

**PART I  
FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

The following sets forth our unaudited consolidated balance sheet as at September 30, 2010, our audited consolidated balance sheet as at December 31, 2009, our unaudited consolidated statements of operations and comprehensive income for the three- and nine-month periods ended September 30, 2010 and September 30, 2009, and our consolidated statements of cash flows for the nine-month periods ended September 30, 2010 and September 30, 2009.

**FutureFuel Corp.  
Consolidated Balance Sheets  
As at September 30, 2010 and December 31, 2009  
(Dollars in thousands)**

	(Unaudited) September 30, 2010	December 31, 2009
<b>Assets</b>		
Cash and cash equivalents	\$ 103,535	\$ 65,512
Accounts receivable, net of allowances of \$-	26,850	21,759
Inventory	31,298	26,444
Income taxes receivable	1,521	912
Prepaid expenses	302	1,297
Prepaid expenses – related parties	-	23
Marketable and auction rate securities	26,756	6,811
Other current assets	796	828
Total current assets	<u>191,058</u>	<u>123,586</u>
Property, plant and equipment, net	121,611	119,248
Intangible assets	123	208
Other assets	2,408	2,965
Total noncurrent assets	<u>124,142</u>	<u>122,421</u>
<b>Total Assets</b>	<u>\$ 315,200</u>	<u>\$ 246,007</u>
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	\$ 12,413	\$ 14,269
Accounts payable - related parties	210	556
Current deferred income tax liability	4,332	3,172
Deferred revenue – short term	1,094	-
Accrued expenses and other current liabilities	4,970	2,832
Accrued expenses and other current liabilities - related parties	22	67
Total current liabilities	<u>23,041</u>	<u>20,896</u>
Deferred revenue – long term	13,505	9,348
Contingent liability	1,997	-
Other noncurrent liabilities	896	1,376
Noncurrent deferred income tax liability	25,460	24,118
Total noncurrent liabilities	<u>41,858</u>	<u>34,842</u>
<b>Total Liabilities</b>	<u>64,899</u>	<u>55,738</u>
Commitments and contingencies		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.0001 par value, 75,000,000 shares authorized, 39,973,849 and 28,190,300 shares issued and outstanding as of September 30, 2010 and December 31, 2009, respectively	4	3
Accumulated other comprehensive income	663	38
Additional paid in capital	237,088	167,598
Retained earnings	12,546	22,630
Total stockholders' equity	<u>250,301</u>	<u>190,269</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 315,200</u>	<u>\$ 246,007</u>

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

**FutureFuel Corp.**  
**Consolidated Statements of Operations and Comprehensive Income**  
**For the Three Months Ended September 30, 2010 and 2009**  
(Dollars in thousands, except per share amounts)  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
Revenues	\$ 66,093	\$ 52,263
Cost of goods sold	52,457	36,839
Cost of goods sold – related parties	696	635
Distribution	858	1,139
Distribution – related parties	206	-
Gross profit	<u>11,876</u>	<u>13,650</u>
Selling, general and administrative expenses		
Compensation expense	808	729
Other expense	697	382
Related party expense	35	43
Research and development expenses	800	1,111
	<u>2,340</u>	<u>2,265</u>
Income from operations	<u>9,536</u>	<u>11,385</u>
Investment income	307	36
Interest expense	(8)	(5)
Gain on sale of marketable securities	67	-
Other income	99	12
	<u>465</u>	<u>43</u>
Income before income taxes	10,001	11,428
Provision for income taxes	3,450	4,044
Net income	<u>\$ 6,551</u>	<u>\$ 7,384</u>
Earnings per common share		
Basic	\$ 0.16	\$ 0.26
Diluted	\$ 0.16	\$ 0.25
Weighted average shares outstanding		
Basic	39,934,275	28,190,300
Diluted	40,028,131	29,191,106
<b>Comprehensive Income</b>		
Net income	\$ 6,551	\$ 7,384
Other comprehensive income, net of tax of \$346 in 2010 and \$- in 2009	564	-
Comprehensive income	<u>\$ 7,115</u>	<u>\$ 7,384</u>

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

**FutureFuel Corp.**  
**Consolidated Statements of Operations and Comprehensive Income**  
**For the Nine Months Ended September 30, 2010 and 2009**  
(Dollars in thousands, except per share amounts)  
(Unaudited)

	Nine Months Ended September 30,	
	2010	2009
Revenues	\$ 165,570	\$ 132,939
Revenues – related parties	-	892
Cost of goods sold	133,411	101,464
Cost of goods sold – related parties	3,058	3,132
Distribution	2,561	3,357
Distribution – related parties	421	-
Gross profit	<u>26,119</u>	<u>25,878</u>
Selling, general and administrative expenses		
Compensation expense	2,270	2,021
Other expense	1,602	1,278
Related party expense	105	156
Research and development expenses	2,586	3,110
	<u>6,563</u>	<u>6,565</u>
Income from operations	<u>19,556</u>	<u>19,313</u>
Investment income	651	325
Interest expense	(19)	(19)
Gain (loss) on foreign currency	-	(3)
Gain on the sale of marketable securities	63	-
Other income (expense)	141	(7)
	<u>836</u>	<u>296</u>
Income before income taxes	20,392	19,609
Provision for income taxes	7,419	6,554
Net income	<u>\$ 12,973</u>	<u>\$ 13,055</u>
<b>Earnings per common share</b>		
Basic	\$ 0.37	\$ 0.46
Diluted	\$ 0.36	\$ 0.46
<b>Weighted average shares outstanding</b>		
Basic	35,363,531	28,190,300
Diluted	36,207,117	28,529,213
<b>Comprehensive Income</b>		
Net income	\$ 12,973	\$ 13,055
Other comprehensive income (loss), net of tax of \$382 in 2010 and \$(9) in 2009	625	(15)
Comprehensive income	<u>\$ 13,598</u>	<u>\$ 13,040</u>

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

**FutureFuel Corp.**  
**Consolidated Statements of Cash Flows**  
**For the Nine Months Ended September 30, 2010 and 2009**  
(Dollars in thousands)  
(Unaudited)

	Nine Months Ended September 30,	
	2010	2009
Cash flows provided by operating activities		
Net income	\$ 12,973	\$ 13,055
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,637	5,545
Provision for deferred income taxes	2,889	400
Change in fair value of derivative instruments	488	(1,322)
Gain on the sale of investments	(63)	-
(Gains) losses on disposals of fixed assets	143	(2)
Noncash interest expense	17	16
Changes in operating assets and liabilities:		
Accounts receivable	(5,091)	(3,086)
Accounts receivable – related parties	-	(24)
Inventory	(4,854)	(3,760)
Income taxes receivable	(609)	792
Prepaid expenses	995	853
Prepaid expenses – related parties	23	-
Accrued interest on marketable debt securities	(9)	5
Other assets	324	(201)
Accounts payable	(1,856)	(1,304)
Accounts payable – related parties	(346)	(269)
Income taxes payable	-	2,576
Accrued expenses and other current liabilities	2,138	2,660
Accrued expenses and other current liabilities – related parties	(45)	-
Deferred revenue	5,252	(578)
Other noncurrent liabilities	(497)	101
Net cash provided by operating activities	<u>17,509</u>	<u>15,457</u>
Cash flows from investing activities		
Collateralization of derivative instruments	(992)	5,719
Purchase of marketable securities	(20,199)	(19,999)
Proceeds from the sale of marketable securities	1,333	35,972
Sales of auction rate securities, net	-	12,185
Proceeds from the sale of commercial paper	-	15,424
Proceeds from the sale of fixed assets	2	17
Acquisition of a granary	-	(1,252)
Contingent purchase price payment	-	(282)
Capital expenditures	(6,063)	(17,177)
Net cash provided by (used in) investing activities	<u>(25,919)</u>	<u>30,607</u>
Cash flows from financing activities		
Proceeds from the issuance of stock	70,700	-
Purchase of warrants	(1,210)	(385)
Payment of dividend	(23,057)	-
Net cash provided by (used in) financing activities	<u>46,433</u>	<u>(385)</u>
Net change in cash and cash equivalents	38,023	45,679
Cash and cash equivalents at beginning of period	65,512	27,455
Cash and cash equivalents at end of period	<u>\$ 103,535</u>	<u>\$ 73,134</u>
Cash paid for interest	<u>\$ 2</u>	<u>\$ 5</u>
Cash paid for taxes	<u>\$ 6,605</u>	<u>\$ 2,922</u>

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

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

1) Nature of operations and basis of presentation

*FutureFuel Corp.*

Viceroy Acquisition Corporation (“Viceroy”) was incorporated under the laws of the state of Delaware on August 12, 2005 to serve as a vehicle for the acquisition by way of asset acquisition, merger, capital stock exchange, share purchase, or similar transaction of one or more operating businesses in the oil and gas industry. On July 12, 2006, Viceroy completed an equity offering.

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

*Eastman SE, Inc.*

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

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

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

In March 2009, FutureFuel’s subsidiary, FFC Grain, L.L.C., acquired a granary. Granary revenues are generated from the sale of agricultural commodities, primarily soybeans, milo, and corn.

The accompanying consolidated financial statements have been prepared by FutureFuel in accordance and consistent with the accounting policies stated in FutureFuel’s 2009 audited consolidated financial statements and should be read in conjunction with the 2009 audited consolidated financial statements of FutureFuel. Certain prior year balances have been reclassified to conform with the current year presentation.

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

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

2) Inventories

The carrying values of inventory were as follows as of:

	September 30, 2010	December 31, 2009
At first-in, first-out or average cost (approximates current cost)		
Finished goods	\$ 5,294	\$ 14,078
Work in process	1,511	1,841
Raw materials and supplies	30,255	16,451
	<u>37,060</u>	<u>32,370</u>
LIFO reserve	(5,762)	(5,926)
Total inventories	<u>\$ 31,298</u>	<u>\$ 26,444</u>

3) Derivative instruments

FutureFuel is exposed to certain risks relating to its ongoing business operations. The primary risk is commodity price risk principally associated with biodiesel production. Derivative instruments (regulated fixed price futures and option contracts) are utilized to manage the price risk associated with future purchases of feedstock used in FutureFuel's biodiesel production, along with physical feedstock and finished product inventories attributed to this process.

FutureFuel recognizes all derivative instruments as either assets or liabilities at fair value in its consolidated balance sheet. FutureFuel's derivative instruments do not qualify for hedge accounting under the specific guidelines of ASC 815-20-25, *Derivatives and Hedging, Hedging-General, Recognition*. While management believes each of these instruments are entered into in order to effectively manage various risks, none of the derivative instruments are designated and accounted for as hedges primarily as a result of the extensive record keeping requirements.

The fair value of FutureFuel's derivative instruments is determined based on the closing prices of the derivative instruments on relevant commodity exchanges at the end of an accounting period. Changes in fair value of the derivative instruments are recorded in the statement of operations as a component of cost of good sold, and amounted to a loss of \$1,252 and a gain of \$1,394 for the three months ended September 30, 2010 and 2009, respectively, and gains of \$225 and \$1,767 for the nine months ended September 30, 2010 and 2009, respectively.

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

	Asset/(Liability)			
	September 30, 2010		December 31, 2009	
	Quantity (Contracts) Long/ (Short)	Fair Value	Quantity (Contracts) Long/ (Short)	Fair Value
Regulated fixed price future commitments, included in other current assets	(28)	\$ (131)	10	\$ 68
Regulated options, included in other current assets	(200)	\$ (3,056)	(150)	\$ (1,998)

The margin account maintained with a broker to collateralize these derivative instruments carried an account balance of \$3,548 and \$2,556 at September 30, 2010 and December 31, 2009, respectively. The carrying values of the margin account and of the derivative instruments are included, net, in other current assets in the accompanying consolidated balance sheets.

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

4) Marketable securities

FutureFuel has made investments in certain auction rate securities. As of September 30, 2010, these securities had a maturity of August 2037. FutureFuel classified these instruments as current assets in the accompanying consolidated balance sheets as the issuers of these instruments have either exercised their right to repurchase or a liquid market still exists for these securities, which allows FutureFuel to exit its positions within a short period of time. These securities were repurchased on October 15, 2010 for par value. FutureFuel has designated these securities as being available-for-sale. Accordingly, these securities are carried at fair value, with unrealized gains and losses, net of taxes, reported as a component of stockholders' equity. No realized gains or losses have been incurred related to these securities through September 30, 2010.

The fair value of these auction rate securities approximated their par value and, including accrued interest, totaled \$2,800 at September 30, 2010 and December 31, 2009.

At September 30, 2010, FutureFuel had investments in certain preferred stock, trust preferred securities, and master limited partnerships. These investments have been classified as current assets in the accompanying consolidated balance sheets. FutureFuel has designated these securities as being available-for-sale. Accordingly, they are recorded at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders' equity.

The fair value of these preferred stock and trust preferred securities, including accrued interest, totaled \$16,481 and \$4,011 at September 30, 2010 and December 31, 2009, respectively. The fair value of the master limited partnerships totaled \$7,475 and \$- at September 30, 2010 and December 31, 2009, respectively.

5) Accrued expenses and other current liabilities

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

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Accrued employee liabilities	\$ 3,355	\$ 1,499
Accrued property, use, and franchise taxes	1,033	1,064
Other	604	336
Total	\$ 4,992	\$ 2,899

6) Borrowings

In March 2007, FutureFuel Chemical entered into a \$50 million credit agreement with a commercial bank. The loan is a revolving facility the proceeds of which may be used for working capital, capital expenditures, and the general corporate purposes of FutureFuel Chemical. The facility terminates on June 30, 2013. Advances are made pursuant to a borrowing base comprised of 85% of eligible accounts plus 60% of eligible direct inventory plus 50% of eligible indirect inventory. Advances are secured by a perfected first priority security interest in accounts receivable and inventory. The interest rate floats at certain margins over the London Interbank Offered Rate ("LIBOR") or base rate based upon the leverage ratio from time to time as set forth in the following table.

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

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

There is an unused commitment fee of 0.325% per annum. The ratio of EBITDA to fixed charges may not be less than 3:1. FutureFuel has guaranteed FutureFuel Chemical's obligations under this credit agreement.

At September 30, 2010, no borrowings were outstanding under this credit facility.

7) Provision for income taxes

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Provision for income taxes	\$ 3,450	\$ 4,044	\$ 7,419	\$ 6,554
Effective tax rate	34.5%	35.4%	36.4%	33.4%

The effective tax rates for the three and nine months ended September 30, 2010 and 2009 reflect FutureFuel's expected tax rate on reported operating earnings before income tax.

FutureFuel's unrecognized tax benefits, recorded as an element of other noncurrent liabilities, totaled \$- and \$559 at September 30, 2010 and December 31, 2009, respectively, the total amount of which, if recognized, would reduce FutureFuel's effective tax rate.

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

FutureFuel records interest and penalties net as a component of income tax expense. FutureFuel accrued a balance of \$- and \$138 at September 30, 2010 and December 31, 2009, respectively, for interest or tax penalties.

FutureFuel and its subsidiary, FutureFuel Chemical, file tax returns with the Internal Revenue Service and with various state jurisdictions. FFC Grain, LLC is a disregarded entity for income tax purposes. FutureFuel was incorporated in 2005 and is subject to U.S., state, and local examinations by taxing authorities from 2007 forward. FutureFuel Chemical is subject to the effects of tax examinations that may impact the carry-over basis of its assets and liabilities.



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

8) Earnings per share

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

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income available to common stockholders	\$ 6,551	\$ 7,384	\$ 12,973	\$ 13,055
Weighted average number of common shares outstanding	39,934,275	28,190,300	35,363,531	28,190,300
Effect of warrants	61,809	977,076	814,488	325,692
Effect of stock options	32,047	23,730	29,098	13,221
Weighted average diluted number of common shares outstanding	40,028,131	29,191,106	36,207,117	28,529,213
Basic earnings per share	\$ 0.16	\$ 0.26	\$ 0.37	\$ 0.46
Diluted earnings per share	\$ 0.16	\$ 0.25	\$ 0.36	\$ 0.46

Certain warrants to purchase shares of FutureFuel's common stock were not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2009 as they were anti-dilutive for the period. The weighted average number of warrants excluded on this basis was 14,211,667. Additionally, certain options to purchase shares of FutureFuel's common stock were not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2010 and for the three and nine months ended September 30, 2009 as they were anti-dilutive. The weighted average number of options excluded on this basis were 282,167 and 71,667, respectively.

9) Segment information

FutureFuel has determined that it has two reportable segments organized along product lines – chemicals and biofuels.

*Chemicals*

FutureFuel's chemicals segment manufactures diversified chemical products that are sold externally to third party customers. This segment comprises two components: "custom manufacturing" (manufacturing chemicals for specific customers); and "performance chemicals" (multi-customer specialty chemicals).

*Biofuels*

FutureFuel's biofuels business segment manufactures and markets biodiesel. Revenues are generated through the production and sale of biodiesel to customers through FutureFuel's distribution network from the Batesville Plant and through distribution facilities available at leased oil storage facilities at negotiated prices.

*Summary of long-lived assets and revenues by geographic area*

All of FutureFuel's long-lived assets are located in the U.S.

Most of FutureFuel's sales are transacted with title passing at the time of shipment from the Batesville Plant, although some sales are transacted based on title passing at the delivery point. While many of FutureFuel's chemicals are utilized to manufacture products that are shipped, further processed, and/or consumed throughout the world, the chemical products, with limited exceptions, generally leave the United States only after ownership has transferred from FutureFuel to the customer. Rarely is FutureFuel the exporter of record, never is FutureFuel the importer of record into foreign countries, and FutureFuel is not

**Notes to Consolidated Financial Statements of FutureFuel Corp.**  
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always aware of the exact quantities of its products that are moved into foreign markets by its customers. FutureFuel does track the addresses of its customers for invoicing purposes and uses this address to determine whether a particular sale is within or without the United States. FutureFuel's revenues attributable to the United States and foreign countries (based upon the billing addresses of its customers) were as follows:

<b>Three Months Ended</b>	<b>United States</b>	<b>All Foreign Countries</b>	<b>Total</b>
September 30, 2010	\$ 61,987	\$ 4,106	\$ 66,093
September 30, 2009	\$ 48,007	\$ 4,256	\$ 52,263

<b>Nine Months Ended</b>	<b>United States</b>	<b>All Foreign Countries</b>	<b>Total</b>
September 30, 2010	\$ 151,927	\$ 13,643	\$ 165,570
September 30, 2009	\$ 120,636	\$ 13,195	\$ 133,831

For the three months ended September 30, 2010 and 2009, revenues from Mexico accounted for 6% and 8%, respectively, of total revenues. For the nine months ended September 30, 2010 and 2009, revenues from Mexico accounted for 7% and 9%, respectively, of total revenues. Other than Mexico, revenues from a single foreign country during the three or nine months ended September 30, 2010 and 2009 did not exceed 2% of total revenues.

*Summary of business by segment*

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues</b>				
Chemicals	\$ 47,209	\$ 39,029	\$ 131,066	\$ 102,745
Biofuels	18,884	13,234	34,504	31,086
Total revenues	<u>\$ 66,093</u>	<u>\$ 52,263</u>	<u>\$ 165,570</u>	<u>\$ 133,831</u>
<b>Segment gross margins</b>				
Chemicals	\$ 13,289	\$ 7,929	\$ 31,221	\$ 21,635
Biofuels	(1,413)	5,721	(5,102)	4,243
Segment gross margins	11,876	13,650	26,119	25,878
Corporate expenses	(2,340)	(2,265)	(6,563)	(6,565)
Income before interest and taxes	9,536	11,385	19,556	19,313
Interest and other income	473	48	855	325
Interest and other expense	(8)	(5)	(19)	(29)
Provision for income taxes	(3,450)	(4,044)	(7,419)	(6,554)
Net income	<u>\$ 6,551</u>	<u>\$ 7,384</u>	<u>\$ 12,973</u>	<u>\$ 13,055</u>

Depreciation is allocated to segment costs of goods sold based on plant usage. Total assets and capital expenditures of FutureFuel have not been allocated to individual segments as large portions of these assets are shared to varying degrees by each segment, causing such an allocation to be of little value.

10) Fair value measurements

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Fair value accounting pronouncements also include a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of FutureFuel. Unobservable inputs are inputs that reflect FutureFuel's assumptions about the factors market

**Notes to Consolidated Financial Statements of FutureFuel Corp.**  
**(Dollars in thousands, except per share amounts)**  
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participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy is broken down into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following tables provide information by level for assets and liabilities that are measured at fair value, on a recurring basis, at September 30, 2010 and December 31, 2009.

Description	Asset/(Liability)			
	Fair Value at September 30, 2010	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Available for sale:				
Auction rate securities	\$ 2,800	\$ -	\$ 2,800	\$ -
Preferred stock and trust preferred securities	\$ 16,481	\$ 16,481	\$ -	\$ -
Master limited partnerships	\$ 7,475	\$ 7,475	\$ -	\$ -
Derivative instruments	\$ (3,187)	\$ (3,187)	\$ -	\$ -

Description	Asset/(Liability)			
	Fair Value at December 31, 2009	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Available for sale:				
Auction rate securities	\$ 2,800	\$ -	\$ 2,800	\$ -
Preferred stock and trust preferred securities	\$ 4,011	\$ 4,011	\$ -	\$ -
Derivative instruments	\$ (1,930)	\$ (1,930)	\$ -	\$ -

FutureFuel's Level 1 assets held at September 30, 2010 and December 31, 2009 were preferred stock, trust preferred securities, and master limited partnerships and are included with marketable and auction rate securities on FutureFuel's consolidated balance sheets presented elsewhere herein. Each of the securities held in this class actively trade on established public markets with price quotes readily available. FutureFuel's Level 1 liabilities at September 30, 2010 and December 31, 2009 were derivative instruments and are included with other current assets on FutureFuel's consolidated balance sheets presented elsewhere herein, net of cash held as margin in the same account. Derivative instruments are comprised of heating oil futures contracts and options on futures contracts that FutureFuel utilizes to hedge feedstock purchases and sales of biodiesel and diesel. These futures and options contracts actively trade on established public markets with price quotes readily available.

FutureFuel's Level 2 assets held at September 30, 2010 and December 31, 2009 were auction rate securities and are included with marketable and auction rate securities on FutureFuel's consolidated balance sheets presented elsewhere herein. This class includes a single security, the price of which is quoted in a relatively inactive market. In determining fair value, FutureFuel utilized this quoted market price, with additional consideration given to market values of similar securities.

11) Exercise, purchase and expiration of warrants

At December 31, 2009, FutureFuel had issued and outstanding warrants to acquire 19,675,200 shares of FutureFuel's common stock for an exercise price of \$6.00 per share. The warrants expired on July 12, 2010 if not exercised by that date. Between January 1, 2010 and July 12, 2010, FutureFuel acquired and canceled 5,617,230 warrants for an aggregate purchase price of \$1,210, 11,783,549 warrants were exercised by the holders thereof for an aggregate exercise price of \$70,700, and 2,274,421 warrants expired as unexercised.