product competition. In addition, a large customer contract was completed in 2004 and not carried into 2005.

Cost of Goods Sold and Distribution: Total cost of goods sold and distribution for the year ended December 31, 2005 were $105,263,000 as compared to total cost of goods sold and distribution for the year ended December 31, 2004 of $147,808,000, a decrease of 29%.

Cost of goods sold and distribution for the year ended December 31, 2005 for FutureFuel Chemical Company's chemicals segment were $102,702,000 as compared to cost of goods sold and distribution for the year ended December 31, 2004 of $127,049,000, a decline of approximately 19%. The decline in cost of goods sold and distribution was attributed to the decline in revenues as described above, as evidenced by cost of goods sold and distribution as a percent of revenues in the chemicals segment decreasing from 88% in 2004 to 86% in 2005. The reduction of cost of goods sold and distribution in line with revenue reductions was largely a result of an approximate 20% reduction-in-force at the Batesville facility, effective May 1, 2005, which reduced the total workforce by 89 employees and afforded an annual labor cost reduction of approximately $7,000,000.

Total cost of goods sold and distribution for 2005 included $99,000 of corporate expense allocations from Eastman Chemical Company and $2,462,000 of restructuring and impairment charges, none of which were allocated to specific products or segments. Total cost of goods sold and distribution for 2004 included $1,275,000 of corporate expense allocations from Eastman Chemical Company and $19,485,000 of restructuring and impairment charges, none of which were allocated to specific products or segments.

Operating Expenses: Operating expenses decreased from $20,773,000 for the year ended December 31, 2004 to $13,637,000 for the year ended December 31, 2005, or approximately 34%. This decrease was the result in decreased labor expenses following the reduction in force implemented by FutureFuel Chemical Company's management during 2005 as well as significantly lower corporate overhead allocations.

Critical Accounting Estimates

Purchase price allocation: Following our acquisition of Eastman SE, Inc., we allocated the cost of the acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. We do not anticipate these estimates changing in the future.

Allowance for doubtful accounts: We reduce our accounts receivable by amounts that may be uncollectible in the future. This estimated allowance is based upon management's evaluation of the collectibility of individual invoices and is based upon management's evaluation of the financial condition of our customers and historical bad debt experience. This estimate is subject to change based upon the changing financial condition of our customers. At December 31, 2006 and March 31, 2007, we recorded an allowance for doubtful accounts of $42,000, the majority of which pertained to one customer. FutureFuel Chemical Company historically has not experienced significant problems in collecting its receivables and we do not expect this to change going forward.

Depreciation: Depreciation is provided for using the straight-line method over the associated assets' estimated useful lives. We primarily base our estimate of an asset's useful life on our experience with other similar assets. The actual useful life of an asset may differ significantly from our estimate for such reasons as the asset's build quality, the manner in which the asset is used or changes in the business climate. When the actual useful life differs from the estimated useful life, impairment charges may result. In 2004, FutureFuel Chemical Company recognized asset impairment charges of approximately $18,305,000. This impairment primarily related to the closure of specific fixed assets used to manufacture certain performance chemicals product lines that were divested by Eastman Chemical Company. We monitor the estimate useful lives of our assets and do not currently anticipate further impairment charges.

Asset retirement obligations: We establish reserves for closure/post-closure costs associated with the environmental and other assets we maintain. Environmental assets include waste management units such as incinerators, landfills, storage tanks and boilers. When these types of assets are constructed or installed, a reserve is established for the future costs anticipated to be associated with the closure of the site based on an expected life of the environmental assets, the applicable regulatory closure requirements and our environmental policies and practices. These expenses are charged into earnings over the estimated useful life of the assets. The future costs anticipated to be associated with the closure of the site are based upon estimated current costs for such activities adjusted for anticipated future inflation rates. Unanticipated changes in either of these two variables or changes in the anticipated timing of closure/post-closure activities may significantly affect the established reserves. As of March 31, 2007 and

December 31, 2006, we recorded a reserve for closure/post-closure liabilities of $551,000 and $545,000, respectively. We monitor this reserve and the assumptions used in its calculation. As deemed necessary, we have made changes to this reserve balance and anticipate that future changes will occur.

Income taxes: We account for income taxes using the asset and liability method. Under this method, income tax assets and liabilities are recognized for temporary differences between financial statement carrying amounts of assets and liabilities and their respective income tax basis. A future income tax asset or liability is estimated for each temporary difference using enacted and substantively enacted income tax rates and laws expected to be in effect when the asset is realized or the liability settled. Changes in the expected tax rates and laws to be in effect when the asset is realized or the liability settled could significantly affect the income tax assets and liabilities booked by us. We monitor changes in applicable tax laws and adjust our income tax assets and liabilities as necessary.

Internal Control Deficiency

During the preparation of our 2006 financial statements, material weaknesses in our internal control over financial reporting, as defined in the standards established by the Public Company Accounting Oversight Board, were identified. A material weakness is a control deficiency or combination of control deficiencies that result in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected. The material weaknesses in internal controls related to: (i) the lack of maintaining effective controls in the monitoring of the accrual of certain liabilities; and (ii) the application, monitoring and review of certain complex accounting standards and assumptions applied within the financial reporting process. A description of the control deficiencies that existed as of December 31, 2006, as well as their effect on the presentation of our consolidated financial statements, is discussed below.

Monitoring of the Accrual of Liabilities

During the preparation of the 2006 financial statements, it was determined that the procedures for the recording of certain liabilities were not sufficient to properly reflect the balance of financial statement liabilities and the monitoring of such procedures did not appropriately identify such under-accruals in a timely manner. Specifically, the following areas were identified as not being appropriately accounted for or identified by our control processes - the recognition of accruals for certain capital projects, the accrual of raw materials in transit for which FutureFuel Chemical Company had obtained right of ownership, and the recording of certain maintenance and other plant expenses. The deficiencies were identified and addressed by management during the preparation of the December 31, 2006 financial statements and resulted in material corrections related to the accrual of liabilities.

Management has designed and implemented new procedures that have become an integral component of our end-of-period close process. These procedures are comprised of implementing higher levels of review between operating and financial personnel and integrating the generation and review of certain reports from our ERP system into our closing process to ensure the timely identification of such matters for accrual and proper recording in the financial statements.

Application, Monitoring and Review of Certain Complex Accounting Standards and Assumptions

During the preparation of our restated December 31, 2006 financial statements, it was determined that there were control deficiencies in the application, monitoring and review of certain complex accounting standards and assumptions applied within the financial reporting process. Specifically, deficiencies were identified related to: (i) the application of appropriate assumptions related to purchase accounting; (ii) the monitoring of the appropriate levels of inventory reserves; and (iii) the monitoring of the recording of appropriate reserves for income taxes. As a result of these deficiencies, financial statement adjustments were made to: (i) properly present the financial statements to give

effect to all of the appropriate considerations of purchase accounting to the acquisition of Eastman SE, Inc.; (ii) to give effect to the recording of inventory at the lower of cost or market; and (iii) to give proper determination of the estimates related to contingent liabilities associated with income taxes. The first and second deficiencies were directly related to our restatement of our financial statements to apply purchase accounting to the acquisition of Eastman SE, Inc. The remediation of each of these deficiencies will include ensuring the appropriate level of oversight and review by individuals with the sufficient knowledge who are independent of the process of preparing the initial accounting entries.

Liquidity and Capital Resources

Our and FutureFuel Chemical Company's net cash provided by (used in) operating activities, investing activities and financing activities for the years ended December 31, 2006, 2005 and 2004 was:

(Dollars in thousands)

	2006	2005	2004