

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

FORM 10-Q

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

For the quarterly period ended **September 30, 2018**

or

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

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

COMMISSION FILE NUMBER 1-33926



TRECORA RESOURCES

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
organization)

**75-1256622**

(I.R.S. employer incorporation or  
identification no.)

**1650 Hwy 6 South, Suite 190**

**Sugar Land, Texas**

(Address of principal executive offices)

**77478**

(Zip code)

Registrant's telephone number, including area code: **(281) 980-5522**

Former name, former address and former fiscal year, if  
changed since last report.

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

Number of shares of the Registrant's Common Stock (par value \$0.10 per share), outstanding at November 1, 2018: 24,516,069.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.  
TRECORA RESOURCES AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (Unaudited)	December 31, 2017
<i>(thousands of dollars, except par value)</i>		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 1,292	\$ 3,028
Trade receivables, net	29,787	25,779
Insurance receivable	391	—
Inventories	17,828	18,450
Prepaid expenses and other assets	5,466	4,424
Taxes receivable	1,554	5,584
Total current assets	56,318	57,265
<b>Plant, pipeline and equipment, net</b>	192,311	181,742
<b>Goodwill</b>	21,798	21,798
<b>Intangible assets, net</b>	19,412	20,808
<b>Investment in AMAK</b>	44,322	45,125
<b>Mineral properties in the United States</b>	588	588
<b>TOTAL ASSETS</b>	\$ 334,749	\$ 327,326
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 13,311	\$ 18,347
Accrued liabilities	6,018	3,961
Current portion of post-retirement benefit	24	305
Current portion of long-term debt	4,194	8,061
Current portion of other liabilities	835	870
Total current liabilities	24,382	31,544
<b>Long-term debt, net of current portion</b>	101,337	91,021
<b>Post-retirement benefit, net of current portion</b>	361	897
<b>Other liabilities, net of current portion</b>	1,170	1,611
<b>Deferred income taxes</b>	18,218	17,242
<b>Total liabilities</b>	145,468	142,315
<b>EQUITY</b>		
<b>Common stock</b> -authorized 40 million shares of \$0.10 par value; issued 24.5 million in 2018 and 2017 and outstanding 24.3 million shares in 2018 and 2017	2,451	2,451
<b>Additional paid-in capital</b>	57,147	56,012
<b>Common stock in treasury, at cost</b>	(19)	(196)
<b>Retained earnings</b>	129,413	126,455
Total Trecora Resources Stockholders' Equity	188,992	184,722
Noncontrolling Interest	289	289
<b>Total equity</b>	189,281	185,011
<b>TOTAL LIABILITIES AND EQUITY</b>	\$ 334,749	\$ 327,326

See notes to consolidated financial statements.

**TRECORA RESOURCES AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

	<b>THREE MONTHS ENDED</b>		<b>NINE MONTHS ENDED</b>	
	<b>SEPTEMBER 30,</b>		<b>SEPTEMBER 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<i>(thousands of dollars, except per share amounts)</i>			
<b>REVENUES</b>				
Petrochemical and Product Sales	\$ 68,613	\$ 58,030	\$ 198,881	\$ 165,945
Processing Fees	4,803	3,478	14,382	13,220
	<u>73,416</u>	<u>61,508</u>	<u>213,263</u>	<u>179,165</u>
<b>OPERATING COSTS AND EXPENSES</b>				
Cost of Sales and Processing (including depreciation and amortization of \$3,813, \$2,565, \$9,480, and \$7,311, respectively)	66,574	51,638	188,139	147,570
	<u>6,842</u>	<u>9,870</u>	<u>25,124</u>	<u>31,595</u>
<b>GROSS PROFIT</b>	6,842	9,870	25,124	31,595
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
General and Administrative	6,327	5,660	17,216	17,621
Depreciation	205	245	592	655
	<u>6,532</u>	<u>5,905</u>	<u>17,808</u>	<u>18,276</u>
<b>OPERATING INCOME</b>	310	3,965	7,316	13,319
<b>OTHER INCOME (EXPENSE)</b>				
Interest Income	5	—	26	—
Interest Expense	(924)	(795)	(2,617)	(2,109)
Loss on Extinguishment of Debt	(315)	—	(315)	—
Equity in Losses of AMAK	(1,130)	(897)	(672)	(5,161)
Miscellaneous Income (Expense)	(28)	22	(67)	(42)
	<u>(2,392)</u>	<u>(1,670)</u>	<u>(3,645)</u>	<u>(7,312)</u>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	(2,082)	2,295	3,671	6,007
<b>INCOME TAX EXPENSE (BENEFIT)</b>	(473)	577	713	1,970
<b>NET INCOME (LOSS)</b>	(1,609)	1,718	2,958	4,037
<b>NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST</b>	—	—	—	—
<b>NET INCOME (LOSS) ATTRIBUTABLE TO TRECORA RESOURCES</b>	<u>\$ (1,609)</u>	<u>\$ 1,718</u>	<u>\$ 2,958</u>	<u>\$ 4,037</u>
<b>Basic Earnings (Loss) per Common Share</b>				
Net Income (Loss) Attributable to Trecora Resources (dollars)	\$ (0.07)	\$ 0.07	\$ 0.12	\$ 0.17
Basic Weighted Average Number of Common Shares Outstanding	<u>24,483</u>	<u>24,304</u>	<u>24,397</u>	<u>24,267</u>
<b>Diluted Earnings (Loss) per Common Share</b>				
Net Income (Loss) Attributable to Trecora Resources (dollars)	\$ (0.06)	\$ 0.07	\$ 0.12	\$ 0.16
Diluted Weighted Average Number of Common Shares Outstanding	<u>25,175</u>	<u>25,157</u>	<u>25,138</u>	<u>25,082</u>

See notes to consolidated financial statements.

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**TRECORA RESOURCES AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)**

	TRECORA RESOURCES STOCKHOLDERS						NON-CONTROLLING INTEREST	TOTAL EQUITY
	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	RETAINED EARNINGS	TOTAL		
	SHARES <i>(thousands)</i>	AMOUNT						
<b>January 1, 2018</b>	24,311	\$ 2,451	\$ 56,012	\$ (196)	\$ 126,455	\$184,722	\$ 289	\$ 185,011
<b>Stock Options</b>								
Issued to Directors	—	—	(10)	—	—	(10)	—	(10)
Issued to Employees	—	—	154	—	—	154	—	154
Cancellations (see Note 13)	—	—	(680)	—	—	(680)	—	(680)
<b>Restricted Stock Units</b>								
Issued to Directors	—	—	250	—	—	250	—	250
Issued to Employees	—	—	1,284	—	—	1,284	—	1,284
<b>Common Stock</b>								
Issued to Directors	—	—	82	78	—	160	—	160
Issued to Employees	—	—	130	155	—	285	—	285
Stock Exchange (see Notes 8 & 17)	—	—	(66)	(65)	—	(131)	—	(131)
Warrants	—	—	(9)	9	—	—	—	—
Net Income	—	—	—	—	2,958	2,958	—	2,958
<b>September 30, 2018</b>	<b>24,311</b>	<b>\$ 2,451</b>	<b>\$ 57,147</b>	<b>\$ (19)</b>	<b>\$ 129,413</b>	<b>\$188,992</b>	<b>\$ 289</b>	<b>\$ 189,281</b>

See notes to consolidated financial statements.

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**TRECORA RESOURCES AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	<b>NINE MONTHS ENDED SEPTEMBER 30,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(thousands of dollars)</i>	
<b>OPERATING ACTIVITIES</b>		
Net Income	\$ 2,958	\$ 4,037
Adjustments to Reconcile Net Income		
To Net Cash Provided by Operating Activities:		
Depreciation and Amortization	8,614	6,570
Amortization of Intangible Assets	1,396	1,396
Unrealized Gain on Derivative Instruments	—	(51)
Stock-based Compensation	1,002	2,005
Deferred Income Taxes	975	1,571
Postretirement Obligation	(817)	(8)
Equity in Losses of AMAK	672	5,161
Bad Debt Expense	152	—
Amortization of Loan Fees	216	154
Loss on Extinguishment of Debt	315	—
Changes in Operating Assets and Liabilities:		
Increase in Trade Receivables	(4,160)	(545)
Increase in Insurance Receivables	(391)	—
Decrease in Taxes Receivable	4,029	218
Decrease in Inventories	622	5,022
(Increase) Decrease in Prepaid Expenses and Other Assets	(1,592)	387
(Decrease) Increase in Accounts Payable and Accrued Liabilities	(2,977)	3,356
(Decrease) Increase in Other Liabilities	96	281
<b>Net Cash Provided by Operating Activities</b>	<b>11,110</b>	<b>29,554</b>
<b>INVESTING ACTIVITIES</b>		
Additions to Plant, Pipeline and Equipment	(19,090)	(39,250)
Advances to AMAK, net	(114)	(86)
<b>Cash Used in Investing Activities</b>	<b>(19,204)</b>	<b>(39,336)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of Common Stock	—	25
Net Cash Received (Paid) Related to Stock-Based Compensation	441	(80)
Addition to Long-Term Debt	18,177	14,000
Repayment of Long-Term Debt	(12,260)	(8,333)
<b>Net Cash Provided by Financing Activities</b>	<b>6,358</b>	<b>5,612</b>
<b>NET DECREASE IN CASH</b>	<b>(1,736)</b>	<b>(4,170)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>3,028</b>	<b>8,389</b>
<b>CASH AT END OF PERIOD</b>	<b>\$ 1,292</b>	<b>\$ 4,219</b>
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 2,663	\$ 3,034
Cash payments for taxes, net of refunds	\$ 209	\$ 227
Supplemental disclosure of non-cash items:		
Capital expansion amortized to depreciation expense	\$ 573	\$ 642
Stock exchange (Notes 8 & 17)	\$ 131	\$ —

See notes to consolidated financial statements.

## TRECORA RESOURCES AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### 1. GENERAL

##### *Organization*

Trecora Resources (the "Company") was incorporated in the State of Delaware in 1967. Our principal business activities are the manufacturing of various specialty hydrocarbons and synthetic waxes and the provision of custom processing services. Unless the context requires otherwise, references to "we," "us," "our," and the "Company" are intended to mean Trecora Resources and its subsidiaries.

This document includes the following abbreviations:

- (1) TREC – Trecora Resources
- (2) TOCCO – Texas Oil & Chemical Co. II, Inc. – Wholly owned subsidiary of TREC and parent of SHR and TC
- (3) SHR – South Hampton Resources, Inc. – Petrochemical segment and parent of GSPL
- (4) GSPL – Gulf State Pipe Line Co, Inc. – Pipeline support for the petrochemical segment
- (5) TC – Trecora Chemical, Inc. – Specialty wax segment
- (6) AMAK – Al Masane Al Kobra Mining Company – Mining equity investment – 33% ownership
- (7) PEVM – Pioche Ely Valley Mines, Inc. – Inactive mine – 55% ownership

##### *Basis of Presentation*

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these unaudited financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and, therefore, should be read in conjunction with the financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The unaudited condensed financial statements included in this document have been prepared on the same basis as the annual condensed financial statements and in management's opinion reflect all adjustments, including normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows for the interim periods presented. We have made estimates and judgments affecting the amounts reported in this document. The actual results that we experience may differ materially from our estimates. In the opinion of management, the disclosures included in these financial statements are adequate to make the information presented not misleading.

Operating results for the nine months ended September 30, 2018 are not necessarily indicative of results for the year ending December 31, 2018.

We currently operate in two segments, specialty petrochemical products and specialty synthetic waxes. All revenue originates from sources in the United States, and all long-lived assets owned are located in the United States.

In addition, we own a 33% interest in AMAK, a Saudi Arabian closed joint stock company, which owns, operates and is developing mining assets in Saudi Arabia. We account for our investment under the equity method of accounting. See Note 17.

##### *Revenue Recognition*

The Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606 ("ASC 606"), *Revenue from Contracts with Customers*, and its amendments with a date of the initial application of January 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition as detailed below. ASC 606 outlines a single comprehensive model for an entity to use in accounting for revenue arising from all contracts with customers, except where revenues are in scope of another accounting standard. ASC 606 superseded the revenue recognition requirements in ASC Topic 605, "Revenue Recognition", and most industry specific guidance. ASC Topic 606 sets forth a five-step model for determining when and how revenue is recognized. Under the model, an entity is required to



recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods and services. ASC 606 also requires certain additional revenue-related disclosures.

The Company applied the modified retrospective approach under ASC 606 which allows for the cumulative effect of adopting the new guidance on the date of initial application. Use of the modified retrospective approach means the Company's comparative periods prior to initial application are not restated. The initial application was applied to all contracts at the date of the initial application. The Company has determined that the adjustments using the modified retrospective approach did not have a material impact on the date of the initial application along with the disclosure of the effect on prior periods.

#### *Accounting Policy*

Beginning on January 1, 2018, revenue is measured based on a consideration specified in a contract with a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. In evaluating when a customer has control of the asset we primarily consider whether the transfer of legal title and physical delivery has occurred, whether the customer has significant risks and rewards of ownership, and whether the customer has accepted delivery and a right to payment exists. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of product sales and processing. The Company does not offer material rights of return or service-type warranties.

For the nine months ended September 30, 2017 the Company recognized revenue according to FASB ASC Topic 605 ("ASC 605"), "*Revenue Recognition*", when: (1) the customer accepted delivery of the product and title had been transferred or when the service was performed and the Company had no significant obligations remaining to be performed; (2) a final understanding as to specific nature and terms of the agreed upon transaction had occurred; (3) price was fixed and determinable; and (4) collection was assured. Product sales generally met these criteria, and revenue was recognized, when the product was delivered or title was transferred to the customer. Sales revenue was presented net of discounts, allowances, and sales taxes. Freight costs billed to customers were recorded as a component of revenue. Revenues received in advance of future sales of products or prior to the performance of services were presented as deferred revenues. Shipping and handling costs were classified as cost of product sales and processing and were expensed as incurred.

#### *Nature of goods and services*

The following is a description of principal activities – separated by reportable segments – from which the Company generates its revenue. For more detailed information about reportable segments, disaggregation of revenues, and contract balance disclosures, see Note 14.

#### Petrochemical segment

The petrochemical segment of the Company produces eight high purity hydrocarbons and other petroleum based products including isopentane, normal pentane, isohexane and hexane. These products are used in the production of polyethylene, packaging, polypropylene, expandable polystyrene, poly-iso/urethane foams, crude oil from the Canadian tar sands, and in the catalyst support industry. SHR's petrochemical products are typically transported to customers by rail car, tank truck, iso-container and ship.

**Product Sales** - The Company sells individual (distinct) products to its customers on a stand-alone basis (point-of-sale) without any further integration. There is no significant modification of any one or more products sold to fulfill another promised product or service within any of the Company's product sale transactions. The amount of consideration received for product sales is stated within the executed invoice with the customer. Payment is typically due and collected 30 to 60 days subsequent to point of sale.

**Processing Fees** - The Company's services consist of processing customer supplied feedstocks into custom products including, if requested, services for forming, packaging, and arranging shipping. Pursuant to Tolling Agreements the customer retains title to the feedstocks and processed products. The performance obligation in each Tolling Agreement transaction is the processing of customer provided feedstocks into custom products and is satisfied over time. The amount

of consideration received for product sales is stated within the executed invoice with the customer. Payment is typically due and collected within 30 days subsequent to point of sale.

#### Specialty Wax segment

The specialty wax segment of the Company manufactures and sells specialty polyethylene and poly alpha olefin waxes and also provides custom processing services for customers.

Product Sales - The Company sells individual (distinct) products to its customers on a stand-alone basis (point-of-sale) without any further integration. There is no significant modification of any one or more products sold to fulfill another promised product or service within any of the Company's product sale transactions. The amount of consideration received for product sales is stated within the executed invoice with the customer. Payment is typically due and collected within 30 days subsequent to point of sale.

Processing Fees - The Company's promised services consist of processing customer supplied feedstocks into custom products including, if requested, services for forming, packaging, and arranging shipping. Pursuant to Tolling Agreements and Purchase Order Arrangements, the customer typically retains title to the feedstocks and processed products. The performance obligation in each Tolling Agreement transaction and Purchase Order Arrangement is the processing of customer provided feedstocks into custom products and is satisfied over time. The amount of consideration received for product sales is stated within the executed invoice with the customer. Payment is typically due and collected within 30 days subsequent to point of sale.

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements of FASB ASC Topic 605, *Revenue Recognition* and most industry-specific guidance throughout the ASC, resulting in the creation of FASB ASC Topic 606, *Revenue from Contracts with Customers*. ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This ASU provides alternative methods of retrospective adoption and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company completed its assessment of the impact of the adoption of ASU 2014-09 across all revenue streams. This included reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements under the new standard. We completed contract reviews and validated results of applying the new revenue guidance (Note 1).

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, and has subsequently issued several supplemental and/or clarifying ASUs to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with earlier application permitted. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company has several lease agreements for which the amendments will require the Company to recognize a lease liability to make lease payments and a right-of-use asset which will represent its right to use the underlying asset for the lease term. The Company is currently reviewing the amendments to ensure it is fully compliant by the adoption date and does not expect to early adopt. As permitted by the amendments, the Company is anticipating electing an accounting policy to not recognize lease assets and lease liabilities for leases with a term of twelve months or less. The Company has established a project team to analyze ASU No. 2016-02 and is reviewing current accounting policies and procedures to identify potential differences and changes which would result from applying the required new standard to its lease contracts, and is developing and implementing appropriate changes to internal control processes and controls to support the accounting and disclosure requirements. The Company has identified the population of lease agreements, comprised primarily of railcar lease arrangements, as well as office space and equipment, and is assessing the impact of other arrangements for potential embedded leases.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. ASU 2018-02 was issued to address the income tax accounting treatment of the stranded tax effects within other comprehensive income due to the prohibition of backward tracing due to an income tax rate change that was initially recorded in other comprehensive income due to the enactment of the Tax Cuts and Jobs Act ("TCJA") on December 22, 2017, which changed the Company's income

tax rate from 35% to 21%. The amendments to the ASU changed US GAAP whereby an entity may elect to reclassify the stranded tax effect from accumulated other comprehensive income to retained earnings. The amendments of the ASU may be adopted in total or in part using a full retrospective or modified retrospective method. The amendments of the ASU are effective for periods beginning after December 15, 2018. Early adoption is permitted. The Company believes there will be no material impact to the consolidated financial statements as a result of this update.

In June 2018, the FASB issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*. ASU 2018-07 simplifies the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Company is assessing the effect of ASU 2018-02 on its consolidated financial statements.

### 3. TRADE RECEIVABLES

Trade receivables, net, consisted of the following:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	<i>(thousands of dollars)</i>	
Trade receivables	\$ 30,239	\$ 26,079
Less allowance for doubtful accounts	(452)	(300)
Trade receivables, net	<u>\$ 29,787</u>	<u>\$ 25,779</u>

Trade receivables serves as collateral for our amended and restated credit agreement. See Note 10.

### 4. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consisted of the following:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	<i>(thousands of dollars)</i>	
Prepaid license	\$ 2,217	\$ 1,919
Prepaid catalyst	620	779
Prepaid insurance	26	—
Spare parts	1,557	954
Other prepaid expenses and assets	1,046	772
Total	<u>\$ 5,466</u>	<u>\$ 4,424</u>

### 5. INVENTORIES

Inventories included the following:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	<i>(thousands of dollars)</i>	
Raw material	\$ 3,135	\$ 3,703
Work in process	164	27
Finished products	14,529	14,720
Total inventory	<u>\$ 17,828</u>	<u>\$ 18,450</u>

Inventory serves as collateral for our amended and restated credit agreement. See Note 10.

Inventory included petrochemical products in transit valued at approximately \$4.5 million and \$3.7 million at September 30, 2018, and December 31, 2017, respectively.

## 6. PLANT, PIPELINE AND EQUIPMENT

Plant, pipeline and equipment consisted of the following:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	<i>(thousands of dollars)</i>	
Platinum catalyst metal	\$ 1,612	\$ 1,612
Land	5,428	5,428
Plant, pipeline and equipment	254,560	186,946
Construction in progress	1,927	50,996
Total plant, pipeline and equipment	<u>263,527</u>	<u>244,982</u>
Less accumulated depreciation	(71,216)	(63,240)
Net plant, pipeline and equipment	<u>\$ 192,311</u>	<u>\$ 181,742</u>

Plant, pipeline, and equipment serve as collateral for our amended and restated credit agreement. See Note 10.

Interest capitalized for construction was approximately \$0 and \$218,000 for the three and \$731,000 and \$878,000 for the nine months ended September 30, 2018 and 2017, respectively.

Labor capitalized for construction was approximately \$0.1 million and \$0.8 million for the three and \$2.2 million and \$2.4 million for the nine months ended September 30, 2018, and 2017, respectively.

Construction in progress during the first nine months of 2018 included equipment purchased for various equipment updates at the TC facility; new reformer unit, tankage upgrades, and an addition to the rail spur at SHR. Construction in progress during the first nine months of 2017 included equipment purchased for the hydrogenation/distillation unit and updates to B Plan equipment at the TC facility; new reformer unit, tankage upgrades, and an addition to the rail spur at SHR.

Amortization relating to the platinum catalyst, which is included in cost of sales, was approximately \$24,000 and \$0 for the three and \$24,000 and \$25,000 for the nine months ended September 30, 2018 and 2017, respectively.

## 7. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill and intangible assets were recorded in relation to the acquisition of TC on October 1, 2014.

The following tables summarize the gross carrying amounts and accumulated amortization of intangible assets by major class:

	<b>September 30, 2018</b>		
	Gross	Accumulated Amortization	Net
	<i>(thousands of dollars)</i>		
<i>Intangible assets subject to amortization (Definite-lived)</i>			
Customer relationships	\$ 16,852	\$ (4,494)	\$ 12,358
Non-compete agreements	94	(75)	19
Licenses and permits	1,471	(469)	1,002
Developed technology	6,131	(2,453)	3,678
	<u>24,548</u>	<u>(7,491)</u>	<u>17,057</u>
<i>Intangible assets not subject to amortization (Indefinite-lived)</i>			
Emissions Allowance	197	—	197
Trade name	2,158	—	2,158
Total	<u>\$ 26,903</u>	<u>\$ (7,491)</u>	<u>\$ 19,412</u>

**December 31, 2017**

	Gross	Accumulated Amortization	Net
(thousands of dollars)			
<i>Intangible assets subject to amortization (Definite-lived)</i>			
Customer relationships	\$ 16,852	\$ (3,651)	\$ 13,201
Non-compete agreements	94	(61)	33
Licenses and permits	1,471	(390)	1,081
Developed technology	6,131	(1,993)	4,138
	<u>24,548</u>	<u>(6,095)</u>	<u>18,453</u>
<i>Intangible assets not subject to amortization (Indefinite-lived)</i>			
Emissions Allowance	197	—	197
Trade name	2,158	—	2,158
Total	<u>\$ 26,903</u>	<u>\$ (6,095)</u>	<u>\$ 20,808</u>

Amortization expense for intangible assets included in cost of sales for the three months ended September 30, 2018 and 2017, was approximately \$465,000 and \$466,000, respectively, and for the nine months ended September 30, 2018 and 2017, was approximately \$1,396,000 and \$1,396,000, respectively.

Based on identified intangible assets that are subject to amortization as of September 30, 2018, we expect future amortization expenses for each period to be as follows:

	Total	Remainder of 2018	2019	2020	2021	2022	2023	Thereafter
(thousands of dollars)								
Customer relationships	\$ 12,358	\$ 281	\$ 1,123	\$ 1,123	1,123	1,123	1,123	\$ 6,462
Non-compete agreements	19	5	14	—	—	—	—	—
Licenses and permits	1,002	26	106	106	101	86	86	491
Developed technology	3,678	153	613	613	613	613	613	460
Total future amortization expense	<u>\$ 17,057</u>	<u>\$ 465</u>	<u>\$ 1,856</u>	<u>\$ 1,842</u>	<u>\$ 1,837</u>	<u>\$ 1,822</u>	<u>\$ 1,822</u>	<u>\$ 7,413</u>

## 8. NET INCOME PER COMMON SHARE ATTRIBUTABLE TO TRECORA RESOURCES

The following table (in thousands, except per share amounts) sets forth the computation of basic and diluted net income per share attributable to Trecora Resources for the three months ended September 30, 2018 and 2017, respectively.

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	Income (Loss)	Shares	Per Share Amount	Income (Loss)	Shares	Per Share Amount
<b>Basic Net Income per Share:</b>						
Net Income (Loss) Attributable to Trecora Resources	\$ (1,609)	24,483	\$ (0.07)	\$ 1,718	24,304	\$ 0.07
Unvested restricted stock units		398			379	
Dilutive stock options outstanding		294			474	
<b>Diluted Net Income per Share:</b>						
Net Income (Loss) Attributable to Trecora Resources	<u>\$ (1,609)</u>	<u>25,175</u>	<u>\$ (0.06)</u>	<u>\$ 1,718</u>	<u>25,157</u>	<u>\$ 0.07</u>

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
<b>Basic Net Income per Share:</b>						
Net Income Attributable to Trecora Resources	\$ 2,958	24,397	\$ 0.12	\$ 4,037	24,267	\$ 0.17
Unvested restricted stock units		383			360	
Dilutive stock options outstanding		358			455	
<b>Diluted Net Income per Share:</b>						
Net Income Attributable to Trecora Resources	\$ 2,958	25,138	\$ 0.12	\$ 4,037	25,082	\$ 0.16

At September 30, 2018 and 2017, 873,708 and 1,334,087 shares of common stock, respectively, were issuable upon the exercise of options and warrants.

In first quarter 2018, we completed an exchange of shares with certain shareholders whereby such shareholders traded 65,000 common shares of TREC in exchange for 24,489 shares of our AMAK stock. The 65,000 shares were accounted for as treasury stock.

## 9. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	September 30, 2018	December 31, 2017
	<i>(thousands of dollars)</i>	
Accrued state taxes	\$ 157	\$ 272
Accrued property taxes	1,350	—
Accrued payroll	1,099	1,407
Accrued interest	31	30
Accrued officer compensation	600	500
Other	2,781	1,752
Total	\$ 6,018	\$ 3,961

## 10. LIABILITIES AND LONG-TERM DEBT

*Senior Secured Credit Facilities.* On July 31, 2018, TOCCO, as borrower, and SHR, GSPL and TC, as guarantors (collectively, the “Guarantors”), entered into a Fourth Amendment (“Fourth Amendment”) to our Amended and Restated Credit Agreement (the “ARC”). Pursuant to the Fourth Amendment, the revolving commitment under the ARC (the “Revolving Facility”) was increased from \$60.0 million to \$75.0 million. Total borrowings under the term loan facility of the ARC (the “Term Loan Facility” and, together with the Revolving Facility, the “Credit Facilities”) were increased to \$87.5 million under a single combined term loan, which comprised new term loan borrowings together with approximately \$60.4 million of previously outstanding term loans under the Term Loan Facility. The \$60.4 million of previously outstanding term loans included the remaining outstanding balances on (i) a \$70.0 million single advance term loan incurred to partially finance the acquisition of TC (which we refer to as the “Acquisition loan”) and (ii) a \$25.0 million multiple advance term loan facility for which borrowing availability ended on December 31, 2015. Proceeds of the new borrowings under the Term Loan Facility were used to repay a portion of the outstanding borrowings under the Revolving Facility and pay fees and expenses of the transaction. The Fourth Amendment also increased the size of the accordion feature allowing us to request an increase to the commitment under the Revolving Facility and/or the Term Loan Facility by an additional amount of up to \$50.0 million in the aggregate, subject to the lenders acceptance of any increased commitment and certain other conditions. As of September 30, 2018, we had \$20.0 million in borrowings outstanding under the Revolving Facility and \$86.4 million in borrowings outstanding under the Term Loan Facility. In addition, we had \$55 million of available borrowings under our Revolving Facility at September 30, 2018.

The Fourth Amendment also extended the maturity date for the ARC from October 1, 2019 to July 31, 2023 and decreased the interest rate margin applicable to borrowings under each of the Credit Facilities. Following the effective date of the Fourth Amendment, borrowings under each of the Credit Facilities bear interest on the outstanding principal amount at a rate equal to London Interbank Offered Rate ("LIBOR") plus an applicable margin of 1.25% to 2.25% (decreased from 2.00% to 3.00%) or, at our option, the Base Rate (as defined in the ARC) plus an applicable margin of 0.25% to 1.25% (decreased from 1.00% to 2.00%), in each case, with the applicable margin being determined based on the Consolidated Leverage Ratio (as defined in the ARC) of TOCCO. A commitment fee between 0.20% and 0.30% (decreased from 0.25% to 0.375%) is also payable quarterly on the unused portion of the Revolving Facility. As of September 30, 2018, the effective interest rate for the Credit Facilities was 4.24%. Borrowings under the Term Loan Facility continue to be subject to quarterly amortization payments based on a commercial style amortization method over a twenty year period; *provided* that the final principal installment will be paid on the maturity date and will be in an amount equal to the outstanding borrowings under the Term Loan Facility on such date.

The Fourth Amendment also modified certain covenants and other provisions of the ARC to provide us with additional flexibility, including (i) increasing the maximum Consolidated Leverage Ratio that must be maintained by TOCCO to 3.50 to 1.00 (subject to temporary increase following certain acquisitions), (ii) decreasing the minimum Consolidated Fixed Charge Coverage Ratio (as defined in the ARC) that must be maintained by TOCCO to 1.15 to 1.00 and (iii) eliminating the requirement that TOCCO maintain a minimum asset coverage ratio. Pursuant to the Fourth Amendment, we are only required to comply with the minimum Consolidated Fixed Charge Leverage Ratio covenant beginning with the quarter ended December 31, 2018. In addition to the foregoing, the Term Loan Facility contains a number of other customary affirmative and negative covenants. We were in compliance with all covenants at September 30, 2018.

Following the effectiveness of the Fourth Amendment, all obligations under the ARC continue to be unconditionally guaranteed by the Guarantors and continue to be secured by a first priority lien on substantially all of the assets of TOCCO and the Guarantors under the ARC.

For a summary of additional terms of the Credit Facilities and previous amendments, see Note 13, "Long-Term Debt and Long-Term Obligations" to the consolidated financial statements set forth in our Annual Report on Form 10-K for the year ended December 31, 2017.

*Debt Issuance Costs.* Debt issuance costs of approximately \$0.9 million were incurred in connection with the Fourth Amendment and the remaining debt issuance costs of \$0.3 million from the previous agreements were expensed and are shown as a loss on the extinguishment of debt on the consolidated statements of income for the three and nine months ended September 30, 2018. Unamortized debt issuance costs of approximately \$0.9 million and \$0.5 million for the periods ended September 30, 2018 and December 31, 2017, have been netted against outstanding loan balances.

The following table summarizes the carrying amounts and debt issuance costs of our long-term debt (in thousands):

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Acquisition loan	\$ —	\$ 47,250
Term loan	86,406	17,333
Revolving facility	20,000	35,000
Total	106,406	99,583
Debt issuance costs	(875)	(501)
Total long-term debt	\$ 105,531	\$ 99,082
Less current portion including loan fees	4,194	8,061
Total long-term debt, less current portion including loan fees	\$ 101,337	\$ 91,021

## 11. FAIR VALUE MEASUREMENTS

The carrying value of cash, trade receivables, accounts payable, accrued liabilities, and other liabilities approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair value of variable rate long term debt reflects recent market transactions and approximate carrying value. We used other observable inputs that would qualify as Level 2 inputs to make our assessment of the approximate fair value of our cash, trade receivables, accounts payable, accrued liabilities, other liabilities and variable rate long term debt. The fair value of the derivative instruments are described below.

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### *Interest Rate Swap*

In March 2008 we entered into an interest rate swap agreement with Bank of America related to a \$10.0 million term loan secured by plant, pipeline and equipment. The interest rate swap was designed to minimize the effect of changes in the LIBOR rate. We had designated the interest rate swap as a cash flow hedge under ASC Topic 815, *Derivatives and Hedging*. However, due to the ARC, we felt that the hedge was no longer entirely effective. Due to the time required to make the determination and the immateriality of the hedge, we began treating it as ineffective as of October 1, 2014.

We assessed the fair value of the interest rate swap using a present value model that includes quoted LIBOR rates and the nonperformance risk of the Company and Bank of America based on the Credit Default Swap Market (Level 2 of fair value hierarchy).

We have consistently applied valuation techniques in all periods presented and believe we have obtained the most accurate information available for the types of derivative contracts we hold. The agreement terminated in December 2017; therefore, there was no outstanding liability at September 30, 2018, and December 31, 2017. See discussion of our derivative instruments in Note 12.

## **12. DERIVATIVE INSTRUMENTS**

### *Interest Rate Swap*

On March 21, 2008, SHR entered into a pay-fixed, receive-variable interest rate swap agreement with Bank of America related to the \$10.0 million (later increased to \$14.0 million) term loan secured by plant, pipeline and equipment. The effective date of the interest rate swap agreement was August 15, 2008, and terminated on December 15, 2017. We received credit for payments of variable rate interest made on the term loan at the loan's variable rates, which are based upon the LIBOR, and paid Bank of America an interest rate of 5.83% less the credit on the interest rate swap. We originally designated the transaction as a cash flow hedge according to ASC Topic 815, *Derivatives and Hedging*. Beginning on August 15, 2008, the derivative instrument was reported at fair value with any changes in fair value reported within other comprehensive income (loss) in the Company's Statement of Stockholders' Equity. We entered into the interest rate swap to minimize the effect of changes in the LIBOR rate.

Due to the new debt agreements associated with the acquisition of TC, we believed that the hedge was no longer entirely effective. Due to the time required to make the determination and the immateriality of the hedge, we began treating the interest rate swap as ineffective as of October 1, 2014.

## **13. STOCK-BASED COMPENSATION**

Stock-based compensation of approximately \$629,000 and \$716,000 during the three months and \$1,002,000 and \$2,005,000 during the nine months ended September 30, 2018, and 2017, respectively, was recognized.

### *Restricted Stock Awards*

On August 9, 2018, we awarded approximately 40,000 shares of restricted stock to employees at a grant date price of \$12.85. The stock will vest six months from the grant date. Compensation expense recognized during the three months ended September 30, 2018, was \$171,000.

On January 17, 2018, we awarded 361 shares of restricted stock to an officer at a grant date price of \$13.85. The stock was immediately vested. Compensation expense recognized during the three months ended September 30, 2018, was \$0 and for the nine months ended September 30, 2018, was \$5,000.

### *Restricted Stock Unit Awards*

On September 1, 2018, we awarded approximately 9,000 shares of restricted stock to a director at a grant date price of \$14.00. The restricted stock award vests over 2 years in 50% increments. Director's compensation recognized during the three and nine months ended September 30, 2018, was approximately \$4,000.

On February 20, 2018, we awarded approximately 102,000 shares of restricted stock units to officers at a grant date price of \$12.15. One-half of the restricted stock units vest ratably over three years. The other half vests at the end of three years



based upon the performance metrics of return on invested capital and earnings per share growth. The number of shares actually granted will be adjusted based upon relative performance to our peers. Compensation expense recognized during the three months ended September 30, 2018, was approximately \$108,000 and for the nine months ended September 30, 2018, was \$252,000.

Officer compensation of approximately \$95,000 and \$121,000 during the three months and \$301,000 and \$161,000 during the nine months ended September 30, 2018, and 2017, respectively, was recognized related to restricted stock unit awards granted to officers vesting through 2020.

Director compensation of approximately \$75,000 and \$75,000 during the three months and \$240,000 and \$231,000 during the nine months ended September 30, 2018, and 2017, respectively, was recognized related to restricted stock unit awards granted to directors vesting through 2020.

Officer compensation of approximately \$79,000 and \$106,000 was recognized during the three months and \$255,000 and \$316,000 during the nine months ended September 30, 2018, and 2017, respectively, related to restricted stock unit awards granted to officers. One-half of the restricted stock units vest ratably over three years. The other half vests at the end of the three years based upon the performance metrics of return on invested capital and earnings per share growth. The number of shares actually granted will be adjusted based upon relative performance to our peers.

Employee compensation of approximately \$98,000 and \$108,000 during the three months and \$300,000 and \$323,000 during the nine months ended September 30, 2018, and 2017, respectively, was recognized related to restricted stock units with a four years vesting period which was awarded to officers. This restricted stock vests through 2019.

Restricted stock units activity in the first nine months of 2018 was as follows:

	Shares of Restricted Stock Units	Weighted Average Grant Date Price per Share
Outstanding at January 1, 2018	387,702	\$ 11.39
Granted	151,908	\$ 12.45
Forfeited	(48,631)	\$ 10.88
Vested	(92,874)	\$ 11.85
Outstanding at September 30, 2018	398,105	\$ 11.72

#### *Stock Option and Warrant Awards*

A summary of the status of our stock option awards and warrants is presented below:

	Number of Stock Options & Warrants	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life
Outstanding at January 1, 2018	1,323,587	\$ 7.82	
Granted	—	—	
Exercised	(249,879)	5.61	
Cancelled	(200,000)	3.40	
Forfeited	—	—	
Outstanding at September 30, 2018	873,708	\$ 9.47	4.5
Exercisable at September 30, 2018	873,708	\$ 9.47	4.5

The fair value of the options granted were calculated using the Black Scholes option valuation model with the assumptions as disclosed in prior quarterly and annual filings.

Directors' compensation of approximately \$0 and \$30,000 during the three months and \$0 and \$90,000 during the nine months ended September 30, 2018, and 2017, respectively, was recognized related to options to purchase shares vesting through 2017.

Employee compensation of approximately \$0 and \$277,000 during the three months and \$154,000 and \$884,000 during the nine months ended September 30, 2018, and 2017, respectively, was recognized related to options with a 4- year vesting period which were awarded to officers and key employees. These options vest through 2018.

Post-retirement compensation of approximately \$0 and \$0 during the three months and \$679,000 and \$0 during the nine months ended September 30, 2018, and 2017, was reversed related to options awarded to Mr. Hatem El Khalidi in July 2009. On May 9, 2010, the Board of Directors determined that Mr. El Khalidi forfeited these options and other retirement benefits when he made various demands against the Company and other AMAK shareholders which would benefit him personally and were not in the best interests of the Company and its shareholders. The Company was successful in litigating its right to withdraw the options and benefits and as such, these options and benefits were reversed during the second quarter of 2018. See further discussion in Note 19.

See the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for additional information.

#### 14. SEGMENT INFORMATION

We operate through business segments according to the nature and economic characteristics of our products as well as the manner in which the information is used internally by our key decision maker, who is our Chief Executive Officer. Segment data may include rounding differences.

Our specialty petrochemical segment includes SHR and GSPL. Our specialty synthetic wax segment is TC. We also separately identify our corporate overhead which includes financing and administrative activities such as legal, accounting, consulting, investor relations, officer and director compensation, corporate insurance, and other administrative costs.

<b>Three Months Ended September 30, 2018</b>					
	Petrochemical	Specialty Wax	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Product sales	\$ 61,675	\$ 6,938	\$ —	\$ —	\$ 68,613
Processing fees	2,056	2,799	—	(52)	4,803
Total revenues	63,731	9,737	—	(52)	73,416
Operating profit (loss) before depreciation and amortization	6,167	415	(2,252)	—	4,330
Operating profit (loss)	3,516	(936)	(2,270)	—	310
Profit (loss) before taxes	2,561	(1,239)	(3,404)	—	(2,082)
Depreciation and amortization	2,651	1,351	16	—	4,018
Capital expenditures	2,562	1,094	—	—	3,656

  

<b>Three Months Ended September 30, 2017</b>					
	Petrochemical	Specialty Wax	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Product sales	\$ 52,440	\$ 5,590	\$ —	\$ —	\$ 58,030
Processing fees	1,519	1,959	—	—	3,478
Total revenues	53,959	7,549	—	—	61,508
Operating profit (loss) before depreciation and amortization	9,319	(587)	(1,957)	—	6,775
Operating profit (loss)	7,735	(1,795)	(1,975)	—	3,965
Profit (loss) before taxes	7,149	(1,975)	(2,879)	—	2,295
Depreciation and amortization	1,584	1,208	18	—	2,810
Capital expenditures	9,426	1,991	—	—	11,417

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**Nine Months Ended September 30, 2018**

	Petrochemical	Specialty Wax	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Product sales	\$ 178,094	\$ 20,755	\$ —	\$ 32	\$ 198,881
Processing fees	5,769	8,863	—	(250)	14,382
Total revenues	183,863	29,618	—	(218)	213,263
Operating profit (loss) before depreciation and amortization	20,655	1,969	(5,234)	—	17,390
Operating profit (loss)	14,635	(2,051)	(5,268)	—	7,316
Profit (loss) before taxes	12,474	(2,926)	(5,877)	—	3,671
Depreciation and amortization	6,020	4,020	32	—	10,072
Capital expenditures	16,374	2,716	—	—	19,090

**Nine Months Ended September 30, 2017**

	Petrochemical	Specialty Wax	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Product sales	\$ 147,339	\$ 18,606	\$ —	—	\$ 165,945
Processing fees	5,078	8,142	—	—	13,220
Total revenues	152,417	26,748	—	—	179,165
Operating profit (loss) before depreciation and amortization	26,294	969	(5,978)	—	21,285
Operating profit (loss)	21,610	(2,264)	(6,027)	—	13,319
Profit (loss) before taxes	19,750	(2,534)	(11,209)	—	6,007
Depreciation and amortization	4,684	3,233	49	—	7,966
Capital expenditures	27,203	12,047	—	—	39,250

**September 30, 2018**

	Petrochemical	Specialty Wax	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Trade receivables, product sales	\$ 22,600	\$ 3,896	\$ —	\$ —	\$ 26,496
Trade receivables, processing fees	1,165	2,126	—	—	3,291
Goodwill and intangible assets, net	—	41,210	—	—	41,210
Total assets	282,094	115,146	91,647	(154,138)	334,749

**December 31, 2017**

	Petrochemical	Specialty Wax	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Trade receivables, product sales	\$ 20,211	\$ 2,671	\$ —	\$ —	\$ 22,882
Trade receivables, processing fees	983	1,914	—	—	2,897
Goodwill and intangible assets, net	—	42,606	—	—	42,606
Total assets	265,213	117,579	97,880	(153,346)	327,326

**15. INCOME TAXES**

We file an income tax return in the U.S. federal jurisdiction and a margin tax return in Texas. We received notification from the Internal Revenue Service ("IRS") in November 2016 that the December 31, 2014, tax return was selected for audit. In April 2017 the audit was expanded to include the year ended December 31, 2015, to review the refund claim related to research and development activities. We received notification from the IRS in March 2018 that audit was complete and acceptance of the refund claims resulting from the Research and Development ("R&D") credit for approximately \$350,000, which has now been received. We also received notification that Texas will audit our R&D credit calculations for 2014 and

2015. We are in the process of submitting additional documentation to Texas. We do not expect any changes related to the Texas audit. Tax returns for various jurisdictions remain open for examination for the years 2014 through 2017. As of September 30, 2018 and December 31, 2017, respectively, we recognized no adjustment for uncertain tax positions or related interest and penalties.

The effective tax rate varies from the federal statutory rate of 21%, primarily as a result of state tax expense, stock based compensation and a research and development credit for the three and nine months ended September 30, 2018. The effective tax rate varies from the federal statutory rate of 35% primarily as a result of state tax expense and stock option based compensation offset by the manufacturing deduction for the three and nine months ended September 30, 2017. We continue to maintain a valuation allowance against certain deferred tax assets where realization is not certain.

On December 22, 2017, Public Law No. 115-97 known as the TCJA was enacted. The TCJA includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. federal corporate income tax rate from a maximum of 35% to a flat 21% for tax years effective January 1, 2018. The TCJA also implements a territorial tax system, provides for a one-time deemed repatriation tax on unrepatriated foreign earnings, eliminates the alternative minimum tax ("AMT"), makes AMT credit carryforwards refundable, and permits the acceleration of depreciation for certain assets placed into service after September 27, 2017. In addition, the TCJA creates prospective changes beginning in 2018, including repeal of the domestic manufacturing deduction, acceleration of tax revenue recognition, capitalization of research and development expenditures, additional limitations on executive compensation and limitations on the deductibility of interest.

We have elected to recognize the income tax effects of the TCJA in our financial statements in accordance with Staff Accounting Bulletin 118 (SAB 118), which provides guidance for the application of ASC Topic 740 *Income Taxes*, in the reporting period in which the TCJA was signed into law. Under SAB 118 when a Company does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA, it will recognize provisional amounts if a reasonable estimate can be made. If a reasonable estimate cannot be made, then no impact is recognized for the effect of the TCJA. SAB 118 permits an up to one year measurement period to finalize the measurement of the impact of the TCJA.

We have recognized the provisional tax impacts related to the acceleration of depreciation and included these amounts in our consolidated financial statements for the three and nine months ended September 30, 2018. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the TCJA. We did not identify items for which the income tax effects of the TCJA have not been completed, and a reasonable estimate could not be determined as of September 30, 2018 and December 31, 2017. The federal income tax return was filed in October 2018, which resulted in net operating tax loss and business credit which were carried back to 2015 and 2016.

## 16. POST-RETIREMENT OBLIGATIONS

In January 2008, an amended retirement agreement was entered into with Mr. Hatem El Khalidi; however, on May 9, 2010, the Board of Directors terminated the agreement due to actions of Mr. El Khalidi. See Notes 13 and 19. All amounts which had not met termination dates remained recorded until a resolution was achieved. The matter was resolved on May 25, 2018 and as of June 30, 2018, post-retirement obligations of approximately \$1.0 million for Mr. El Khalidi have been reversed. As of December 31, 2017, approximately \$1.0 million remained outstanding and was included in post-retirement benefits.

In July 2015 and June 2018, we entered into retirement agreements with our former CEO and current Executive Chairman, and our former VP of Accounting & Compliance. As of September 30, 2018 and December 31, 2017, approximately \$0.4 million and \$0.3 million, respectively, remained outstanding and was included in post-retirement obligations.

See the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for additional information.

## 17. INVESTMENT IN AMAK

In first quarter 2018, we completed an exchange of shares with certain shareholders whereby such shareholders traded 65,000 common shares of TREC in exchange for 24,489 shares of our AMAK stock. The 65,000 shares were accounted for as treasury stock. This transaction reduced our ownership percentage from 33.44% to 33.41%.

As of September 30, 2018 and December 31, 2017, the Company had a non-controlling equity interest of 33.4% in AMAK of approximately \$44.3 million and \$45.1 million, respectively. This investment is accounted for under the equity method. There were no events or changes in circumstances that may have an adverse effect on the fair value of our investment in AMAK at September 30, 2018.

AMAK's financial statements were prepared in the functional currency of AMAK which is the Saudi Riyal ("SR"). In June 1986 the SR was officially pegged to the U. S. Dollar ("USD") at a fixed exchange rate of 1 USD to 3.75 SR.

The summarized results of operation and financial position for AMAK are as follows:

#### Results of Operations

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	2018	2017	2018	2017
	<i>(thousands of dollars)</i>		<i>(thousands of dollars)</i>	
Sales	\$ 19,877	\$ 9,709	\$ 53,458	\$ 11,965
Cost of sales	20,350	11,016	49,411	23,480
Gross profit (loss)	\$ (473)	\$ (1,307)	\$ 4,047	\$ (11,515)
General, administrative and other expenses	3,917	2,382	9,083	6,942
Net Loss	\$ (4,390)	\$ (3,689)	\$ (5,036)	\$ (18,457)
Depreciation and amortization	8,899	6,214	24,881	16,880
Net income (loss) before depreciation and amortization	\$ 4,509	\$ 2,525	\$ 19,845	\$ (1,577)

#### Financial Position

	<b>September 30,</b>	<b>December 31,</b>
	2018	2017
	<i>(thousands of dollars)</i>	
Current assets	\$ 44,238	\$ 23,333
Noncurrent assets	214,708	237,875
Total assets	\$ 258,946	\$ 261,208
Current liabilities	\$ 11,569	\$ 24,439
Long term liabilities	83,826	68,837
Shareholders' equity	163,551	167,932
	\$ 258,946	\$ 261,208

The equity in the income or loss of AMAK reflected on the consolidated statements of income for the three months and nine months ended September 30, 2018, and 2017, is comprised of the following:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	2018	2017	2018	2017
	<i>(thousands of dollars)</i>		<i>(thousands of dollars)</i>	
AMAK Net Loss	\$ (4,390)	\$ (3,689)	\$ (5,036)	\$ (18,457)
Company's share of loss reported by AMAK	\$ (1,467)	\$ (1,234)	\$ (1,682)	\$ (6,172)
Amortization of difference between Company's investment in AMAK and Company's share of net assets of AMAK	337	337	1,010	1,011
Equity in loss of AMAK	\$ (1,130)	\$ (897)	\$ (672)	\$ (5,161)

See our Annual Report on Form 10-K for the year ended December 31, 2017 for additional information.

At September 30, 2018, and December 31, 2017, we had a receivable from AMAK of approximately \$235,000 and \$121,000, respectively, relating to unreimbursed travel and Board expenses which are included in prepaid and other assets. We did not advance any cash to AMAK during 2018.

## **18. RELATED PARTY TRANSACTIONS**

Consulting fees of approximately \$0 were incurred during the three months and \$27,000 during the nine months ended September 30, 2017, from IHS Global FZ LLC of which Company director Gary K Adams held the position of Chief Advisor – Chemicals until April 1, 2017.

Consulting fees of approximately \$25,000 and \$19,000 were incurred during the three months and \$75,000 and \$56,000 during the nine months ended September 30, 2018 and 2017, respectively, from our Executive Chairman, Nicholas Carter. Due to his history and experience with the Company and to provide continuity after his retirement, a three year consulting agreement was entered into with Mr. Carter in July 2015. In March 2018, a new consulting agreement was entered into with Mr. Carter effective through December 31, 2018, unless otherwise agreed by the Company and Mr. Carter.

## **19. COMMITMENTS AND CONTINGENCIES**

### **Guarantees**

On October 24, 2010, we executed a limited Guarantee in favor of the Saudi Industrial Development Fund ("SIDF") whereby we agreed to guaranty up to 41% of the SIDF loan to AMAK in the principal amount of 330.0 million Saudi Riyals (US\$88.0 million) (the "Loan"). The term of the loan was originally through June 2019. As a condition of the Loan, SIDF required all shareholders of AMAK to execute personal or corporate Guarantees; as a result, our guarantee is for approximately 135.3 million Saudi Riyals (US\$36.1 million). The loan was necessary to continue construction of the AMAK facilities and provide working capital needs. We received no consideration in connection with extending the guarantee and did so to maintain and enhance the value of its investment. On July 8, 2018, the SIDF loan was amended to adjust the repayment schedule and extend the repayment terms through April 2024. Under the new payment terms the current amount due to SIDF in 2019 is \$8,000,000. The total amount outstanding to the SIDF at September 30, 2018, was 305.0 million Saudi Riyals (US\$81.3 million).

### **Operating Lease Commitments**

We have operating leases for the rental of railcars, office space, and equipment with expiration dates through 2026. Rental expense for these operating leases for the three months ended September 30, 2018, and 2017, was \$1.0 million and \$1.0 million, respectively, and for the nine months ended September 30, 2018, and 2017, was \$3.0 million and \$2.7 million, respectively.

### **Litigation**

On March 21, 2011, Mr. El Khalidi filed suit against the Company in Texas alleging breach of contract and other claims. The 88th Judicial District Court of Hardin County, Texas dismissed all claims and counterclaims for want of prosecution in this matter on July 24, 2013. The Ninth Court of Appeals subsequently affirmed the dismissal for want of prosecution and the Supreme Court of Texas denied Mr. El Khalidi's petition for review. On May 1, 2014, Mr. El Khalidi refiled his lawsuit against the Company for breach of contract and defamation in the 356th Judicial District Court of Hardin County, Texas. The case was transferred to the 88th Judicial District Court of Hardin County, Texas. The Trial Court dismissed all of Mr. El Khalidi's claims and causes of action with prejudice and the Ninth Court of Appeals affirmed. Mr. El Khalidi filed a petition for review with the Supreme Court of Texas, which was denied April 6, 2018. Mr. El Khalidi filed a motion for rehearing of his petition for review with the Supreme Court of Texas on April 23, 2018. On May 25, 2018, the Supreme Court of Texas denied the motion for rehearing and the matter is considered closed.

The Company is periodically named in legal actions arising from normal business activities. We evaluate the merits of these actions and, if we determine that an unfavorable outcome is probable and can be reasonably estimated, we will establish the necessary reserves. We are not currently involved in legal proceedings that could reasonably be expected to have a material

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adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future.

### **Supplier Agreements**

From time to time, we may incur shortfall fees due to feedstock purchases being below the minimum amounts prescribed by our agreements with our suppliers. Shortfall fee expenses for the three months ended September 30, 2018, and 2017, were \$0.2 million and \$0.3 million, respectively, and for the nine months ended September 30, 2018, and 2017, were \$0.7 million and \$1.4 million, respectively.

### **Environmental Remediation**

Amounts charged to expense for various activities related to environmental monitoring, compliance, and improvements were approximately \$146,000 and \$119,000 for the three months ended and \$430,000 and \$444,000 for the nine months ended September 30, 2018, and 2017, respectively.

## **20. SUBSEQUENT EVENTS**

In mid-September the Silsbee facility suffered a power outage causing a shutdown of the plant including the Advanced Reformer unit. In mid-October, after extensive engineering review and consultations with the technology licensor of the Advanced Reformer unit, it was determined that the unit's catalyst required replacement. Although the unit continues to operate, the product is not meeting design specifications thus negatively impacting the unit's expected financial benefit. We are working with the catalyst manufacturer to replace the catalyst in the fourth quarter. The estimated cost of replacement is \$4 million. The replacement will be capitalized and depreciated.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

### **FORWARD LOOKING AND CAUTIONARY STATEMENTS**

Some of the statements and information contained in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the following: a downturn in the economic environment; the Company's failure to meet growth and productivity objectives; fluctuations in revenues and purchases; impact of local legal, economic, political and health conditions; adverse effects from environmental matters, tax matters and the Company's pension plans; ineffective internal controls; the Company's use of accounting estimates; competitive conditions; the Company's ability to attract and retain key personnel and its reliance on critical skills; impact of relationships with critical suppliers; currency fluctuations; impact of changes in market liquidity conditions and customer credit risk on receivables; the Company's ability to successfully manage acquisitions and alliances; general economic conditions domestically and internationally; insufficient cash flows from operating activities; difficulties in obtaining financing; outstanding debt and other financial and legal obligations; industry cycles; specialty petrochemical product and mineral prices; feedstock availability; technological developments; regulatory changes; foreign government instability; foreign legal and political concepts; and foreign currency fluctuations, as well as other risks detailed in the Company's filings with the U.S. Securities and Exchange Commission, including this report, all of which are difficult to predict and many of which are beyond the Company's control.

### **Overview**

The following discussion and analysis of our financial results, as well as the accompanying unaudited consolidated financial statements and related notes to consolidated financial statements to which they refer, are the responsibility of our management. Our accounting and financial reporting fairly reflect our business model which is based on the safe manufacturing and marketing of petrochemical products and synthetic waxes. Our business model involves the manufacture and sale of tangible products and the provision of custom processing services. Our consistent approach to providing high purity products and quality services to our customers has helped to maintain our current position as a preferred supplier of various petrochemical products.

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The discussion and analysis of financial condition and the results of operations which appears below should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements which appear in our Annual Report on Form 10-K for the year ended December 31, 2017.

We believe we are well-positioned to benefit from capital investments that we have completed. As a result of the D-Train expansion which was completed in 2014, we now have sufficient pentane capacity to readily maintain our share of market growth for the foreseeable future. We believe that both the Advanced Reformer unit and the hydrogenation/distillation unit will contribute to increased revenue and gross margin over time and as we improve reliability. While petrochemical prices are volatile on a short-term basis and volumes depend on the demand of our customers' products and overall customer efficiency, our investment decisions are based on our long-term business strategy and outlook.

In February 2018, while attempting to commission the Advanced Reformer unit at our Silsbee facility, the unit overheated and ignited a fire. There was damage to all six heaters in the unit, and the damaged equipment had to be replaced. The total repair cost was approximately \$3.5 million. Our insurers agreed to cover costs over our \$1 million deductible. In the second quarter we received an initial advance payment of approximately \$2 million, in the third quarter we received \$0.2 million, and we expect to receive the balance in the fourth quarter.

On July 9, 2018, we announced the safe and successful start up of our Advanced Reformer unit at our Silsbee facility. In mid-September the Silsbee facility suffered a power outage causing a shutdown of the plant including the Advanced Reformer unit. In mid-October, after extensive engineering review and consultations with the technology licensor of the Advanced Reformer unit it was determined that the unit's catalyst required replacement. Although the unit continues to operate the product is not meeting design specifications thus negatively impacting the unit's expected financial benefit. We are working with the catalyst manufacturer to replace the catalyst in the fourth quarter. The estimated cost of replacement is \$4 million. The replacement will be capitalized and depreciated.

We continue to emphasize operational excellence and our competitive advantages achieved through our high quality products and outstanding customer service and responsiveness. Consistent with these objectives, we strengthened our management team with the recent appointments of Chief Manufacturing Officer and Executive Vice President, Commercial.

### **Review of Third Quarter 2018 Results**

We reported third quarter 2018 losses of \$1.6 million down from \$1.7 million earnings in third quarter 2017. Diluted earnings per share of \$(0.06) were reported for 2018, down from \$0.07 in 2017. Sales volume of our petrochemical products decreased 3.5%, and sales revenue from our petrochemical products increased 18.0% as compared to third quarter 2017. Prime product petrochemical sales volumes (which exclude by-product sales) were up 1.8% over third quarter 2017. Wax sales volume increased 12.7% compared to third quarter 2017 and wax sales revenue was up 23.3% compared to third quarter 2017. Trecora Resources gross profit margin decreased to 9.3% of sales in third quarter 2018 from 16.0% in third quarter 2017.

### **Non-GAAP Financial Measures**

We include in this Quarterly Report on Form 10-Q the non-GAAP financial measures of EBITDA, Adjusted EBITDA and Adjusted Net Income and provide reconciliations from our most directly comparable GAAP financial measures to those measures.

We define EBITDA as net income plus interest expense including derivative gains and losses, income taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA plus share-based compensation, plus or minus equity in AMAK's earnings and losses or gains from equity issuances and plus or minus gains or losses on acquisitions. We define Adjusted Net Income as net income plus or minus tax effected equity in AMAK's earnings and losses and plus or minus tax effected gains or losses on acquisitions. These measures are not measures of financial performance or liquidity under GAAP and should be considered in addition to, not as a substitute for, net income (loss), nor as an indicator of cash flows reported in accordance with GAAP. These measures are used as supplemental financial measures by management and external users of our financial statements such as investors, banks, research analysts and others. We believe that these non-GAAP measures are useful as they exclude transactions not related to our core cash operating activities.

The following table presents a reconciliation of net income, our most directly comparable GAAP financial performance measure for each of the periods presented, to EBITDA, Adjusted EBITDA, and Adjusted Net Income.



	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017

(Thousands of Dollars)

Net Income (Loss)	\$ (1,609)	\$ 1,718	\$ 2,958	\$ 4,037
Interest expense	924	795	2,617	2,109
Depreciation and amortization	4,018	2,810	10,072	7,966
Income tax expense (benefit)	(473)	577	713	1,970
EBITDA	\$ 2,860	\$ 5,900	\$ 16,360	\$ 16,082
Share-based compensation	630	716	1,002	2,005
Loss on extinguishment of debt	315	—	315	—
Equity in losses of AMAK	1,130	897	672	5,161
Adjusted EBITDA	\$ 4,935	\$ 7,513	\$ 18,349	\$ 23,248

Net Income (Loss)	\$ (1,609)	\$ 1,718	\$ 2,958	\$ 4,037
Equity in losses of AMAK	\$ 1,130	\$ 897	\$ 672	\$ 5,161
Taxes at statutory rate of 21% for 2018 and 35% for 2017	(237)	(314)	(141)	(1,806)
Tax effected equity in losses	893	583	531	3,355
Adjusted Net Income (Loss)	\$ (716)	\$ 2,301	\$ 3,489	\$ 7,392

## Liquidity and Capital Resources

### Working Capital

Our approximate working capital days are summarized as follows:

	September 30, 2018	December 31, 2017	September 30, 2017
Days sales outstanding in accounts receivable	38.1	38.4	34.6
Days sales outstanding in inventory	22.8	27.5	19.6
Days sales outstanding in accounts payable	17.0	27.3	18.9
Days of working capital	43.9	38.5	35.4

Our days sales outstanding in accounts receivable decreased slightly as compared to December 31, 2017. Our days sales outstanding in inventory decreased due to the increase in sales volume which reduced inventory on hand. Our days sales outstanding in accounts payable decreased due to construction expenses for the newly completed Advanced Reformer unit. Since days of working capital is calculated using the above three metrics, it increased for the reasons discussed.

Cash decreased \$1.7 million during the nine months ended September 30, 2018, as compared to a decrease of \$4.2 million for the nine months ended September 30, 2017. Our total available liquidity, which includes cash and available revolving borrowing capacity under the ARC, was approximately \$56.3 million and \$37.9 million at September 30, 2018 and December 31, 2017, respectively. Going forward, amounts able to be drawn under the Revolving Facility may be limited to maintain compliance with our covenants.

The change in cash is summarized as follows:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2018	2017
Net cash provided by (used in)	<i>(thousands of dollars)</i>	
Operating activities	\$ 11,110	\$ 29,554
Investing activities	(19,204)	(39,336)
Financing activities	6,358	5,612
Decrease in cash	\$ (1,736)	\$ (4,170)
Cash	\$ 1,292	\$ 4,219

### Operating Activities

Cash provided by operating activities totaled \$11.1 million for the first nine months of 2018, \$18.4 million lower than 2017. For the first nine months of 2018 net income decreased by approximately \$1.08 million as compared to 2017. Major non-cash items affecting 2018 income included increases in deferred taxes of \$1.0 million, depreciation of \$8.6 million and equity in losses of AMAK of \$0.7 million. Major non-cash items affecting 2017 income included increases in deferred taxes of \$1.6 million, depreciation of \$6.6 million, and equity in losses of AMAK of approximately \$5.2 million.

Factors leading to a decrease in cash provided by operating activities included:

- Accounts receivable increased approximately \$4.2 million due to timing of sales later in the quarter, with average days sales outstanding in accounts receivable of 38 days, leading to outstanding receivables at the end of the quarter;
- Insurance receivable increased approximately \$0.4 million (due to a claim filed for the new Advanced Reformer fire) as compared to no receivable in 2017;
- Prepaid and other assets increased approximately \$1.6 million (primarily due to the inventorying of spare parts) as compared to a decrease of approximately \$387,000 in 2017 (primarily due to a reduction in prepaid insurance); and
- Accounts payable and accrued liabilities decreased \$3.0 million (due to decreased construction expenditures) as compared to an increase of approximately \$3.4 million in 2017 (due to increased construction expenditures).

### Investing Activities

Cash used by investing activities during the first nine months of 2018 was approximately \$19.2 million, representing a decrease of approximately \$20.1 million over the corresponding period of 2017. During the first nine months of 2018, the primary use of capital expenditures was for the new Advanced Reformer unit and the addition of a rail spur at the SHR loading facility. During the first nine months of 2017, we continued to purchase equipment for the hydrogenation/distillation unit and the new Advanced Reformer unit along with some tankage and various other facility improvements.

### Financing Activities

Cash provided by financing activities during the first nine months of 2018 was approximately \$6.4 million versus cash provided of \$5.6 million during the corresponding period of 2017. During 2018, we restructured our loan agreement, as detailed in Note 10. We drew \$18.2 million on our line of credit to fund ongoing capital projects during the first nine months of 2018. As discussed in Note 10, proceeds of the new borrowings under the Term Loan Facility were used to repay a portion of the outstanding borrowings under the Revolving Facility. During 2017, we made principal payments on our acquisition loan of \$3.5 million, our term debt of \$0.7 million, and our line of credit facility of \$2.0 million. We drew \$14.0 million on our line of credit to fund ongoing capital projects.

## Anticipated Cash Needs

We believe that the Company is capable of supporting its operating requirements and capital expenditures through internally generated funds supplemented with borrowings under our ARC.

## Results of Operations

### Comparison of Three Months Ended September 30, 2018 and 2017

#### Specialty Petrochemical Segment

	2018	2017	Change	% Change
	<i>(thousands of dollars)</i>			
Petrochemical Product Sales	\$ 61,675	\$ 52,440	\$ 9,235	17.6 %
Processing	2,056	1,519	537	35.4 %
Gross Revenue	\$ 63,731	\$ 53,959	\$ 9,772	18.1 %
Volume of Sales (gallons)				
Petrochemical Products	21,564	22,353	(789)	(3.5)%
Prime Product Sales	16,986	16,681	305	1.8 %
Cost of Sales	\$ 57,156	\$ 43,424	\$ 13,732	31.6 %
Gross Margin	10.3%	19.5%		(9.2)%
Total Operating Expense*	18,673	15,040	3,633	24.2 %
Natural Gas Expense*	1,265	1,106	159	14.4 %
Operating Labor Costs*	4,837	4,412	425	9.6 %
Transportation Costs*	7,126	6,051	1,075	17.8 %
General & Administrative Expense	2,893	2,595	298	11.5 %
Depreciation and Amortization**	2,651	1,584	1,067	67.4 %
Capital Expenditures	2,562	9,426	(6,864)	(72.8)%

\* Included in cost of sales

\*\*Includes \$2,486 and \$1,378 for 2018 and 2017, respectively, which is included in operating expense

## Gross Revenue

Gross Revenue for our Specialty Petrochemical segment increased during third quarter 2018 from third quarter 2017 by 18.1%, primarily due to an increase in the average selling price of Petrochemical Products of 21.9%, and a 35.4% increase in processing revenue.

## Petrochemical Product Sales

Petrochemical product sales increased by 17.6% during third quarter 2018 from third quarter 2017 due to an increase in the the average selling price of 21.9%, which was partially offset by 3.5% decline in petrochemical sales volume due to lower sales of by-products. Prime product sales volume were flat as compared to third quarter 2017 but increased 5.6% compared to second quarter 2018. Prime product sales in the second quarter were negatively affected by operating issues at some customers. Average selling price increased as prices for both prime products and by-products increased to offset higher feedstock cost which were up 37% from the third quarter of 2017. It should be noted that by-products are produced as result of prime product production and their margins are significantly lower than margins for our prime products. Our average selling price increased for multiple reasons. First, by-product selling prices were significantly higher in third quarter 2018 compared to third quarter 2017; second, a large portion of our prime product sales are contracted with pricing formulas which are tied to prior month Natural Gas Liquid (NGL) prices which is our primary feedstock; and lastly we have increased prices for non-formula prime products. Foreign sales volume increased to 25.6% of total petrochemical volume from 22.1% in third quarter 2017.

## **Processing**

Processing revenues increased 35.4% in third quarter 2018 from third quarter 2017, primarily due to increased sales to two specific existing customers.

## **Cost of Sales**

Cost of Sales increased 31.6% during third quarter 2018 from 2017 primarily due to the increase in feedstock cost and higher operating expenses at our Silsbee plant. Our average feedstock cost per gallon increased 37% over third quarter 2017 primarily due to an approximately 39% increase in the benchmark price of Mont Belvieu natural gasoline. Our average feedstock cost per gallon for the third quarter 2018 was flat from the second quarter of 2018. The increase in feedstock costs compressed margins for prime products relative to third quarter 2017. We sell our prime products under both formula-based pricing where feedstock costs are passed through to the customer and spot or non-formula-based pricing which do not have pricing formulas tied to feedstock costs. Formula-based pricing is used to sell the majority of our prime products and typically has a 30 day trailing feed cost basis. This has an unfavorable impact on margins when feedstock prices are rising as we experienced during the quarter. The increase in feedstock costs also compressed margins for the spot, or non-formula, portion of prime product sales.

We use natural gasoline as feedstock which is the heavier liquid remaining after ethane, propane and butanes are removed from liquids produced by natural gas wells. The material is a commodity product in the oil/petrochemical markets and generally is readily available. The price of natural gasoline normally correlates approximately 90% with the price of crude oil. We expect our Advanced Reformer unit to enable us to convert the less valuable components in our feed into higher value products, thereby allowing us to sell our by-products at higher prices.

The decrease in gross margin percentage from 19.5% to 10.3% was due to higher feedstock costs resulting in margin compression for our prime products as well as higher plant operating expenses.

## **Total Operating Expense**

Total Operating Expense increased 24.2% during third quarter 2018 from 2017. The key drivers for the increase were higher natural gas, electricity, labor, and product transportation costs. Labor costs were up 9.6% in third quarter 2018 from 2017, primarily due to overtime, training and contract labor associated with the start-up and associated operating issues related to the Advanced Reformer unit. Certain previously capitalized costs associated with the start-up of the unit were expensed during third quarter 2018. Transportation costs were higher by 17.8% primarily due to an increase in third party freight costs associated with governmental mandates which took effect in the first quarter of 2018, and an increase in the cost of rail freight due to higher shipment volume, higher rail car storage cost at a third-party rail yard as well as higher freight rates.

## **Capital Expenditures**

Capital Expenditures in the third quarter 2018 were approximately \$2.6 million million compared to \$9.4 million in the second quarter 2017 reflecting the completion of the Advanced Reformer unit project.

## Specialty Wax Segment

	2018	2017	Change	% Change
	<i>(thousands of dollars)</i>			
Product Sales	\$ 6,938	\$ 5,590	\$ 1,348	24.1 %
Processing	2,799	1,959	840	42.9 %
Gross Revenue	\$ 9,737	\$ 7,549	\$ 2,188	29.0 %
Volume of wax sales (thousand pounds)	9,055	8,036	1,019	12.7 %
Cost of Sales	\$ 9,470	\$ 8,216	\$ 1,254	15.3 %
Gross Margin	2.7%	(8.8)%		11.6 %
General & Administrative Expense	1,180	1,107	73	6.6 %
Depreciation and Amortization*	1,351	1,208	143	11.8 %
Capital Expenditures	\$ 1,094	\$ 1,991	\$ (897)	(45.1)%

\*Includes \$1,327 and \$1,187 for 2018 and 2017, respectively, which is included in cost of sales

### **Product Sales**

Product sales revenue increased 24.1% during third quarter 2018 from third quarter 2017 as wax sales volume increased 12.7%. Wax sales were constrained by supply issues for our wax feed. Wax sales continue to be limited by supply constraints as opposed to market demand. Our average wax selling price increased 10% reflecting our marketing strategy to enhance pricing and improve sales mix. Customer demand continues to be strong for our higher value waxes including our products for the Hot Melt Adhesives ("HMA") and PVC Lubricant markets. These products are characterized by generally higher margins and growth rates.

### **Processing**

Processing revenues increased 42.9% during third quarter 2018 from third quarter 2017. The increase is primarily due to higher revenues from hydrogenation/distillation unit and B Plant. We continue to struggle with the reliability of the hydrogenation/distillation unit and we are implementing modifications to improve its performance. B Plant revenues in third quarter 2018 were about \$0.6 million. We have identified significant opportunities for improving our operational efficiency and customer demand for our custom processing capabilities continues to be strong.

### **Cost of Sales**

Cost of Sales increased 15.3% during third quarter 2018 from third quarter 2017, primarily due to higher plant operating expenses including higher costs for labor, maintenance, storage and utilities.

### **Depreciation**

Depreciation increased 11.8% during third quarter 2018 from 2017, primarily due to the hydrogenation/distillation unit coming online in the second and third quarters of 2017.

### **Capital Expenditures**

Capital Expenditures decreased 45.1% during third quarter 2018 from third quarter 2017 primarily due to a decrease in expenditures for construction in progress including the hydrogenation/distillation project. The project came online in second and third quarters 2017.

## Corporate Segment

	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>% Change</b>
	<i>(in thousands)</i>			
General & Administrative Expense	\$ 2,252	\$ 1,957	\$ 295	15.1 %
Equity in losses of AMAK	(1,130)	(897)	(233)	(26.0)%

### **General and Administrative Expenses**

General corporate expenses increased during third quarter 2018 from third quarter 2017. The increase is primarily attributable to increased insurance premiums.

### **Equity in Earnings (Losses) of AMAK**

Equity in earnings (losses) of AMAK increased during third quarter 2018 from third quarter 2017. The equity in losses were impacted primarily as a result of a reduction in AMAK's inventory value for copper and zinc concentrates.

### **AMAK Summarized Income Statement**

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	2018	2017
	<i>(thousands of dollars)</i>	
Sales	\$ 19,877	\$ 9,709
Cost of sales	20,350	11,016
Gross operating loss	\$ (473)	\$ (1,307)
General, administrative and other expenses	3,917	2,382
Net loss	\$ (4,390)	\$ (3,689)
Depreciation and amortization	8,899	6,214
Net loss before depreciation and amortization	\$ 4,509	\$ 2,525

AMAK continued to make progress in throughput rates, concentrate quality and recoveries. Approximately 17,000 dry metric tons (dmt) of copper and zinc concentrate were shipped in third quarter 2018 as compared to 8,000 dmt of copper and zinc concentrate in third quarter 2017. This is an approximately 17% increase in shipments compared to second quarter 2018. Third quarter net income before depreciation and amortization shows an improvement of approximately \$2 million compared to third quarter 2017.

## Comparison of Nine Months Ended September 30, 2018 and 2017

### Specialty Petrochemical Segment

	2018	2017	Change	% Change
	<i>(thousands of dollars)</i>			
Petrochemical Product Sales	178,094	147,339	30,755	20.9 %
Processing	5,769	5,078	691	13.6 %
Gross Revenue	183,863	152,417	31,446	20.6 %
Volume of Sales (gallons)				
Petrochemical Products	64,586	60,512	4,074	6.7 %
Prime Product Sales	50,729	46,864	3,865	8.2 %
Cost of Sales	160,543	122,351	38,192	31.2 %
Gross Margin	12.7%	19.7%		(7.0)%
Total Operating Expense*	51,597	43,161	8,436	19.5 %
Natural Gas Expense*	3,841	3,545	296	8.3 %
Operating Labor Costs*	13,351	11,688	1,663	14.2 %
Transportation Costs*	21,528	18,314	3,214	17.5 %
General & Administrative Expense	8,193	7,914	279	3.5 %
Depreciation and Amortization**	6,020	4,684	1,336	28.5 %
Capital Expenditures	16,374	27,203	(10,829)	(39.8)%

\* Included in cost of sales

\*\* Includes \$5,528 and \$4,142 for 2018 and 2017, respectively, which is included in operating expense

### Gross Revenue

Gross Revenue for our Specialty Petrochemical segment increased during the first nine months of 2018 from the first nine months of 2017 by 20.6% primarily due to an increase in sales volume for Petrochemical Products of 6.7%, an increase in the average selling price of 13.2% and an increase in processing revenue of 13.6%.

### Petrochemical Product Sales

Petrochemical product sales increased by 20.9% during the first nine months of 2018 from the first nine months of 2017 due to an increase in sales volume of 12.7% and an increase in the average selling price of 8.7%. Prime product volume increased 8.2% in the first nine months of 2018 as compared to the first nine months of 2017. Prime products sales volume in 2018 benefited from strong sales in the first quarter of 2018 while second quarter 2018 prime product sales were impacted by customer issues. These issues tended to resolve in the third quarter, resulting in sequential volume growth. Compared to 2017, we saw good growth for prime products across all major markets. Due to the need to produce additional prime products to support the increase in sales volume, our by-product volume increased 1.5% from 2017. By-product margins in 2018 increased significantly compared with 2017 a 34% increase in selling prices outpaced the rise in feedstock costs. In third quarter 2018, by-product prices benefited from the start up of the Advanced Reformer, which produces higher value products than the previous process. It should be noted that by-product margins are significantly lower than margins for our prime products.

Our average selling price increased for the first nine months of 2018 for two reasons. First, by-product selling prices were significantly higher in the first nine months of 2018 compared to the first nine months of 2017; and second, a large portion of our prime product sales are contracted with pricing formulas which are tied to prior month Natural Gas Liquid (NGL) prices which is our primary feedstock. Feedstock prices were about 23% higher in the first nine months of 2018 as compared to the first nine months of 2017. Additionally, we achieved price increases for the spot portion of our prime products business. Foreign sales volume increased to 26% of total petrochemical volume from 17% in the first nine months of 2017.

## **Processing**

Processing revenues increased 13.6% during the first nine months of 2018 from 2017 due to higher revenues from two custom processing customers.

## **Cost of Sales**

Our Cost of Sales increased 31.2% during the first nine months of 2018 from 2017 primarily due to the increase in feedstock cost as well as higher operating expenses. Our average feedstock cost per gallon increased 25% compared to the first nine months of 2017, primarily due to an approximately 37% increase in the benchmark price of Mont Belvieu natural gasoline, which was partially offset by lower shortfall fees and other delivery costs.

During the first nine months of 2018, feedstock cost per gallon increased steadily month to month and more steeply than the first nine months of 2017. The increase in feedstock costs compressed margins for prime products. We sell our prime products under both formula-based pricing where feedstock costs are passed through to the customer and spot or non-formula-based pricing which do not have pricing formulas tied to feedstock costs. Formula-based pricing is used to sell the majority of our prime products and typically has a 30 day trailing feed cost basis. This has an unfavorable impact on margins when feedstock prices are rising as we experienced in the first half of 2018. The increase in feedstock costs compressed margins for the spot or non-formula portion of prime product sales.

We use natural gasoline as feedstock which is the heavier liquid remaining after ethane, propane and butanes are removed from liquids produced by natural gas wells. The material is a commodity product in the oil/petrochemical markets and generally is readily available. The price of natural gasoline normally correlates approximately 90% with the price of crude oil. The Advanced Reformer unit enables us to convert the less valuable components in our feed into higher value products, thereby allowing us to sell our by-products at higher prices.

The decrease in gross margin from 19.7% to 12.7% was due to higher feedstock and operating expenses.

## **Total Operating Expense**

Total Operating Expense increased 19.5% during the first nine months of 2018 from the same period in 2017. Labor, transportation and electricity are the largest individual expenses in this category. Labor costs were higher by 14.2% in the first nine months of 2018 from 2017. Labor costs were higher primarily due to overtime, contract labor and maintenance associated with the start-up and commissioning of the Advanced Reformer unit. Certain previously capitalized costs associated with the start-up of the unit were expensed during the nine months ended September 30, 2018. Transportation costs were higher by 17.5% primarily due to an increase in third party freight costs associated with governmental mandates which took effect in the first quarter of 2018, and an increase in the cost of rail freight due to higher shipment volume, higher rail car storage cost at a third-party rail yard as well as higher freight rates.

## **Depreciation**

Depreciation increased 28.5% during the first nine months of 2018 from 2017, primarily due to the commissioning of the Advanced Reformer unit.

## **Capital Expenditures**

Capital Expenditures decreased 39.8% during the first nine months of 2018 from 2017 primarily due to the decline in capital spending for the new Advanced Reformer unit project which was recently completed. See additional detail above under "Investing Activities".



## Specialty Wax Segment

	2018	2017	Change	% Change
	<i>(thousands of dollars)</i>			
Product Sales	\$ 20,755	\$ 18,606	\$ 2,149	11.6 %
Processing	8,863	8,142	721	8.9 %
Gross Revenue	29,618	26,748	2,870	10.7 %
Volume of wax sales (thousand pounds)	29,140	28,281	859	3.0 %
Cost of Sales	\$ 27,814	\$ 25,219	\$ 2,595	10.3 %
Gross Margin	6.1%	5.7%		0.4 %
General & Administrative Expense	3,787	3,729	58	1.6 %
Depreciation and Amortization*	4,020	3,233	787	24.3 %
Capital Expenditures	\$ 2,716	\$ 12,047	\$ (9,331)	(77.5)%

\*Includes \$3,952 and \$3,169 for 2018 and 2017, respectively, which is included in cost of sales

### **Product Sales**

Product sales revenue increased 11.6% during the first nine months of 2018 from the first nine months of 2017 as average wax sales price increased approximately 7.6% while wax sales volumes increased 3.0%. In 2018, wax sales continued to be constrained by supply issues on third party waxes that we distribute in Latin America and also by limited wax feed supply to our plant. Selling prices for wax benefited from our marketing strategy to enhance pricing and improve sales mix. Responding to customer demand, we sold record volumes of our higher value waxes including our products for the Hot Melt Adhesives ("HMA") and PVC Lubricant markets. These products are characterized by generally higher margins and growth rates.

### **Processing**

Processing revenues increased 8.9% during the first nine months of 2018 from the first nine months of 2017. In the first nine months of 2018, we made progress in correcting operational issues however the plant continued to struggle with consistently and reliably operating the hydrogenation and distillation unit. B Plant revenues in the first nine months of 2018 were about \$2.4 million compared to \$2.2 million in the first nine months of 2017.

### **Cost of Sales**

Cost of Sales increased 10.3% during the first nine months of 2018 from the first nine months of 2017, primarily due to increases in labor, depreciation, storage, maintenance and utilities, partially offset by lower wax material costs.

### **General and Administrative Expense**

General and Administrative costs were relatively flat from 2017.

### **Depreciation**

Depreciation increased 24.3% during the first nine months of 2018 from 2017, primarily due to the hydrogenation/distillation unit coming online in the second and third quarters of 2017.

### **Capital Expenditures**

Capital Expenditures decreased 77.5% during the first nine months of 2018 from the first nine months of 2017 primarily due to the completion of the hydrogenation/distillation project, which came online in the second and third quarters of 2017.

## Corporate Segment

	2018	2017	Change	% Change
	<i>(in thousands)</i>			
General & Administrative Expense	\$ 5,234	\$ 5,978	\$ (744)	(12.4)%
Equity in losses of AMAK	(672)	(5,161)	4,489	87.0 %

### **General and Administrative Expenses**

General corporate expenses decreased during the first nine months of 2018 from the first nine months of 2017. The decrease is primarily attributable to the cancellation and reversal of stock compensation expense and other post retirement benefits awarded to Mr. Hatem El Khalidi. See further discussion in Note 13 and 19.

### **Equity in Losses of AMAK**

Equity in losses of AMAK decreased due to increased profitability during the first nine months of 2018 as compared to the first nine months of 2017.

### **AMAK Summarized Income Statement**

	<b>Nine Months Ended September 30,</b>	
	2018	2017
	<i>(thousands of dollars)</i>	
Sales	\$ 53,458	\$ 11,965
Cost of sales	49,411	23,480
Gross operating income (loss)	\$ 4,047	\$ (11,515)
General, administrative and other expenses	9,083	6,942
Net loss	\$ (5,036)	\$ (18,457)
Depreciation and amortization	24,881	16,880
Net income (loss) before depreciation and amortization	\$ 19,845	\$ (1,577)

AMAK continued significant progress in 2018 in terms of throughput rates, concentrate quality and recoveries. Approximately 42,000 dry metric tons (dmt) of copper and zinc concentrate were shipped in the first nine months of 2018 as compared to 8,000 dmt of copper and zinc concentrate in the first nine months of 2017. Net income before depreciation and amortization shows an improvement of over \$21 million year to date compared to 2017.

### **Guarantee of Saudi Industrial Development Fund ("SIDF") Loan to AMAK**

As discussed in Note 19 to the consolidated financial statements, as a condition of the Loan from the SIDF in the principal amount of 330.0 million SR (US\$88.0 million) to AMAK, we were required to execute a Guarantee of up to 41% of the Loan. The decision to provide a limited corporate guarantee in favor of AMAK was difficult as we considered numerous facts and circumstances. One of the factors considered was that without the US\$88.0 million from the SIDF, construction activity on the project would likely have ceased. Another factor considered was that prior to making a firm commitment regarding funding, the SIDF performed its own exhaustive due diligence of the project and obviously reached the conclusion that the project is viable and capable of servicing the debt. Yet another factor considered was our ability to reach agreement with various AMAK Saudi shareholders whereby they agreed to use best efforts to have their personal guarantees stand ahead of and pay required payments to SIDF before our corporate guarantee. Finally, we researched numerous loans made by the SIDF to others and were unable to find a single instance where the SIDF actually called a guarantee or foreclosed on a project. Based on the above, we determined that it was in the best interest of the Company and its shareholders to provide the limited corporate guarantee to facilitate completion of the mining project in a timely manner. We believe, based on our analysis, the actual value of plant and equipment on the ground exceeds any exposure related to the corporate guarantee.

On July 8, 2018, the SIDF loan was amended to adjust the repayment schedule and extend the repayment terms through April 2024. Under the new payment terms the current amount due to SIDF in 2019 is \$8,000,000. The total amount outstanding to the SIDF at September 30, 2018, was 305.0 million Saudi Riyals (US\$81.3 million).

## **Contractual Obligations**

Our contractual obligations are summarized in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. See Note 10 for changes to our debt maturity schedule. There have been no other material changes to the contractual obligation amounts disclosed in our annual report on Form 10-K for the fiscal year ended December 31, 2017.

## **Critical Accounting Policies and Estimates**

### **Revenue Recognition**

The Company adopted Financial Accounting Standards Board ("FASB") ASC Topic 606 ("ASC 606"), *Revenue from Contracts with Customers* and its amendments with a date of the initial application of January 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition as detailed below. ASC 606 outlines a single comprehensive model for an entity to use in accounting for revenue arising from all contracts with customers except where revenues are in scope of another accounting standard. ASC 606 superseded the revenue recognition requirements in ASC Topic 605, "Revenue Recognition", and most industry specific guidance. ASC Topic 606 sets forth a five-step model for determining when and how revenue is recognized. Under the model, an entity is required to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods and services. ASC 606 also requires certain additional revenue-related disclosures.

The Company applied the modified retrospective approach under ASC 606 which allows for the cumulative effect of adopting the new guidance on the date of initial application. Use of the modified retrospective approach means the Company's comparative periods prior to initial application are not restated. The initial application was applied to all contracts at the date of the initial application. The Company has determined that the adjustments using the modified retrospective approach did not have a material impact on the date of the initial application along with the disclosure of the effect on prior periods.

Other critical accounting policies are more fully described in Note 2 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017. The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period reported. By their nature, these estimates, assumptions and judgments are subject to an inherent degree of uncertainty. We base our estimates, assumptions and judgments on historical experience, market trends and other factors that are believed to be reasonable under the circumstances. Estimates, assumptions and judgments are reviewed on an ongoing basis and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies have been discussed with the Audit Committee of the Board of Directors. We believe there have been no material changes to our critical accounting policies and estimates compared to those discussed in our Annual Report on Form 10-K for the year ended December 31, 2017.

### **Recent and New Accounting Standards**

See Note 1 and 2 to the Consolidated Financial Statements for a summary of recent accounting guidance.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

### *Derivative Instrument Risk*

See Note 12 to the Consolidated Financial Statements.

### *Interest Rate Risk*

See Note 12 to the Consolidated Financial Statements.

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There have been no material changes in the Company's exposure to market risk from the disclosure included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

**ITEM 4. CONTROLS AND PROCEDURES.**

- (a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer, with the participation of management, have evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934) and determined that our disclosure controls and procedures were effective as of the end of the period covered by this report.
- (b) Changes in internal control. There were no significant changes in our internal control over financial reporting that occurred during the nine months ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

The Company is periodically named in legal actions arising from normal business activities. The Company evaluates the merits of these actions and, if it determines that an unfavorable outcome is probable and can be reasonably estimated, the Company will establish the necessary reserves. We are not currently involved in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future.

### **ITEM 1A. RISK FACTORS.**

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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## ITEM 6. EXHIBITS.

The following documents are filed or incorporated by reference as exhibits to this Report. Exhibits marked with an asterisk (\*) are filed herewith and exhibits marked with a double asterisk (\*\*) are furnished herewith. Exhibits marked with a plus sign (+) are compensatory plans.

<b>Exhibit Number</b>	<b>Description</b>
10.1	<a href="#"><u>Fourth Amendment to Amended and Restated Credit Agreement, dated as of July 31, 2018, among Texas Oil &amp; Chemical Co. II, Inc., as Borrower, certain subsidiaries of the Borrower, as Guarantors, the Lenders from time to time party thereto, Citibank, N.A., as an L/C Issuer, and Bank of America, N.A., as Administrative Agent, Swingline Lender and L/C Issuer (incorporated by reference to Exhibit 10.1 from Trecora Resources' Current Report on Form 8-K, filed August 1, 2018)</u></a>
10.2+	<a href="#"><u>Consulting Agreement, dated as of July 1, 2018, between Trecora Resources and Connie J. Cook (incorporated by reference to Exhibit 10.3 from Trecora Resources' Quarterly Report on Form 10-Q for the quarter ended June 30, 2018)</u></a>
31.1**	<a href="#"><u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934</u></a>
31.2**	<a href="#"><u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934</u></a>
32.1**	<a href="#"><u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
32.2**	<a href="#"><u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Schema Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: November 6, 2018 TRECORA RESOURCES

By: /s/ Sami Ahmad  
Sami Ahmad  
Principal Financial Officer and Duly Authorized Officer

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## CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a - 14(a)/15d-14(a)

I, Simon Upfill-Brown, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Trecora Resources;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered public accounting firm and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2018 /s/ Simon Upfill-Brown  
Simon Upfill-Brown  
President and Chief Executive Officer



## CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a - 14(a)/15d-14(a)

I, Sami Ahmad, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Trecora Resources;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered public accounting firm and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2018 /s/ Sami Ahmad  
Sami Ahmad  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Trecora Resources (the "Company") on Form 10-Q for the period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Simon Upfill-Brown, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934;  
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Simon Upfill-Brown  
Simon Upfill-Brown  
President and Chief Executive Officer

November 6, 2018

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Trecora Resources (the "Company") on Form 10-Q for the period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sami Ahmad, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934;  
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sami Ahmad  
Sami Ahmad  
Chief Financial Officer

November 6, 2018