

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

FORM 10-Q/A

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

For the quarterly period ended **June 30, 2016**
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: **(409) 385-8300**

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 Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer _____

Accelerated filer **X**

Non-accelerated filer _____

Smaller reporting company _____

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

Yes **No** **X**

Number of shares of the Registrant's Common Stock (par value \$0.10 per share), outstanding at August 1, 2016: 24,506,846.

EXPLANATORY NOTE

Trecora Resources (the “Company”) is filing this Amendment No. 1 on Form 10-Q/A (“Amendment No. 1”) in order to correct its share of earnings of Al Masane Al Kobra Mining Co. (“AMAK”), a Saudi Arabian closed joint stock company in which the Company has an investment accounted for by the equity method.

Restatement of Consolidated Financial Statements

The unaudited consolidated statements of income for the three and six months ended June 30, 2016, have been restated to properly reflect the Company’s equity in earnings of AMAK for that three and six month period, the unaudited consolidated balance sheet as of June 30, 2016, has been restated to reflect the effect of correcting the error on the balance of the investment in AMAK, and the unaudited consolidated statements of stockholders’ equity and cash flows and the notes to the unaudited consolidated financial statements have been restated to make the associated changes required by the adjustments described above. For a discussion of the equity in earnings of AMAK and the accounting errors identified, see “Part I, Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations—AMAK Review and Restatement” and Note 3 of Notes to Consolidated Financial Statements (Unaudited) included in “Part I, Item 1—Financial Statements.”

Management’s Discussion and Analysis of Financial Condition and Results of Operations

In addition, changes necessitated by the restatement of the Company’s June 30, 2016, unaudited consolidated financial statements have been made in Part I, Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Management reassessed its evaluation of the effectiveness of disclosure controls and procedures and our internal control over financial reporting as of June 30, 2016, and as of September 30, 2016, and concluded that a deficiency in the design and operating effectiveness of our internal controls represents a material weakness in our internal control over financial reporting and, therefore, that we did not maintain effective disclosure controls and procedures or internal control over financial reporting as of June 30, 2016, and September 30, 2016. For a description of the material weakness identified by management and management’s plan to remediate the material weakness, see “Part I, Item 4 — Controls and Procedures.”

Risk Factors

An additional risk factor has been added in Part II, Item 1A – Risk Factors.

Amended Reports

We are concurrently filing an Amended Quarterly Report on Form 10-Q/A for the fiscal quarter ended September 30, 2016, that reflects the effects of the restatement in this Amended Quarterly Report on Form 10-Q/A as well as a restatement for an additional error relating to AMAK affecting the fiscal quarter ended September 30, 2016.

Except as set forth above, no other material changes have been made from the originally filed Quarterly Report on Form 10-Q for the three and six months ended June 30, 2016, and except as set forth above this Amendment No. 1 speaks as of the date of the original filing of the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, and does not reflect events that may have occurred subsequent to the date of the original filing on Form 10-Q.

This Amended Quarterly Report on Form 10-Q/A reflects amendments to the following items:

- Part I, Item 1 — Financial Statements
- Part I, Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations
- Part I, Item 4 — Controls and Procedures
- Part II, Item 1A — Risk Factors
- Part II, Item 6 — Exhibits

The Company’s Chief Executive Officer and Chief Financial Officer are providing currently dated certifications in connection with this Amended Quarterly Report on Form 10-Q/A. See Exhibits 31.1, 31.2, 32.1 and 32.2.

TABLE OF CONTENTS

Item Number and Description

PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

| | |
|---|---|
| <u>Consolidated Balance Sheets</u> | 1 |
| <u>Consolidated Statements of Income</u> | 2 |
| <u>Consolidated Statement of Stockholders' Equity</u> | 3 |
| <u>Consolidated Statements of Cash Flows</u> | 4 |
| <u>Notes to Consolidated Financial Statements</u> | 5 |

| | |
|--|----|
| <u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 20 |
|--|----|

| | |
|---|----|
| <u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 31 |
|---|----|

| | |
|--|----|
| <u>ITEM 4. Controls and Procedures</u> | 32 |
|--|----|

PART II – OTHER INFORMATION

| | |
|----------------------------------|----|
| <u>ITEM 1. Legal Proceedings</u> | 33 |
|----------------------------------|----|

| | |
|------------------------------|----|
| <u>ITEM 1A. Risk Factors</u> | 33 |
|------------------------------|----|

| | |
|-------------------------|----|
| <u>ITEM 6. Exhibits</u> | 33 |
|-------------------------|----|

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

TRECORA RESOURCES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | JUNE 30, 2016 | DECEMBER 31, 2015 |
|--|------------------------------------|----------------------------------|
| | <i>(Restated – see Note 3)</i> | |
| | (unaudited) | |
| | <i>(thousands of dollars)</i> | |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 9,346 | \$ 18,623 |
| Trade receivables, net | 17,581 | 19,474 |
| Inventories | 20,064 | 15,804 |
| Prepaid expenses and other assets | 2,200 | 2,392 |
| Taxes receivable | 4,921 | 7,672 |
| Deferred income taxes | 2,007 | 2,116 |
| Total current assets | 56,119 | 66,081 |
| Plant, pipeline and equipment, net | 122,547 | 96,907 |
| Goodwill | 21,798 | 21,798 |
| Other intangible assets, net | 23,605 | 24,549 |
| Investment in AMAK | 52,047 | 47,697 |
| Mineral properties in the United States | 588 | 588 |
| Other assets | 130 | 171 |
| TOTAL ASSETS | \$ 276,834 | \$ 257,791 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | \$ 6,284 | \$ 8,090 |
| Current portion of derivative instruments | 97 | 118 |
| Accrued liabilities | 4,758 | 4,062 |
| Current portion of post-retirement benefit | 388 | 294 |
| Current portion of long-term debt | 8,061 | 8,061 |
| Current portion of other liabilities | 904 | 2,050 |
| Total current liabilities | 20,492 | 22,675 |
| Long-term debt, net of current portion | 69,138 | 73,169 |
| Post-retirement benefit, net of current portion | 649 | 649 |
| Derivative instruments, net of current portion | 25 | 59 |
| Other liabilities, net of current portion | 2,513 | 2,351 |
| Deferred income taxes | 22,870 | 16,503 |
| Total liabilities | 115,687 | 115,406 |
| EQUITY | | |
| Common stock -authorized 40 million shares of \$.10 par value; issued and outstanding 24.2 million and 24.1 million shares in 2016 and 2015, respectively | 2,451 | 2,416 |
| Additional paid-in capital | 52,213 | 50,662 |
| Common stock in treasury, at cost 0.3 million shares | (300) | - |
| Retained earnings | 106,494 | 89,018 |
| Total Trecora Resources Stockholders' Equity | 160,858 | 142,096 |
| Noncontrolling Interest | 289 | 289 |
| Total equity | 161,147 | 142,385 |
| TOTAL LIABILITIES AND EQUITY | \$ 276,834 | \$ 257,791 |

See notes to consolidated financial statements.

TRECORA RESOURCES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|--|--|-----------------|--------------------------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | <i>(Restated – See Note 3)</i> | | <i>(Restated – See Note 3)</i> | |
| | <i>(thousands of dollars)</i> | | | |
| REVENUES | | | | |
| Petrochemical and Product Sales | \$ 44,366 | \$ 56,665 | \$ 91,547 | \$ 107,206 |
| Processing Fees | 4,488 | 2,685 | 9,507 | 7,287 |
| | <u>48,854</u> | <u>59,350</u> | <u>101,054</u> | <u>114,493</u> |
| OPERATING COSTS AND EXPENSES | | | | |
| Cost of Sales and Processing (including depreciation and amortization of \$2,028, \$1,939, \$4,247, and \$3,965, respectively) | 37,280 | 44,756 | 77,709 | 84,776 |
| | <u>11,574</u> | <u>14,594</u> | <u>23,345</u> | <u>29,717</u> |
| GROSS PROFIT | | | | |
| | 11,574 | 14,594 | 23,345 | 29,717 |
| GENERAL AND ADMINISTRATIVE EXPENSES | | | | |
| General and Administrative | 5,491 | 4,933 | 10,940 | 10,108 |
| Depreciation | 187 | 170 | 364 | 385 |
| | <u>5,678</u> | <u>5,103</u> | <u>11,304</u> | <u>10,493</u> |
| OPERATING INCOME | | | | |
| | 5,896 | 9,491 | 12,041 | 19,224 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest Expense | (607) | (570) | (1,235) | (1,183) |
| Bargain purchase gain from acquisition | 11,549 | - | 11,549 | - |
| Equity in Earnings (Losses) of AMAK | (1,017) | (369) | 4,350 | (310) |
| Miscellaneous Income (Expense) | 123 | (33) | 110 | (1) |
| | <u>10,048</u> | <u>(972)</u> | <u>14,774</u> | <u>(1,494)</u> |
| INCOME BEFORE INCOME TAXES | | | | |
| | 15,944 | 8,519 | 26,815 | 17,730 |
| INCOME TAXES | | | | |
| | 5,692 | 2,145 | 9,339 | 5,572 |
| NET INCOME | | | | |
| | 10,252 | 6,374 | 17,476 | 12,158 |
| NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST | | | | |
| | -- | -- | -- | -- |
| NET INCOME ATTRIBUTABLE TO TRECORA RESOURCES | | | | |
| | <u>\$ 10,252</u> | <u>\$ 6,374</u> | <u>\$ 17,476</u> | <u>\$ 12,158</u> |
| Basic Earnings per Common Share | | | | |
| Net Income Attributable to Trecora Resources (dollars) | \$ 0.42 | \$ 0.26 | \$ 0.72 | \$ 0.50 |
| Basic Weighted Average Number of Common Shares Outstanding | | | | |
| | <u>24,204</u> | <u>24,354</u> | <u>24,344</u> | <u>24,331</u> |
| Diluted Earnings per Common Share | | | | |
| Net Income Attributable to Trecora Resources (dollars) | \$ 0.41 | \$ 0.25 | \$ 0.70 | \$ 0.48 |
| Diluted Weighted Average Number of Common Shares Outstanding | | | | |
| | <u>24,885</u> | <u>25,155</u> | <u>24,985</u> | <u>25,150</u> |

See notes to consolidated financial statements.

TRECORA RESOURCES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

| | TRECORA RESOURCES STOCKHOLDERS | | | | | | NON- CONTROLLING INTEREST | TOTAL EQUITY |
|---|--------------------------------|----------|-----------------------------------|-------------------|----------------------|-----------|---------------------------------|-----------------|
| | COMMON STOCK SHARES | AMOUNT | ADDITIONAL PAID-IN EARNINGS | TREASURY STOCK | RETAINED EARNINGS | TOTAL | | |
| <i>(thousands)</i> | | | | | | | | |
| JANUARY 1, 2016 | 24,158 | \$ 2,416 | \$ 50,662 | \$ - | 89,018 | \$142,096 | \$ 289 | \$142,385 |
| Stock options | | | | | | | | |
| Issued to Directors | - | - | 114 | - | - | 114 | - | 114 |
| Issued to Employees | - | - | 617 | - | - | 617 | - | 617 |
| Issued to Former Director | - | - | 48 | - | - | 48 | - | 48 |
| Restricted Common Stock | | | | | | | | |
| Issued to Directors | - | - | 81 | - | - | 81 | - | 81 |
| Issued to Employees | - | - | 355 | - | - | 355 | - | 355 |
| Common stock | | | | | | | | |
| Issued to Directors | 13 | 2 | 58 | - | - | 60 | - | 60 |
| Issued to Employees | 35 | 3 | 8 | - | - | 11 | - | 11 |
| Treasury stock transferred from TOCCO to TREC | | 30 | 270 | (300) | | - | | - |
| Net Income (restated – see Note 3) | - | - | - | - | 17,476 | 17,476 | - | 17,476 |
| JUNE 30, 2016 | 24,206 | \$ 2,451 | \$ 52,213 | \$ (300) | 106,494 | \$160,858 | \$ 289 | \$161,147 |

See notes to consolidated financial statements.

TRECORA RESOURCES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | SIX MONTHS ENDED JUNE 30, | |
|---|--------------------------------------|-----------------|
| | 2016 | 2015 |
| | <i>(Restated – See Note 3)</i> | |
| | <i>(thousands of dollars)</i> | |
| OPERATING ACTIVITIES | | |
| Net Income | \$ 17,476 | \$ 12,158 |
| Adjustments to Reconcile Net Income of Trecora Resources | | |
| To Net Cash Provided by Operating Activities: | | |
| Depreciation | 3,667 | 3,409 |
| Amortization of Intangible Assets | 944 | 942 |
| Unrealized Gain on Derivative Instruments | (55) | (289) |
| Share-based Compensation | 1,274 | 1,289 |
| Deferred Income Taxes | 6,476 | (69) |
| Postretirement Obligation | 94 | 4 |
| Bargain purchase gain | (11,549) | - |
| Equity in (earnings) losses of AMAK | (4,350) | 310 |
| Changes in Operating Assets and Liabilities: | | |
| Decrease in Trade Receivables | 1,893 | 6,149 |
| Decrease in Taxes Receivable | 2,751 | 434 |
| Increase in Inventories | (4,260) | (2,243) |
| Increase in Prepaid Expenses and Other Assets | 371 | 404 |
| Decrease in Accounts Payable and Accrued Liabilities | (1,112) | (2,968) |
| Increase (Decrease) in Other Liabilities | (347) | 969 |
| Net Cash Provided by Operating Activities | 13,273 | 20,499 |
| INVESTING ACTIVITIES | | |
| Additions to Plant, Pipeline and Equipment | (16,383) | (16,850) |
| Cash paid for acquisition of BASF facility | (2,011) | - |
| Acquisition Goodwill Adjustment | - | (47) |
| Cash Used in Investing Activities | (18,394) | (16,897) |
| FINANCING ACTIVITIES | | |
| Issuance of Common Stock | 11 | 46 |
| Repayment of Long-Term Debt | (4,167) | (3,500) |
| Net Cash Used in Financing Activities | (4,156) | (3,454) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (9,277) | 148 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 18,623 | 8,506 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 9,346 | \$ 8,654 |
| Supplemental disclosure of cash flow information: | | |
| Cash payments for interest | \$ 1,186 | \$ 1,147 |
| Cash payments for taxes, net of refunds | \$ 277 | \$ 6,902 |
| Supplemental disclosure of non-cash items: | | |
| Capital expansion amortized to depreciation expense | \$ 637 | \$ 599 |
| Estimated Earnout Liability (Note 7) | \$ 733 | - |

See notes to consolidated financial statements.

[Table of Contents](#)

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 – 35% 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, 2015.

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 three and six months ended June 30, 2016, are not necessarily indicative of results for the year ending December 31, 2016.

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

In addition the Company owns a 35% 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 and 20.

Certain reclassifications have been made to the Statements of Income for the three and six months ended June 30, 2015, in order to conform to the three and six months ended June 30, 2016, presentation. These reclassifications had no effect on net income for the three and six months ended June 30, 2015, as previously reported.

Certain reclassifications have been made to the Consolidated Balance Sheets for the year ended December 31, 2015, related to our adoption of ASU 2015-03 and ASU 2015-15 as noted below in Note 2.

[Table of Contents](#)

2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014 the Financial Accounting Standards Board ("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 Accounting Standards Codification ("ASC") Topic 605, *Revenue Recognition* and most industry-specific guidance throughout the Accounting Standards Codification, 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. Early adoption would be permitted but not before annual periods beginning after December 15, 2016. The Company is currently assessing the potential impact of adopting this ASU on its consolidated financial statements and related disclosures.

In April 2015 the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in this ASU 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU 2015-03. In August 2015 the FASB issued ASU No. 2015-15, *Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting*. ASU 2015-15 was issued to address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements that were not found ASU 2015-03. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. These standards are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, and should be applied retrospectively. The Company adopted ASU 2015-03 and ASU 2015-15 on January 1, 2016. At June 30, 2016, and December 31, 2015, related net loan fees of approximately \$0.9 million and \$1.2 million, respectively, have been netted against long term debt.

In November 2015 the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The new standard eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently assessing the potential impact of adopting this ASU on its consolidated financial statements and related disclosures.

In February 2016 the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, 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 is currently assessing the potential impact of adopting this ASU on its consolidated financial statements and related disclosures.

In March 2016 the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which will reduce complexity in accounting standards related to share-based payment transactions, including, among others, (1) accounting for income taxes, (2) classification of excess tax benefits on the statement of cash flow, (3) forfeitures, and (4) statutory tax withholding requirements. The ASU is effective for annual reporting periods beginning on or after December 15, 2016, and interim periods within those annual periods. The Company is currently assessing the potential impact of adopting this ASU on its consolidated financial statements and related disclosures.

3. RESTATEMENT OF UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements as of and for the three and six months ended June 30, 2016, have been restated to properly reflect our equity in the earnings of AMAK for that three and six month period. In the originally issued unaudited financial statements as of and for the three and six months ended June 30, 2016, we recorded our share of the earnings of AMAK based upon the interim statements as received from AMAK. AMAK had originally recorded a gain of approximately \$9.2 million during the three months ended June 30, 2016, as recognition of spare part inventory that

was acquired as part of the settlement with its former operator. It has now been determined the accounting for this transaction was incorrect. There was no gain from the assumption of spare parts. However, there was an additional gain on the settlement with the former operator of approximately \$1.2 million. Accordingly, we have restated our unaudited consolidated financial statements as of and for the three and six months ended June 30, 2016, to correctly reflect this change to AMAK's financial statements in our equity in earnings from AMAK.

The effects of the restatement are as follows:

| | <u>June 30, 2016</u> | |
|--|----------------------|-------------------------------|
| | <i>(unaudited)</i> | |
| | <u>As</u> | <u>As Restated</u> |
| | <u>Reported</u> | <u>(thousands of dollars)</u> |
| <i>Consolidated Balance Sheets</i> | | |
| Investment in AMAK | \$ 54,865 | \$ 52,047 |
| Total Assets | 279,652 | 276,834 |
| Deferred Income Taxes | 23,856 | 22,870 |
| Total Liabilities | 116,673 | 115,687 |
| Retained Earnings | 108,326 | 106,494 |
| Total Trecora Resources Stockholders' Equity | 162,690 | 160,858 |
| Total Equity | 162,979 | 161,147 |
| Total Liabilities and Equity | 279,652 | 276,834 |

| | <u>Three Months Ended June</u> | | <u>Six Months Ended June</u> | |
|--|--------------------------------|-------------------------------|------------------------------|-------------------------------|
| | <u>30, 2016</u> | | <u>30, 2016</u> | |
| | <i>(unaudited)</i> | | <i>(unaudited)</i> | |
| | <u>As</u> | <u>As Restated</u> | <u>As</u> | <u>As Restated</u> |
| | <u>Reported</u> | <u>(thousands of dollars)</u> | <u>Reported</u> | <u>(thousands of dollars)</u> |
| <i>Consolidated Statements of Income</i> | | | | |
| Equity in earnings (loss) of AMAK | \$ 1,801 | \$ (1,017) | \$ 7,168 | \$ 4,350 |
| Total other income (expense) | 12,866 | 10,048 | 17,592 | 14,774 |
| Income before income taxes | 18,762 | 15,944 | 29,633 | 26,815 |
| Income tax expense | 6,678 | 5,692 | 10,325 | 9,339 |
| Net income attributable to Trecora Resources | 12,084 | 10,252 | 19,308 | 17,476 |
| Basic earnings per common share (dollars) | \$ 0.49 | \$ 0.42 | \$ 0.79 | \$ 0.72 |
| Diluted earnings per common share (dollars) | \$ 0.48 | \$ 0.41 | \$ 0.77 | \$ 0.70 |

| | <u>June 30, 2016</u> | |
|---|----------------------|-------------------------------|
| | <i>(unaudited)</i> | |
| | <u>As</u> | <u>As Restated</u> |
| | <u>Reported</u> | <u>(thousands of dollars)</u> |
| <i>Consolidated Statement of Stockholders' Equity</i> | | |
| Net Income | \$ 19,308 | \$ 17,476 |
| Retained Earnings | 108,326 | 106,494 |
| Total | 162,690 | 160,858 |
| Total Equity | 162,979 | 161,147 |
| <i>Consolidated Statements of Cash Flows</i> | | |
| Operating Activities | | |
| Net income | \$ 19,308 | \$ 17,476 |
| Deferred income taxes | 7,462 | 6,476 |
| Equity in (earnings) loss of AMAK | (7,168) | (4,350) |

4. TRADE RECEIVABLES

Trade receivables, net, consisted of the following:

| | June 30, 2016 | December 31, 2015 |
|--------------------------------------|-------------------------------|----------------------|
| | <i>(thousands of dollars)</i> | |
| Trade receivables | \$ 17,881 | \$ 19,684 |
| Less allowance for doubtful accounts | (300) | (210) |
| Trade receivables, net | <u>\$ 17,581</u> | <u>\$ 19,474</u> |

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

5. INVENTORIES

Inventories include the following:

| | June 30, 2016 | December 31, 2015 |
|-------------------|-------------------------------|----------------------|
| | <i>(thousands of dollars)</i> | |
| Raw material | \$ 2,957 | \$ 2,905 |
| Work in process | 18 | 56 |
| Finished products | 17,089 | 12,843 |
| Total inventory | <u>\$ 20,064</u> | <u>\$ 15,804</u> |

The difference between the calculated value of inventory under the FIFO and LIFO bases generates either a recorded LIFO reserve (i.e., where FIFO value exceeds the LIFO value) or an unrecorded negative LIFO reserve (i.e., where LIFO value exceeds the FIFO value). In the latter case, in order to ensure that inventory is reported at the lower of cost or market and in accordance with ASC 330-10, we do not increase the stated value of our inventory to the LIFO value.

At June 30, 2016, and December 31, 2015, LIFO value of petrochemical inventory exceeded FIFO; therefore, in accordance with the above policy, no LIFO reserve was recorded.

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

Inventory included petrochemical products in transit valued at approximately \$2.2 million and \$2.7 million at June 30, 2016, and December 31, 2015, respectively.

6. PLANT, PIPELINE AND EQUIPMENT

Plant, pipeline and equipment consisted of the following:

| | June 30, 2016 | December 31, 2015 |
|-------------------------------------|-------------------------------|----------------------|
| | <i>(thousands of dollars)</i> | |
| Platinum catalyst | \$ 1,612 | \$ 1,612 |
| Land | 5,376 | 4,577 |
| Plant, pipeline and equipment | 145,916 | 128,302 |
| Construction in progress | 20,387 | 8,980 |
| Total plant, pipeline and equipment | 173,291 | 143,471 |
| Less accumulated depreciation | (50,744) | (46,564) |
| Net plant, pipeline and equipment | <u>\$ 122,547</u> | <u>\$ 96,907</u> |

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

Interest capitalized for construction was approximately \$41,000 and \$72,000 for the three and six months ended June 30, 2016 and \$56,000 and \$95,000 for the three and six months ended June 30, 2015.

Construction in progress during the first six months of 2016 included equipment purchased for the hydrogenation expansion, the new reformer unit, a new custom processing unit, and a new cooling tower which is associated with our D train expansion.

In May 2016 we purchased the recently shuttered BASF facility adjacent to our TC facility. See Note 7 for additional information.

Amortization relating to the platinum catalyst which is included in cost of sales was \$25,488 and \$21,067 for the three months and \$46,555 and \$42,135 for the six months ended June 30, 2016, and 2015, respectively.

7. ACQUISITION OF BASF FACILITY

On May 2, 2016, we purchased the idle BASF facility adjacent to our TC facility in exchange for \$2.0 million in cash, transaction costs of approximately \$11,000 plus an earnout provision calculated through calendar year 2020 based upon revenue generated by the facility but limited to \$1.8 million. The cash payment was funded by working capital. The purchased facility includes production equipment similar to TC's plus equipment that broadens TC's capabilities and potential markets. The 6.5-acre site also includes substantial storage capacity, several rail and truck loading sites and utility tie-ins to TC. The facility began operations in June 2016 in a limited capacity.

We have accounted for the purchase in accordance with the acquisition method of accounting under Financial Accounting Standards Board Accounting Standards Codification Topic 805 "Business Combinations" ("ASC 805"). In accordance with ASC 805, we used our best estimates and assumptions to assign fair value to the tangible assets and liabilities acquired at the acquisition date. These estimates are provisional and may be adjusted in future filings.

The assets and liabilities acquired have been included in our consolidated balance sheets and our consolidated statements of income since the date of acquisition.

We recorded an \$11.5 million bargain purchase gain on the transaction as calculated in the table below (in thousands).

| | | |
|-----------------------------|----------|------------------|
| Cash paid | \$ 2,011 | |
| Estimated earnout liability | 733 | |
| Purchase Price | | \$ 2,744 |
| | | |
| Fixed assets at FMV | | |
| Land | 980 | |
| Site improvements | 30 | |
| Buildings | 1,350 | |
| Production equipment | 11,933 | |
| | | 14,293 |
| | | <u>14,293</u> |
| Bargain purchase gain | | <u>\$ 11,549</u> |

The business acquired has been idle for the periods presented thus proforma financial presentation would be identical to our consolidated results. We began operating the new facility in June 2016.

8. GOODWILL AND INTANGIBLE ASSETS, NET

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

Intangible Assets

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

| <i>Intangible assets subject to amortization (Definite-lived)</i> | June 30, 2016 | | |
|---|------------------------|-----------------------------|------------------|
| | Gross | Accumulated Amortization | Net |
| | Customer relationships | \$ 16,852 | \$ (1,967) |
| Non-compete agreements | 94 | (33) | 61 |
| Licenses and permits | 1,471 | (225) | 1,246 |
| Developed technology | 6,131 | (1,073) | 5,058 |
| | <u>24,548</u> | <u>(3,298)</u> | <u>21,250</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>\$ (3,298)</u> | <u>\$ 23,605</u> |

| <i>Intangible assets subject to amortization (Definite-lived)</i> | December 31, 2015 | | |
|---|------------------------|-----------------------------|------------------|
| | Gross | Accumulated Amortization | Net |
| | Customer relationships | \$ 16,852 | \$ (1,404) |
| Non-compete agreements | 94 | (24) | 70 |
| Licenses and permits | 1,471 | (160) | 1,311 |
| Developed technology | 6,131 | (766) | 5,365 |
| | <u>24,548</u> | <u>(2,354)</u> | <u>22,194</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>\$ (2,354)</u> | <u>\$ 24,549</u> |

Amortization expense for intangible assets included in cost of sales for the three months ended June 30, 2016, and 2015, was approximately \$474,000 and \$471,000, respectively and for the six months ended June 30, 2016, and 2015, was approximately \$944,000 and \$942,000, respectively.

Based on identified intangible assets that are subject to amortization as of June 30, 2016, we expect future amortization expenses for each period to be as follows (in thousands):

| | Remainder of 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter |
|-----------------------------------|----------------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Customer relationships | \$ 560 | \$ 1,123 | \$ 1,123 | \$ 1,123 | \$ 1,123 | \$ 9,833 |
| Non-compete agreements | 10 | 19 | 19 | 13 | - | - |
| Licenses and permits | 63 | 106 | 105 | 106 | 106 | 760 |
| Developed technology | 306 | 613 | 613 | 613 | 613 | 2,300 |
| Total future amortization expense | <u>\$ 939</u> | <u>\$ 1,861</u> | <u>\$ 1,860</u> | <u>\$ 1,855</u> | <u>\$ 1,842</u> | <u>\$ 12,893</u> |

9. 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 and six months ended June 30, 2016, and 2015, respectively.

| | Three Months Ended June 30, 2016 (restated) | | | Three Months Ended June 30, 2015 | | |
|--|--|---------------|---------------------|-------------------------------------|---------------|---------------------|
| | Income | Shares | Per Share Amount | Income | Shares | Per Share Amount |
| Basic Net Income per Share: | | | | | | |
| Net Income Attributable to Trecora Resources | \$ 10,252 | 24,204 | \$ 0.42 | \$ 6,374 | 24,354 | \$ 0.26 |
| Unvested restricted stock grant | | 304 | | | 148 | |
| Dilutive stock options outstanding | | 377 | | | 653 | |
| Diluted Net Income per Share: | | | | | | |
| Net Income Attributable to Trecora Resources | <u>\$ 10,252</u> | <u>24,885</u> | <u>\$ 0.41</u> | <u>\$ 6,374</u> | <u>25,155</u> | <u>\$ 0.25</u> |



| | Six Months Ended June 30, 2016 (restated) | | | Six Months Ended June 30, 2015 | | |
|---|--|--------|---------------------|-----------------------------------|--------|---------------------|
| | Income | Shares | Per Share Amount | Income | Shares | Per Share Amount |
| Basic Net Income per Share: | | | | | | |
| Net Income Attributable to Trecora Resources | \$ 17,476 | 24,344 | \$ 0.72 | \$ 12,158 | 24,331 | \$ 0.50 |
| Unvested restricted stock grant | | 293 | | | 133 | |
| Dilutive stock options outstanding | | 348 | | | 686 | |
| Diluted Net Income per Share: | | | | | | |
| Net Income Attributable to Trecora Resources | \$ 17,476 | 24,985 | \$ 0.70 | \$ 12,158 | 25,150 | \$ 0.48 |

At June 30, 2016, and 2015, 1,368,437 and 1,497,771 potential common stock shares, respectively were issuable upon the exercise of options and warrants.

The earnings per share calculations for the periods ended June 30, 2016, and 2015, include 300,000 shares of the Company that are held in the treasury. In June 2016 these 300,000 shares previously owned by TOCCO were transferred up to the Company at cost to be held in treasury for future issuances.

10. LIABILITIES AND LONG-TERM DEBT

On October 1, 2014, we entered into an Amended and Restated Credit Agreement (“ARC”) with the lenders which from time to time are parties to the ARC and Bank of America, N.A., as Administrative Agent for the Lenders, and Merrill Lynch, Pierce, Fenner & Smith Incorporated as Lead Arranger.

Under the ARC, we may borrow, repay and re-borrow revolving loans from time to time during the period ending September 30, 2019, up to but not exceeding \$40.0 million. All outstanding loans under the revolving loans must be repaid on October 1, 2019. As of June 30, 2016, and December 31, 2015, there was a long-term amount of \$1.0 million outstanding. The interest rate on the loan varies according to several options. Interest on the loan is paid monthly and a commitment fee of 0.37% is due quarterly on the unused portion of the loan. At June 30, 2016, approximately \$39.0 million was available to be drawn; however, in order to maintain compliance with our covenants, approximately \$23.5 million may be drawn.

Under the ARC, we also borrowed \$70.0 million in a single advance term loan (the “Acquisition Loan”) to partially finance the acquisition of TC. Interest on the Acquisition Loan is payable quarterly using a ten year commercial style amortization. Principal is also payable on the last business day of each March, June, September and December in an amount equal to \$1,750,000, provided that the final installment on the September 30, 2019, maturity date shall be in an amount equal to the then outstanding unpaid principal balance of the Acquisition Loan. At June 30, 2016, there was a short-term amount of \$7.0 million and a long-term amount of \$50.8 million outstanding. At December 31, 2015, there was a short-term amount of \$7.0 million and a long-term amount of \$54.3 million outstanding.

Under the ARC, we also had the right to borrow \$25.0 million in a multiple advance loan (“Term Loans”). Borrowing availability under the Term Loans ended on December 31, 2015. The Term Loans converted from a multiple advance loan to a “mini-perm” loan once certain obligations were fulfilled such as certification that construction of D-Train was completed in a good and workmanlike manner, receipt of applicable permits and releases from governmental authorities, and receipt of releases of liens from the contractor and each subcontractor and supplier. Interest on the Term Loans is paid monthly. At June 30, 2016, there was a short-term amount of \$1.3 million and a long-term amount of \$18.0 million outstanding. At December 31, 2015, there was a short-term amount of \$1.3 million and a long-term amount of \$18.7 million outstanding.

Debt issuance costs of approximately \$0.9 million and \$1.2 million for the periods ended June 30, 2016 and December 31, 2015, have been netted against outstanding loan balances per ASU 2015-03 and ASU 2015-15. The interest rate on all of the above loans varies according to several options as defined in the ARC. At June 30, 2016, and December 31, 2015, the rate was 2.71% and 2.42%, respectively. We were in compliance with all covenants at June 30, 2016.

11. FAIR VALUE MEASUREMENTS

The following items are measured at fair value on a recurring basis subject to disclosure requirements of ASC Topic 820 at June 30, 2016, and December 31, 2015:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

| June 30, 2016 | Fair Value Measurements Using | | | |
|---------------------|-------------------------------|---------|---------|---|
| | Level 1 | Level 2 | Level 3 | |
| | <i>(thousands of dollars)</i> | | | |
| Liabilities: | | | | |
| Interest rate swap | \$ 122 | - | \$ 122 | - |

| December 31, 2015 | Fair Value Measurements Using | | | |
|----------------------|-------------------------------|---------|---------|---|
| | Level 1 | Level 2 | Level 3 | |
| | <i>(thousands of dollars)</i> | | | |
| Liabilities: | | | | |
| Interest rate swap | \$ 177 | - | \$ 177 | - |

The carrying value of cash and cash equivalents, 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 and cash equivalents, trade receivables, accounts payable, accrued liabilities, other liabilities and variable rate long term debt. The fair value of the derivative instruments are described below.

Commodity Financial Instruments

We periodically enter into financial instruments to hedge the cost of natural gasoline (the primary feedstock) and natural gas (used as fuel to operate the plant).

We assess the fair value of the financial swaps on feedstock using quoted prices in active markets for identical assets or liabilities (Level 1 of fair value hierarchy). At June 30, 2016, and December 31, 2015, no commodity financial instruments were outstanding. For additional information see Note 12.

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 London InterBank Offered Rate ("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 assess 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. See discussion of our derivative instruments in Note 12.

12. DERIVATIVE INSTRUMENTS

Commodity Financial Contracts

Hydrocarbon based manufacturers, such as the Company, are significantly impacted by changes in feedstock and natural gas prices. Not considering derivative transactions, feedstock and natural gas used for the six months ended June 30, 2016, and 2015, represented approximately 61.2% and 69.2% of our petrochemical operating expenses, respectively. The significant percentage decrease of petrochemical operating expenses illustrates the impact that feedstock price changes have on our operations. During the first quarter of 2016, feedstock prices declined industry-wide but rebounded slightly in the second quarter of 2016.

We endeavor to acquire feedstock and natural gas at the lowest possible cost. Our primary feedstock (natural gasoline) is traded over the counter and not on organized futures exchanges. Financially settled instruments (fixed price swaps) are the principal vehicle used to give some predictability to feed prices. We do not purchase or hold any derivative financial

instruments for trading or speculative purposes and hedging is limited by our risk management policy to a maximum of 40% of monthly feedstock requirements.

Typically, financial contracts are not designated as hedges. As of June 30, 2016, we had no outstanding committed financial contracts.

The following tables detail (in thousands) the impact the agreements had on the financial statements:

| | Three Months Ended | | Six Months Ended | |
|------------------------|--------------------|------|------------------|--------|
| | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Unrealized gain (loss) | \$ - | \$ - | \$ - | \$ 180 |
| Realized gain (loss) | - | - | - | (180) |
| Net gain | \$ - | \$ - | \$ - | \$ - |

The realized and unrealized gains/(losses) are recorded in Cost of Sales and Processing for the periods ended June 30, 2016, and 2015. As a percentage of Cost of Sales and Processing, realized and unrealized gains/(losses) accounted for 0% for the three and six months ended June 30, 2016, and 2015.

Interest Rate Swap

In March 2008, we entered into a pay-fixed, receive-variable interest rate swap agreement with Bank of America related to a \$10.0 million (later increased to \$14 million) term loan secured by plant, pipeline and equipment. The effective date of the interest rate swap agreement was August 15, 2008, and terminates on December 15, 2017. The notional amount of the interest rate swap was \$2.25 million and \$2.75 million at June 30, 2016, and December 31, 2015, respectively. We receive credit for payments of variable rate interest made on the term loan at the loan's variable rates, which are based upon the London InterBank Offered Rate (LIBOR), and pay 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.

The following table shows (in thousands) the impact the agreement had on the financial statements:

| | June 30, 2016 | December 31, 2015 |
|--|------------------|----------------------|
| Fair value of interest rate swap - liability | \$ 122 | \$ 177 |

Due to the ARC discussed in Note 10, we believe that the hedge is no longer entirely effective; therefore, we began treating the interest rate swap as ineffective at that point. The changes in fair value are now recorded in the Statement of Income. For the three months ended June 30, 2016, an unrealized loss of approximately \$8,000 and a realized loss of approximately \$33,000 were recorded. For the six months ended June 30, 2016, an unrealized loss of approximately \$14,000 and a realized loss of approximately \$70,000 were recorded. For the three months ended June 30, 2015, an unrealized loss of approximately \$1,000 and a realized loss of approximately \$49,000 were recorded. For the six months ended June 30, 2015, an unrealized gain of approximately \$9,000 and a realized loss of approximately \$101,000 were recorded.

13. STOCK-BASED COMPENSATION

Stock-based compensation of approximately \$627,000 and \$588,000 during the three months and \$1,274,000 and \$1,289,000 during the six months ended June 30, 2016, and 2015, respectively, was recognized.

Restricted Stock Awards

On May 17, 2016, we awarded approximately 28,000 shares of restricted stock to a director at a grant date price of \$10.68. The restricted stock award vests over 4 years in 25% increments. Director's compensation recognized during the three and six months ended June 30, 2016, was approximately \$13,000.

On March 1, 2016, we awarded approximately 135,000 shares of restricted stock to officers at a grant date price of \$9.39. One-half of the restricted stock vests ratably over 3 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. Compensation expense recognized during the three and six months ended June 30, 2016, was approximately \$106,000 and \$141,000.

On January 29, 2016, we awarded 35,333 shares of restricted stock to a director at a grant date price of \$10.52. The restricted stock award vests over 5 years in 20% increments with the first tranche issued on January 29, 2016. Director's compensation recognized during the three and six months ended June 30, 2016, was approximately \$19,000 and \$105,000.

Directors' compensation of approximately \$3,000 and \$6,000 during the three months and \$21,000 and \$6,000 during the six months ended June 30, 2016, and 2015, respectively, was recognized related to restricted stock grants vesting through 2020.

Employee compensation of approximately \$108,000 and \$108,000 during the three months and \$215,000 and \$179,000 during the six months ended June 30, 2016, and 2015, respectively, was recognized related to restricted stock with a 4 year vesting period which was awarded to officers. This restricted stock vests through 2019.

Employee compensation of approximately \$0 and \$181,000 during the three and six months ended June 30, 2015, for fully vested restricted stock which was awarded to various employees.

Restricted stock activity in the first six months of 2016 was as follows:

| | Shares of Restricted Stock | Weighted Average Grant Date Price per Share |
|--------------------------------|----------------------------------|---|
| Outstanding at January 1, 2016 | 148,040 | \$ 14.14 |
| Granted | 198,354 | 9.77 |
| Vested | (42,575) | 13.60 |
| Outstanding at June 30, 2016 | <u>303,819</u> | <u>\$ 11.37</u> |

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, 2016 | 1,376,437 | \$ 7.68 | |
| Granted | -- | -- | |
| Exercised | (8,000) | 2.84 | |
| Expired | -- | -- | |
| Cancelled | -- | -- | |
| Forfeited | -- | -- | |
| Outstanding at June 30, 2016 | <u>1,368,437</u> | <u>\$ 7.71</u> | <u>5.6</u> |
| Exercisable at June 30, 2016 | <u>835,937</u> | <u>\$ 7.49</u> | <u>5.6</u> |

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 \$47,000 and \$53,000 during the three months and \$114,000 and \$128,000 during the six months ended June 30, 2016, and 2015, respectively, was recognized related to options to purchase shares vesting through 2017.

Employee compensation of approximately \$309,000 and \$309,000 during the three months and \$617,000 and \$657,000 during the six months ended June 30, 2016, and 2015, 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 \$24,000 and \$49,000 was recognized during the three months and six months ended June 30, 2016, and 2015, 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 Saudi shareholders which would benefit him personally and were not in the best interests of the Company and its shareholders. The Company is litigating its right to withdraw the options and benefits and as such, these options and benefits continue to be shown as outstanding. See further discussion in Note 19.

See the Company's Annual Report on Form 10-K for the year ended December 31, 2015, 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 petrochemical segment includes SHR and GSPL. Our specialty wax segment includes TC which includes the newly acquired plant discussed in Note 7. 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.

| | Three Months Ended June 30, 2016 | | | |
|---|----------------------------------|---------------|-----------|--------------|
| | Petrochemical | Specialty Wax | Corporate | Consolidated |
| | <i>(in thousands)</i> | | | |
| Product sales | \$ 39,202 | \$ 5,164 | \$ - | \$ 44,366 |
| Processing fees | 2,419 | 2,069 | - | 4,488 |
| Net revenues | 41,621 | 7,233 | - | 48,854 |
| Operating profit before depreciation and amortization | 9,476 | 584 | (1,949) | 8,111 |
| Operating profit (loss) | 8,048 | (196) | (1,956) | 5,896 |
| Depreciation and amortization | 1,428 | 780 | 7 | 2,215 |
| Capital expenditures | 5,739 | 5,053 | | 10,792 |

| | Six Months Ended June 30, 2016 | | | |
|---|--------------------------------|---------------|-----------|--------------|
| | Petrochemical | Specialty Wax | Corporate | Consolidated |
| | <i>(in thousands)</i> | | | |
| Product sales | \$ 81,826 | \$ 9,721 | \$ - | \$ 91,547 |
| Processing fees | 3,860 | 5,647 | - | 9,507 |
| Net revenues | 85,686 | 15,368 | - | 101,054 |
| Operating profit before depreciation and amortization | 17,886 | 2,647 | (3,881) | 16,652 |
| Operating profit (loss) | 15,122 | 816 | (3,897) | 12,041 |
| Depreciation and amortization | 2,764 | 1,831 | 16 | 4,611 |
| Capital expenditures | 11,401 | 6,993 | | 18,394 |

| | Three Months Ended June 30, 2015 | | | |
|---|----------------------------------|---------------|-----------|--------------|
| | Petrochemical | Specialty Wax | Corporate | Consolidated |
| | <i>(in thousands)</i> | | | |
| Product sales | \$ 52,342 | \$ 4,323 | \$ - | \$ 56,665 |
| Processing fees | 1,521 | 1,164 | - | 2,685 |
| Net revenues | 53,863 | 5,487 | - | 59,350 |
| Operating profit before depreciation and amortization | 12,850 | 429 | (1,679) | 11,600 |
| Operating profit (loss) | 11,902 | (732) | (1,679) | 9,491 |
| Depreciation and amortization | 948 | 1,161 | - | 2,109 |
| Capital expenditures | 6,204 | 2,903 | | 9,107 |

| | Six Months Ended June 30, 2015 | | | |
|---|--------------------------------|---------------|-----------|--------------|
| | Petrochemical | Specialty Wax | Corporate | Consolidated |
| | <i>(in thousands)</i> | | | |
| Product sales | \$ 99,525 | \$ 7,681 | \$ - | \$ 107,206 |
| Processing fees | 3,045 | 4,242 | - | 7,287 |
| Net revenues | 102,570 | 11,923 | - | 114,493 |
| Operating profit before depreciation and amortization | 24,562 | 2,503 | (3,491) | 23,574 |
| Operating profit (loss) | 22,519 | 196 | (3,491) | 19,224 |
| Depreciation and amortization | 2,043 | 2,307 | - | 4,350 |
| Capital expenditures | 13,019 | 3,831 | | 16,850 |

| | June 30, 2016 <i>(restated)</i> | | | | |
|-------------------------------------|---------------------------------|---------------|-----------|--------------|--------------|
| | Petrochemical | Specialty Wax | Corporate | Eliminations | Consolidated |
| | <i>(in thousands)</i> | | | | |
| Goodwill and intangible assets, net | \$ - | \$ 45,403 | \$ - | \$ - | \$ 45,403 |
| Total assets | 204,114 | 102,452 | 99,901 | (129,633) | 276,834 |

| | Year Ended December 31, 2015 | | | | |
|-------------------------------------|------------------------------|---------------|-----------|--------------|--------------|
| | Petrochemical | Specialty Wax | Corporate | Eliminations | Consolidated |
| | <i>(in thousands)</i> | | | | |
| Goodwill and intangible assets, net | \$ - | \$ 46,347 | \$ - | \$ - | \$ 46,347 |
| Total assets | 195,358 | 86,076 | 98,728 | (122,371) | 257,791 |

15. INCOME TAXES

We file an income tax return in the U.S. federal jurisdiction and a margin tax return in Texas. Tax returns for the years 2011 through 2014 remain open for examination in various tax jurisdictions in which we operate. As of June 30, 2016, and December 31, 2015, we recognized no material adjustments in connection with uncertain tax positions. 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.

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 have not met termination dates remain recorded until a resolution is achieved. As of June 30, 2016, and 2015, approximately \$1.0 million remained outstanding and was included in post-retirement benefits.

See the Company's Annual Report on Form 10-K for the year ended December 31, 2015, for additional information.

17. INVESTMENT IN AMAK

As of June 30, 2016, and December 31, 2015, the Company had a non-controlling equity interest (35%) in AMAK of approximately \$52.0 million and \$47.7 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 June 30, 2016.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2016 <i>(restated)</i> | 2015 | 2016 <i>(restated)</i> | 2015 |
| | <i>(Thousands of Dollars)</i> | | | |
| Sales | \$ 610 | \$ 13,283 | \$ 9,602 | \$ 18,584 |
| Gross profit (loss) | (3,000) | 1,034 | (2,809) | 2,746 |
| General, administrative and other expenses | 2,361 | 3,036 | 4,509 | 5,538 |
| Loss from operations | \$ (5,361) | \$ (2,002) | \$ (7,318) | \$ (2,792) |
| Gain on settlement with former operator | 1,200 | - | 17,426 | - |
| Net income (loss) | \$ (4,161) | \$ (2,002) | \$ 10,108 | \$ (2,792) |

Gain on settlement with former operator of approximately \$1.2 million during the three months ended and \$17.4 million during the six months ended June 30, 2016, relates to a settlement with the former operator of the mine resulting in a reduction of previously accrued operating expenses.

Depreciation and amortization was \$2.4 million and \$5.9 million for the three months and \$5.1 million and \$11.0 million for the six months ended June 30, 2016, and 2015, respectively. Therefore, net income before depreciation and amortization was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2016 <i>(restated)</i> | 2015 | 2016 <i>(restated)</i> | 2015 |
| | <i>(Thousands of Dollars)</i> | | | |
| Net income (loss) before depreciation and amortization | \$ (1,772) | \$ 3,903 | \$ 15,206 | \$ 8,223 |

Financial Position

| | June 30, | | December 31, | |
|-----------------------|-------------------------------|------------|---------------------------|---------|
| | 2016 <i>(restated)</i> | 2015 | 2016 <i>(restated)</i> | 2015 |
| | <i>(Thousands of Dollars)</i> | | | |
| Current assets | \$ 10,752 | \$ 26,078 | | |
| Noncurrent assets | | | 263,446 | 259,527 |
| Total assets | \$ 274,198 | \$ 285,605 | | |
| Current liabilities | \$ 2,654 | \$ 22,740 | | |
| Long term liabilities | | | 87,935 | 89,364 |
| Shareholders' equity | | | 183,609 | 173,501 |
| | \$ 274,198 | \$ 285,605 | | |

The equity in the income or loss of AMAK reflected on the consolidated statements of income for the three and six months ended June 30, 2016, and 2015, is comprised of the following:

| | Three months ended | | Six months ended | |
|---|-------------------------------|------------|-------------------|------------|
| | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| | <i>(restated)</i> | | <i>(restated)</i> | |
| | <i>(Thousands of Dollars)</i> | | | |
| AMAK Net Income (Loss) | \$ (4,161) | \$ (2,002) | \$ 10,108 | \$ (2,792) |
| Zakat tax applicable to Saudi Arabian shareholders only | 320 | - | 320 | - |
| AMAK Net Income (Loss) before Saudi Arabian shareholders' portion of Zakat | \$ (3,841) | \$ (2,002) | \$ 10,428 | \$ (2,792) |
| Company's share of income (loss) reported by AMAK (35.25%) | \$ (1,354) | \$ (706) | \$ 3,676 | \$ (984) |
| Amortization of difference between Company's investment in AMAK and Company's share of net assets of AMAK | 337 | 337 | 674 | 674 |
| Equity in earnings (loss) of AMAK | \$ (1,017) | \$ (369) | \$ 4,350 | \$ (310) |

See our Annual Report on Form 10-K for the year ended December 31, 2015, for additional information.

18. RELATED PARTY TRANSACTIONS

Consulting fees of approximately \$0 and \$0 were incurred during the three months and \$33,000 and \$25,000 during the six months ended June 30, 2016, and 2015, respectively from IHS Global FZ LLC of which Company Director Gary K Adams holds the position of Chief Advisor – Chemicals.

Consulting fees of approximately \$15,000 and \$ 0 were incurred during the three months and \$37,000 and \$0 during the six months ended June 30, 2016, and 2015, respectively, from Chairman of the Board, 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.

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 is 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 135.33 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. The total amount outstanding to the SIDF at June 30, 2016, was 310.0 million Saudi Riyals (US\$82.7 million).

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 where it is currently pending. On April 6, 2015, Mr. El-Khalidi nonsuited his defamation claim. We believe that the remaining claims are unsubstantiated and plan to vigorously defend the case. Liabilities of approximately \$1.0 million remain recorded, and the options will continue to accrue in accordance with their own terms until all matters are resolved.

On or about August 3, 2015, SHR received notice of a lawsuit filed in the 14th Judicial District Court of Calcasieu Parish, Louisiana. The suit alleges that the plaintiff became ill from exposure to benzene. SHR placed its insurers on notice. Its insurers retained a law firm based in Louisiana to defend SHR.

On or about March 18, 2016, SHR received notice of a lawsuit filed in the 172nd Judicial District Court of Jefferson County, Texas. The suit alleges that the plaintiff became ill from exposure to benzene. SHR placed its insurers on notice and plans to vigorously defend the case.

Environmental Remediation -

Amounts charged to expense for various activities related to environmental monitoring, compliance, and improvements were approximately \$154,000 and \$192,000 for the three months and \$301,000 and \$329,000 for the six months ended June 30, 2016, and 2015, respectively.

20. SUBSEQUENT EVENTS

In July 2016 AMAK issued four million shares to provide additional funds for ongoing exploration work and mine start-up activities. Arab Mining Co. (“Armico”) purchased 3.75 million shares at 20 Saudi Riyals per share (USD\$5.33 per share) and the remaining 250,000 shares are for future use as employee incentives. We did not participate in the offering, thereby reducing our ownership percentage in AMAK to 33.44% from 35.25%.

[Table of Contents](#)

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

FORWARD LOOKING AND CAUTIONARY STATEMENTS

Except for the historical information and discussion contained herein, statements contained in this release 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 release, 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 involving the manufacturing and marketing of petrochemical products and synthetic waxes. Our business model involves the manufacture and sale of tangible products and the provision of customer processing services. Our consistent approach to providing high purity products and quality services to our customers has helped to sustain our current position as a preferred supplier of various petrochemical products.

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, 2015.

We believe we are well-positioned to participate in new investments to grow the Company. While petrochemical prices are volatile on a short-term basis and depend on the demand of our customers' products, our investment decisions are based on our long-term business outlook using a disciplined approach in selecting and pursuing the most attractive investment opportunities.

The drop in petroleum prices, which began in mid-September of 2014 and continued into 2016, reduced our average feedstock price per gallon approximately 21% over the second quarter of 2015. However feedstock price per gallon the second quarter of 2016 was up approximately 8% over the first quarter of 2016. The formulas we use to sell the majority of our products typically have a 30 day trailing feed cost basis; and therefore, are slightly favorable to us during falling prices but are unfavorable when prices rise.

AMAK Review and Restatement

During the second quarter of 2016, AMAK incorrectly recorded a gain from the assumption of spare part inventory acquired from the former operator. As a result, we calculated our equity in earnings from AMAK based upon incorrect information. The amount of the gain reflected on our previously issued statements was approximately \$3.2 million; however, there was no gain from the assumption of spare parts. There was an additional gain on the settlement with the former operator of approximately \$1.2 million which would amount to approximately \$0.4 million equity in earnings on our financial statements.

See Note 3 of the Notes to the Consolidated Financial Statements for additional information.

[Table of Contents](#)

Nature of Accounting Errors

The Audit Committee, after review of the errors with respect to AMAK, concluded that the errors in our previously issued financial statements were the result of unintentional accounting errors or mistakes and inadequate and ineffective internal controls, and were not the result of any deliberate attempt to misstate financial statements, misrepresent the Company's financial condition or results of operations, or deceive or defraud investors.

Control Deficiencies and Remedial Errors

Management has identified deficiencies in the design and operating effectiveness of our internal controls that, collectively, represent a material weakness in our internal control over financial reporting as of June 30, 2016, and September 30, 2016. The deficiencies are the result of management's failure to design, implement and maintain adequate operational and internal controls and processes to apply the appropriate level of review and oversight to the accounting and disclosure for significant, infrequently occurring transactions such as unusual gains or losses and additional equity issuances by AMAK, our equity investment. Management has engaged in remediation efforts to address the material weakness.

For a description of the deficiencies that led to the material weakness, as well as a description of our planned remediation efforts, see "Part I, Item 4 — Controls and Procedures."

All of the financial information presented in this "Part I, Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations" has been revised to reflect the restatement described above. For additional information about the restatement, see Note 3 of Notes to Consolidated Financial Statements included in "Part I, Item 1 — Financial Statements."

Review of Second Quarter and Year-to-Date 2016 Results

We reported second quarter 2016 earnings of \$10.3 million up from \$6.4 million from the second quarter of 2015. We recorded a bargain purchase gain on the BASF acquisition of \$11.5 million during the second quarter of 2016. Diluted earnings per share of \$0.41 were reported for 2016, up from \$0.25 in 2015. Sales volume of our petrochemical products decreased 13.3%, and sales revenue from our petrochemical products decreased 25.1% as compared to the second quarter of 2015. Prime product petrochemical sales volumes (which exclude by-product sales) were down 11% over the second quarter of 2015.

We reported year-to-date 2016 earnings of \$17.5 million up from \$12.2 million from the first half of 2015. Again, the bargain purchase gain of \$11.5 million impacted our 2016 earnings. Diluted earnings per share of \$0.70 were reported for 2016, up from \$0.48 from 2015. Sales volume of our petrochemical products decreased 0.9%, and sales revenue from our petrochemical products decreased 17.8% as compared to the first half of 2015. Prime product petrochemical sales volumes (which exclude by-product sales) were down 3% over the first half of 2015.

Non-GAAP Financial Measures

We include in this Quarterly Report the non-GAAP financial measures of EBITDA, Adjusted EBITDA and Adjusted Net Income and provide reconciliations from our most directly comparable 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 U.S. 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 U.S. GAAP. These measures are used as supplemental financial measure 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 | | Six months ended | |
|--|--------------------|-----------|-------------------|-----------|
| | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| | <i>(restated)</i> | | <i>(restated)</i> | |
| Net Income | \$ 10,252 | \$ 6,374 | \$ 17,476 | \$ 12,158 |
| Interest expense | 607 | 570 | 1,235 | 1,183 |
| Depreciation and amortization | 2,215 | 2,109 | 4,611 | 4,350 |
| Income tax expense | 5,692 | 2,145 | 9,339 | 5,572 |
| EBITDA | \$ 18,766 | \$ 11,198 | \$ 32,661 | \$ 23,263 |
| Share-based compensation | 627 | 764 | 1,274 | 1,289 |
| Bargain purchase gain on BASF acquisition | (11,549) | - | (11,549) | - |
| Equity in (earnings) losses of AMAK | 1,017 | 369 | (4,350) | 310 |
| Adjusted EBITDA | \$ 8,861 | \$ 12,331 | \$ 18,036 | \$ 24,862 |
| Net Income | \$ 10,252 | \$ 6,374 | \$ 17,476 | \$ 12,158 |
| Equity in (earnings) losses of AMAK | \$ 1,017 | \$ 369 | \$ (4,350) | \$ 310 |
| Bargain purchase gain on BASF acquisition | (11,549) | - | (11,549) | - |
| Total of equity in (earnings) losses and gain on acquisition | (10,532) | \$ 369 | (15,899) | 310 |
| Taxes at statutory rate of 35% | 3,686 | (129) | 5,565 | (109) |
| Tax effected equity in (earnings) losses and gain on acquisition | (6,846) | 240 | (10,334) | 201 |
| Adjusted Net Income | \$ 3,406 | \$ 6,614 | \$ 7,142 | \$ 12,359 |

Liquidity and Capital Resources

Working Capital

Our approximate working capital days are summarized as follows:

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---------------|-------------------|---------------|
| Days sales outstanding in accounts receivable | 31.7 | 29.4 | 35.0 |
| Days sales outstanding in inventory | 36.1 | 23.8 | 23.8 |
| Days sales outstanding in accounts payable | 11.3 | 12.2 | 12.9 |
| Days of working capital | 56.5 | 41.0 | 45.8 |

Our days sales outstanding in accounts receivable remained fairly consistent. Our days sales outstanding in inventory increased as of the end of the second quarter of 2016 primarily due a change to our inventory policy at SHR (maintain at least 20 days of finished product inventory) particularly while different units are down for inspection, maintenance and upgrades. This work was completed in July. We also like to keep additional inventory in the June through November time period which is hurricane season in the Gulf of Mexico. Our days sales outstanding in accounts payable was down slightly from year-end 2015 due to slower construction expenses being incurred for capital projects. Since days of working capital is calculated using the above three metrics, it increased for the reasons discussed.

Cash and cash equivalents decreased \$9.3 million during the six months ended June 30, 2016, as compared to an increase of \$0.1 million for the six months ended June 30, 2015.

The change in cash and cash equivalents is summarized as follows:

| | 2016 | 2015 |
|---|-------------------------------|-----------|
| | <i>(thousands of dollars)</i> | |
| Net cash provided by (used in) | | |
| Operating activities | \$ 13,273 | \$ 20,499 |
| Investing activities | (18,394) | (16,897) |
| Financing activities | (4,156) | (3,454) |
| Increase (decrease) in cash and equivalents | \$ (9,277) | \$ 148 |
| Cash and cash equivalents | \$ 9,346 | \$ 8,654 |

Operating Activities

Cash provided by operating activities totaled \$13.3 million for the first half of 2016 \$7.2 million lower than 2015. For the first half of 2016 net income increased by approximately \$5.3 million as compared to the corresponding period of 2015. Major non-cash items affecting income included increases in deferred taxes of \$6.5 million, bargain purchase gain from the BASF acquisition of \$11.5 million, and equity in earnings of AMAK of \$4.7 million.

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

- Trade receivables decreased approximately \$1.9 million (due to a decrease in sales volume and prices from fourth quarter 2015) as compared to a decrease of approximately \$6.1 million in 2015 (due to a decrease in sales volume from fourth quarter 2014),
- Inventory increased approximately \$4.3 million (due to lower sales volume and a new policy regarding safety stock) as compared to an increase of approximately \$2.2 million in 2015 (due to lower sales volume and increased raw material purchases), and
- Other liabilities increased approximately \$0.4 million (due to payments received from processing customers and the recognition of deferred revenue from BASF due to the acquisition) as compared to a decrease of approximately \$1.0 million in 2015 (due to payments received from processing customers).

These uses of cash were partially offset by the following increases in cash provided by operations:

- Accounts payable and accrued liabilities decreased approximately \$1.1 million (due to reduced construction expenditures and a decreased accrual for feedstock purchases) as compared to a decrease of approximately \$3.0 million in 2015 (due to the variability in payment dates and decreases in federal and state taxes and officer compensation accruals) and
- Income tax receivable decreased approximately \$2.8 million (due to the overpayment being applied to 2016 estimated taxes) as compared to a decreased of approximately \$0.4 million in 2015 (due to a smaller overpayment being applied to 2015 estimated taxes).

Investing Activities

Cash used by investing activities during the first half of 2016 was approximately \$18.4 million, representing an increase of approximately \$1.5 million over the corresponding period of 2015. During the first half of 2016 we purchased equipment for the hydrogenation expansion, construction of the new reformer unit, a new cooling tower, and the new custom processing unit; upgraded roads throughout the petrochemical facility; continued to make improvements to storage; purchased the BASF facility; and made various other facility improvements. Some of the expenditures in 2016 were budgeted under our D train expansion. During the first half of 2015 we purchased equipment for the D train expansion, tank farm improvements, spare equipment, various facility upgrades, hydrogenation expansion and improvements at our specialty wax facility.

Financing Activities

Cash used by financing activities during the first half of 2016 was approximately \$4.2 million versus cash used of \$3.5 million during the corresponding period of 2015. During 2016 we made principal payments on our acquisition loan of \$3.5 million and our term debt of \$0.7 million. During 2015 we made principal payments on our acquisition loan of \$3.5 million.

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 credit facility.

Results of Operations

Comparison of Three Months Ended June 30, 2016 and 2015

Specialty Petrochemical Segment

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>%Change</u> |
|----------------------------------|-------------|-------------------------------|---------------|----------------|
| | | <i>(thousands of dollars)</i> | | |
| Petrochemical Product Sales | \$ 39,202 | \$ 52,342 | \$ (13,140) | (25.1%) |
| Processing | 2,419 | 1,521 | 898 | 59.0% |
| Gross Revenue | \$ 41,621 | \$ 53,863 | \$ (12,242) | (22.7%) |
| Volume of Sales (gallons) | | | | |
| Petrochemical Products | 17,000 | 19,603 | (2,603) | (13.3%) |
| Cost of Sales | \$ 31,041 | \$ 39,588 | \$ (8,547) | (21.6%) |
| Gross Margin | 25.4% | 26.5% | | (1.1%) |
| Total Operating Expense** | 13,639 | 13,113 | 526 | 4.0% |
| Natural Gas Expense** | 641 | 962 | (321) | (33.4%) |
| Operating Labor Costs** | 3,988 | 4,028 | (40) | (1.0%) |
| Transportation Costs** | 5,676 | 5,515 | 161 | 2.9% |
| General & Administrative Expense | 2,370 | 2,226 | 144 | 6.5% |
| Depreciation and Amortization* | 1,428 | 949 | 479 | 50.5% |
| Capital Expenditures | \$ 5,739 | \$ 6,204 | \$ (465) | (7.5%) |

*Includes \$1,264 and \$801 for 2016 and 2015, respectively, which is included in operating expense

** Included in cost of sales

Gross Revenue

Gross Revenue decreased during the second quarter of 2016 from 2015 by approximately 22.7% due to a decrease in volumes of 13.3% and a decrease in the average selling price of 13.1%.

Petrochemical Product Sales

Petrochemical product sales decreased by 25.1% during the second quarter of 2016 from 2015 due to a decrease in the average selling price of 13.1% and a decrease in volume sold of 13.3%. Our average selling price decreased because a large portion of our sales are contracted with formulas which are tied to Natural Gas Liquid (NGL) prices which is our primary feedstock. Sales volume decreased primarily due to one customer's involuntary shutdown in Canada, one customer using a local supplier, and another customer temporarily increasing their efficiency. Foreign sales volume increased to 21.4% of total petrochemical volume from 19.4% in second quarter 2015.

Processing

Processing revenues increased 59.0% during the second quarter of 2016 from 2015 due to fees associated with a customer who reimburses us for installation expenses plus a markup.

Cost of Sales

Cost of Sales decreased 21.6% during the second quarter of 2016 from 2015 due to the decrease in NGL prices as mentioned above and a decrease in volume. Our average feedstock cost per gallon decreased 21.4% and volume processed decreased 7.3%. 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 93% with the price of crude oil. Our advanced reformer unit (due online in mid-2017) will allow us to convert the less desirable components in our feed into higher value products, thereby allowing us to sell our byproducts at higher prices.

Total Operating Expense

Total Operating Expense increased 4.0% during the second quarter of 2016 from 2015. Natural gas, labor, depreciation and transportation are the largest individual expenses in this category; however, not all of these increased.

The cost of natural gas purchased decreased 33.4% during 2016 from 2015 due to a decrease in the average per unit cost and lower consumption. The average price per MMBTU for the second quarter of 2016 was \$2.07 whereas, for 2015 the per-unit cost was \$2.94. Volume decreased to approximately 309,000 MMBTU from about 334,000 MMBTU.

Labor costs were lower by 1.0% primarily due to lower profit sharing distributions.

Depreciation was higher by 50.3% during the second quarter of 2016 from 2015 primarily due to D train coming online, and depreciation beginning on it late in 2015.

Transportation costs were higher by 2.9% primarily due to an increase in the number of railcars in our fleet. We are in the process of upgrading our fleet of leased cars; therefore, as cars come in, others are returned. There is some overlap which caused an increase in the lease amount.

During the second quarter of 2016 we also saw increases in plant maintenance and repairs due to turnarounds on two of our penhex trains and safety expenses due to additional training for personnel.

General and Administrative Expense

General and Administrative costs for the second quarter of 2016 from 2015 increased by 6.5% primarily due to higher group insurance premiums and an increase in our allowance for doubtful accounts.

Depreciation

Depreciation increased 50.5% during the second quarter of 2016 from 2015 primarily due to D train being put into service in late 2015.

Capital Expenditures

Capital Expenditures decreased 7.5% during the second quarter of 2016 from 2015 primarily due to the D train project being completed in late 2015 and the new reformer unit project just getting underway in 2016. See additional detail above under "Investing Activities".

Specialty Wax Segment

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>%Change</u> |
|----------------------------------|-------------------------------|-------------|---------------|----------------|
| | <i>(thousands of dollars)</i> | | | |
| Product Sales | \$ 5,164 | \$ 4,323 | \$ 841 | 19.5% |
| Processing | 2,069 | 1,164 | 905 | 77.8% |
| Gross Revenue | \$ 7,233 | \$ 5,487 | \$ 1,746 | 31.8% |
| Cost of Sales | \$ 6,239 | \$ 5,168 | \$ 1,071 | 20.7% |
| Gross Margin | 13.7% | 5.8% | | 7.9% |
| General & Administrative Expense | 1,175 | 1,028 | 147 | 14.3% |
| Depreciation and Amortization* | 780 | 1,161 | (381) | (32.8%) |
| Capital Expenditures | \$ 5,053 | \$ 2,903 | \$ 2,150 | 74.1% |

*Includes \$765 and \$1,138 for 2016 and 2015, respectively, which is included in cost of sales

Product Sales

Product sales increased 19.5% during the second quarter of 2016 from the second quarter of 2015 primarily due to on-purpose PE wax sales which we have started distributing in Latin America for a third party. Polyethylene wax sales saw volume increases of approximately 42.6%; however, due to competitive situations, a soft market, and to minimize finished product inventories revenue from these sales only increased 1.7%. In order to strive to work down wax inventories we continue to increase sales volumes of our low quality wax (which requires significantly less processing and carries a positive gross margin). As we gain more approvals of our new higher quality wax products, we will substitute the low quality wax sales with these higher value products. We continued to make good progress in our target markets in the second quarter of 2016 – trials and small orders for our newest Fischer Tropsch substitute wax in Hot Melt Adhesives; new qualification and increased volumes in PVC lubricants and our European distributor increased sales by over half a million pounds over first quarter of 2016 (their new sales person appointed earlier this year is showing very solid results).

Processing

Processing revenues increased 77.8% during the second quarter of 2016 from the second quarter of 2015 increased volumes with existing customers and a number of new contracts and small trials.

Cost of Sales

Cost of Sales increased 20.7% during the second quarter of 2016 from the second quarter of 2015 due to increases in material cost, labor, and storage. Material cost increased approximately 136.9% due to material costs associated with the on-purpose PE wax sales we distributed into Latin America as noted above and to support the additional sales volume of polyethylene wax sales. Labor increased approximately 11.0% due to increases in overtime, group insurance costs and 401(k) contributions. A seven day complete shutdown and maintenance turnaround was executed in May 2016. Storage fees increased approximately 79.7% due to the increase in inventory which is stored onsite and offsite in warehouses.

General and Administrative Expense

General and Administrative costs for the second quarter of 2016 from 2015 increased 14.3% primarily due to an increase in sales personnel, management fees, legal fees, and property taxes.

Depreciation

Depreciation decreased 32.8% during the second quarter of 2016 from 2015 primarily due to some of the assets which were near end of life at purchase becoming fully depreciated. Many of the capital expenditures during the second quarter of 2016 are being recorded to construction in progress for which depreciation will begin when complete.

Capital Expenditures

Capital Expenditures increased 74.1% during the second quarter of 2016 from the second quarter of 2015 primarily due to expenditures for construction in progress including the hydrogenation and distillation project and various other smaller projects.

Corporate Segment

| | 2016 <i>(restated)</i> | 2015 | Change | %Change |
|----------------------------------|---------------------------|----------|--------|---------|
| | (in thousands) | | | |
| General & Administrative Expense | \$ 1,946 | \$ 1,679 | \$ 267 | 15.9% |
| Equity in losses of AMAK | (1,017) | (369) | (648) | 175.6% |

General and Administrative Expenses

General corporate expenses increased during the second quarter of 2016 from the second quarter 2015 primarily due to increases in officer compensation, directors' fees, post retirement benefits, and consulting fees partially offset by decreases in investor relations expenses. Officer compensation increased because of a restricted stock grant. Directors' fees increased because of the addition of one director and a restricted stock grant to another director. Post retirement benefits increased due to an agreement with the former CEO to provide health benefits. Consulting fees increased due to the hiring of compensation consultants to reassess officer compensation and the former CEO being utilized as a consultant.

Equity in Earnings of AMAK

Equity in Earnings of AMAK decreased during the second quarter of 2016 from the second quarter of 2015 primarily due to the facility being closed. During the second quarter of 2016 AMAK recorded an additional \$1.2 million gain for forgiveness of liabilities from the former operator. This settlement partially offset AMAK's second quarter 2016 operating losses as shown in the table below (please see Note 17 to the consolidated financial statements for the impact on our statements):

| | Three Months Ended June 30, | |
|---|--------------------------------|------------|
| | 2016 | 2015 |
| | <i>(restated)</i> | |
| | <i>(Thousands of Dollars)</i> | |
| Sales | \$ 610 | \$ 13,283 |
| Gross profit | (3,000) | 1,034 |
| General, administrative and other | 2,361 | 3,036 |
| Loss from operations | (5,361) | (2,002) |
| Gain on settlement with former operator | 1,200 | - |
| Net income (loss) | \$ (4,161) | \$ (2,002) |

In November 2015 the decision was made to temporarily close the mine and to terminate the contract with the operator. This allows AMAK to preserve asset value while the mill and underground assets are returned to their original condition and equipment upgrades are installed. Additionally in November 2015, AMAK received formal approval for new licenses that included an additional 151 square kilometers (km²) of territory close to AMAK's prior 44 km² mine. The additional territory comprised the Guyan and Qatan exploration licenses covering 151 km², and within the Guyan exploration license, a 10 km² mining lease which has potential for significant gold recovery.

Renovation and refurbishment work is well underway, and zinc and copper production are expected to resume in the fourth quarter of 2016. In addition, processing of the gold-bearing waste dumps from historical mining at the Guyan mining license area are scheduled to begin in late third quarter or early fourth quarter 2016. An exploration program for the rest of Guyan mining lease is progressing well, while a systematic program of infill drilling exploration to extend the overall life of the copper and zinc mine has been initiated.

Comparison of Six Months Ended June 30, 2016 and 2015

Specialty Petrochemical Segment

| | 2016 | 2015 | Change | %Change |
|----------------------------------|-------------------------------|------------|-------------|---------|
| | <i>(thousands of dollars)</i> | | | |
| Petrochemical Product Sales | \$ 81,826 | \$ 99,525 | \$ (17,699) | (17.8%) |
| Processing | 3,860 | 3,045 | 815 | 26.8% |
| Gross Revenue | \$ 85,686 | \$ 102,570 | \$ (16,884) | (16.5%) |
| Volume of Sales (gallons) | | | | |
| Petrochemical Products | 37,353 | 37,707 | (354) | (0.9%) |
| Cost of Sales | \$ 65,536 | \$ 75,177 | \$ (9,641) | (12.8%) |
| Gross margin | 23.5% | 26.7% | | (3.2%) |
| Total Operating Expense** | 26,841 | 26,200 | 641 | 2.4% |
| Natural Gas Expense** | 1,413 | 2,270 | (857) | (37.8%) |
| Operating Labor Costs** | 7,809 | 8,090 | (281) | (3.5%) |
| Transportation Costs** | 11,149 | 10,423 | 726 | 7.0% |
| General & Administrative Expense | 5,028 | 4,876 | 152 | 3.1% |
| Depreciation and Amortization* | 2,764 | 2,044 | 720 | 35.2% |
| Capital Expenditures | \$ 11,401 | \$ 13,019 | \$ (1,618) | (12.4%) |

*Includes \$2,452 and \$1,701 for 2016 and 2015, respectively, which is included in operating expense

** Included in cost of sales

Gross Revenue

Gross Revenue decreased during the first half of 2016 from 2015 by approximately 16.5% primarily due to a decrease in the average selling price of 17.0%.

Petrochemical Product Sales

Petrochemical product sales decreased by 17.8% during the first half of 2016 from 2015 due to a decrease in the average selling price of 17.0%. Our average selling price decreased because a large portion of our sales are contracted with formulas which are tied to Natural Gas Liquid (NGL) prices which is our primary feedstock. NGL prices continued to fall during the first quarter but rose during the second quarter reflecting the instability in petroleum prices. Sales volume remained relatively flat. Foreign sales volume decreased to 21.0% of total petrochemical volume from 23.7% in first half 2015.

Processing

Processing revenues increased 26.8% during the first half of 2016 from 2015 due to fees associated with a new customer who reimburses us for installation expenses plus a markup.

Cost of Sales

Cost of Sales decreased 12.8% during the first half of 2016 from 2015 due to the decrease in NGL prices as mentioned above. Our average feedstock cost per gallon decreased 19.5%; whereas volume processed increased 5.0%. 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 93% with the price of crude oil. Our advanced reformer unit (due online in mid-2017) will allow us to convert the less desirable components in our feed into higher value products, thereby allowing us to sell our byproducts at higher prices.

Total Operating Expense

Total Operating Expense increased 2.4% during the first half of 2016 from 2015. Natural gas, labor, depreciation and transportation are the largest individual expenses in this category; however, not all of these increased.

The cost of natural gas purchased decreased 37.8% during 2016 from 2015 due to a decrease in the average per unit cost and lower consumption. The average price per MMBTU for the first half of 2016 was \$2.23 whereas, for 2015 the per-unit cost was \$3.13. Volume decreased to approximately 658,000 MMBTU from about 707,000 MMBTU.

Labor costs were lower by 3.5% primarily due to lower profit sharing distributions and less overtime incurred.

Transportation costs were higher by 7.0% due to an increase in the number of railcars in our fleet as mentioned above. We are in the process of upgrading our fleet of leased cars; therefore, as cars come in, others are returned. There is some overlap which caused an increase in the lease amount.

During the first half of 2016 we also saw increases in plant maintenance and repairs due to turnarounds on two of our penhex trains and safety expenses due to additional training for personnel.

General and Administrative Expense

General and Administrative costs for the first half of 2016 from 2015 increased by 3.1% primarily due to higher group insurance premiums.

Depreciation

Depreciation increased 35.2% during the first half of 2016 from 2015 primarily due to D train being put into service in late 2015.

Capital Expenditures

Capital Expenditures decreased 12.4% during the first half of 2016 from 2015 primarily due to the D train project being completed in late 2015 and the new reformer unit project just getting underway in 2016.

Capital Expenditures

Capital Expenditures increased 82.5% during the first half of 2016 from the first quarter of 2015 primarily due to expenditures for construction in progress including the hydrogenation and distillation project and various other smaller projects.

Corporate Segment

| | 2016 <i>(restated)</i> | 2015 | Change | %Change |
|-------------------------------------|---------------------------|----------|--------|------------|
| | (in thousands) | | | |
| General & Administrative Expense | \$ 3,880 | \$ 3,492 | \$ 388 | 11.1% |
| Equity in earnings (losses) of AMAK | 4,350 | (310) | 4,660 | (1,503.2%) |

General and Administrative Expenses

General corporate expenses increased during the first half of 2016 from the first half 2015 primarily due to increases in officer compensation, directors' fees, post retirement expense, consulting fees, and accounting fees partially offset by decreases in investor relations expenses. Officer compensation increased because of a restricted stock grant. Directors' fees increased because of the addition of one director and a restricted stock grant to another director. Post retirement benefits increased due to an agreement with the former CEO to provide health benefits. Consulting fees increased due to the hiring of compensation consultants to reassess officer compensation and the former CEO being utilized as a consultant. Accounting fees increased due to costs associated with our investment in AMAK.

Equity in Earnings of AMAK

Equity in Earnings of AMAK increased during the first half of 2016 from the first half of 2015 primarily due to a gain from a settlement which was reached with the former operator of the AMAK mining facility. During the first half of 2016 AMAK reached the settlement which included a reduction in previously accrued operating expenses of approximately \$17.4 million. This settlement more than offset AMAK's first half 2016 operating losses as shown in the table below (please see Note 17 to the consolidated financial statements for the impact on our statements):

| | Six Months Ended June 30, | |
|---|-------------------------------|------------|
| | 2016 <i>(restated)</i> | 2015 |
| | <i>(Thousands of Dollars)</i> | |
| Sales | \$ 9,602 | \$ 18,584 |
| Gross profit (loss) | (2,809) | 2,746 |
| General, administrative and other | 4,509 | 5,538 |
| Loss from operations | (7,318) | (2,792) |
| Gain on settlement with former operator | 17,426 | - |
| Net income (loss) | \$ 10,108 | \$ (2,792) |

In November 2015 the decision was made to temporarily close the mine and to terminate the contract with the operator. This allows AMAK to preserve asset value while the mill and underground assets are returned to their original condition and equipment upgrades are installed. Additionally in November 2015, AMAK received formal approval for new licenses that included an additional 151 square kilometers (km²) of territory close to AMAK's prior 44 km² mine. The additional territory comprised the Guyan and Qatan exploration licenses covering 151 km², and within the Guyan exploration license, a 10 km² mining lease which has potential for significant gold recovery.

Renovation and refurbishment work is well underway, and zinc and copper production expected to resume in the fourth quarter of 2016. In addition, processing of the gold-bearing waste dumps from historical mining at the Guyan mining license area are scheduled to begin in late third quarter or early fourth quarter 2016. An exploration program for the rest of Guyan mining lease is progressing well, while a systematic program of infill drilling exploration to extend the overall life of the copper and zinc mine has been initiated.

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 also determined that the stand-in-front agreement in conjunction with the actual value of plant and equipment on the ground should act in concert to minimize any exposure arising from the corporate guarantee. The total amount outstanding to the SIDF at June 30, 2016, was 310.0 million Saudi Riyals (US\$82.7 million).

Contractual Obligations

The table below summarizes the following contractual obligations (in thousands) of the Company at June 30, 2016:

| | Payments due by period | | | | |
|-----------------------------|------------------------|---------------------|------------------|------------------|----------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Operating Lease Obligations | \$ 20,970 | \$ 3,503 | \$ 6,030 | \$ 5,248 | \$ 6,189 |
| Long-Term Debt Obligations | 78,083 | 8,333 | 16,667 | 53,083 | - |
| Total | <u>\$ 99,053</u> | <u>\$ 11,836</u> | <u>\$ 22,697</u> | <u>\$ 58,331</u> | <u>\$ 6,189</u> |

On October 1, 2014, we entered into an Amended and Restated Credit Agreement with the lenders which from time to time are parties to the Amended and Restated Credit Agreement (collectively, the “Lenders”) and Bank of America, N.A., a national banking association, as Administrative Agent for the Lenders, and Merrill Lynch, Pierce, Fenner & Smith Incorporated as Lead Arranger. Refer to Note 10 on page 11 of this Form 10-Q for a detailed discussion.

Critical Accounting Policies and Estimates

Our 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, 2015. 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, 2015.

Recent and New Accounting Standards

See Note 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

Refer to Note 12 on pages 12 through 13 of this Form 10-Q.

[Table of Contents](#)

Interest Rate Risk

Refer to Note 12 on pages 12 through 13 of this Form 10-Q.

Except as noted above, 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, 2015.

ITEM 4. CONTROLS AND PROCEDURES.

The Company recently completed a review of our accounting for certain transactions at AMAK, and as a result of issues identified in that review, our Board of Directors, on the recommendation of the Audit Committee and in consultation with management and our independent registered public accounting firm, concluded that our previously issued unaudited financial statements for the first six and nine months of 2016 should no longer be relied upon because of certain accounting errors in those financial statements. Accordingly, we have restated our previously issued financial statements for those periods. See "Part I, Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations—AMAK Review and Restatement" and Note 3 of Notes to Consolidated Financial Statements included in "Part I, Item 1 — Financial Statements."

As a result of management's review of the AMAK accounting issues, we have identified deficiencies in our disclosure controls and procedures and our internal control over financial reporting, which are discussed more fully below. Those deficiencies failed to prevent or detect accounting errors, which led to the restatement described above. The deficiencies, collectively, represent a material weakness in our internal control over financial reporting and require corrective and remedial actions.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, consisting of controls and other procedures designed to give reasonable assurance that information we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. At the time that the original filing was filed on August 5, 2016, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our internal control over financial reporting and disclosure controls and procedures were effective as of June 30, 2016.

Subsequent to that evaluation, our management, including our chief executive officer and our chief financial officer, concluded that our disclosure controls and procedures were not effective as of June 30, 2016, as a result of an identified material weakness in our internal control as discussed below.

The following control deficiency that constituted a material weakness in our internal control over financial reporting in connection with the preparation of our financial statements as of June 30, 2016 and as of September 30, 2016, was identified:

We did not apply the appropriate level of review and oversight to the accounting and disclosure for significant, infrequently occurring transactions such as unusual gains and additional equity issuances by AMAK, our equity investment.

Remediation Plan

In light of this material weakness, in preparing our financial statements as of and for the period ended June 30, 2016, we performed additional analyses and procedures to ensure that our consolidated financial statements included in this Form 10-Q/A have been prepared in accordance with U. S. GAAP.

Our management is developing a remediation plan to address the identified material weakness and to enhance our overall control environment. We are strengthening our controls and procedures in relation to the accounting for our investment in AMAK to ensure a more thorough review of AMAK's activities is conducted when accounting for our investment in AMAK. Additional controls are being implemented to mitigate associated risks and to support the completeness and accuracy of our financial reporting.

Our executive management team, together with our Board of Directors, is committed to achieving and maintaining a strong control environment, high ethical standards, and financial reporting integrity.

There were no significant changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting except as noted above with respect to the identified material weakness regarding oversight of significant, infrequently occurring transactions.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None other than the pending claims and lawsuits as discussed in Note 19 to the consolidated financial statements.

ITEM 1A. RISK FACTORS.

In the event that AMAK is unable to provide timely, accurate financial information to us, our ability to file reports with the Securities and Exchange Commission within required deadlines could be affected and our standing on the New York Stock Exchange and in the investment community could suffer.

Other than the addition of the above, 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, 2015.

ITEM 6. EXHIBITS.

The following documents are filed or incorporated by reference as exhibits to this Report. Exhibits marked with an asterisk (*) are management contracts or a compensatory plan, contract or arrangement.

| Exhibit Number | Description |
|-----------------------|--|
| 3(a) | - Certificate of Incorporation of the Company as amended through the Certificate of Amendment filed with the Delaware Secretary of State on May 22, 2014 (incorporated by reference to Exhibit 3(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (file No. 001-33926)) |
| 3(b) | - Restated Bylaws of the Company dated August 1, 2014 (incorporated by reference to Exhibit 3(b) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (file No. 001-33926)) |
| 10(a)* | - Retirement Awards Program dated January 15, 2008 between Arabian American Development Company and Hatem El Khalidi (incorporated by reference to Exhibit 10(h) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (file No. 001-33926)) |
| 10(b)* | - Arabian American Development Company Stock and Incentive Plan adopted April 3, 2012 (incorporated by reference to Exhibit A to the Company's Form DEF 14A filed April 25, 2012 (file No. 001-33926)) |
| 10(c) | - Articles of Association of Al Masane Al Kobra Mining Company, dated July 10, 2006 (incorporated by reference to Exhibit 10(m) to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (file No. 001-33926)) |
| 10(d) | - Bylaws of Al Masane Al Kobra Mining Company (incorporated by reference to Exhibit 10(n) to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (file No. 001-33926)) |

| Exhibit Number | Description |
|-------------------|---|
| 10(e) | - Letter Agreement dated August 5, 2009, between Arabian American Development Company and the other Al Masane Al Kobra Company shareholders named therein (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on August 27, 2009 (file No. 001-33926)) |
| 10(f) | - Limited Guarantee dated October 24, 2010, between Arabian American Development Company and the Saudi Industrial Development Fund (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on October 27, 2010 (file No. 001-33926)) |
| 10(g) | - Amended and Restated Credit Agreement dated October 1, 2014, between Texas Oil & Chemical Co. II, Inc. and certain subsidiaries and Bank of America, N.A. as administrative agent (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on October 3, 2014 (file No. 001-33926)) |
| 10(h) | - Stock Purchase Agreement dated September 19, 2014, between Trecora Resources, Texas Oil & Chemical Co. II, Inc., SSI Chusei, Inc. and Schumann/Steier Holdings, LLC (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on September 25, 2014 (file No. 001-33926)) |
| 31.1 | - Certification of Chief Executive Officer pursuant to Rule 13A-14(A) of the Securities Exchange Act of 1934 |
| 31.2 | - Certification of Chief Financial Officer pursuant to Rule 13A-14(A) of the Securities Exchange Act of 1934 |
| 32.1 | - 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 |
| 32.2 | - 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 |
| 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 |

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: March 9, 2017 TRECORA RESOURCES
(Registrant)

By: /s/Sami Ahmad
Sami Ahmad
Chief Financial Officer

[Table of Contents](#)

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/A 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 officers 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 reasonable likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers 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 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: March 9, 2017 /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/A 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 officers 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 reasonable likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers 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 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: March 9, 2017 /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/A for the period ended June 30, 2016, 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

March 9, 2017

**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/A for the period ended June 30, 2016, 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

March 9, 2017