

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

FORM 10-K

(MARK ONE)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 2021
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 incorporation or organization)

1650 Hwy 6 S, Suite 190
Sugar Land, TX
(Address of principal executive offices)

75-1256622
(I.R.S. Employer Identification No.)

77478
(Zip code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.10 per share	TREC	New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.) Yes No

The aggregate market value on June 30, 2021, of the registrant's voting securities held by non-affiliates was approximately \$07 million.

Number of shares of registrant's Common Stock, par value \$0.10 per share, outstanding as of February 18, 2022:24,834,693.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required to be furnished pursuant to Part III of this Form 10-K will be set forth in, and will be incorporated by reference from, the registrant's definitive proxy statement for the 2022 Annual Meeting of Stockholders to be filed by the registrant with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the registrant's fiscal year ended December 31, 2021.

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PART I

ITEM 1. Business.

General

Trecora Resources (the “Company” or “TREC”) was incorporated in the State of Delaware in 1967. The Company’s principal business activities are the manufacturing of various specialty petrochemicals products and specialty waxes and the provision of custom processing services. Unless the context requires otherwise, references to “we,” “us,” “our,” “TREC,” and the “Company” are intended to mean Trecora Resources and its subsidiaries.

This document includes the following abbreviations:

- a. TOCCO – Texas Oil & Chemical Co. II, Inc. – Wholly owned subsidiary of TREC and parent of SHR and TC
- b. SHR – South Hampton Resources, Inc. – Specialty Petrochemicals segment and parent of GSPL
- c. GSPL – Gulf State Pipe Line Co, Inc. – Pipeline support for the Specialty Petrochemicals segment
- d. TC – Trecora Chemical, Inc. – Specialty Waxes segment
- e. PEVM – Pioche Ely Valley Mines, Inc. – Inactive mine - 55% ownership (legal dissolution in February 2022)
- f. AMAK – Al Masane Al Kobra Mining Company – Discontinued operations (sale completed in September 2020)

Business Segments

We operate in two business segments; the manufacturing of various specialty petrochemicals products and the manufacturing of specialty waxes.

Our Specialty Petrochemicals segment is conducted through SHR, a Texas corporation. SHR owns and operates a specialty petrochemicals facility in Silsbee, Texas which produces high purity hydrocarbons and other petroleum based products including isopentane, normal pentane, isohexane and hexane. These products are used in the production of polyethylene, packaging, polypropylene, expandable polystyrene, poly-iso/urethane foams, crude oil from the Canadian tar sands, and in the catalyst support industry. Our Specialty Petrochemicals products are typically transported to customers by rail car, tank truck, iso-container, and by ship. SHR owns all of the capital stock of GSPL, a Texas corporation, which owns and operates pipelines that connect the SHR facility to a natural gas line, to SHR’s truck and rail loading terminal and to a major petroleum products pipeline owned by an unaffiliated third party. SHR also provides custom processing services at its Silsbee facility.

Our Specialty Waxes segment is conducted through TC, a Texas corporation, located in Pasadena, Texas which produces specialty polyethylene and poly alpha olefin waxes and provides custom processing services. The specialty polyethylene waxes are used in markets from paints and inks to adhesives, coatings, and PVC lubricants. The highly specialized synthetic poly alpha olefin waxes are used in applications such as toner in printers and as additives for candles. These waxes are sold in solid form as pastilles or, for large adhesive companies, in bulk liquid form.

See Note 17 to the Consolidated Financial Statements for more information.

In addition, on September 28, 2020, we completed the final closing of the sale of our ownership interest in AMAK, a Saudi Arabian closed joint stock company, which owned and operated mining assets in Saudi Arabia. Our investment was classified as discontinued operations. See Note 6 to the Consolidated Financial Statements for more information.

Specialty Petrochemicals Operations

SHR’s specialty petrochemicals facility is located in Silsbee, Texas approximately 30 miles north of Beaumont and 90 miles east of Houston. The base SHR facility consists of five operating units which, while interconnected, make distinct products through differing processes: (i) a Penhex Unit; (ii) a Reformer Unit; (iii) a Cyclo-pentane Unit; (iv) an Advanced Reformer unit; and (v) an Isomerization Unit. In addition to the base plant, SHR operates three proprietary chemical production facilities for toll processing customers. The Penhex Unit currently has the permitted capacity to process approximately 11,000 barrels per day of fresh feed. The Reformer Unit, the Advanced Reformer unit, and the Cyclo-Pentane Unit further process streams produced by the Penhex Unit.

The facility generally consists of equipment commonly found in most petrochemical facilities such as fractionation towers and hydrogen treaters, except the facility is adapted to produce specialized products that are high purity and very consistent with precise specifications that are utilized in the petrochemical industry as solvents, additives, blowing agents and cooling agents.

Our present total capacity at our Silsbee facility is 13,000 barrels per day of fresh feed; however, our air permits limit us to a maximum processing rate of 11,000 barrels per day. We also have a 4,000 barrels per day Advanced Reformer unit to increase our capability to upgrade by-products produced from the Penhex Unit and to provide security of hydrogen supply to the plant. We believe we have sufficient pentane capacity to maintain our share of market growth for the foreseeable future.

The Advanced Reformer, Reformer and Isomerization units are operated as needed to support the Penhex and Cyclo-pentane Units. Consequently, utilization rates of these units are driven by production from the Penhex Unit.

Operating utilization rates are affected by product demand, raw material composition, mechanical integrity, and unforeseen natural occurrences, such as weather events. The nature of the petrochemical process demands periodic shut-downs for decoking and other mechanical repairs.

In support of the specialty petrochemicals operation, we own approximately 100 storage tanks with total capacity approaching 294,000 barrels, and 130 acres of land at the plant site, 70 acres of which are developed. We also own a truck and railroad loading terminal consisting of storage tanks, nine rail spurs, and truck and tank car loading facilities on approximately 63 acres of which 36 acres are developed.

We obtain substantially all our feedstock from a sole supplier. The agreement is primarily a logistics arrangement whereby the supplier buys or contracts for feedstock material and utilizes their tank and pipeline connections to transport into our pipeline. We renewed our contract with this supplier in May 2020 for a period extending through the end of July 2026 with subsequent one year renewals unless canceled by either party with 180 days' notice.

GSPL owns and operates two 8-inch diameter pipelines and five 4-inch diameter pipelines, aggregating approximately 70 miles in length connecting SHR's facility to (1) a natural gas line, (2) SHR's truck and rail loading terminal and (3) a major petroleum products pipeline system owned by an unaffiliated third party. All pipelines are operated within Texas Railroad Commission and DOT regulations for maintenance and integrity.

We sell our products predominantly to large domestic and international companies. Products are marketed through continued long term relationships. Our commercial team has historically prided itself on regular visits at customer facilities as well as attendance at various petrochemical conferences throughout the world. We also provide information about our products and services through our website. We utilize both formula and non-formula based pricing depending upon a customer's requirements and competitive situations. Under formula pricing, the price charged to the customer is primarily based on a formula which includes as a component the average cost of feedstock over the prior month. With this pricing mechanism, product prices move in conjunction with feedstock prices. However, the formulas use an average feedstock price from the prior month. Current formula product sales prices trail current market feedstock prices by approximately 30 days. See additional discussion of concentration of revenue and corresponding receivables as disclosed in Note 3 to the Consolidated Financial Statements.

Specialty Waxes Operations

TC is a leading manufacturer of specialty waxes and also provides custom processing services from its 27.5 acre plant located in Pasadena, Texas. TC provides custom manufacturing, hydrogenation, distillation, blending, forming and packaging of finished and intermediate products and wax products for coatings, hot melt adhesives and lubricants. Situated near the Houston Ship Channel, the facility allows for easy access to international shipping and direct loading to rail or truck. The location is within reach of major chemical pipelines and on-site access to a steam pipeline and dedicated hydrogen line create a platform for expansion of both wax production capacity and custom processing capabilities. We manufacture a variety of hard, high melting point, low to medium viscosity polyethylene wax products along with a wide range of other waxes and lubricants. These products are used in a variety of applications including: performance additives for hot melt adhesives; penetration and melting point modifiers for paraffin and microcrystalline waxes; lubrication and processing aides for plastics, PVC, rubber, and dry stir-in additives for inks. In oxidized forms, applications also include use in textile emulsions.

TC also provides turnkey custom manufacturing services including quality assurance, transportation and process optimization. The plant has high vacuum distillation capability for the separation of temperature sensitive materials. We have a fully equipped laboratory and pilot plant facility and a highly trained, technically proficient team of engineers and chemists suited to handle the rapid deployment of new custom processes and development of new wax products. TC's custom manufacturing services provide a range of specialized capabilities to chemical and industrial customers including synthesis, hydrogenation, distillation, forming and propoxylation in addition to a number of other chemical processes.

Mineral Interests

We also owned a 55% ownership interest in an inactive mining corporation, PEVM. In November 2019, PEVM entered into a sales contract to sell all of their assets which include 48 patented and 5 unpatented claims totaling approximately 1,500 acres. The sale was completed on November 11, 2021 and resulted in liquidation of substantially all of PEVM's remaining assets. Proceeds from the sale were used to repay outstanding indebtedness of PEVM owed to the Company. PEVM was legally dissolved on February 16, 2022.

Environmental, Health and Safety Matters

Our operations are subject to a wide range of environmental laws and regulations at the national, state, and local levels. Our facilities and operations are subject to numerous federal, state and local environmental laws and to other laws regarding health and safety matters (the “Environmental and Health Laws”), many of which provide for certain performance obligations, substantial fines and criminal sanctions for violations. Certain Environmental and Health Laws, such as the Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”), impose strict liability as well as joint and several liability for costs required to remediate and restore sites where hazardous substances, hydrocarbons or solid wastes have been stored or released. We may be required to remediate contaminated properties currently or formerly owned or operated by us or facilities of third parties that received waste generated by our operations regardless of whether such contamination resulted from the conduct of others or from our own actions that were in compliance with all applicable laws at the time those actions were taken.

There can be no assurance that we will not incur material costs or liabilities in complying with such laws or in paying fines or penalties for violation of such laws. While we continue to retain insurance coverage that we believe is appropriate for our operations and adequate to cover foreseeable liabilities, our insurance may not cover all risks and costs of each and every environmental claim made against us, depending on particular circumstances. The Environmental and Health Laws and enforcement policies thereunder have in the past resulted, and could in the future result, in significant compliance expenses, cleanup costs (for our sites or third-party sites where our wastes were disposed of), penalties, or other liabilities relating to the handling, manufacture, use, emission, discharge, release or disposal of hazardous or toxic materials or other pollutants at or from our facilities or the use or disposal of certain of its chemical products. Historically, our subsidiaries have incurred significant expenditures in order to comply with the Environmental and Health Laws and are reasonably expected to do so in the future. Those costs could increase if requirements under these Environmental and Health Laws, or agency policies and/or guidance, change. Should we discontinue the operations of a facility, we will also be obligated to manage certain discharge water outlets and monitor groundwater contaminants at our chemical facilities. Matters pertaining to the environment are discussed in Part I, Item 1A, Risk Factors, Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations and Notes 2 and 14 to the Consolidated Financial Statements.

Regarding open regulatory matters, in 1993, during remediation of a small spill area, the Texas Commission on Environmental Quality (“TCEQ”) required SHR to drill a well to check for groundwater contamination under the spill area. Two pools of hydrocarbons were discovered to be floating on the groundwater at a depth of approximately 25 feet. One pool is under the site of a former gas processing plant owned and operated by Sinclair, Arco as well as others before its purchase by SHR in 1981. Analysis of the material indicates it entered the ground prior to SHR’s acquisition of the property. The other pool is under the original SHR facility and analysis indicates the material was deposited decades ago. Tests conducted have determined that the hydrocarbons are contained on the property and not migrating in any direction. The recovery is proceeding as planned and is expected to continue for many years until the pools are reduced to acceptable levels. Expenses of recovery and periodic migration testing are being recorded as normal operating expenses. Expenses for future recovery are expected to stabilize and be less per annum than the initial set up cost, although there is no assurance of this. The light hydrocarbon recovered from the former gas plant site is compatible with our normal Penhex feedstock and is accumulated and transferred into the Penhex feedstock tank. The material recovered from under the original SHR site is accumulated and sold as a by-product. We have drilled additional wells periodically to further delineate the boundaries of the pools and to ensure that migration has not taken place. These tests confirmed that no migration of the hydrocarbon pools has occurred. The TCEQ has deemed the current action plan acceptable and reviews the plan on a semi-annual basis.

Human Capital Management

Trecora Resources and its subsidiaries hire and retain employees by offering competitive pay and benefits while motivating our workforce through a number of recognition and bonus programs. We are proud to provide our employees the opportunity to grow and advance as we invest in their training, education and career development.

As of December 31, 2021, we had 247 employees, 10 of whom were corporate management and staff and 237 worked at our plant facilities. We employ regular employees defined as active executive, management, professional, technical and wage employees who work full time or part time for the Company and are covered by our benefit plans and programs. We have not experienced any significant work stoppages, either as a result of the COVID-19 pandemic or otherwise.

We are committed to providing market-competitive pay and benefits. All regular employees are eligible for performance-based cash incentive programs. The incentive plan reinforces and rewards individuals for achievement of specific business goals, including safety, profitability and productivity.

We offer comprehensive benefit programs to our employees that provide flexibility of choice through our total rewards framework of pay and recognition, health and wellness, work/life balance, learning and development, and culture and community. We recognize and support the growth and development of our employees and encourage employees to participate in external learning programs.

Management Actions with regard to COVID-19

We took early action regarding employee well-being in response to the COVID-19 pandemic, implementing comprehensive protocols to protect the health and safety of our employees and contractors. Many of our employees were transitioned to a remote work environment in the early stages of the pandemic and are transitioning back to a flexible work environment. We had no reductions in scheduled hours or reductions in force for any of our employees. We also enhanced our benefits programs to offer expanded supplemental paid leave during quarantine periods and waived employee cost-sharing for COVID-19 testing.

Competition

The specialty petrochemicals and specialty waxes industries are highly competitive. There is competition within the industries and also with other industries in supplying the needs of both industrial and individual consumers. We compete with other firms in the sale or purchase of needed goods and services and employ all methods of competition which are lawful and appropriate for such purposes. See further discussion in Part I, Item 1A. Risk Factors.

Available Information

We will provide paper copies of this Annual Report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to those reports, all as filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), free of charge upon written or oral request to Trecora Resources, 1650 Hwy 6 S, Suite 190, Sugar Land, TX 77478, (281) 980-5522. These reports are also available free of charge on our website, www.trecora.com, as soon as reasonably practicable after they are filed electronically with the U.S. Securities and Exchange Commission ("SEC") and can also be accessed by visiting the SEC website at www.sec.gov. SHR also has a website at www.southhamptonr.com, and TC has a website at www.trecchem.com. Any of the aforementioned websites and the information contained on or connected to them are not incorporated by reference herein to the SEC filings.

ITEM 1A. Risk Factors.

We are subject to a variety of risks inherent in the global specialty petrochemicals and specialty waxes businesses. Many of these risk factors are not within our control and could adversely affect our business, results of operations or our financial condition.

Risks Related to our Industry and Operations

We rely on a limited number of customers, including one customer that represented more than 10% of our consolidated revenue in 2021. A significant change in customer relationships or in customer demand for our products could materially adversely affect our results of operations, financial condition and cash flows.

We rely on a limited number of customers. Our largest customer, ExxonMobil and its affiliates, represented approximately 13.4%, 15.4%, and 15.0% of our consolidated revenues in 2021, 2020 and 2019, respectively. A significant reduction in sales to any of our key customers could materially adversely affect our results of operations, financial condition and cash flows, and could result from our key customers further diversifying their product sourcing, experiencing financial difficulty or undergoing consolidation.

Our industry is highly competitive, and we may lose market share to other producers of specialty petrochemicals, specialty waxes or other products that can be substituted for our products, which may adversely affect our results of operations, financial condition and cash flows.

Our industry is highly competitive, and we face significant competition from both large international producers and from smaller regional competitors. Our competitors may improve their competitive position in our core markets by successfully introducing new products, improving their manufacturing processes or expanding their capacity or manufacturing facilities. Further, some of our competitors benefit from advantageous cost positions that could make it increasingly difficult for us to compete in certain markets. If we are unable to keep pace with our competitors' product and manufacturing process innovations, cost position or alternative value proposition, it could have a material adverse effect on our results of operations, financial condition and cash flows.

In addition, we face increased competition from companies that may have greater financial resources and different cost structures, alternative values or strategic goals than us. We have a portfolio of businesses across which we must allocate our available resources, while competing companies may specialize in only certain of our product lines. As a result, we may invest less in certain areas of our business than our competitors, and such competitors may have greater financial, technical and marketing resources available to them. Industry consolidation may also affect competition by creating larger, more homogeneous and stronger competitors in the markets in which we compete, and competitors also may affect our business by entering into exclusive arrangements with existing or potential customers or suppliers. We may have to lower the prices of many of our products and services to stay competitive, while at the same time, trying to maintain or improve revenue and gross margin.

Loss of key employees, our inability to attract and retain new qualified employees or our inability to keep our employees focused on our strategies and goals could have an adverse impact on our operations.

In order to be successful, we must attract, retain and motivate executives and other key employees including those in managerial, technical, safety, operations, sales and marketing positions. We must also keep employees focused on our strategies and goals. The failure to hire, or loss of, key employees in a competitive industry could have a significant adverse impact on our operations. In addition, an important component of our competitive performance is our ability to operate safely and efficiently, including our ability to manage expenses and minimize the production of low margin products on an on-going basis. This requires continuous management focus, including technological improvements, safe operations, cost control and productivity enhancements. The extent to which we manage these factors will impact our performance relative to competition.

If the availability of our raw materials is limited, we may be unable to produce some of our products in quantities sufficient to meet customer demand or on favorable economic terms, which could have an adverse effect on our results of operations, financial condition and cash flows.

We use natural gasoline as a raw material in the production our products in the Specialty Petrochemicals segment. We use polyethylene waxes in our Specialty Waxes segment. Suppliers may not be able to meet our raw material requirements and we may not be able to obtain substitute supplies from alternative suppliers in sufficient quantities, on economic terms, or in a timely manner. A lack of timely availability of our raw materials in the quantities we require to produce our products (including as a result of supply chain issues due to the COVID-19 pandemic or other global economic issues) could result in our inability to meet customer demand and could have a material adverse effect on our results of operations, financial condition and cash flows.

Increases in the costs of our raw materials could have an adverse effect on our financial condition and results of operations if those costs cannot be passed onto our customers.

Our results of operations are directly affected by the cost of raw materials. Since the cost of these primary raw materials comprise a significant amount of our total cost of goods sold, the selling prices for our products and therefore our total revenue is impacted by movements in these raw material costs, as well as the cost of other inputs. In the past we have experienced erratic and significant changes in the costs of these raw materials, the cost of which has generally correlated with changes in energy prices, supply and demand factors, and prices for natural gas and crude oil. Moreover, the price of raw materials may also be impacted by other external factors, including uncertainties associated with war, terrorist attacks, weather and natural disasters, health epidemics or pandemics (such as the COVID-19 pandemic), civil unrest, the effects of climate change or political instability, plant or production disruptions, strikes or other labor unrest, breakdown or degradation of transportation infrastructure used in the delivery of raw materials or changes in laws or regulations in any of the countries in which we have significant suppliers. In addition, product mix can have an impact on our overall unit selling prices, since we provide an extensive product offering and therefore experience a wide range of unit selling prices. Because of the significant portion of our cost of goods sold represented by these raw materials, our gross profit margins could be adversely affected by changes in the cost of these raw materials if we are unable to pass the increases on to our customers.

In addition, we utilize both formula and non-formula based pricing, depending on customer requirements and competitive situations. Under formula pricing the price charged to the customer is primarily based on a formula which includes, as a component, the average cost of feedstock over the prior month. With this pricing mechanism, product prices generally move in conjunction with feedstock prices. However, because the formulas use an average feedstock price from the prior month, the movement of product prices will trail feedstock prices, and formula prices may or may not reflect our actual feedstock cost for the month during which the product is actually sold. These timing differences have had and may, in the future, have a negative effect on our cash flow. Any raw materials cost increase that we are not able to pass on to our customers could have a material adverse effect on our business, results of operations, financial condition and liquidity.

Due to volatile raw material prices, there can be no assurance that we can continue to recover raw material costs or retain customers in the future. For example, our logistics costs have increased substantially within the past three years, narrowing our profit margins. This may force us to increase our pricing, which could cause customers to consider competitors' products, some of which may be available at a lower cost. Significant loss of customers could result in a material adverse effect on our results of operations, financial condition and cash flows.

If we are unable to access third-party transportation for our raw materials and finished products, we may not be able to fulfill our obligations to our customers in a timely manner, which could have a material adverse effect on our results of operations, financial condition and cash flows.

We rely upon transportation provided by third parties (including common carriers, rail companies and trans-ocean cargo companies) to receive raw materials used in the production of our products and to deliver finished products to our customers. While we attempt to offset the risks associated with third-party transportation issues, including by owning and operating a truck fleet to meet certain customer demand as well as managing our supplies of raw materials, such mitigation efforts may not be

successful. If we are unable to access third-party transportation at economically attractive rates, or at all, or if there is any other significant disruption in the availability of third-party transportation, we may not be able to obtain sufficient quantities of raw materials (on favorable terms, or at all) to match the pace of production and/or we may not be able to fulfill our obligations to our customers in a timely manner, which could have a material adverse effect on our results of operations, financial condition and cash flows.

Failure to successfully consummate extraordinary transactions, including the integration of other businesses, assets, products or technologies, or realize the financial and strategic goals that were contemplated at the time of any such transaction may adversely affect our future business, results of operations and financial condition.

As part of our business strategy, we from time to time explore possible investments, acquisitions, strategic alliances, joint ventures, divestitures, outsourcing transactions and other business combinations (collectively, "extraordinary transactions") in order to further our business objectives. To pursue this strategy successfully, we must identify suitable candidates for, and successfully complete, extraordinary transactions, some of which may be large and complex, and manage post-closing issues such as the integration of acquired businesses or employees. The expense and effort incurred in exploring and consummating extraordinary transactions, the time it takes to integrate an acquisition or our failure to integrate businesses successfully, could result in additional and/or unexpected expenses and losses. We also may not be successful in negotiating the terms of any potential extraordinary transactions, conducting thorough due diligence, financing an extraordinary transaction or effectively integrating the acquired business, product or technology into our existing business and operations. Our due diligence may fail to identify all of the problems, liabilities or other shortcomings or challenges of an acquired business, product or technology. Moreover, we may incur significant expenses whether or not a contemplated extraordinary transaction is ultimately consummated.

Additionally, in connection with any extraordinary transaction we consummate, we may not fully realize all of the anticipated synergies and other benefits we expect to achieve (on our expected timeframe, or at all), and we may incur unanticipated expenses, write-downs, impairment charges or unforeseen liabilities that could negatively affect our business, financial condition and results of operations, disrupt relationships with current and new employees, customers and vendors, incur significant debt or have to delay or not proceed with announced transactions. Further, managing extraordinary transactions requires varying levels of management and employee resources, which may divert our attention from other business operations. We may also face additional challenges and costs after the consummation of the transaction, including those related to integrating or restructuring our operations, information management and other technology systems, while carrying on our ongoing business.

Maintenance, expansion and refurbishment of our facilities and the development and implementation of new manufacturing processes involve significant risks which may adversely affect our business, results of operations, financial condition and cash flows.

Our facilities require periodic maintenance, upgrading, expansion, refurbishment or improvement. Any unexpected operational or mechanical failure, including failure associated with breakdowns and forced outages, could reduce our facilities' production capacity below expected levels which would reduce our revenues and profitability. Unanticipated expenditures associated with maintaining, upgrading, expanding, refurbishing or improving our facilities may also reduce profitability.

If we make any major modifications to our facilities, such modifications likely would result in substantial additional capital expenditures and may prolong the time necessary to bring the facility online. We may also choose to refurbish or upgrade our facilities based on our assessment that such activity will provide adequate financial returns. However, such activities require time for development before commencement of commercial operations, and key assumptions underpinning a decision to make such an investment may prove incorrect, including assumptions regarding construction costs, demand growth and timing which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Finally, we may not be successful or efficient in developing or implementing new production processes. Innovation in production processes involves significant expense and carries inherent risks, including difficulties in designing and developing new process technologies, development and production timing delays, lower than anticipated manufacturing yields, and product defects. Disruptions in the production process can also result from errors, defects in materials, delays in obtaining or revising operating permits and licenses, returns of product from customers, interruption in our supply of materials or resources and disruptions at our facilities due to accidents, maintenance issues, or unsafe working conditions, all of which could affect the timing of production ramps and yields. Production issues can lead to increased costs and may affect our ability to meet product demand, which could adversely impact our business, results of operations, financial condition and cash flows.

There are certain hazards and risks inherent in our operations that could adversely affect those operations and results of operations and financial condition.

As a manufacturer and distributor of diversified chemical products, our business is subject to operating risks inherent in chemical manufacturing, storage, handling and transportation. These risks include, but are not limited to, fires, explosions,

severe weather and natural disasters, mechanical failure, unscheduled downtime, loss of raw materials or our products, transportation interruptions, remediation, chemical spills, terrorist acts or war, discharges or releases of toxic or hazardous substances or gases. These hazards can cause personal injury and loss of life, severe damage to, or destruction of, property and equipment and environmental contamination. In addition, our suppliers are also subject to similar risks that may adversely impact our production capabilities. A significant limitation on our ability to manufacture products due to disruption of manufacturing operations or related infrastructure could have a material adverse effect on our results of operations and financial condition.

While we adapt our manufacturing and distribution processes and controls to minimize the inherent risk of our operations, to promote workplace safety and to minimize the potential for human error, we cannot completely eliminate the risk of accidental contamination or injury from hazardous or regulated materials, including injury of our employees, individuals who handle our products or goods treated with our products, or others who claim to have been exposed to our products, nor can we completely eliminate the unanticipated interruption or suspension of operations at our facilities due to such events. We may be held liable for significant damages or fines in the event of contamination or injury, and such assessed damages or fines could have a material adverse effect on our results of operations and financial conditions. Our property, business interruption and casualty insurance may not fully insure us against all potential hazards incidental to our business.

Conditions in the global economy may adversely affect our results of operations, financial condition and cash flows.

The demand for our products have historically correlated closely with general economic growth rates. The occurrence of recessions or other periods of low or negative growth will typically have a direct adverse impact on our results of operations, financial condition and cash flows. Other factors that affect general economic conditions in the world or in a major region, such as changes in population growth rates or periods of civil unrest, weather and national disasters or health epidemics and pandemics also impact the demand for our products. Economic conditions that impair the functioning of financial markets and financial institutions also pose risks to us, including risks to the safety of our financial assets and to the ability of our partners and customers to fulfill their commitments to us.

In addition, the revenue and profitability of our operations have historically been subject to fluctuation, which makes future financial results less predictable. Our revenue, gross margin and profit vary among our products, customer groups and geographic markets. Overall gross margins and profitability in any given period are dependent partially on the product, customer and geographic mix reflected in that period's net revenue. In addition, newer geographic markets may be relatively less profitable due to investments associated with entering those markets and local pricing pressures. Market trends, competitive pressures, increased raw material or shipping costs, regulatory impacts and other factors may result in reductions in revenue or pressure on gross margins of certain segments in a given period which may necessitate adjustments to our operations.

We may be adversely affected by the effects of inflation.

Inflation has the potential to adversely affect our business, results of operations, financial position and liquidity by increasing our overall cost structure, particularly if we are unable to achieve commensurate increases in the prices we charge our customers. The existence of inflation in the economy has the potential to result in higher interest rates and capital costs, supply shortages, increased costs of labor and other similar effects. As a result of inflation, we have experienced and may continue to experience, increases in the costs of feedstocks, labor, materials, and other inputs. Although we may take measures to mitigate the impact of this inflation through pricing actions and efficiency gains, if these measures are not effective our business, results of operations, financial position and liquidity could be materially adversely affected. Even if such measures are effective, there could be a difference between the timing of when these beneficial actions impact our results of operations and when the cost inflation is incurred. Additionally, the pricing actions we take could result in a decrease in market share.

The global outbreak of COVID-19 has had, and may continue to have, an adverse impact on the business, results of operations, financial position, and liquidity of the Company and/or its customers, suppliers, and other counterparties.

The COVID-19 pandemic has caused, and may continue to cause, a global slowdown of economic activity, particularly, reduced demand in durable goods markets such as automotive and construction, disruptions in global supply chains, significant economic uncertainty and volatility and disruption of financial markets. The COVID-19 pandemic is having an impact on the Company's operations and financial performance, as well as on the operations and financial performance of many of the Company's customers and suppliers. Across all of our businesses, we are facing increased operational challenges from the continued need to protect employee health and safety by requiring restrictions on the movement of people, which can cause workplace disruptions, reduced productivity, operational disruptions or shutdowns, and the incurrence of additional costs. Due to the economic slowdown caused by the COVID-19 pandemic, we are also experiencing, and may continue experiencing, lower demand and volume for products and services from our customers, as well as potential restrictions or delays on deliveries of key raw materials from our suppliers. See Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, for additional information on how we have been impacted and the steps we have taken in response.

Because the severity, magnitude and duration of the COVID-19 pandemic and its economic consequences are uncertain, rapidly changing and difficult to predict (including as a result of the emergence of the new variants such as Delta and Omicron), the pandemic's impact on the Company's operations and financial performance, as well as its impact on our ability to successfully execute our business strategies and initiatives, remains uncertain and difficult to predict. Additionally, the ultimate impact of the COVID-19 pandemic on our operations and financial performance depends on many factors that are not within our control, including, but not limited to: governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic (including restrictions on travel and transport and human capital constraints); the impact of the pandemic and actions taken in response on global and regional economies, travel, and economic activity; the availability of federal, state, local or non-U.S. funding programs; general economic uncertainty in key global markets and financial market volatility; the weakening of demand in certain end markets; prolonged disruption in global logistics channels; inflationary pressure on cost of good sold and global economic conditions and levels of economic growth; and the pace of recovery as the COVID-19 pandemic subsides. We expect that the longer the period of economic and global supply chain and disruption continues, the more material the impact could be on our business operations, financial performance and results of operations, and this could include potential charges, impairments and other adverse financial impacts in future periods.

As the COVID-19 pandemic continues to adversely affect our operating and financial results, it may also have the effect of heightening many of the other risks described in the risk factors herein, the COVID-19 pandemic may also affect our operating and financial results in a manner that is not presently known to us.

Domestic or international natural disasters or other severe weather events, health epidemics or pandemics or terrorist attacks may disrupt our operations or those of our customers or suppliers, decrease demand for our products or otherwise have an adverse impact on our business.

Chemical related assets, and U.S. corporations such as ours, may be at a greater risk of future terrorist attacks (including both physical attacks and cyber-attacks) than other possible targets in the U.S. Moreover, extraordinary events such as natural disasters, other severe weather events (such as the prolonged period of sub-freezing temperatures and snow across the State of Texas and the region in February 2021 (the "Texas freeze event")) or global or local health epidemics (such as the COVID-19 pandemic) could result in significant damage to our facilities, the pipeline systems and other infrastructure we rely on and/or disruption of our operations and may negatively affect local economies, including those of our customers or suppliers. The occurrence of such events cannot be predicted, although their occurrence can be expected to continue to adversely impact the economy in general and our specific markets.

The resulting damage from a natural disaster, other severe weather events or terrorist attack could include loss of life, property damage or site closure. Several of our facilities are located in regions where natural disasters and other severe weather events have previously disrupted, and may in the future disrupt, our ability to manufacture and deliver products from certain facilities. Any damage resulting in stoppage or reduction of our facilities' production capacity could reduce our revenues and any unanticipated capital expenditures to repair such damage (to the extent not covered by our insurance policies) may reduce profitability. Any, or a combination, of these factors could also adversely impact our results of operations, financial condition and cash flows.

We are exposed to local business risks in different countries, which could have a material adverse effect on our financial condition and results of operations.

Although we do not have production operations and assets outside of the U.S., we do have a global portfolio of customers and thus we are subject to a variety of international market risks including, but not limited to: ongoing instability or changes in a country's or region's economic or political conditions, including inflation, recession, interest rate fluctuations, civil unrest and actual or anticipated military or political conflicts; longer accounts receivable cycles and financial instability or credit risk among customers and distributors; trade regulations and procedures and actions affecting production, pricing and marketing of products, including domestic and foreign customs and tariffs or other trade barriers; regulations favoring local contractors or requiring foreign contractors to employ citizens of, or purchase supplies from, a local jurisdiction; local labor conditions and regulations and the geographical dispersion of the workforce; changes in the regulatory or legal environment; differing technology standards or customer requirements; import, export or other business licensing requirements or requirements relating to making foreign direct investments, which could affect our ability to obtain favorable terms for labor and raw materials or lead to penalties or restrictions; data privacy regulations; risk of non-compliance with the sanction laws or U.S. Foreign Corrupt Practices Act or similar anti-bribery legislation in other countries by agents or other third-party representatives; risk of nationalization of private enterprises by foreign governments; foreign currency exchange restrictions and fluctuations; the outbreak of global or regional health epidemics or pandemics (such as the COVID-19 pandemic); difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner and changes in tax laws; and fluctuations in freight costs and disruptions in the transportation and shipping infrastructure at important geographic points of exit and entry for our products and shipments.

Such economic and political uncertainties may materially and adversely affect our business, financial condition or results of operations in ways that cannot be predicted at this time. Although it is impossible to predict the occurrences or consequences of any such events, they could result in a decrease in demand for our products, make it difficult or impossible to deliver products to our customers or to receive raw materials from our suppliers and create delays and inefficiencies in our supply chain. We are also predominantly uninsured for losses and interruptions caused by terrorist acts, conflicts and wars.

Our business, operating results and the value of our common stock could be negatively affected as a result of actions by activist stockholders.

We value constructive input from investors and regularly engage in dialogue with our stockholders regarding strategy and performance. Our board of directors and management team are committed to acting in the best interests of all of our stockholders. There is no assurance that the actions taken by our board of directors and management in seeking to maintain constructive engagement with the Company's stockholders will be successful. Activist stockholders who disagree with our operations, including the composition of our board of directors, our management team or the Company's strategic direction, may seek to effect change through various strategies that range from private engagement to publicity campaigns, proxy contests, efforts to force transactions not supported by our board of directors and litigation.

If faced with a proxy contest or other stockholder action or request, we may not be able or willing to respond successfully to the contest, action, or request, which could be significantly disruptive to our business. Even if we are successful, our business and operations could be adversely affected by a proxy contest or activist stockholder action or request because:

- responding to proxy contests and other actions or requests by activist stockholders, including responding to, or initiating, litigation as a result of a proxy contest or matters arising from a proxy contest, can be costly and time-consuming, disrupting operations and diverting the attention of management and employees, and can lead to uncertainty among employees, customers, suppliers and investors about the strategic direction of our business;
- perceived uncertainties as to the future direction of the Company or its business may make it more difficult to attract and retain customers and skilled employees; and
- if individuals are elected to our board of directors with a specific agenda, it may adversely affect our ability to effectively implement our strategic plan in a timely manner and create additional value for our stockholders.

In 2021 and early 2022, we engaged in extensive dialogues with certain activist stockholders. In February 2022, we received notice from Pangaea Ventures, L.P. ("Pangaea") of its intent to nominate six directors to our board of directors at our 2022 Annual Meeting of Stockholders. We may choose to initiate, or may become subject to, litigation as a result of continued action by Pangaea or further actions by other activist stockholders, which could serve as a distraction to our board of directors, management team and employees and could require us to incur additional costs. Additionally, there can be no assurance that Pangaea or a third party will not pursue litigation and no assurance that if the six persons proposed by Pangaea for election at our 2022 Annual Meeting of Stockholders are elected, which would constitute a change to a majority of our board of directors, they will not attempt to effect changes to our operations, including to our management team or the strategic direction of our business.

Any activist stockholder contests, actions or requests, or the mere public presence of activist stockholders among our stockholder base, could cause the market price for our common stock to experience periods of significant volatility based on temporary or speculative market perceptions that do not necessarily reflect our business operations.

Delaware law and certain provisions of our organizational documents may make a takeover of our company more difficult.

Provisions of our charter and bylaws may have the effect of delaying, deferring or preventing a change in control of our company. A change of control could be proposed in the form of a tender offer or takeover proposal that might result in a premium over the market price for our common stock. In addition, these provisions could make it more difficult to bring about a change in the composition of our board of directors, which could result in the entrenchment of current management. For example, our charter and bylaws: require that the number of directors be determined, and provide that any vacancy or new board seat may be filled only by the board; do not permit stockholders to call a special meeting; and establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Our employment agreements and equity arrangements with our executive officers also contain change in control provisions. Under the terms of these arrangements, the executive officers may be entitled to receive significant cash payments and immediate vesting of equity awards in the event their employment is terminated under certain circumstances in connection with or in certain circumstances following, a "corporate change". We disclose in proxy statements filed with the SEC potential payments to our named executive officers in connection with such "corporate change." Certain change of control transactions may also constitute an event of default under our agreements with our creditors and other third parties.

These arrangements and provisions of our organizational documents and Delaware law may have the effect of delaying, deferring or preventing changes of control or changes in management of our company, even if such transactions or changes would have significant benefits for our stockholders. As a result, these provisions could limit the price some investors might be willing to pay in the future for shares of our common stock.

Risks Related to Legal and Regulatory Matters

We are subject to numerous regulations that could require us to modify our current business practices and incur increased costs.

We operate in a highly-regulated industry and are subject to numerous regulations, including customs and international trade laws, export control, data privacy, antitrust laws and zoning and occupancy laws that regulate manufacturers generally and/or govern the importation, promotion and sale of our products, the operation of our facilities, and our relationship with our customers, suppliers and competitors. If these laws or regulations were to change (including as a result of policies that may be adopted by the Biden administration, consistent with its stated environmental policy objectives) or were violated by our management, employees, suppliers, buying agents or trading companies, the costs of certain goods could increase, or we could experience delays in shipments of our goods, be subject to fines or penalties, or suffer reputational harm, which could reduce demand for our products and hurt our business and negatively impact our results of operations. In addition, we face risk associated with trade protection laws, policies and measures and other regulatory requirements affecting trade and investment, including loss or modification of exemptions for taxes and tariffs, imposition of new tariffs and duties and import and export licensing requirements. Finally, changes in federal and state minimum wage laws and other laws relating to employee benefits could cause us to incur additional wage and benefits costs, which could negatively impact our profitability.

Legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effects on our operations. We may be required to make significant expenditures or modify our business practices to comply with existing or future laws and regulations, which may increase our costs and materially limit our ability to operate our business.

Adverse results of legal proceedings could materially adversely affect us.

We are subject to and may in the future be subject to a variety of legal proceedings and claims that arise out of the ordinary conduct of our business, including legal proceedings brought in non-U.S. jurisdictions. Results of legal proceedings cannot be predicted with certainty. Irrespective of its merits, litigation may be both lengthy and disruptive to our operations and may cause significant expenditure and diversion of management attention. We may be faced with significant monetary damages or injunctive relief against us that could have an adverse impact on our business and results of operations should we fail to prevail in certain matters.

We expect to continue to incur capital expenditures and operating costs as a result of our compliance with existing and future environmental laws and regulations.

Our industry is subject to extensive laws and evolving regulations related to the protection of the environment. These laws and regulations have tended to become more stringent over time, continue to increase in both number and complexity and affect our operations with respect to, among other things: the discharge of pollutants into the environment; emissions into the atmosphere (including greenhouse gas emissions); and restrictions, liabilities and obligations in connection with storage, transportation, treatment and disposal of hazardous substances and waste. We are also subject to laws and regulations that require us to operate and maintain our facilities to the satisfaction of applicable regulatory authorities.

While we are committed to full compliance with all environmental legal requirements, failure to comply with these laws or regulations, or failure to obtain required permits from applicable regulatory authorities, may expose us to fines, penalties or interruptions in operations. To the extent these capital expenditures or operating costs are not ultimately reflected in the prices of our products and services, or that we are subject to fines, penalties or other interruptions in our operations, our business, results of operations, financial condition and cash flows may be adversely affected.

The adoption of climate change legislation or regulation could result in increased operating costs and reduced demand for our products.

As a business in the fossil fuel industry, the nature of our operations could make us subject to legislation or regulations affecting the emission of greenhouse gases. The U.S. Environmental Protection Agency has promulgated (and may in the future promulgate) regulations applicable to projects involving greenhouse gas emissions above a certain threshold, and the U.S. and certain states within the U.S. have enacted, or are considering, limitations on greenhouse gas emissions. Such policies are currently being considered by the Biden administration, which has made the reduction of greenhouse gas emissions and reduced dependence on fossil fuel consumption, central policy concerns. Jurisdictions outside the U.S. are also addressing greenhouse gases by legislation or regulation. In addition, efforts have been made and continue to be made at the international level toward the adoption of international treaties or protocols that would address global greenhouse gas emissions. These limitations may

include the adoption of cap and trade regimes, carbon taxes, restrictive permitting, increased efficiency standards and incentives or mandates for renewable energy. For example, in January 2021, President Biden signed executive orders that represent his administration's first actions to fight climate change, which included an executive order to reenter the Paris Agreement international treaty on climate change that requires member countries to review and progress their intended contributions and set greenhouse gas reduction goals every five years beginning in 2020. The implementation of this treaty and other efforts to reduce greenhouse gas emissions could make our products more expensive, lengthen project implementation times and reduce demand for hydrocarbons, as well as shift hydrocarbon demand toward relatively lower-carbon sources. Such legislation, regulation, treaties or protocols may also increase our compliance costs, such as for monitoring or sequestering emissions.

Risks Related to Technology

Increased information systems security threats and more sophisticated and targeted computer crime could pose a risk to our systems, networks, products and services.

Increased information systems security threats and more sophisticated, targeted computer crime pose a risk to the security of our systems and networks and the confidentiality, availability, and integrity of our data, operations, and communications. While we attempt to mitigate these risks by employing a number of measures, including security measures, employee training, comprehensive monitoring of our networks and systems, upgrading our equipment and software and maintenance of backup and protective systems, if these measures prove inadequate, we could be adversely affected by, among other things, loss or damage of intellectual property, proprietary and confidential information, and communications or customer data, having our business operations interrupted, our supply chain interrupted and increased costs to prevent, respond to, or mitigate these cyber security threats. Any significant disruption or slowdown of our systems could cause customers to cancel orders, result in us being unable to manufacture or deliver products (or cause delays), harm our reputation or cause standard business processes to become inefficient or ineffective, which could adversely affect our results of operations, financial condition and cash flows.

If we are not able to continue the technological innovation and successful commercial introduction of new products, our customers may turn to other producers to meet their requirements, which may adversely affect our results of operations, financial condition and cash flows.

Our industry and the markets into which we sell our products experience periodic technological change and ongoing product improvements. In addition, our customers may introduce new generations of their own products, adopt new or different risk profiles, or require new technological and increased performance specifications that would require us to develop customized products. Our future growth and profitability will depend on our ability to maintain or enhance technological capabilities, develop and market products and applications that meet changing customer requirements and successfully anticipate or respond to technological changes in a cost effective and timely manner. Our inability to maintain a technological edge, innovate and improve our products could cause a decline in the demand and sales of our products and adversely affect our results of operations, financial condition and cash flows.

A failure of our information technology systems, including our enterprise resource planning ("ERP") system, could adversely effect on our business and results of operations or the effectiveness of internal controls over financial reporting.

We rely on sophisticated information technology systems and infrastructure to support our business. Any of these systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, usage errors by employees, computer viruses, cyber-attacks or other security breaches or similar events. For example, in 2017 we implemented a new ERP system at our specialty petrochemicals facility in order to better manage our business, and we continue to implement additional improvements to the system. ERP implementations are complex and time-consuming projects that involve substantial expenditures on system software and implementation activities over a significant period of time. A failure or prolonged interruption in our information technology systems, including our ERP system, or difficulties encountered in upgrading our systems or implementing new systems that compromises our ability to meet our customers' needs or impairs our ability to record, process and report accurate information, could adversely affect our financial reporting systems and our ability to produce financial reports, the effectiveness of internal controls over financial reporting (including our disclosure controls and procedures), and our business and results of operations.

Risks Related to Financing and Tax

Changes in tax laws or exposure to additional income tax liabilities could affect our future profitability.

Factors that could materially affect our future effective tax rates include but are not limited to: changes in tax laws or the regulatory environment; changes in accounting and tax standards or practices; changes in the composition of operating income by tax jurisdiction; and our operating results before taxes.

We are subject to federal and state income taxes in the United States. Significant judgment is required in determining our provision for income taxes. We believe our tax estimates are reasonable, the final determination of tax audits and any related

litigation could be materially different to that which is reflected in our Consolidated Financial Statements. Should any tax authority take issue with our estimates, our results of operations, financial condition and cash flows could be adversely affected.

We are subject to examination by federal and state tax authorities. While we regularly assess the likelihood of favorable or unfavorable outcomes resulting from examinations by the IRS and other tax authorities to determine the adequacy of our provision for income taxes, there can be no assurance that the actual outcome resulting from these examinations will not materially adversely affect our financial condition and operating results.

The covenants in the instruments that govern our outstanding indebtedness may limit our operating and financial flexibility.

The covenants in the instruments that govern our outstanding indebtedness limit our ability to, among other things: incur indebtedness and liens; make loans and investments; prepay, redeem or repurchase debt; engage in acquisitions, consolidations, asset dispositions, sale-leaseback transactions and affiliate transactions; change our business; amend some of our debt agreements; and grant negative pledges to other creditors.

In addition, the ARC Agreement (as defined herein) also has financial covenants that require TOCCO to maintain a maximum Consolidated Leverage Ratio and minimum Consolidated Fixed Charge Coverage Ratio (each as defined in the ARC Agreement). See Note 13 to the Consolidated Financial Statements.

A failure by us or our subsidiaries to comply with the covenants and restrictions contained in the agreements governing our indebtedness could result in an event of default under such indebtedness, which could adversely affect our ability to respond to changes in our business and manage our operations. Upon the occurrence of an event of default under any of the agreements governing our indebtedness, the lenders could elect to declare all amounts outstanding to be due and payable and exercise other remedies as set forth in the agreements. Further, an event of default or acceleration of indebtedness under one instrument may constitute an event of default under another instrument. If any of our indebtedness were to be accelerated, there can be no assurance that our assets would be sufficient to repay this indebtedness in full, which could have a material adverse effect on our ability to continue to operate as a going concern.

Our indebtedness could limit cash flow available for our operations and could adversely affect our ability to service debt or obtain additional financing if necessary.

As of December 31, 2021, we had no borrowings outstanding under our revolving credit facility (the "Revolving Facility") and \$42.2 million in borrowings outstanding under our term loan facility (the "Term Loan Facility" and, together with the Revolving Facility, the "Credit Facilities"). Pursuant to the terms of the amended and restated credit agreement (as amended, the "ARC Agreement") governing the Credit Facilities, we also have the option, at any time, to request an increase to the commitment under the Revolving Facility and/or the Term Loan Facility by an additional amount of up to \$50.0 million in the aggregate, subject to lenders acceptance of the increased commitment and other conditions.

Although the agreements governing our existing indebtedness contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of important exceptions, and additional indebtedness that we may incur from time to time to finance projects or for other reasons in compliance with these restrictions could be substantial. If we incur significant additional indebtedness, the related risks that we face could increase.

For example, in May 2020, SHR and TC received loan proceeds in an aggregate principal amount of approximately \$6.1 million under the Payment Protection Program ("PPP Loans") established under the Coronavirus Aid, Relief, and Economic Security Act of 2020 ("CARES Act") and administered by the United States Small Business Administration (the "SBA"). The PPP Loans were eligible for partial or full forgiveness if we complied with the provisions of the CARES Act. In the second half of 2021, the Company was notified of full forgiveness for the PPP Loans, including all accrued interest to the applicable date of forgiveness. Although the PPP Loans have been forgiven in full, the SBA reserves the right to audit any loan under the Paycheck Protection Program and these audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request. If the SBA were to conduct an audit of the PPP Loans, there can be no guarantee that the results will be favorable in determining that SHR and TC were eligible for full forgiveness of the PPP Loans.

Our current, or any future, indebtedness could: limit our flexibility in planning for, or reacting to, changes in the markets in which we compete; place us at a competitive disadvantage relative to our competitors with less indebtedness; limit our ability to reinvest in our business; render us more vulnerable to general adverse economic, regulatory and industry conditions; and require us to dedicate a substantial portion of our cash flow to service our indebtedness.

Our ability to meet our cash requirements, including our debt service obligations, is dependent upon our ability to maintain our operating performance, which will be subject to general economic and competitive conditions and to financial, business and other factors, many of which are beyond our control. We cannot provide assurance that our business will generate sufficient cash flow from operations to fund our cash requirements and debt service obligations.

To service our current, and any future, indebtedness, we will require a significant amount of cash, which may adversely affect our future results.

Our ability to generate cash depends on many factors beyond our control, and any failure to meet our debt service obligations could harm our business, results of operations and financial condition. Our ability to make payments on and to refinance our indebtedness, and to fund working capital needs and planned capital expenditures, will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control.

If our business does not generate sufficient cash flow from operations or if future borrowings are not available to us in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs, we may need to refinance all or a portion of our indebtedness (or otherwise seek amendment or relief from the terms of our indebtedness), on or before the maturity thereof, sell assets, reduce or delay capital investments or seek to raise additional capital, any of which could have a material adverse effect on our operations. We might not generate sufficient cash flow to repay indebtedness as currently anticipated. In addition, we may not be able to effect any of these actions, if necessary, on commercially reasonable terms or at all. Our ability to restructure or refinance our indebtedness, will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments may limit or prevent us from taking any of these actions. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance or restructure our obligations on commercially reasonable terms or at all, would have a material adverse effect on our business, results of operations and financial conditions.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under the Credit Facilities are, and additional borrowings in the future may be, at variable rates of interest that expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed will remain the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. We may in the future enter into, interest rate swaps for our variable rate debt whereby we exchange floating for fixed rate interest payments in order to reduce exposure to interest rate volatility. However, any interest rate swaps into which we enter may not fully mitigate our interest rate risk.

In addition, our variable rate indebtedness may use the London Interbank Offer Rate (“LIBOR”) as a benchmark for establishing the interest rate. The LIBOR has been subject of national, international, and other regulatory guidance and proposals for reform. In July 2017, the U.K. Financial Conduct Authority (the “FCA”) announced that it intends to stop persuading or compelling banks to submit rates for calculation of LIBOR after 2021. On March 5, 2021, the ICE Benchmark Administration, which administers LIBOR, and the FCA announced that all LIBOR settings will either cease to be provided by any administrator, or no longer be representative immediately after December 31, 2021, for all non-U.S. dollar LIBOR settings and one-week and two-month U.S. dollar LIBOR settings, and immediately after June 30, 2023 for the remaining U.S. dollar LIBOR settings (the “LIBOR Announcement”).

These reforms and other pressures may cause LIBOR to disappear entirely or to perform differently than in the past. At this time, no consensus exists as to what rate or rates will become accepted alternatives to LIBOR, although on July 29, 2021, the Alternative Reference Rates Committee, a U.S.-based group convened by the U.S. Federal Reserve Board and the Federal Reserve Bank of New York, formally recommended the Secured Overnight Financing Rate (“SOFR”) as its preferred replacement rate for LIBOR. Given the inherent differences between LIBOR and SOFR, or any other alternative benchmark rate that may be established, there are many uncertainties regarding a transition from LIBOR, including but not limited to the need to amend all contracts with LIBOR as the referenced rate and how this will impact the cost of variable rate debt and certain derivative financial instruments, or whether the COVID-19 pandemic will have further effect on LIBOR transition plans. In addition, SOFR or other replacement rates may fail to gain market acceptance. The elimination of LIBOR or any other changes or reforms to the determination or supervision of LIBOR could have an adverse impact on the market value of and/or transferability of any LIBOR-linked securities, loans, and other financial obligations or extensions of credit held by or due to us or on our overall financial condition or results of operations.

US dollar borrowings under the Credit Facilities currently bear interest at variable interest rates that use LIBOR. No modification has been made yet to the Credit Facilities as it pertains to US dollar borrowings as a result of the LIBOR Announcement, though changes will be required in the future. Currently, it is anticipated that the new benchmark for our US dollar borrowings will be one or more SOFR-based rates. The shift to SOFR from LIBOR is complex and may adversely affect our business, results of operations, financial condition liquidity and cash flows. The consequences of these developments cannot be entirely predicted, but could include an increase in our financing costs and our ability to access capital. We do not expect the discontinuation of LIBOR as a reference rate in our debt agreements to have a material adverse effect on our financial position or materially affect our interest expense.

ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

Specialty Petrochemicals Facility

SHR owns and operates a specialty petrochemicals facility located in Silsbee, Texas approximately 30 miles north of Beaumont and 90 miles east of Houston. The base SHR facility consists of five operating units which, while interconnected, make distinct products through differing processes: (i) a Penhex Unit; (ii) a Reformer Unit; (iii) a Cyclo-pentane Unit; (iv) an Advanced Reformer unit; and (v) an Isomerization Unit. In addition to the base plant, SHR operates three proprietary chemical production facilities for toll processing customers. The Reformer Unit, the Advanced Reformer unit, and the Cyclo-Pentane Unit further process streams produced by the Penhex Unit.

Our present total capacity at our Silsbee facility is 13,000 barrels per day of fresh feed; however, our air permits limit us to a maximum processing rate of 11,000 barrels per day. We also have a 4,000 barrels per day Advanced Reformer unit which increases our capability to upgrade by-products produced from the Penhex Unit and provides security of hydrogen supply to the plant.

In support of the Specialty Petrochemicals segment, we own approximately 100 storage tanks with total capacity of approximately 294,000 barrels, and 130 acres of land at the plant site, 70 acres of which are developed. We also own a truck and railroad loading terminal consisting of storage tanks, nine rail spurs, and truck and tank car loading facilities on approximately 63 acres of which 36 acres are developed.

GSPL owns three 8-inch diameter pipelines (of which two are operational) and five 4-inch diameter pipelines, aggregating approximately 70 miles in length connecting SHR's facility to (1) a natural gas line, (2) SHR's truck and rail loading terminal and (3) a major petroleum products pipeline system owned by an unaffiliated third party. All pipelines are operated within Texas Railroad Commission and DOT regulations for maintenance and integrity.

Specialty Waxes Facility

TC owns and operates a specialty waxes facility from its 27.5 acre plant site located in Pasadena, Texas. The plant contains several stainless steel reactors ranging in size from 3,300 to 16,000 gallons with overhead condensing systems, two 4,000 gallon glass line reactors, five Sandvik forming belts with pastillating capabilities, five high vacuum wiped film evaporators varying in size from 12 to 20 m² steel batch column with 10,000 gallon still pot and 20 theoretical stages of structured packing. This plant has the ability to crystallize and recover solids from the crystallization process. There are also three fully equipped, on-site laboratories. With a base product offering of polyethylene waxes, TC is well suited to manage high molecular weight materials that must be managed in the molten state. TC offers pastillating for waxes, polymers and resins, flaking capabilities, as well as solids packaging services.

TC also has a hydrogenation/distillation unit which expands its processing capabilities by providing state-of-the-art distillation and high-pressure hydrogenation capabilities.

Offices

Outside of the facilities that we own, the Company has a leased corporate office in Sugar Land, Texas.

ITEM 3. Legal Proceedings.

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

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II

ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

Our common stock traded on the New York Stock Exchange (“NYSE”) under the symbol “TREC”.

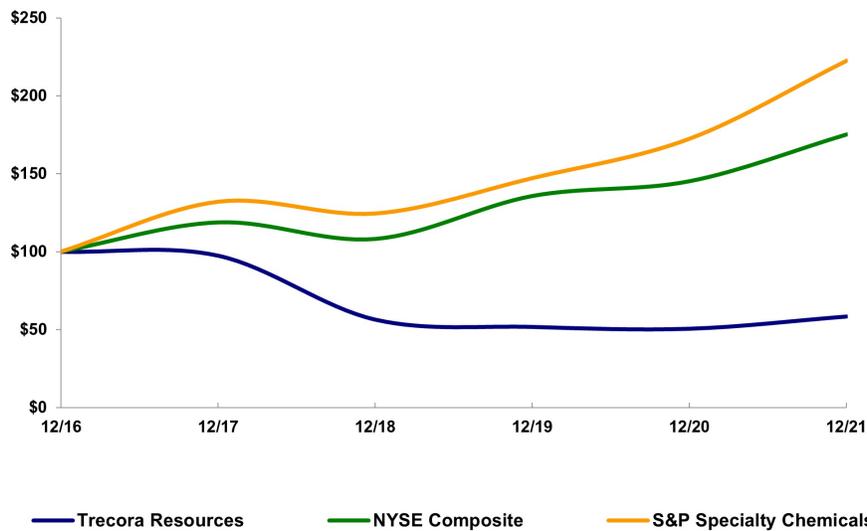
As of February 25, 2022, there were approximately 410 recorded holders (including brokers’ accounts) of the Company’s common stock. We have not paid any dividends since our inception and have instead deployed earnings to fund the development of our business. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital expenditure requirements, restrictions contained in current and future financing instruments, and other factors that our board of directors deems relevant. In addition, our ability to pay dividends depends in part on our receipt of cash dividends and distributions from our subsidiaries. The terms of certain of our current debt instruments restrict the ability of our subsidiaries to pay dividends, as may the terms of any of our future debt or preferred securities.

Total Stockholder Return

The following graph compares the cumulative total stockholder return on our common stock against the NYSE Composite Index and the S&P Specialty Chemical Index, for the five years ending December 31, 2021. The graph was constructed on the assumption that \$100 was invested in our common stock and each comparative on December 31, 2016, and that any dividends were fully reinvested.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Trecora Resources, the NYSE Composite Index and the S&P Specialty Chemicals Index



*\$100 invested on 12/31/16 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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Issuer Purchases of Equity Securities

Please see the below table for information regarding repurchases of the Company’s common stock made by the Company during the three months ended December 31, 2021.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
October 1, 2021 - October 31, 2021	—	\$ —	—	\$ —
November 1, 2021 - November 30, 2021	791,900	\$ 8.16	791,900	\$ 8,761,104
December 1, 2021 - December 31, 2021	7,500 ⁽¹⁾	8.41 ⁽¹⁾	—	\$ —
Total	799,400	\$ 8.16	791,900	\$ 8,761,104

⁽¹⁾ Represents shares of our common stock withheld for satisfaction of tax liabilities of a holder of restricted shares. The value of such shares was calculated based on the closing price of our common stock on the New York Stock Exchange (“NYSE”) on the date when the withholding was made.

⁽²⁾ Represents shares of our common stock purchased on the open market pursuant to the Company’s previously announced repurchase program for up to \$20 million of the Company’s common stock, which will expire in March 2023 (the “Share Repurchase Program”). The value of such shares was calculated based on the average purchase price of our common stock on the NYSE at the time the purchase was made. Repurchases under the Share Repurchase Program may be made at management’s discretion from time to time on the open market, through privately negotiated transactions or through broker-negotiated purchases, in compliance with applicable securities law, including through a 10b5-1 Plan. The Company is not obligated to acquire any specific number of shares of our common stock under the Share Repurchase Program, which may be suspended for periods or discontinued at any time. The timing and the amount of any shares to be repurchased will be determined by management based on an evaluation of market conditions and other factors, including the Company’s stock price.

ITEM 6. [Reserved].

ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Item 8. Financial Statements and Supplementary Data.

Forward Looking Statements

Some of the statements and information contained in this Annual Report on Form 10-K may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements regarding the Company’s financial position, business strategy and plans and objectives of the Company’s management for future operations and other statements that are not historical facts, are forward-looking statements. Forward-looking statements are often characterized by the use of words such as “outlook,” “may,” “will,” “can,” “shall,” “should,” “could,” “expects,” “plans,” “anticipates,” “contemplates,” “proposes,” “believes,” “estimates,” “predicts,” “projects,” “potential,” “continue,” “intend,” or the negative of such terms and other comparable terminology, or by discussions of strategy, plans or intentions.

Forward-looking statements involve known and unknown risks, uncertainties, assumptions, and other important factors that could cause the actual results, performance or our achievements, or industry results, to differ materially from historical results, any future results, or performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and factors include, but are not limited to the impacts of the COVID-19 pandemic on our business, financial results and financial condition and that of our customers, suppliers, and other counterparties; general economic and financial conditions domestically and internationally including the impact of rising inflation; insufficient cash flows from operating activities; our ability to attract and retain key employees; feedstock and product prices; feedstock availability and our ability to access third party transportation; competition; industry cycles; natural disasters or other severe weather events, health epidemics and pandemics (including the COVID-19 pandemic) and terrorist attacks; our ability to consummate extraordinary transactions, including acquisitions, dispositions and other business combinations, and realize the financial and strategic goals of such transactions; technological developments and our ability to maintain, expand and upgrade our facilities; regulatory changes; environmental matters; lawsuits; outstanding debt and other financial and legal obligations; difficulties in obtaining additional financing on favorable conditions, or at all; local business risks in foreign countries, including civil unrest and military or political conflict, local regulatory and legal environments and foreign currency fluctuations; and other risks detailed in Part I, Item 1A. Risk Factors and this Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of

Operations in this Annual Report on Form 10-K, and in our other filings with the SEC. Many of these risks and uncertainties are currently amplified by and will continue to be amplified by, or in the future may be amplified by, the COVID-19 pandemic and other natural disasters such as severe weather events.

There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements. In addition, to the extent any inconsistency or conflict exists between the information included in this report and the information included in our prior releases, reports and other filings with the SEC, the information contained in this report updates and supersedes such information.

Forward-looking statements are based on current plans, estimates, assumptions and projections, and, therefore, you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

Overview

The following discussion and analysis of our financial results, as well as the accompanying Consolidated Financial Statements and related notes to Consolidated Financial Statements to which they refer, are the responsibility of our management. Our accounting and financial reporting fairly reflect our business model which is based on the manufacturing and marketing of specialty petrochemicals products and waxes and providing custom manufacturing services.

Our preferred supplier position into the specialty petrochemicals market is derived from the combination of our reputation as a reliable supplier established over many years, the very high purity of our products, and a focused approach to customer service. In specialty waxes, we are able to deliver to our customers a product performance and price point that we believe is unique to our market; while the diversity of our custom processing assets and capabilities offers solutions to our customers that we believe are uncommon along the U.S. Gulf Coast. The specialty waxes business also delivers environmental circularity by using proprietary technology to convert waste products generated by suppliers' polyethylene production to high value solutions for our customers.

Enabling our success in these businesses is a commitment to operational excellence which establishes a culture that prioritizes the safety of our employees and communities in which we operate, the integrity of our assets and regulatory compliance. This commitment drives a change to an emphasis on forward-looking, leading-indicators of our results and proactive steps to continuously improve our performance. We bring the same commitment to excellence to our commercial activities where we focus on the value proposition to our customers while understanding opportunities to maximize our value capture through service and product differentiation, supply chain and operating cost efficiencies and diversified supply options. We believe our focus on execution, meeting the needs of our customers, and growing our business while maintaining prudent control of our costs, will significantly contribute to enhanced stockholder value.

Business Environment and Risk Assessment

We continue to monitor the progression of COVID-19 and the recommended measures to curb the spread of the virus. Our guiding principle is, and has always been, the protection of our people and the communities in which we work, as well as maintaining the overall integrity of our assets. While the majority of our workforce has transitioned to a flexible work environment, we are continuing to follow the orders and guidance of federal, state, and local governmental agencies, as we maintain our own stringent protocols in an effort to mitigate the spread of the virus and protect the health of our employees, customers, and suppliers as well as the communities in which we work. Since the start of 2021, we have encouraged our workforce to receive vaccinations against COVID-19. However, new variants, particularly the Omicron and Delta variants, have engendered a resurgence of the virus in many regions. In the midst of changing conditions, we have nevertheless been able to continue to manage our business with minimal impact as we have throughout the COVID-19 pandemic.

Throughout 2021, we have seen a continued resurgence of demand due to the ongoing recovery of our business and the economy as a whole from the COVID-19 pandemic, which we expect to continue into 2022. However, numerous uncertainties remain regarding the potential future impact of the COVID-19 pandemic (including how the impact of the pandemic on our business and results of operations may change from quarter to quarter), including uncertainties related to the severity of the disease and the emergence of new variants, the continued duration of the pandemic, additional actions that may be taken by governmental authorities and other unintended consequences.

Our management will continue to actively monitor the impact of COVID-19 on our business, results of operations, financial condition, liquidity, suppliers, industry, investments, and workforce. We do not currently anticipate any material impairments, with respect to intangible assets, long-lived assets, or right of use assets, increases in allowances for credit losses from our customers, restructuring charges, other expenses, or changes in accounting judgments to have a material impact on our Consolidated Financial Statements.

To date, our plants have continued to operate as normal, and the majority of our supply chain has remained intact, with adequate availability of raw materials. Although there have been some disruptions in global logistics channels, we have not experienced significant delays in fulfillment of customer orders. Inflation has negatively impacted our input costs, including those associated with logistics, over the course of 2021 and we are attempting to recover as much of these costs from customers as possible.

In February 2021, there was a prolonged period of sub-freezing temperatures and snow across the State of Texas and the region. This Texas freeze event resulted in significant negative impacts not only to our business but also to our customers along the Gulf Coast. As previously disclosed, we had an estimated negative impact to Adjusted EBITDA of approximately \$3.5 million.

We believe we are well-positioned to participate in the U.S. chemical industry growth driven by new investments and overall economic growth. 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.

Specialty Petrochemicals Segment

SHR's specialty petrochemicals revenues and volumes increased in 2021 compared to 2020 due to the continued economic recovery following the pandemic downturn. Product sales revenue increased 36.7% driven by significant price increases in our feedstock. Product prices were higher in 2021 compared to 2020 as we passed along price increases resulting from higher feedstock costs. During 2021, SHR continued to emphasize our competitive advantages achieved through our high quality products and outstanding customer service and responsiveness. We also continued to make strides in improving safety and plant reliability.

During 2021, natural gasoline feedstock costs were approximately 82% higher than 2020, reflecting higher crude oil prices. Approximately 68% of our prime products are sold under formula pricing whereby feedstock price is passed along to the customer typically with a one month lag. Rising feedstock costs throughout 2021 continued to cause a narrowing of margins in 2021, similar to what we saw in the second half of 2020. Our by-product margins improved compared to 2020 due to higher by-product component prices.

Specialty Waxes Segment

Sales revenues for our specialty waxes business was relatively flat in 2021 as compared to 2020 as we had slightly lower wax product revenues and higher custom processing revenues. Wax sales volumes were depressed due to extended disruptions to feed supply and production limitations at our Pasadena facility in the first quarter of 2021 resulting from the Texas freeze event. Our wax feed is based on certain by-products produced as a result of polyethylene production at major polyethylene producers' facilities on the US Gulf Coast. Our wax feed supply was negatively impacted by producers' plant shut downs during the Texas freeze event.

Our Specialty Waxes products are used in a variety of applications including: performance additives for hot melt adhesives; penetration and melting point modifiers for paraffin and microcrystalline waxes; lubrication and processing aides for plastics, PVC, rubber, and dry stir-in additives for inks. In oxidized forms, applications also include use in textile emulsions.

Non-GAAP Financial Measures

We include in this Annual Report on Form 10-K the non-GAAP financial measures of EBITDA from continuing operations and Adjusted EBITDA from continuing operations and provide reconciliations from our most directly comparable GAAP financial measure to those measures.

We believe these financial measures provide users of our financial statements with supplemental information that may be useful in evaluating our operating performance. We also believe that such non-GAAP measures, when read in conjunction with our operating results presented under GAAP, can be used to better assess our performance from period to period and relative to performance of other companies in our industry, without regard to financing methods, historical cost basis or capital structure. These measures are not measures of financial performance or liquidity under GAAP and should be considered in addition to, and not as a substitute for, analysis of our results under GAAP.

We define EBITDA from continuing operations as net income (loss) from continuing operations plus interest expense, income tax expense (benefit), and depreciation and amortization. In the third quarter of 2021, we redefined our non-GAAP measure Adjusted EBITDA to also exclude costs for professional services associated with M&A and strategic initiatives. We define Adjusted EBITDA from continuing operations as EBITDA from continuing operations net of the impact of items we do not consider indicative of our ongoing operating performance, including share-based compensation, gains or losses on disposal of assets, gains or losses on extinguishment of debt and costs for professional services associated with M&A and strategic initiatives. The historical presentation of Adjusted EBITDA in this Annual Report on Form 10-K has been recast to conform to the revised definition.

The following table presents a reconciliation of net income (loss), our most directly comparable GAAP financial performance measure for each of the periods presented, to EBITDA from continuing operations and Adjusted EBITDA from continuing operations.

	2021	2020	2019	2018	2017
Net income (loss)	\$ 4,963	\$ 31,175	\$ (14,974)	\$ (2,332)	\$ 18,009
Income (loss) from discontinued operations, net of tax	—	26,209	(2,090)	(604)	(3,503)
Income (loss) from continuing operations	4,963	4,966	(12,884)	(1,728)	21,512
Interest expense	1,205	2,491	5,139	4,100	2,931
Derivative (gains) losses on interest rate swap	—	—	—	—	(3)
Depreciation and amortization	17,297	16,148	16,201	14,358	10,961
Income tax (benefit) expense*	(2,364)	(3,963)	(3,566)	(646)	(6,228)
EBITDA from continuing operations	<u>21,101</u>	<u>19,642</u>	<u>4,890</u>	<u>16,084</u>	<u>29,173</u>
Share-based compensation**	2,247	1,912	1,319	1,422	2,707
(Gain) loss on disposal of assets	(279)	39	680	—	—
Impairment of goodwill and certain intangibles	—	—	24,152	—	—
(Gain) loss on extinguishment of debt	(6,123)	—	—	315	—
Restructuring and severance expenses	—	—	—	2,347	—
Professional services associated with M&A and strategic initiatives	4,655	558	—	—	—
Adjusted EBITDA from continuing operations	<u>\$ 21,601</u>	<u>\$ 22,151</u>	<u>\$ 31,041</u>	<u>\$ 20,168</u>	<u>\$ 31,880</u>

* The Company estimated current taxable income to be zero and calculated deferred taxes using a statutory rate of 21% based on the enacted tax rate. (See Note 16 to the Consolidated Financial Statements.)

** Reduced to reflect amount included in Restructuring and severance expenses.

Liquidity and Capital Resources

Working Capital

Our approximate working capital days are summarized as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Days sales outstanding in accounts receivable	40.5	40.0	37.1
Days sales outstanding in inventory	26.1	20.5	19.2
Days sales outstanding in accounts payable	14.9	22.9	20.6
Days of working capital	51.6	37.7	35.7

Our days sales outstanding in accounts receivable were relatively flat from 2020 to 2021.

Our days sales outstanding in inventory increased from 2020 to 2021 due to higher inventory values, specifically in our Specialty Petrochemicals segment due to rising feedstock prices.

Our days sales outstanding in accounts payable decreased from 2020 to 2021 due primarily to lower accrued payables in our Specialty Petrochemicals segment.

Sources and Uses of Cash

Cash and cash equivalents decreased \$25.1 million during the year ended December 31, 2021. The change in cash and cash equivalents is summarized as follows:

	2021	2020	2019
Net cash provided by (used in)	<i>(in thousands)</i>		
Operating activities	\$ 4,375	\$ 25,565	\$ 25,121
Investing activities	(13,298)	55,329	(6,031)
Financing activities	(16,206)	(31,375)	(19,680)
Increase (decrease) in cash and equivalents	\$ (25,129)	\$ 49,519	\$ (590)
Cash and cash equivalents	30,535	55,664	6,145

Operating Activities

Operating activities generated cash of \$4.4 million during fiscal 2021 as compared with \$29.6 million of cash provided during fiscal 2020, excluding operating cash used in discontinued operations of \$4.0 million. Net income decreased by \$26.2 million while cash provided by operations decreased by \$21.2 million from 2020 to 2021. Net income for 2020 included net income from discontinued operations related to the sale of AMAK of \$26.2 million, which was not repeated in 2021. Additionally, in 2021, working capital was impacted by the increases in feedstock costs and utilities. In 2020, we converted a significant portion of our deferred tax assets, specifically our net operating losses, to cash by filing NOL carryback claims under the CARES Act.

Operating activities generated cash of \$25.6 million during fiscal 2020 as compared with \$25.1 million of cash provided during fiscal 2019. Net income increased by \$46.1 million while cash provided by operations increased by \$0.4 million from 2019 to 2020. Net income for 2020 included net income from discontinued operations related to the sale of AMAK of \$26.2 million while net loss for 2019 included a non-cash impairment charge for goodwill and certain intangible assets of \$24.2 million.

Investing Activities

Cash used in investing activities during fiscal 2021 was approximately \$13.3 million, representing a decrease of approximately \$68.6 million compared to fiscal 2020. Included in 2020 was approximately \$68.5 million of investing cash provided by discontinued operations. The majority of the funds used in investing activities were for additions of plant, pipeline and equipment of approximately \$14.2 million, partially offset by proceeds from the sale of PEVM and gains on disposals of assets.

Cash provided by investing activities during fiscal 2020 was approximately \$55.3 million, representing an increase of approximately \$61.4 million compared to fiscal 2019. The primary source of the funds provided by investing activities was \$68.5 million of proceeds, net of the deposit previously paid, received in connection with the sale of our ownership interest in AMAK, discussed in Note 6 to the Consolidated Financial Statements, offset by additions of plant, pipeline and equipment of approximately \$13.4 million.

Financing Activities

Cash used in financing activities during fiscal 2021 was approximately \$16.2 million as compared to \$31.4 million during fiscal 2020. The primary use of funds in 2021 was the purchase of treasury stock of approximately \$11.5 million in value of our common stock pursuant to the Share Repurchase Program, while in 2020 we reduced our debt with a \$30 million prepayment toward our Term Loan Facility. We also made scheduled payments of \$4.4 million on our Term Loan Facility.

Cash used in financing activities during fiscal 2020 was approximately \$31.4 million as compared to \$19.7 million during fiscal 2019. In the first quarter of 2020, we drew \$20.0 million under our Revolving Facility as a precaution in light of the uncertainty caused by the COVID-19 pandemic. We also received PPP Loans of \$6.1 million to maintain the continuity of our workforce, including maintaining compensation and benefits. Utilizing a portion of the net proceeds from the sale of our investment in AMAK, together with cash on hand, we repaid our outstanding balance on our Revolving Facility of \$23 million at the end of the second quarter and further reduced our debt with a \$30 million prepayment toward our Term Loan Facility. We also made scheduled payments of \$4.4 million on our Term Loan Facility.

Capital Resources and Requirements

Capital expenditures increased \$0.8 million, or 6%, from 2020 to 2021. During 2021 we expended approximately \$3.8 million on upgrades to the pipeline for GSPL, approximately \$1.5 million to replace and upgrade tanks and towers, and \$1.1 million on a new consolidated truck entrance resulting in improved security and plant access.

At December 31, 2021, we had \$30.5 million in cash and cash equivalents and borrowing availability of approximately \$75.0 million on our Revolving Facility. We believe the Company is able to support its operating requirements and capital expenditures through internally generated funds supplemented with cash on our balance sheet and availability under our ARC

Agreement in both the short-term (i.e., the next 12 months) and the long-term (i.e. beyond the next 12 months). See Note 13 to the Consolidated Financial Statements for additional discussion regarding credit availability.

Our material cash requirements include the following contractual and other obligations.

Debt. Long-term debt obligations approximate \$42.2 million as discussed in Note 13 of the Notes to Consolidated Financial Statements.

Leases. The majority of our approximately \$8.7 million of operating lease obligations are for railcars as discussed in Note 9 of the Notes to Consolidated Financial Statements.

Other Purchase Obligations. Purchase obligations of approximately \$19.7 million are primarily related to commitments for our undelivered feedstock and capital construction projects as discussed in Note 14 of the Notes to Consolidated Financial Statements.

Results of Operations

Our [Annual Report on Form 10-K](#) for the year ended December 31, 2020 includes a discussion and analysis of our financial condition and results of operations for the year ended December 31, 2020 compared to the year ended December 31, 2019 in Item 7 of Part II, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Comparison of Years 2021 and 2020

The tables containing financial and operating information set forth below are presented to facilitate the discussion of the results of operations, and should not be considered a substitute for, and should be read in conjunction with, the Consolidated Financial Statements.

Specialty Petrochemicals Segment

	2021	2020	Change	% Change
	<i>(thousands of dollars)</i>			
Specialty Petrochemicals Product Sales	\$ 228,293	\$ 167,054	\$ 61,239	36.7 %
Processing	5,798	5,296	502	9.5 %
Gross Revenue	\$ 234,091	\$ 172,350	\$ 61,741	35.8 %
Volume of Sales (gallons)				
Specialty Petrochemicals Products	78,236	75,101	3,135	4.2 %
Prime Products	65,044	61,650	3,394	5.5 %
By-products	13,192	13,451	(259)	(1.9)%
Cost of Sales	\$ 207,271	\$ 145,166	\$ 62,105	42.8 %
Gross Margin	11.5 %	15.8 %	(4.3)%	
Total Operating Expense*	77,186	70,224	6,962	9.9 %
Natural Gas Expense*	7,189	3,737	3,452	92.4 %
Operating Labor Costs*	12,605	16,138	(3,533)	(21.9)%
Transportation Costs*	22,550	22,181	369	1.7 %
General & Administrative Expense	11,809	10,618	1,191	11.2 %
Depreciation**	11,183	10,611	572	5.4 %
Adjusted EBITDA	25,895	26,398	(503)	(1.9)%
Capital Expenditures	11,633	11,334	299	2.6 %

*Included in cost of sales

**Includes \$10,398 and \$9,872 for 2021 and 2020 which is included in cost of sales and operating expenses

Gross Revenue

Gross revenue for the Specialty Petrochemicals segment increased from 2020 to 2021 by approximately 35.8% due to an increase in specialty petrochemicals sales volume and an increase in average selling prices. Increase in selling price was primarily attributable to higher feedstock costs in 2021, which impacts pricing for our formula customers.

Specialty Petrochemicals Product Sales

Specialty petrochemicals product sales revenue increased 36.7% from 2020 to 2021 due to an increase in total sales volume of 4.2% and an increase in average selling price of 31.2%. Much of the increase in sales volume was due to higher demand as the industry continued to recover from the COVID-19 pandemic, primarily driven by higher sales to polyethylene end-use markets. Sales to other end-use markets were also generally stronger compared to 2020, with the exception of oil sands, which has continued to decline. By-product sales volumes declined 1.9% as compared to 2020 as we operated our Advanced Reformer at lower rates to build prime product inventory in preparation for turnaround work early in 2022. By-products are produced as a result of prime product production and their margins are significantly lower than margins for our prime products.

Our average selling price increased primarily because of higher feedstock costs. A large portion of our prime products sales are contracted with pricing formulas which are tied to prior month natural gasoline prices which is our primary feedstock. Average delivered feedstock price for 2021 was approximately 83% higher than 2020 as natural gasoline prices rose with crude oil prices throughout 2021. Additionally, prices for by-products in 2021 were higher than in 2020 due to higher prices for the components in our by-products stream. This also contributed to higher overall selling price.

Foreign sales volume accounted for approximately 18.5% of specialty petrochemicals sales volume and approximately 19.9% of revenue for specialty petrochemicals product sales during 2021 as compared to approximately 23.6% of volume and approximately 25.4% of revenue for specialty petrochemicals product sales during 2020. Excluding oil sands, foreign sales volumes in 2021 were 0.6 million gallons, an increase of approximately 5%, as compared to 2020, primarily due to recovery of customer demand resulting from global economic recovery from the COVID-19 pandemic.

Processing Fees

Processing fees increased approximately 9.5% from 2020 to 2021 primarily due to renegotiated contracts which raised revenues.

Cost of Sales *(includes but is not limited to raw materials, total operating expense, natural gas, operating labor and transportation)*

Cost of Sales increased 42.8% from 2020 to 2021 due to higher raw material costs, higher operating expense and the increase in sales volume. Our average delivered feedstock cost per gallon increased approximately 83% from 2020 to 2021 mostly tracking the increase in crude oil price. The price of natural gasoline is highly correlated with the price of crude oil. Natural gasoline is the heavier liquid component remaining after ethane, propane and mixed 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.

Total Operating Expense *(includes but is not limited to natural gas, operating labor, depreciation, and transportation)*

Total Operating Expense increased 9.9% from 2020 to 2021 or approximately \$7.0 million. The key driver for the increase was higher natural gas costs.

Natural gas expense increased approximately 92% from 2020 to 2021 primarily due to a increase in the average per unit cost. Consumption was slightly higher than in 2020 primarily due to higher sales volume. The average price per MMBTU for 2021 was higher by approximately 107% from 2020 while volume remained relatively flat.

Gross Margin

Gross margin decreased from 15.8% of gross revenue in 2020 to 11.5% of gross revenue in 2021. The decrease in gross margin was driven by a decrease in margins for prime products offset by an increase in margins for by-products. Prime product margins were reduced due to higher feedstock and operating costs primarily for freight and utilities, while by-product margins increased due to higher component prices.

General and Administrative Expense

General and Administrative costs increased 11.2% from 2020 to 2021 primarily due to higher insurance costs.

Capital Expenditures

Capital expenditures in 2021 decreased 2.6% or approximately \$0.3 million from 2020.

Specialty Waxes Segment

	2021		2020		Change		% Change
						<i>(thousands of dollars)</i>	
Product Sales	\$ 29,246	\$	25,321	\$	3,925		15.5 %
Processing	9,353		10,955		(1,602)		(14.6) %
Gross Revenue	\$ 38,599	\$	36,276	\$	2,323		6.4 %
Volume of specialty waxes sales (pounds)	35,838		36,387		(549)		(1.5) %
Cost of Sales	\$ 36,843	\$	34,782	\$	2,061		5.9 %
Gross Margin (Loss)	4.5 %		4.1 %		0.4 %		
General & Administrative Expense	4,653		5,160		(507)		(9.8) %
Depreciation and Amortization*	6,108		5,522		586		10.6 %
Adjusted EBITDA	3,119		1,961		1,158		59.1 %
Capital Expenditures	2,519		1,995		524		26.3 %

*Includes \$6,017 and \$5,428 for 2021 and 2020, respectively, which is included in cost of sales

Product Sales

Product sales revenue increased 15.5% while product sales volume decreased 1.5% from 2020 to 2021. The increase in revenues was primarily driven by higher selling prices as compared to 2020. Polyethylene wax sales saw volume remain flat and revenue from polyethylene wax increased approximately 16.2% as a result of higher sales prices. Average wax sales price increased approximately 17.5% in 2021 compared to 2020.

Processing Fees

Processing fees decreased 14.6% from 2020 to 2021. Processing fees were negatively impacted by the Texas freeze event in February 2021 and reduced customer demand for custom processing services driven by the COVID-19 pandemic.

Cost of Sales

Cost of Sales increased approximately \$2.1 million, or 5.9%, from 2020 to 2021. This increase was driven by higher polyethylene wax feed cost.

General and Administrative Expense

General and Administrative costs decreased 9.8% from 2020 to 2021 driven by lower bonus accruals and compensation costs, partially offset by increased insurance costs.

Capital Expenditures

Capital expenditures increased from approximately \$2.0 million to \$2.5 million or 26.3% from 2020 to 2021, primarily due to restoration costs associated with the damage to pipes and other plant equipment resulting from the Texas freeze event in February 2021.

Corporate Segment

	2021		2020		Change		%Change
						<i>(in thousands)</i>	
General & Administrative Expense	\$ 14,838	\$	9,125	\$	5,713		62.6 %

Corporate expenses increased \$5.7 million from 2020 to 2021 primarily due to one-time costs for professional services associated with M&A and strategic initiatives of approximately \$4.7 million as well as higher insurance costs.

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (ASU 2019-12), which simplifies the accounting for income taxes. This guidance was effective for us in the first quarter of 2021. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASU 2020-04), which provides guidance to alleviate the burden in accounting for reference rate reform by allowing certain expedients and exceptions in applying generally accepted accounting principles to contracts, hedging relationships, and other transactions impacted by reference rate reform. The provisions of ASU 2020-04 apply only to those transactions that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. This guidance is effective from March 12, 2020 through December 31, 2022 and adoption is optional. We are currently evaluating the impact of ASU 2020-04 on our Consolidated Financial Statements.

Critical Accounting Estimates

Our Consolidated Financial Statements are based on the selection and application of significant accounting policies. The preparation of Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of net sales, expenses and allocated charges during the reported period. Actual results could differ from those estimates. However, we are not currently aware of any reasonably likely events or circumstances that would result in materially different results.

We believe the following accounting policies and estimates are critical to understanding the financial reporting risks present currently. These matters, and the judgments and uncertainties affecting them, are essential to understanding our reported results. See Note 2 to the Consolidated Financial Statements for further information.

Discontinued Operations

Assets that are sold or classified as held for sale are classified as discontinued operations provided that the disposal represents a strategic shift that has (or will have) a major effect on our operations and financial results (e.g., a disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of an entity).

Inventories

For SHR, finished products and feedstock are recorded at the lower of cost, determined on the first-in, first-out method (“FIFO”), or market. For TC, inventory is recorded at the lower of cost or market as follows: (1) raw material cost is calculated using the weighted-average cost method and (2) product inventory cost is calculated using the specific cost method. See Note 5 to the Consolidated Financial Statements for more information.

Revenue recognition

Accounting Policy

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

Nature of goods and services

The following is a description of principal activities – separated by reportable segments – from which the Company generates its revenue. For more detailed information about reportable segments, disaggregation of revenues, and contract balance disclosures, see Note 17 to the Consolidated Financial Statements.

Specialty Petrochemicals Segment

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

Product Sales - The Company sells individual (distinct) products to its customers on a stand-alone basis (point-of-sale) without any further integration. There is no significant modification of any one or more products sold to fulfill another promised product or service within any of the Company’s product sale transactions. The amount of consideration received for product

sales is stated within the executed invoice with the customer. Payment for prime product sales is typically due and collected 30 to 60 days subsequent to point of sale.

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

Specialty Waxes Segment

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

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

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

Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable from estimated future undiscounted cash flows. If the estimated future undiscounted cash flows are less than the carrying value of the assets, the impairment amount is calculated as the amount by which carrying value exceeds the fair value of the long-lived assets. Our long-lived assets include our specialty petrochemicals facility and our specialty waxes facility.

Our specialty petrochemicals facility and specialty waxes facility are currently our revenue generating assets. The facilities were in full operation at December 31, 2021.

Goodwill and other intangible assets

Goodwill and indefinite-lived intangible assets are tested for impairment at least annually; however, these tests are performed more frequently when events or changes in circumstances indicate that the asset may be impaired. Impairment exists when carrying value exceeds fair value.

Definite-lived intangible assets are being amortized using discounted estimated future cash flows over the term of the related agreements. We continually evaluate the reasonableness of the useful lives of these assets. Once these assets are fully amortized, they will be removed from the consolidated balance sheets.

See Note 10 to the Consolidated Financial Statements for additional information.

Investment in AMAK (Discontinued Operations)

Prior to the completion of the sale of our ownership interest in AMAK, we accounted for our investment in AMAK using the equity method of accounting under which we recorded in income our share of AMAK's income or loss for each period. The amount recorded was also adjusted to reflect the amortization of certain differences between the basis in our investment in AMAK and our share of the net assets of AMAK as reflected in AMAK's financial statements. Any proceeds received from or payments made to AMAK were recorded as decreases or increases in the balance of our investment. See Note 6 to the Consolidated Financial Statements.

Environmental Liabilities

Our operations are subject to the rules and regulations of the TCEQ which inspects the facilities at various times for possible violations relating to air, water and industrial solid waste requirements. As noted in Item 1. Business, evidence of groundwater contamination was discovered at SHR in 1993. The recovery process, initiated in 1998, is proceeding as planned and is expected to continue for many years. See Note 14 to the Consolidated Financial Statements.

Share-Based Compensation

We expense the cost of director and employee services received in exchange for an award of equity instruments based on the grant date fair value of such instruments. For options we use the Black-Scholes model to calculate the fair value of the equity instrument on the grant date. See Note 15 to the Consolidated Financial Statements.

Income Taxes

We record deferred tax assets and liabilities to account for the expected future tax consequences of events that have been recognized in our financial statements and our tax returns. We routinely assess our deferred tax assets and reduce such assets by a valuation allowance if we deem it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. In assessing the need for adjustments to existing valuation allowances, we consider all available positive and negative evidence.

We regularly assess and, if required, establish accruals for uncertain tax positions that could result from assessments of additional tax by taxing jurisdictions where we operate. We recognize a tax benefit from an uncertain tax position when it is more likely than not that the position will be sustained upon examination, based on the technical merits of the position. These accruals for uncertain tax positions are subject to a significant amount of judgment and are reviewed and adjusted on a periodic basis in light of changing facts and circumstances considering the progress of ongoing tax audits, court proceedings, changes in applicable tax laws, including tax case rulings and legislative guidance, or expiration of the applicable statute of limitations. See Note 16 to the Consolidated Financial Statements.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk.

The market risk inherent in our financial instruments represents the potential loss resulting from adverse changes in interest rates, foreign currency rates and commodity prices. Our exposure to interest rate changes results from our variable rate debt instruments which are vulnerable to changes in short term United States prime interest rates. At December 31, 2021, 2020 and 2019, we had approximately \$43.3 million, \$46.6 million, and \$83.9 million, respectively, in variable rate debt outstanding, excluding deferred financing costs. A hypothetical 10% change in interest rates underlying these borrowings would result in annual changes in our earnings and cash flows of approximately \$0.1 million, \$0.1 million, and \$0.4 million at December 31, 2021, 2020 and 2019, respectively.

We do not view exchange rates exposure as significant and have not acquired or issued any foreign currency derivative financial instruments.

We purchase all of our raw materials, consisting of feedstock and natural gas, on the open market. The cost of these materials is a function of non-formula market oil and gas prices. As a result, our revenues and gross margins could be affected by changes in the price and availability of feedstock and natural gas.

At the end of 2021, market risk for 2022 was estimated as a hypothetical 10% increase in the cost of natural gas and feedstock over the market price prevailing on December 31, 2021. Assuming that 2022 total specialty petrochemicals product sales volumes stay at the same rate as 2021, the 10% market risk increase will result in an increase in the cost of natural gas and feedstock of approximately \$14.8 million in fiscal 2022.

ITEM 8. Financial Statements and Supplementary Data.

The Consolidated Financial Statements of the Company and the consolidated financial statement schedules, including the report of our independent registered public accounting firm (Firm ID 5127) thereon, are set forth beginning on Page F-1.

ITEM 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

ITEM 9A. Controls and Procedures.

(a) Disclosure Controls and Procedures.

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e)) under the Exchange Act that are designed to provide reasonable assurance that the information that we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and such information is accumulated and communicated to our management, including our Chief Executive Office and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. It should be noted that because of inherent limitations, our disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objective of the disclosure controls and procedures are met.

As required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules

13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded, as of the end of the period covered by this report, that our disclosure controls and procedures were effective at a reasonable assurance level to ensure that the information that we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure because of the material weakness in our internal control over financial reporting described below.

(b) Management’s Annual Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process that is designed under the supervision of our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide assurance regarding financial reporting and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Our internal control of financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures recorded by us are being made only in accordance with authorizations of our management and Board of Directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management has conducted its evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2021, based upon the framework in *Internal Control – Integrated Framework* (2013) by the Committee of Sponsoring Organizations of the Treadway Commission. Management’s assessment included an evaluation of the design of our internal control over financial reporting and testing the operating effectiveness of our internal control over financial reporting. Management reviewed the results of the assessment with the Audit Committee of the Board of Directors. Based on its assessment and review with the Audit Committee, management concluded that our internal control over financial reporting was effective as of December 31, 2021.

(c) Attestation Report of the Registered Public Accounting Firm.

BKM Sowan Horan, LLP, an independent registered public accounting firm, has audited the Consolidated Financial Statements included in this Annual Report on Form 10-K and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting.

(d) Changes in Internal Control over Financial Reporting.

There have been no changes in our internal control over financial reporting during the fourth quarter of 2021 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting. From time to time, we make changes to our internal control over financial reporting that are intended to enhance its effectiveness and which do not have a material effect on our overall internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Trecora Resources

Opinion on Internal Control over Financial Reporting

We have audited Trecora Resources' (the Company's) internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the balance sheets and the related statements of operations, stockholders' equity, and cash flows of the Company, and our report dated March 10, 2022, expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BKM Sowan Horan, LLP
Dallas, Texas
March 10, 2022

ITEM 9B. Other Information.

None.

ITEM 9C. Disclosure Regarding Foreign Jurisdictions That Prevent Inspections.

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance.

Incorporated by reference from our Proxy Statement for our 2022 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the year ended December 31, 2021.

We have adopted a Code of Business Conduct and Ethics that applies to all of the Company's directors, officers and employees, including its principal executive officer, principal financial officer, principal accounting officer and controller, and to persons performing similar functions. A copy is available on our website at www.trecora.com. We intend to disclose future amendments to our Code of Business Conduct and Ethics and any grant of a waiver from a provision of our Code of Business Conduct and Ethics requiring disclosure under applicable SEC rules on our website.

ITEM 11. Executive Compensation.

Incorporated by reference from our Proxy Statement for our 2022 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the year ended December 31, 2021.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Incorporated by reference from our Proxy Statement for our 2022 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the year ended December 31, 2021.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

Incorporated by reference from our Proxy Statement for our 2022 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the year ended December 31, 2021.

ITEM 14. Principal Accounting Fees and Services.

Incorporated by reference from our Proxy Statement for our 2022 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the year ended December 31, 2021.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules.

(a) 1. The following financial statements are filed with this Report:

- Reports of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets dated December 31, 2021 and 2020
- Consolidated Statements of Operations for the three years ended December 31, 2021
- Consolidated Statement of Stockholders' Equity for the three years ended December 31, 2021
- Consolidated Statements of Cash Flows for the three years ended December 31, 2021
- Notes to Consolidated Financial Statements

2. The following financial statement schedules are filed with this Report:

- Schedule II -- Valuation and Qualifying Accounts for the three years ended December 31, 2021

3. The following documents are filed or incorporated by reference as exhibits to this Report. Exhibits marked with an asterisk (*) are filed herewith. Exhibits marked with a plus sign (+) are management contracts or a compensatory plan, contract or arrangement. The below exhibit marked with a degree sign (°) has been redacted in part, in compliance with Regulation S-K Item 601. The Company agrees to furnish supplementally an unredacted copy of such exhibit to the Securities and Exchange Commission upon its request.

Exhibit Number	Description
2.1	Share Sale and Purchase Agreement, dated as of September 22, 2019, among Trecora Resources, Al Masane Al Kobra Mining Company and the other purchasers named therein (incorporated by reference to Exhibit 2.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (file No. 001-33926))

Exhibit Number	Description
2.2	<u>Letter Agreement Amendment to the Share Sale and Purchase Agreement, dated November 24, 2019, among Trecora Resources, Al Masane Al Kobra Mining Company and the other purchasers named therein (incorporated by reference to Exhibit 2.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 (file No. 001-33926))</u>
2.3	<u>Letter Agreement Amendment to the Share Sale and Purchase Agreement, dated January 16, 2020, among Trecora Resources, Al Masane Al Kobra Mining Company and the other purchasers named therein (Incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on January 22, 2020 (file No. 001-33926))</u>
2.4	<u>Letter Agreement Amendment to the Share Sale and Purchase Agreement, dated March 23, 2020, among Trecora Resources, Al Masane Al Kobra Mining Company and the other purchasers named therein (incorporated by reference to Exhibit 2.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (file No. 001-33926))</u>
3.1	<u>Amended and Restated Certificate of Incorporation of Trecora Resources (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 21, 2018 (file No. 001-33926))</u>
3.2	<u>Amended and Restated Bylaws of Trecora Resources (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on May 21, 2018 (file No. 001-33926))</u>
4.1	<u>Description of Securities Registered under Section 12 of the Exchange Act (incorporated by reference to Exhibit 4.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 (file No. 001-33926))</u>
10.1+	<u>Employment Contract, dated October 1, 2014, between Trecora Resources and Peter M. Loggenberg, Ph.D. (incorporated by reference to Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (file No. 001-33926))</u>
10.2+	<u>Severance Agreement and Covenant not to Compete, Solicit and Disclose, dated October 1, 2014, between Trecora Resources and Subsidiaries and Peter M. Loggenberg, Ph.D. (incorporated by reference to Exhibit 10(d) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (file No. 001-33926))</u>
10.3+	<u>First Amendment to Employment Contract, effective as of March 7, 2018, between Trecora Resources and Peter Loggenberg, Ph.D. (incorporated by reference to Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (file No. 001-33926))</u>
10.4+	<u>Letter Agreement, dated as of February 21, 2019, between Trecora Resources and Peter M. Loggenberg, Ph.D. (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 (file No. 001-33926))</u>
10.5+	<u>Employment Contract, dated as of December 3, 2018, between Trecora Resources and Patrick D. Quarles (incorporated by reference to Exhibit 10(d) of the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (file No. 001-33926))</u>
10.6+	<u>Letter Agreement, dated as of May 15, 2019, between Trecora Resources and Sami Ahmad (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (file No. 001-33926))</u>
10.7+*	<u>Letter Agreement, dated as of May 8, 2020, between Trecora Resources and Michael Silberman</u>
10.8+*	<u>Letter Agreement, dated as of April 19, 2021, between Trecora Resources and Rafael Pons</u>
10.9+	<u>Retirement Agreement, dated as of April 19, 2021, between Trecora Resources and John R. Townsend (incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 (file No. 001-33926))</u>
10.10+	<u>Trecora Resources Change of Control Severance Plan (incorporated by reference to Exhibit 10.11 of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 (file No. 001-33926))</u>
10.11+*	<u>Form of Indemnification Agreement entered into by each director and officer of the Company</u>
10.12+	<u>Trecora Resources Stock and Incentive Plan, as amended by the First Amendment (incorporated by reference to Appendix C to the Company's Definitive Proxy Statement on Schedule 14A filed on April 10, 2018)</u>
10.13+	<u>Second Amendment to the Trecora Resources Stock and Incentive Plan (incorporated by reference to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A filed on April 10, 2018)</u>
10.14+	<u>Form of Trecora Resources Stock and Incentive Plan Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 (file No. 001-33926))</u>
10.15+	<u>Form of Trecora Resources Stock and Incentive Plan Restricted Stock Unit Agreement (Time-Based Grants) (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (file No. 001-33926))</u>

Exhibit Number	Description
10.16+	Form of Trecora Resources Stock and Incentive Plan Restricted Stock Unit Agreement (Performance-Based Grants) (incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (file No. 001-33926))
10.17	Form of Trecora Resources Stock and Incentive Plan Restricted Stock Unit Agreement (Time-Based) (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 (file No. 001-33926))
10.18	Form of Trecora Resources Stock and Incentive Plan Restricted Stock Unit Agreement (Performance-Based)(incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 (file No. 001-33926))
10.19+	Arabian American Development Company Non-Employee Director Stock Option Plan adopted April 7, 2008 (incorporated by reference to Exhibit B to the Company's Form DEF 14A filed April 30, 2008 (file No. 001-33926))
10.20+	Summary of Trecora Resources Annual Bonus Program(incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (file No. 001-33926))
10.21°	Second Amended and Restated Natural Gasoline Supply and Handling Agreement, dated as of May 1, 2020, between Martin Operating Partnership L.P. and South Hampton Resources, Inc. (incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (file No. 001-33926))
10.22	Amended and Restated Credit Agreement, dated as of October 1, 2014, among Texas Oil & Chemical Co. II, Inc., as Borrower, certain subsidiaries of the Borrower, as Guarantors, the Lenders from time to time party thereto and Bank of America, N.A., as Administrative Agent, Swingline Lender and an L/C Issuer (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on October 3, 2014 (file No. 001-33926))
10.23	Second Amendment to Amended and Restated Credit Agreement, dated as of March 28, 2017, among Texas Oil & Chemical Co. II, Inc., as Borrower, certain subsidiaries of the Borrower, as Guarantors, the Lenders from time to time party thereto and Bank of America, N.A., as Administrative Agent, Swingline Lender and an L/C Issuer (incorporated by reference to Exhibit 99.1 to the Company's form 8-K filed on March 30, 2017 (file No. 001-33926))
10.24	Third Amendment to Amended and Restated Credit Agreement, dated as of July 25, 2017, among Texas Oil & Chemical Co. II, Inc., as Borrower, certain subsidiaries of the Borrower, as Guarantors, the Lenders from time to time party thereto and Bank of America, N.A., as Administrative Agent, Swingline Lender and an L/C Issuer (incorporated by reference to Exhibit 99.1 to the company's Form 8-K filed on July 27, 2017 (file No. 001-33926))
10.25	Fourth Amendment to Amended and Restated Credit Agreement, dated as of July 31, 2018, among Texas Oil & Chemical Co. II, Inc., as Borrower, certain subsidiaries of the Borrower, as Guarantors, the Lenders from time to time party thereto, Citibank, N.A., as an L/C Issuer, and Bank of America, N.A., as Administrative Agent, Swingline Lender and an L/C Issuer (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated July 31, 2018 (file No. 001-33926))
10.26	Fifth Amendment to Amended and Restated Credit Agreement, dated as of December 19, 2018, among Texas Oil & Chemical Co. II, Inc., as Borrower, certain subsidiaries of the Borrower, as Guarantors, the Lenders from time to time party thereto, Citibank, N.A., as an L/C Issuer, and Bank of America, N.A., as Administrative Agent, Swingline Lender and an L/C Issuer (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated December 14, 2018 (file No. 001-33926))
10.27	Sixth Amendment to Amended and Restated Credit Agreement, dated as of March 29, 2019, among Texas Oil & Chemical Co. II, Inc., as Borrower, certain subsidiaries of the borrower, as Guarantors, The Lenders from time to time party thereto, Citibank, N.A., as an L/C Issuer, and Bank of America, N.A. as Administrative agent, Swingline Lender and an L/C Issuer (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed April 2, 2019 (file No. 001-33926))
10.28	Seventh Amendment to Amended and Restated Credit Agreement, dated as of May 8, 2020, among Texas Oil & Chemical Co. II, Inc., as Borrower, certain subsidiaries of the Borrower, as Guarantors, the Lenders from time to time party thereto, Citibank, N.A., as an L/C Issuer, and Bank of America, N.A., as Administrative Agent, Swingline Lender and an L/C Issuer (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (file No. 001-33926))
10.29	Eighth Amendment to Amended and Restated Credit Agreement, dated as of May 3, 2021, among Texas Oil & Chemical Co. II, Inc., as Borrower, certain subsidiaries of the Borrower, as Guarantors, the Lenders from time to time party thereto, Citibank, N.A., as an L/C Issuer, and Bank of America, N.A., as Administrative Agent, Swingline Lender and an L/C Issuer (incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 (file No. 001-33926))
21*	Subsidiaries of Trecora Resources
23.1*	Consent of Independent Registered Public Accounting Firm, BKM Sowan Horan, LLP

Exhibit Number	Description
24*	Power of Attorney (set forth on the signature page hereto)
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32*	Certification of Chief Executive Officer and 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
104*	Cover Page Interactive Data File (formatted as inline XBRL and included as Exhibit 101)

ITEM 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

TRECORA RESOURCES

Dated: March 10, 2022

By: /s/ Patrick Quarles

Patrick Quarles

Chief Executive Officer and President

KNOW ALL MEN BY THESE PRESENTS that each of the undersigned directors and officers of Trecora Resources hereby constitutes and appoints Patrick Quarles and Sami Ahmad his or her true and lawful attorney-in-fact and agent, for him or her and in his or her name, place and stead, in any and all capacities, with full power to act alone, to sign any and all amendments to this Report, and to file each such amendment to the Report, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant in the capacities indicated on March 10, 2022.

Signature	Title
<u>/s/ Patrick Quarles</u> Patrick Quarles	Chief Executive Officer, President and Director (principal executive officer)
<u>/s/ Sami Ahmad</u> Sami Ahmad	Chief Financial Officer (principal financial officer)
<u>/s/ Christopher Groves</u> Christopher Groves	Corporate Controller (principal accounting officer)
<u>/s/ Karen A. Twitchell</u> Karen A. Twitchell	Chair of the Board and Director
<u>/s/ Gary K. Adams</u> Gary K. Adams	Director
<u>/s/ Pamela R. Butcher</u> Pamela R. Butcher	Director
<u>/s/ Nicholas Carter</u> Nicholas Carter	Director
<u>/s/ Adam C. Peakes</u> Adam C. Peakes	Director
<u>/s/ Janet S. Roemer</u> Janet S. Roemer	Director

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Trecora Resources

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Trecora Resources and Subsidiaries (the “Company”) as of December 31, 2021 and 2020, and the related consolidated statements of operations, stockholders’ equity and cash flows for each of the years in the three-year period ended December 31, 2021 and the related notes and schedules listed in the index at Item 15(a) (collectively referred to as the “Consolidated Financial Statements”). In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2022, expressed an unqualified opinion.

Basis for Opinion

These Consolidated Financial Statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s Consolidated Financial Statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the Consolidated Financial Statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the Consolidated Financial Statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the Consolidated Financial Statements that were communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the Consolidated Financial Statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the Consolidated Financial Statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate audit opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Recoverability of the Specialty Waxes segment long-lived assets

The Company’s Specialty Waxes segment has total assets of \$79.9 million, including Net Plant, Pipeline, and Equipment of \$58.1 million and Net Intangibles Assets of \$11.1 million. The Company considers the Specialty Waxes segment to be a single long lived asset group. A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that it’s carrying amount may not be recoverable. For the year ended December 31, 2021, the Specialty Waxes segment had a net loss of \$0.8 million.

We identified the recoverability of the Specialty Waxes segment long-lived assets as a critical audit matter because of the significant estimates and assumptions management used in the undiscounted cash flow analysis. Performing audit procedures to evaluate the reasonableness of these estimates and assumptions required a high degree of auditor judgment and an increased extent of effort.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the following:

- We obtained an understanding and evaluated the design of internal controls over management’s evaluation of the recoverability of long-lived assets based on the Company’s undiscounted cash flows analysis.
- We evaluated management’s ability to forecast future sales, gross profit and future capital needs by comparing actual results to management’s historical forecasts.

- We evaluated the reasonableness of significant assumptions in the undiscounted cash flow analysis, including future sales, operating costs, gross profit, and capitalization rates. In addition, we tested the mathematical accuracy of the undiscounted cash flows analysis.
- We evaluated whether the assumptions were consistent with evidence obtained in other areas of the audit.

/s/ BKM Sowan Horan, LLP

We have served as the Company's auditor since 2010.

Dallas, Texas
March 10, 2022

TRECORA RESOURCES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2021	2020
	<i>(thousands of dollars)</i>	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 30,535	\$ 55,664
Trade receivables, net (Note 4)	32,811	25,301
Inventories (Note 5)	21,134	12,945
Prepaid expenses and other assets (Note 7)	4,313	9,198
Taxes receivable	—	2,788
Total current assets	88,793	105,896
PLANT, PIPELINE, AND EQUIPMENT, NET (Note 8)	185,521	187,104
OPERATING LEASE ASSETS, NET (Note 9)	8,170	10,528
INTANGIBLE ASSETS, NET (Note 10)	11,056	12,893
MINERAL PROPERTIES (Note 11)	—	412
TOTAL ASSETS	\$ 293,540	\$ 316,833
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 12,075	\$ 14,447
Accrued liabilities (Note 12)	5,873	6,857
Current portion of long-term debt (Note 13)	4,194	4,194
Current portion of operating lease (Note 9)	3,227	3,195
Current portion of other liabilities	626	891
Total current liabilities	25,995	29,584
CARES ACT, PPP Loans	—	6,123
LONG-TERM DEBT, net of current portion (Note 13)	37,707	41,901
OPERATING LEASE LONG TERM (Note 9)	4,923	7,333
OTHER LIABILITIES, net of current portion	417	968
DEFERRED INCOME TAXES (Note 16)	24,525	26,517
Total liabilities	93,567	112,426
COMMITMENTS AND CONTINGENCIES (Note 14)		
EQUITY		
Common Stock - authorized 40 million shares of \$.10 par value; issued 25.0 and 24.8 million in 2021 and 2020, respectively, and outstanding 23.6 and 24.8 million in 2021 and 2020, respectively	2,499	2,483
Additional Paid-in Capital	63,260	61,311
Common Stock in Treasury, at cost 1.4 and nil million shares in 2021 and 2020, respectively	(11,486)	—
Retained Earnings	145,700	140,324
Total Trecora Resources Stockholders' Equity	199,973	204,118
Non-controlling interest	—	289
Total equity	199,973	204,407
TOTAL LIABILITIES AND EQUITY	\$ 293,540	\$ 316,833

TRECORA RESOURCES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31,

	2021	2020	2019
	<i>(thousands of dollars)</i>		
Revenues			
Product sales	\$ 257,539	\$ 192,375	\$ 243,314
Processing fees	15,151	16,251	15,645
	<u>272,690</u>	<u>208,626</u>	<u>258,959</u>
Operating costs and expenses			
Cost of sales and processing (including depreciation and amortization of \$16,415, \$15,300, and \$15,361, respectively)	244,114	179,948	220,444
Gross Profit	<u>28,576</u>	<u>28,678</u>	<u>38,515</u>
General and Administrative Expenses			
General and administrative	26,123	24,334	24,386
Professional services associated with M&A and strategic initiatives	4,655	558	—
Impairment of goodwill and certain intangibles (Note 10)	—	—	24,152
Depreciation	882	848	840
	<u>31,660</u>	<u>25,740</u>	<u>49,378</u>
Operating income (loss)	<u>(3,084)</u>	<u>2,938</u>	<u>(10,863)</u>
Other expenses			
Interest expense	1,205	2,491	5,139
Gain on extinguishment of debt	(6,123)	—	—
(Gain) loss on disposal of assets	(279)	39	680
Miscellaneous income	(486)	(595)	(232)
	<u>(5,683)</u>	<u>1,935</u>	<u>5,587</u>
Income (loss) from continuing operations before income tax benefit	2,599	1,003	(16,450)
Income tax benefit	2,364	3,963	3,566
Income (loss) from continuing operations	<u>4,963</u>	<u>4,966</u>	<u>(12,884)</u>
Income (loss) from discontinued operations, net of tax	—	26,209	(2,090)
Net income (loss)	<u>\$ 4,963</u>	<u>\$ 31,175</u>	<u>\$ (14,974)</u>
Basic income (loss) per common share:			
Net income (loss) from continuing operations (dollars)	\$ 0.20	\$ 0.20	\$ (0.52)
Net income (loss) from discontinued operations, net of tax (dollars)	\$ —	\$ 1.06	\$ (0.08)
Net income (loss) (dollars)	\$ 0.20	\$ 1.26	\$ (0.60)
Basic weighted average number of common shares outstanding	24,459	24,802	24,698
Diluted income (loss) per common share:			
Net income (loss) from continuing operations (dollars)	\$ 0.20	\$ 0.20	\$ (0.52)
Net income (loss) from discontinued operations, net of tax (dollars)	\$ —	\$ 1.03	\$ (0.08)
Net income (loss) (dollars)	\$ 0.20	\$ 1.23	\$ (0.60)
Diluted weighted average number of common shares outstanding	25,081	25,356	24,698

TRECORA RESOURCES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the years ended December 31, 2021, 2020, and 2019

TRECORA RESOURCES STOCKHOLDERS

	Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total	Non- Controlling Interest	Total Equity
	Shares <i>(thousands)</i>	Amount						
January 1, 2019	24,626	\$ 2,463	\$ 58,294	\$ (8)	\$ 124,123	\$ 184,872	\$ 289	\$ 185,161
Stock options								
Issued to Directors	—	—	—	—	—	—	—	—
Issued to Employees	—	—	—	—	—	—	—	—
Restricted stock units								
Issued to Directors	—	—	353	—	—	353	—	353
Issued to Employees	—	—	883	—	—	883	—	883
Common stock								
Issued to Directors	20	1	—	8	—	9	—	9
Issued to Employees	104	11	—	—	—	11	—	11
Net Loss	—	—	—	—	(14,974)	(14,974)	—	(14,974)
December 31, 2019	24,750	\$ 2,475	\$ 59,530	\$ —	\$ 109,149	\$ 171,154	\$ 289	\$ 171,443
Restricted stock units								
Issued to Directors	—	—	1,369	—	—	1,369	—	1,369
Issued to Employees	—	—	420	—	—	420	—	420
Common stock								
Issued to Directors	56	5	(5)	—	—	—	—	—
Issued to Employees	27	3	(3)	—	—	—	—	—
Net Loss	—	—	—	—	31,175	31,175	—	31,175
December 31, 2020	24,833	\$ 2,483	\$ 61,311	\$ —	\$ 140,324	\$ 204,118	\$ 289	\$ 204,407
Restricted stock units								
Issued to Directors	—	—	436	—	—	436	—	436
Issued to Employees	—	—	1,529	—	—	1,529	—	1,529
Common stock								
Issued to Directors	72	7	(7)	—	—	—	—	—
Issued to Employees	85	9	(9)	—	—	—	—	—
Disposition of Non-Controlling Interest	—	—	—	—	413	413	(289)	124
Stock Repurchases	—	—	—	(11,486)	—	(11,486)	—	(11,486)
Net Income	—	—	—	—	4,963	4,963	—	4,963
December 31, 2021	24,990	\$ 2,499	\$ 63,260	\$ (11,486)	\$ 145,700	\$ 199,973	\$ —	\$ 199,973

TRECORA RESOURCES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2021	2020	2019
	<i>(thousands of dollars)</i>		
OPERATING ACTIVITIES			
Net Income (Loss)	\$ 4,963	\$ 31,175	\$ (14,974)
Income (Loss) from Discontinued Operations	—	26,209	(2,090)
Income (Loss) from Continuing Operations	\$ 4,963	\$ 4,966	\$ (12,884)
Adjustments to reconcile Income (Loss) from Continuing Operations to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	15,459	14,306	14,345
Amortization of Intangible Assets	1,837	1,842	1,856
Stock-based Compensation	2,247	1,912	1,250
Deferred Income Taxes	(1,992)	14,553	(2,993)
Bad Debt Expense (Recoveries)	—	—	(23)
Amortization of Loan Fees	181	181	181
Gain on Extinguishment of Debt	(6,123)	—	—
(Gain) Loss on Disposal of Assets	(279)	39	680
Impairment of Goodwill and Certain Intangibles	—	—	24,152
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in Trade Receivables	(7,510)	1,018	816
(Increase) Decrease in Taxes Receivable	2,788	(2,606)	—
(Increase) Decrease in Inventories	(8,189)	680	2,914
(Increase) Decrease in Prepaid Expenses and Other Assets	4,885	(2,403)	(304)
Increase (Decrease) in Other Liabilities	(599)	(5,746)	543
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(3,293)	831	(4,944)
Net Cash Provided by Operating Activities - Continuing Operations	4,375	29,573	25,589
Net Cash Used in Operating Activities - Discontinued Operations	—	(4,008)	(468)
Net Cash Provided by Operating Activities	4,375	25,565	25,121
INVESTING ACTIVITIES			
Additions to Plant, Pipeline and Equipment	(14,152)	(13,351)	(10,079)
Proceeds from Sale of Property, Plant and Equipment	319	—	—
Proceeds from PEVM	535	150	27
Net Cash Used in Investing Activities - Continuing Operations	(13,298)	(13,201)	(10,052)
Net Cash Provided by Investing Activities - Discontinued Operations	—	68,530	4,021
Net Cash Provided by (Used in) Investing Activities	(13,298)	55,329	(6,031)
FINANCING ACTIVITIES			
Net Cash Paid Related to Stock-Based Compensation	(345)	(123)	(305)
Additions to CARES Act, PPP Loans	—	6,123	—
Additions to Long-Term Debt	—	20,000	2,000
Repayment of Long-Term Debt	(4,375)	(57,375)	(21,375)
Purchase of Treasury Stock	(11,486)	—	—
Net Cash Used in Financing Activities	(16,206)	(31,375)	(19,680)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(25,129)	49,519	(590)

TRECORA RESOURCES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2021	2020	2019
	<i>(thousands of dollars)</i>		
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	55,664	6,145	6,735
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 30,535</u>	<u>\$ 55,664</u>	<u>\$ 6,145</u>
Supplemental disclosure of cash flow information:			
Cash payments for interest	\$ 986	\$ 2,266	\$ 4,731
Cash payments (net of refunds) for taxes	<u>\$ (3,029)</u>	<u>\$ (11,069)</u>	<u>\$ 53</u>
Supplemental disclosure of non-cash items:			
Capital expansion amortized to depreciation expense	<u>\$ 236</u>	<u>\$ 821</u>	<u>\$ 792</u>
Cash held in escrow by AMAK	<u>\$ —</u>	<u>\$ 1,877</u>	<u>\$ —</u>
Foreign taxes paid by AMAK	<u>\$ —</u>	<u>\$ 270</u>	<u>\$ —</u>

NOTE 1 - BUSINESS AND OPERATIONS OF THE COMPANY

Trecora Resources (the “Company”) was organized as a Delaware corporation in 1967. The Company’s principal business activities are the manufacturing of various specialty petrochemicals products, specialty waxes and providing custom processing services.

The Company’s specialty petrochemicals operations are primarily conducted through a wholly-owned subsidiary, Texas Oil and Chemical Co. II, Inc. (“TOCCO”). TOCCO owns all of the capital stock of South Hampton Resources, Inc. (“SHR”) and Trecora Chemical, Inc. (“TC”). SHR owns all of the capital stock of Gulf State Pipe Line Company, Inc. (“GSPL”). SHR owns and operates a specialty petrochemicals product facility in Silsbee, Texas which manufactures high purity hydrocarbons used primarily in polyethylene, packaging, polypropylene, expandable polystyrene, poly-iso/urethane foams, Canadian tar sands, and in the catalyst support industry. TC owns and operates a facility located in Pasadena, Texas which manufactures specialty waxes and provides custom processing services. These specialty waxes are used in the production of coatings, hot melt adhesives and lubricants. GSPL owns and operates pipelines that connect the SHR facility to a natural gas line, to SHR’s truck and rail loading terminal and to a major petroleum pipeline owned by an unaffiliated third party.

The Company owned approximately 55% of the capital stock of a Nevada mining company, Pioche Ely Valley Mines, Inc. (“PEVM”), which did not conduct any substantial business activity and sold all of its remaining assets in 2021. PEVM was legally dissolved in February 2022. For more information, see Note 11.

The Company also previously owned 33% of a Saudi Arabian joint stock company, Al Masane Al Kobra Mining Company (“AMAK”). On October 2, 2019, we announced that we had entered into a Share Sale and Purchase Agreement (as amended, the “Purchase Agreement”) pursuant to which we agreed to sell our entire investment in AMAK. The share sale was completed on September 28, 2020. For more information, see Note 6.

We attribute revenues to countries based upon the origination of the transaction. All of our revenues for the years ended December 31, 2021, 2020, and 2019, originated in the United States. In addition, all of our long-lived assets are in the United States.

For convenience in this report, the terms “Company”, “our”, “us”, “we” or “TREC” may be used to refer to Trecora Resources and its subsidiaries.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The Consolidated Financial Statements include the balance sheets, statements of operations, stockholders' equity, and cash flows of the Company, TOCCO, TC, SHR, GSPL and PEVM. Other entities which are not controlled but over which the Company has the ability to exercise significant influence are accounted for using the equity method of accounting. All intercompany profits, transactions and balances have been eliminated.

Cash, Cash Equivalents and Short-Term Investments – Our principal banking and short-term investing activities are with local and national financial institutions. Short-term investments with an original maturity of three months or less are classified as cash equivalents.

Inventories – For SHR, finished products and feedstock are recorded at the lower of cost, determined on the first-in, first-out method (FIFO), or market. For TC, inventory is recorded at the lower of cost or market as follows: (1) raw material cost is calculated using the weighted-average cost method and (2) product inventory cost is calculated using the specific cost method.

Trade Receivables and Allowance for Doubtful Accounts – We evaluate the collectability of our trade receivables and adequacy of the allowance for doubtful accounts based upon historical experience and any specific customer financial difficulties of which we become aware. For the year ended December 31, 2021, there was no change in the allowance for doubtful accounts balance. For the year ended December 31, 2020, we decreased the balance by \$129,000 due to collections of previously allowed for receivables. For the year ended December 31, 2019, we increased the balance by \$152,000 due to concerns regarding collectability for a specific customer. We track customer balances and past due amounts to determine if customers may be having financial difficulties. This, along with historical experience and a working knowledge of each customer, helps determine accounts that should be written off. Amounts written off were nil, \$129,000 and nil in 2021, 2020 and 2019, respectively.

Discontinued Operations – Assets that are sold or classified as held for sale are classified as discontinued operations provided that the disposal represents a strategic shift that has (or will have) a major effect on our operations and financial results (e.g., a disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of an entity).

Plant, Pipeline and Equipment – Plant, pipeline and equipment are stated at cost. Depreciation is provided over the estimated service lives using the straight-line method. Gains and losses from disposition are included in operations in the period incurred. Maintenance and repairs are expensed as incurred. Major renewals and improvements are capitalized.

Interest costs incurred to finance expenditures during construction phase are capitalized as part of the historical cost of constructing the assets. Construction commences with the development of the design and ends when the assets are ready for use. Capitalized interest costs are included in plant, pipeline and equipment and are depreciated over the service life of the related assets.

Labor costs incurred to self-construct assets are capitalized as part of the historical cost the assets. Construction commences with the development of the design and ends when the assets are ready for use. Capitalized labor costs are included in plant, pipeline and equipment and are depreciated over the service life of the related assets.

Platinum catalyst is included in plant, pipeline and equipment at cost. Amortization of the catalyst is based upon cost less estimated salvage value of the catalyst using the straight line method over the estimated useful life (see Note 8).

Leases – The Company enters into leases as a lessee for rail cars, rail equipment, office space and office equipment in the ordinary course of business. When procuring services, or upon entering into a contract, the Company determines whether an arrangement contains a lease at its inception. As part of that evaluation the Company considers whether there is an implicitly or explicitly identified asset in the arrangement and whether the Company, as the lessee, has the right to control the use of that asset. The Company also reviews all options to extend, terminate, or purchase its right-of-use assets at the inception of the lease and accounts for these options when they are reasonably certain of being exercised. All leases with a term of more than 12 months are recognized as right-of-use (“ROU”) assets and associated lease liabilities in the combined balance sheet. Lease liabilities are measured at the lease commencement date and determined using the present value of the lease payments not yet paid, at the Company’s incremental borrowing rate, which approximates the rate at which the Company would borrow on a secured basis. The interest rate implicit in the lease is generally not determinable in the transactions where the Company is the lessee. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid rent and lease incentives.

All of the Company’s leases are classified as operating leases. The leases include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The Company made a policy election to not recognize leases with a lease term of 12 months or less in the combined balance sheet. Lease expense for these leases is recognized on a straight-line basis over the lease term.

Goodwill and Other Intangible Assets – Goodwill and indefinite-lived intangible assets are tested for impairment at least annually; however, these tests are performed more frequently when events or changes in circumstances indicate that the asset may be impaired. Impairment exists when carrying value exceeds fair value. Estimates of fair value are based on appraisals, market prices for comparable assets, or internal estimates of future net cash flows.

Definite-lived intangible assets consist of customer relationships, licenses, permits and developed technology. The majority of these assets are being amortized using discounted estimated future cash flows over the term of the related agreements. Intangible assets associated with customer relationships are being amortized using the discounted estimated future cash flows method based upon assumed rates of annual customer attrition. We continually evaluate the reasonableness of the useful lives of these assets. Once these assets are fully amortized, they will be removed from the consolidated balance sheets.

Business Combinations and Related Business Acquisition Costs – Assets and liabilities associated with business acquisitions are recorded at fair value using the acquisition method of accounting. We allocate the purchase price of acquisitions based upon the fair value of each component which may be derived from various observable and unobservable inputs and assumptions. We may use third-party valuation specialists to assist us in this allocation. Initial purchase price allocations are preliminary and subject to revision within the measurement period, not to exceed one year from the date of acquisition. The fair value of property, plant and equipment and intangible assets are based upon the discounted cash flow method that involves inputs that are not observable in the market (Level 3). Goodwill assigned represents the amount of consideration transferred in excess of the fair value assigned to identifiable assets acquired and liabilities assumed.

Business acquisition costs are expensed as incurred and are reported as general and administrative expenses in the consolidated statements of income. We define these costs to include finder’s fees, advisory, legal, accounting, valuation, and other professional consulting fees, as well as, travel associated with the evaluation and effort to acquire specific businesses.

Investment in AMAK (Discontinued Operations) – Prior to the completion of the sale of our ownership interest in AMAK, we accounted for our investment in AMAK using the equity method of accounting under which we recorded in income our share of AMAK’s income or loss for each period. The amount recorded was also adjusted to reflect the amortization of certain differences between the basis in our investment in AMAK and our share of the net assets of AMAK was reflected in AMAK’s financial statements (see Note 6). Any proceeds received from or payments made to AMAK were recorded as decreases or increases in the balance of our investment.

Other Assets – Other assets include a license used in specialty petrochemicals operations, spare parts inventory and certain specialty petrochemicals assets. Spare parts are accounted for using FIFO.

Long-Lived Assets Impairment – Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable based on the undiscounted net cash flows to be generated from the asset's use. The amount of the impairment loss to be recorded is calculated by the excess of the asset's carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis although other factors including the state of the economy are considered.

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

The following is a description of principal activities – separated by reportable segments – from which the Company generates its revenue. For more detailed information about reportable segments, disaggregation of revenues, and contract balance disclosures, see Note 17.

Specialty Petrochemicals segment

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

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

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

Specialty Waxes segment

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

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

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

Shipping and Handling Costs – Shipping and handling costs are classified as cost of product sales and processing and are expensed as incurred.

Retirement Plan – We offer employees the benefit of participating in a 401(k) plan. We match 100% up to 6% of pay with vesting occurring over 2 years. For the years ended December 31, 2021, 2020, and 2019, matching contributions of approximately \$1.3 million, \$1.3 million, and \$1.3 million, respectively, were made on behalf of employees.

Environmental Liabilities – Remediation costs are accrued based on estimates of known environmental remediation exposure. Ongoing environmental compliance costs, including maintenance and monitoring costs, are expensed as incurred.

Other Liabilities – We periodically make changes in or expand our custom processing units at the request of the customer. The cost to make these changes is shared by the customer. Upon completion of a project a note receivable and a deferred liability are recorded to recover the project costs which are then capitalized. At times instead of a note receivable being established, the customer pays an upfront cost. The amortization of other liabilities is recorded as a reduction to depreciation expense over the life of the contract with the customer. As of December 31 of each year, depreciation expense was offset and reduced by approximately \$0.2 million, \$0.8 million, and \$0.8 million, for 2021, 2020, and 2019, respectively.

Net Income Per Share – We compute basic income per common share based on the weighted-average number of common shares outstanding. Diluted income per common share is computed based on the weighted-average number of common shares outstanding plus the number of additional common shares that would have been outstanding if potential dilutive common shares, consisting of stock options, unvested restricted stock units, and shares which could be issued upon conversion of debt, had been issued (see Note 18).

Foreign Currency – The functional currency for the Company and each of the Company’s subsidiaries is the US dollar (USD). Transaction gains or losses as a result of transactions denominated and settled in currencies other than the USD are reflected in the statements of income as foreign exchange transaction gains or losses. We do not employ any practices to minimize foreign currency risks. As of December 31, 2021, 2020 and 2019, foreign currency translation adjustments were not significant.

Management Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include allowance for doubtful accounts receivable and inventory obsolescence; assessment of impairment of our long-lived assets and intangible assets; litigation liabilities, post-retirement benefit obligations, environmental liabilities, and current and deferred income taxes. Actual results could differ from these estimates.

In early 2020, the World Health Organization declared the rapidly spreading coronavirus disease (“COVID-19”) outbreak a pandemic. This pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. The Company considered the impact of COVID-19 on the assumptions and estimates used and determined that there were no material adverse impacts on the Company’s results of operations and financial position at December 31, 2021. The Company is not aware of any specific event or circumstance that would require an update to its estimates or judgments or a revision of the carrying value of its assets or liabilities as of the date of issuance of the Consolidated Financial Statements. These estimates may change, as new events occur and additional information is obtained.

Share-Based Compensation – We recognize share-based compensation of stock options granted based upon the fair value of options on the grant date using the Black-Scholes pricing model (see Note 15). Share-based compensation expense recognized during the period is based on the fair value of the portion of share-based payments awards that is ultimately expected to vest. Share-based compensation expense recognized in the consolidated statements of operations for the years ended December 31, 2021, 2020, and 2019 includes compensation expense based on the estimated grant date fair value for awards that are ultimately expected to vest, and accordingly has been reduced for estimated forfeitures. Estimated forfeitures at the time of grant are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Fair Value – The carrying value of cash and cash equivalents, trade receivables, taxes receivable, 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 and notes payable reflect 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, taxes receivable, accounts payable, accrued liabilities, other liabilities, notes payable and variable rate long term debt.

We measure fair value by ASC Topic 820 Fair Value. ASC Topic 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC Topic 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard amends numerous accounting pronouncements but does not require any new fair value measurements of reported balances. ASC Topic 820 emphasizes that fair value, among other things, is based on exit price versus entry price, should include assumptions about risk such as nonperformance risk in liability fair values, and is a market-based measurement, not

an entity-specific measurement. When considering the assumptions that market participants would use in pricing the asset or liability, ASC Topic 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The fair value hierarchy prioritizes inputs used to measure fair value into three broad levels.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Income Taxes – Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company maintains a valuation allowance for a deferred tax asset when it is deemed to be more likely than not that some or all of the deferred tax asset will not be realized.

Our estimate of the potential outcome of any uncertain tax issues is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. We use a more likely than not threshold for financial statement recognition and measurement of tax position taken or expected to be taken in a tax return. To the extent that our assessment of such tax position changes, the change in estimate is recorded in the period in which the determination is made. We report tax-related interest and penalties as a component of income tax expense.

Subsequent Events – The Company has evaluated subsequent events through March 10, 2022, the date that the Consolidated Financial Statements were approved by management.

Recently Adopted Accounting Pronouncements

Effective January 1, 2020, we adopted Financial Accounting Standard Board ("FASB") Accounting Standards Update ("ASU") 2016-13, Measurement of Credit Losses on Financial Instruments, which changed the way entities recognize impairment of most financial assets. Short-term and long-term financial assets, as defined by the standard, are impacted by immediate recognition of estimated credit losses in the financial statements, reflecting the net amount expected to be collected. The adoption of this standard did not have a material impact on our Consolidated Financial Statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (ASU 2019-12), which simplifies the accounting for income taxes. This guidance will be effective for us in the first quarter of 2021 on a prospective basis, and early adoption is permitted. The Company does not expect that the adoption of this guidance will have a material impact on our Consolidated Financial Statements.

Recent Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASU 2020-04), which provides guidance to alleviate the burden in accounting for reference rate reform by allowing certain expedients and exceptions in applying generally accepted accounting principles to contracts, hedging relationships, and other transactions impacted by reference rate reform. The provisions of ASU 2020-04 apply only to those transactions that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. This guidance is effective from March 12, 2020 through December 31, 2022 and adoption is optional. We are currently evaluating the impact of ASU 2020-04 on our Consolidated Financial Statements.

NOTE 3 - CONCENTRATIONS OF REVENUES AND CREDIT RISK

We sell our products and services to companies in the chemical, plastics, and petroleum industries. We perform periodic credit evaluations of our customers and generally do not require collateral from our customers. For the years ended December 31, 2021, 2020, and 2019, one customer accounted for 13.4%, 15.4%, and 15.0%, respectively, of consolidated revenue. The associated accounts receivable balances for this customer, ExxonMobil and their affiliates, were approximately \$4.6 million and \$4.1 million at December 31, 2021 and 2020, respectively.

We market our products in many foreign jurisdictions. For the years ended December 31, 2021, 2020, and 2019, revenue in foreign jurisdictions accounted for approximately 19.0%, 24.0%, and 21.9% of consolidated revenue, respectively.

SHR utilizes one major supplier to purchase all our feedstock supply. The feedstock is a commodity product commonly available from other suppliers if needed. At December 31, 2021, and 2020, we owed the supplier approximately \$3.4 million and \$4.4 million, respectively, for feedstock purchases.

We hold our cash with various financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$50,000. At times during the year, cash balances may exceed this limit. We have not experienced any losses in such accounts and do not believe we are exposed to any significant risk of loss related to cash.

NOTE 4 – TRADE RECEIVABLES

Trade receivables, net, at December 31, consisted of the following:

	2021	2020
	<i>(thousands of dollars)</i>	
Trade receivables	\$ 33,111	\$ 25,601
Less allowance for doubtful accounts	(300)	(300)
Trade receivables, net	<u>\$ 32,811</u>	<u>\$ 25,301</u>

Accounts receivable serves as collateral for our amended and restated loan agreement with a domestic bank (see Note 13).

NOTE 5 – INVENTORIES

Inventories include the following at December 31:

	2021	2020
	<i>(thousands of dollars)</i>	
Raw material	\$ 2,348	\$ 2,580
Work in process	212	138
Finished products	18,574	10,227
Total inventory	<u>\$ 21,134</u>	<u>\$ 12,945</u>

Inventory serves as collateral for our amended and restated loan agreement with a domestic bank (see Note 13).

Inventory included products in transit valued at approximately \$4.9 million and \$3.6 million at December 31, 2021 and 2020, respectively.

NOTE 6 - DISCONTINUED OPERATIONS

On September 28, 2020, the Company completed the final closing of the previously disclosed sale of its ownership interest in AMAK (the “Share Sale”) to AMAK and certain existing shareholders of AMAK and their assignees (collectively, the “Purchasers”). The Share Sale was completed in multiple closings pursuant to a Share Sale and Purchase Agreement, dated September 22, 2019 (which we refer to herein as the “Purchase Agreement”), among the Company, AMAK, and other Purchasers and resulted in aggregate gross proceeds to the Company of Saudi Riyals (“SAR”) 265 million (approximately \$70 million) (before taxes and expenses). As of December 31, 2019, the Company had a non-controlling equity interest of 33.3% in AMAK of approximately \$32.9 million.

In connection with the Share Sale, the Company also recorded income from discontinued operations, net of tax, of approximately \$.5 million in the third quarter of 2020, which represents a portion of the Purchaser’s non-refundable deposit of 5% of the purchase price that was forfeited by certain Purchasers for failing to timely close the Share Sale. Other fees and expenses incurred and paid by the Company related to the transaction were approximately \$4.0 million and are reflected in operating cash flows from discontinued operations for 2020.

In connection with the completion of the Share Sale, the Company filed the necessary tax returns in the Kingdom of Saudi Arabia and paid foreign taxes related to the transaction of approximately \$1.3 million. These foreign taxes created a foreign tax credit which was used to offset U.S. taxes in 2020.

As previously disclosed, and as a result of the Company’s initial investment in AMAK, the Company was required to execute a limited guarantee on October 24, 2010 (the “Guarantee”) of up to 41% of a loan (the “Loan”) by the Saudi Industrial Development Fund (“SIDF”) to AMAK to fund the construction of the AMAK facilities and to provide working capital needs. The provision of personal or corporate guarantees, as applicable, by each shareholder of AMAK was a condition to SIDF providing the Loan. Pursuant to the Purchase Agreement, the Purchasers (other than AMAK) agreed, upon the completion of the Share Sale, to assume the Company’s obligation under the Guarantee (proportionately based upon such Purchaser’s percentage acquisition of ordinary shares in the Share Sale). While a formal written release of the Company from

the Guarantee was not obtained from SIDF prior to closing, the Company believes that the Purchasers' assumption of the Company's obligation under the Guarantee effectively eliminates the Company's liability arising under the Guarantee.

As the sale of the Company's interest in AMAK was completed as of September 28, 2020, there is no applicable 2021 financial information to present and it is thereby omitted for comparison purposes.

Included in discontinued operations are the following:

	Years Ended December 31,	
	2020	2019
	<i>(thousands of dollars)</i>	
Saudi administration and transaction expenses	\$ (2,452)	\$ (187)
Equity in earnings (losses) of AMAK	702	(986)
Gain (loss) on sale of equity interest	34,926	(1,473)
Income (loss) from discontinued operations before taxes	33,176	(2,646)
Tax (expense) benefit	(6,967)	556
Income (loss) from discontinued operations, net of tax	<u>\$ 26,209</u>	<u>\$ (2,090)</u>

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

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

Results of Operations

	Nine Months Ended September 30,	Year Ended December 31,
	2020	2019
	<i>(thousands of dollars)</i>	
Sales	\$ 62,633	\$ 78,350
Cost of sales	(55,728)	(69,620)
Gross profit	6,905	8,730
Selling, general, and administrative	(4,985)	(13,047)
Operating income (loss)	1,920	(4,317)
Other (expense) income	(346)	558
Finance and interest expense	(1,211)	(1,450)
Income (loss) before Zakat and income taxes	363	(5,209)
Zakat and income tax (expense) benefit	(490)	(1,801)
Net loss	<u>\$ (127)</u>	<u>\$ (7,010)</u>

Financial Position

	September 30,
	2020
	<i>(thousands of dollars)</i>
Current assets	\$ 29,799
Noncurrent assets	209,814
Total assets	<u>\$ 239,613</u>
Current liabilities	\$ 40,919
Long term liabilities	79,122
Stockholders' equity	119,572
	<u>\$ 239,613</u>

The equity in the earnings (losses) of AMAK included in income (loss) from discontinued operations, net of tax, on the consolidated statements of operations for the years ended December 31, 2020 and 2019 is comprised of the following:

	Nine Months Ended September 30,	Year Ended December 31,
	2020	2019
	<i>(thousands of dollars)</i>	
AMAK Net Loss	(127)	(7,010)
Company's share of loss reported by AMAK	(308) *	(1,996)
Amortization of difference between Company's investment in AMAK and Company's share of net assets of AMAK	1,010	1,010
Equity in earnings (losses) of AMAK	702	(986)

* Percentage of Ownership varies during the period.

NOTE 7 – PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets at December 31 are summarized as follows:

	2021	2020
	<i>(thousands of dollars)</i>	
Prepaid license	\$ 500	\$ 403
Prepaid insurance	1,145	4,241
Spare parts	2,114	2,376
Cash held by AMAK for foreign taxes (see Note 6)	—	1,877
Other prepaid expenses and assets	554	301
Total	\$ 4,313	\$ 9,198

NOTE 8 – PLANT, PIPELINE AND EQUIPMENT

Plant, pipeline and equipment include the following at December 31:

	2021	2020
	<i>(thousands of dollars)</i>	
Platinum catalyst	\$ 1,478	\$ 1,580
Catalyst	4,325	4,325
Land	5,428	5,428
Plant, pipeline and equipment	282,780	270,149
Construction in progress	7,213	6,422
Total plant, pipeline and equipment	301,224	287,904
Less accumulated depreciation	(115,703)	(100,800)
Net plant, pipeline and equipment	\$ 185,521	\$ 187,104

Plant, pipeline and equipment serve as collateral for our amended and restated loan agreement with a domestic bank (see Note 13).

Labor capitalized for construction for 2021, 2020 and 2019 was approximately \$0.6 million, \$0.6 million and nil, respectively.

NOTE 9 – LEASES

The components of lease expense were as follows:

(\$ in thousands)	Classification in the Consolidated Statements of Operations	December 31,		
		2021	2020	2019
Operating lease cost (a)	Cost of sales, exclusive of depreciation and amortization	\$ 4,366	\$ 4,088	\$ 4,361
Operating lease cost (a)	Selling, general and administrative	135	137	137
Total operating lease cost		\$ 4,501	\$ 4,225	\$ 4,498
Finance lease cost:				
Amortization of right-of-use assets	Depreciation	—	—	—
Interest on lease liabilities	Interest Expense	—	—	—
Total finance lease cost		\$ —	\$ —	\$ —
Total lease cost		\$ 4,501	\$ 4,225	\$ 4,498

(a) Short-term lease costs were approximately \$0.8 million, \$0.5 million and nil as of December 31, 2021, 2020 and 2019, respectively.

The Company had no variable lease expense during the period.

(\$ in thousands)	Classification on the Consolidated Balance Sheets	December 31,	
		2021	2020
Assets:			
Operating	Operating lease assets	\$ 8,170	\$ 10,528
Finance	Property, plant, and equipment	—	—
Total leased assets		\$ 8,170	\$ 10,528
Liabilities:			
Current			
Operating	Current portion of operating lease liabilities	\$ 3,227	\$ 3,195
Finance	Short-term debt and current portion of long-term debt	—	—
Noncurrent			
Operating	Operating lease liabilities	4,923	7,333
Finance	Long-term debt	—	—
Total lease liabilities		\$ 8,150	\$ 10,528

(\$ in thousands)	December 31,		
	2021	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows used for operating leases	\$ 3,678	\$ 3,713	\$ 4,389
Operating cash flows used for finance leases	—	—	—
Financing cash flows used for finance leases	—	—	—
Right-of-use assets obtained in exchange for lease obligations:			
Operating leases	\$ 915	\$ 206	\$ 81
Finance leases	—	—	—

	December 31,	
	2021	2020
Weighted-average remaining lease term (in years):		
Operating leases	3.0	3.7
Finance leases	0.0	0.0
Weighted-average discount rate:		
Operating leases	4.5 %	4.5 %
Finance leases	— %	— %

Nearly all of the Company's lease contracts do not provide a readily determinable implicit rate. For these contracts, the Company's estimated incremental borrowing rate is based on information available at the inception of the lease.

As of December 31, 2021, maturities of lease liabilities were as follows:

(\$ in thousands)	Operating Leases	Finance Leases
2022	\$ 3,511	\$ —
2023	2,619	—
2024	1,298	—
2025	1,123	—
2026	149	—
Total lease payments	\$ 8,700	\$ —
Less: Interest	550	—
Total lease obligations	\$ 8,150	\$ —

NOTE 10 – GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

We evaluated our goodwill for impairment during the fourth quarter of 2019 in connection with our annual review. As part of our review, we assessed 2019 operating performance and its impact on the operating cash flows of our Specialty Waxes reporting unit. We concluded based on this analysis that the estimates of fair value of our

Specialty Waxes reporting unit was lower than its book value, including goodwill. As a result, we recorded a non-cash impairment charge of \$24.2 million in 2019, representing all of the goodwill previously allocated to this reporting unit.

Intangible Assets

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

Intangible assets subject to amortization (Definite-lived)	December 31, 2021		
	Gross	Accumulated Amortization	Net
Customer relationships	\$ 16,852	\$ (8,145)	\$ 8,707
Non-compete agreements	94	(94)	—
Licenses and permits	1,471	(808)	663
Developed technology	6,131	(4,445)	1,686
Total	\$ 24,548	\$ (13,492)	\$ 11,056

Intangible assets subject to amortization (Definite-lived)	December 31, 2020		
	Gross	Accumulated Amortization	Net
Customer relationships	\$ 16,852	\$ (7,022)	\$ 9,830
Non-compete agreements	94	(94)	—
Licenses and permits	1,471	(707)	764
Developed technology	6,131	(3,832)	2,299
Total	\$ 24,548	\$ (11,655)	\$ 12,893

Amortization expense for intangible assets included in cost of sales for the years ended December 31, 2021, 2020, and 2019, was approximately \$0.8 million, \$1.8 million, and \$1.9 million respectively.

Based on identified intangible assets that are subject to amortization as of December 31, 2021, we expect future amortization expenses for each period to be as follows (in thousands):

	Total	2022	2023	2024	2025	2026	Thereafter
Customer relationships	\$ 8,707	\$ 1,123	\$ 1,123	\$ 1,123	\$ 1,123	\$ 1,123	\$ 3,092
Licenses and permits	663	86	86	86	86	86	233
Developed technology	1,686	613	613	460	—	—	—
Total future amortization expense	<u>\$ 11,056</u>	<u>\$ 1,822</u>	<u>\$ 1,822</u>	<u>\$ 1,669</u>	<u>\$ 1,209</u>	<u>\$ 1,209</u>	<u>\$ 3,325</u>

NOTE 11 - MINERAL PROPERTIES IN THE UNITED STATES

The principal assets of PEVM were an undivided interest in 48 patented and 5 unpatented mining claims totaling approximately 1,500 acres in southeast Nevada. In November 2019, PEVM entered into a sales contract. The sale, which was completed on November 11, 2021, resulted in liquidation of substantially all of PEVM's remaining assets. All proceeds from the sale were used to repay outstanding indebtedness owed to the Company. PEVM was legally dissolved on February 16, 2022.

NOTE 12 – ACCRUED LIABILITIES

Accrued liabilities at December 31 are summarized as follows:

	2021	2020
	<i>(thousands of dollars)</i>	
Accrued state taxes	\$ 192	\$ 125
Accrued payroll	3,123	2,282
Accrued royalties	294	260
Accrued officer compensation	989	1,053
Accrued professional expenses	287	559
Accrued foreign taxes	—	1,054
Other liabilities	988	1,524
Total	<u>\$ 5,873</u>	<u>\$ 6,857</u>

NOTE 13 - LONG-TERM DEBT AND LONG-TERM OBLIGATIONS

Senior Secured Credit Facilities

As of December 31, 2021, the Company had no outstanding borrowings under the senior secured revolving credit facility (the “Revolving Facility”) and approximately \$42.2 million in borrowings outstanding under the senior secured term loan facility (the “Term Loan Facility”) (and, together with the Revolving Facility, the “Credit Facilities”), in each case, under the Company's amended and restated credit agreement (as amended, the “ARC Agreement”), entered into by TOCCO, SHR, GSPL and TC (SHR, GSPL and TC collectively the “Guarantors”). As of December 31, 2021, the Company had approximately \$75.0 million of availability under our Revolving Facility (which has aggregate commitments of \$75.0 million under the ARC Agreement). However, TOCCO's ability to make additional borrowings under the Revolving Facility at December 31, 2021 was limited by, and in the future may be limited by, the Company's obligation to maintain compliance with the covenants contained in the ARC Agreement (including maintenance of a maximum Consolidated Leverage Ratio and minimum Consolidated Fixed Charge Coverage Ratio (each as defined in the ARC Agreement)).

The maturity date for the ARC Agreement is July 31, 2023. Subject to the lenders acceptance of any increased commitment and other conditions, TOCCO has the option, at any time, to request an increase to the commitment under the Revolving Facility and/or the Term Loan Facility by an additional amount of up to \$50.0 million in the aggregate.

Borrowings under each of the Credit Facilities bear interest on the outstanding principal amount at a rate equal to LIBOR plus an applicable margin of .25% to 2.50% or, at our option, the Base Rate plus an applicable margin of 0.25% to 1.50%, in each case, with the applicable margin being determined based on the Consolidated Leverage Ratio of TOCCO. A commitment fee between 0.20% and 0.375% is also payable quarterly on the unused portion of the Revolving Facility. As of December 31, 2021, the year to date effective interest rate for the Credit Facilities was 1.85%. Borrowings under the Term Loan Facility are subject to quarterly amortization payments, approximating \$4.4 million annually, based on a commercial style amortization method over a twenty years period; provided, that the final principal installment will be paid on the maturity date and will be in an amount equal to the outstanding borrowings under the Term Loan Facility on such date.

On May 8, 2020, TOCCO and the Guarantors entered into a Seventh Amendment to the ARC Agreement. Pursuant to the Seventh Amendment, certain amendments were made to the terms of the ARC Agreement, including, among other things, to (a) permit the incurrence of additional indebtedness in the form of loans (the “PPP Loans”) under the United States Small Business Administration Paycheck Protection Program (the “PPP”) and (b) exclude the PPP Loans from the calculation of the Consolidated Leverage Ratio until such time that any portion of the PPP Loans are not forgiven in accordance with the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”).

For each fiscal quarter after December 31, 2019, TOCCO must maintain a maximum Consolidated Leverage Ratio of 3.50 to 1.00 (subject to temporary increase following certain acquisitions). TOCCO's Consolidated Leverage Ratio was 1.05 and 1.65 as of December 31, 2021 and December 31, 2020, respectively. Additionally, TOCCO must maintain a minimum Consolidated Fixed Charge Coverage Ratio as of the end of any fiscal quarter of 1.15 to 1.00. TOCCO's Consolidated Fixed Charge Coverage Ratio was 4.79 and 1.8 as of December 31, 2021 and December 31, 2020, respectively.

On May 3, 2021, TOCCO and the Guarantors entered into an Eighth Amendment to Amended and Restated Credit Agreement (the “Eighth Amendment”) which amended the definition of Consolidated EBITDA for any Measurement Period (as defined in the ARC Agreement) to allow for certain add backs not to exceed \$5.0 million in the aggregate for the 2021 fiscal year related to charges, expenses and losses arising from or related to Texas freeze event.

The ARC Agreement contains a number of customary affirmative and negative covenants and the Company was in compliance with those covenants as of December 31, 2021.

PPP Loans

On May 6, 2020, SHR and TC (collectively, the “Borrowers”) received loan proceeds from loans (the “PPP Loans”) under the United States Small Business Administration Paycheck Protection Program in an aggregate principal amount of approximately \$6.1 million. The PPP Loans were evidenced by unsecured promissory notes each payable to Bank of America, N.A. The Borrowers fully utilized the PPP Loans to cover payroll and benefits costs in accordance with the relevant terms and conditions of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). The Company was notified of full forgiveness for the PPP Loans for TC and SHR on September 8, 2021 and November 6, 2021, respectively. The forgiveness of the PPP Loans is recognized as gain on extinguishment of debt in the Consolidated Financial Statements as of December 31, 2021.

Debt Issuance Costs

Debt issuance costs of approximately \$0.9 million were incurred in connection with the fourth amendment to the ARC Agreement. Unamortized debt issuance costs of approximately \$0.3 million and \$0.5 million for the years ended December 31, 2021 and December 31, 2020, have been netted against outstanding loan balances.

Long-term debt and long-term obligations at December 31 are summarized as follows:

	2021	2020
	(thousands of dollars)	
Revolving facility	\$ —	\$ —
Term loan facility	42,188	46,563
Loan fees	(287)	(468)
Total long-term debt	41,901	46,095
Less current portion including loan fees	4,194	4,194
Total long-term debt, less current portion including loan fees	<u>\$ 37,707</u>	<u>\$ 41,901</u>

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Litigation

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

Supplier Agreements

In accordance with our supplier agreements, on a recurring monthly basis, the Company commits to purchasing a determined volume of feedstock in anticipation of upcoming requirements. Feedstock purchases are invoiced and recorded when they are delivered. As of December 31, 2021 and 2020, the value of the remaining undelivered feedstock approximated \$19.7 million and \$9.2 million, respectively.

From time to time, we may incur shortfall fees due to feedstock purchases being below the minimum amounts as prescribed by our agreements with our suppliers. The shortfall fee expenses were \$0.3 million, \$1.1 million and \$0.6 million for the years ended December 31, 2021, 2020, and 2019.

Environmental Remediation

Amounts charged to expense for various activities related to environmental monitoring, compliance, and improvements were approximately \$1.1 million in 2021, \$0.9 million in 2020 and \$0.9 million in 2019.

NOTE 15 - SHARE-BASED COMPENSATION

The Stock Option Plan for Key Employees, as well as, the Non-Employee Director Stock Option Plan (hereinafter collectively referred to as the “Stock Option Plans”), were approved by the Company’s stockholders in July 2008. The Stock Option Plans allot for the issuance of up to 1,000,000 shares.

The Trecora Resources Stock and Incentive Plan (the “Plan”) was approved by the Company’s stockholders in June 2012. The Plan allows for the issuance of up to 2,500,000 shares in the form of stock options or restricted stock unit awards.

Share-based compensation of approximately \$2.2 million, \$1.9 million, and \$1.3 million was recognized in 2021, 2020, and 2019, respectively.

Stock Options and Warrant Awards

Stock options and warrants granted under the provisions of the Stock Option Plans permit the purchase of our common stock at exercise prices equal to the closing price of Company common stock on the date the options were granted. The options have terms of 10 years and generally vest ratably over terms of 4 to 5 years. There were no stock options or warrant awards issued during 2021, 2020, or 2019.

A summary of the status of the Company’s stock option and warrant awards is as follows:

	Stock Options and Warrants	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Intrinsic Value (in thousands)
Outstanding at January 1, 2021	487,000	\$ 10.87		
Granted	—	—		
Expired	—	—		
Exercised	(20,000)	4.09		
Forfeited	—	—		
Outstanding at December 31, 2021	<u>467,000</u>	\$ 11.16	1.9	\$ —
Expected to vest	—	\$ —	0.0	\$ —
Exercisable at December 31, 2021	467,000	\$ 11.16	1.9	\$ —

The aggregate intrinsic value of options was calculated as the difference between the exercise price of the underlying awards and the quoted price of our common stock. At December 31, 2021, options to purchase approximately 0.1 million shares of common stock were in-the-money.

Since no options were granted, the weighted average grant-date fair value per share of options granted during the years 2021, 2020, and 2019 was nil. During 2021, 2020, and 2019 the aggregate intrinsic value of options and warrants exercised was approximately nil, \$0.1 million and \$2.6 million respectively, determined as of the date of option exercise.

The Company received approximately nil, nil and \$0.9 million in cash from the exercise of options during 2021, 2020 and 2019, respectively. Of the 85,000 stock options and warrants exercised in 2019, the Company only issued approximately 11,000 shares due to cashless transactions. The tax benefit realized from the exercise in 2019 was insignificant.

As of December 31, 2021, there was no unrecognized compensation costs related to non-vested share-based compensation.

Restricted Stock and Restricted Stock Unit Awards

Generally, restricted stock and restricted stock unit awards are granted annually to officers and directors of the Company under the provisions of the Plan. Restricted stock units are also granted ad hoc to attract or retain key personnel, and the terms and conditions under which these restricted stock units vest vary by award. The fair market value of restricted stock units granted is equal to the Company's closing stock price on the date of grant. Restricted stock units granted generally vest ratably over periods ranging from 1 to 3 years. Certain awards also include vesting provisions based on performance metrics. Upon vesting, the restricted stock units are settled by issuing one share of Company common stock per unit.

A summary of the status of the Company's restricted stock units activity is as follows:

	Shares of Restricted Stock Units	Weighted Average Grant Date Price per Share
Outstanding at January 1, 2021	567,563	\$ 7.42
Granted	337,443	7.30
Forfeited	(121,448)	7.98
Vested	(197,114)	7.75
Outstanding at December 31, 2021	586,444	\$ 7.32
Expected to vest	586,444	

As of December 31, 2021, there was approximately \$0.7 million of unrecognized compensation costs related to non-vested restricted share-based compensation that is expected to be recognized over a weighted average period of 1.1 years.

NOTE 16 – INCOME TAXES

We file an income tax return in the U.S. federal jurisdiction and a margin tax return in Texas. Previously, the Texas Comptroller selected the R&D credit calculations related to the 2014 and 2015 calendar years for audit. The state of Texas suspended examination of these years in order to perform a comprehensive review of audit procedures to provide consistency. During the fourth quarter of 2019, we received notice that Texas had completed its review of its procedures and initiated additional requests for information which has been submitted for their review. In early 2022, we were contacted by the State of Texas to schedule meetings to close the examinations. We do not expect any material changes from the results of the Texas audits. Our federal and Texas tax returns remain open for examination for the years 2017 through 2020. As of December 31, 2021 and 2020, respectively, we recognized no adjustments for uncertain tax positions or related interest and penalties.

On March 27, 2020, the CARES Act was enacted into law. The CARES Act provided stimulus measures to companies impacted by the COVID-19 pandemic, which included the ability to defer payment for employer payroll taxes, utilize net operating loss (“NOL”) carrybacks, increased the limitation on the deductibility of interest expense, technical corrections to allow accelerated tax depreciation on qualified improvement property, as well as allowing qualified businesses to apply for loans and grants. We filed carryback claims allowed under these provisions and have collected all amounts, including interest.

The provision (benefit) for income taxes from continuing operations consisted of the following:

	Year ended December 31,		
	2021	2020	2019
	<i>(thousands of dollars)</i>		
Current federal benefit	\$ (552)	\$ (19,190)	\$ —
Current state expense	173	86	91
Deferred federal expense (benefit)	(1,910)	15,140	(3,564)
Deferred state expense (benefit)	(75)	1	(93)
Income tax expense (benefit)	<u>\$ (2,364)</u>	<u>\$ (3,963)</u>	<u>\$ (3,566)</u>

The difference between the year ended effective tax rate in income tax expense (benefit) and the Federal statutory rate of 21% is as follows:

	2021	2020	2019
	<i>(thousands of dollars)</i>		
Income taxes at U.S. statutory rate	\$ 546	\$ 211	\$ (3,455)
State taxes, net of federal benefit	62	71	256
Forgiveness of PPP Loans	(1,286)	—	—
Net operating loss carryback	—	(4,655)	—
Research and development credits	—	(518)	(203)
Permanent and other items	(1,686)	928	(164)
Total tax benefit	<u>\$ (2,364)</u>	<u>\$ (3,963)</u>	<u>\$ (3,566)</u>

The significant differences in rate are primarily due to compensation limits, stock-based compensation, tax impact of law changes, research and development credits and forgiveness of PPP Loans.

Tax effects of temporary differences that give rise to significant portions of federal and state deferred tax assets and liabilities were as follows:

	December 31,	
	2021	2020
	<i>(thousands of dollars)</i>	
Deferred tax liabilities:		
Plant, pipeline and equipment	\$ (31,126)	\$ (31,119)
Other assets	(29)	(31)
Operating lease asset	<u>(1,712)</u>	<u>(2,211)</u>
Total deferred tax liabilities	\$ (32,867)	\$ (33,361)
Deferred tax assets:		
Net operating loss carryforward	1,836	—
Intangible assets	3,079	3,396
Operating lease liability	1,712	2,211
Stock-based compensation	1,070	956
Mineral interests	—	226
Interest expense carryforward	253	—
Inventory	263	146
Other	<u>129</u>	<u>135</u>
Gross deferred tax assets	8,342	7,070
Valuation allowance	—	(226)
Total net deferred tax assets	<u>\$ 8,342</u>	<u>\$ 6,844</u>
Net deferred tax liabilities	<u>\$ (24,525)</u>	<u>\$ (26,517)</u>

We had provided a valuation allowance in 2020 against our mineral interests deferred tax assets because of uncertainties regarding their realization. The mineral interest deferred tax asset and corresponding valuation allowance was removed in 2021 as a result of the sale of PEVM. See Note 11.

NOTE 17 – SEGMENT INFORMATION

We operate in two business segments: Specialty Petrochemicals and Specialty Waxes. 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. The accounting policies of the reporting segments are the same as those described in Note 2.

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

	Year Ended December 31, 2021			
	Specialty Petrochemicals	Specialty Waxes	Corporate	Consolidated
	<i>(in thousands)</i>			
Net revenues	\$ 234,091	\$ 38,599	\$ —	\$ 272,690
Operating income (loss) before depreciation and amortization	25,930	3,120	(14,838)	14,212
Operating income (loss)	14,748	(2,988)	(14,844)	(3,084)
Income (loss) from continuing operations before taxes	17,722	(800)	(14,323)	2,599
Depreciation and amortization	11,183	6,108	5	17,296
Capital expenditures	11,633	2,519	—	14,152

	Year Ended December 31, 2021				
	Specialty Petrochemicals	Specialty Waxes	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Intangible assets, net	\$ —	\$ 11,056	\$ —	\$ —	\$ 11,056
Total assets	298,966	79,860	109,292	(194,578)	293,540

	Year Ended December 31, 2020				
	Specialty Petrochemicals	Specialty Waxes	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Net revenues	\$ 172,350	\$ 36,276	\$ —	\$ —	\$ 208,626
Operating income (loss) before depreciation and amortization	26,438	1,762	(9,114)	(9,114)	19,086
Operating income (loss)	15,827	(3,760)	(9,129)	(9,129)	2,938
Income (loss) from continuing operations before taxes	13,294	(3,606)	(8,685)	(8,685)	1,003
Depreciation and amortization	10,611	5,522	16	16	16,149
Capital expenditures	11,334	2,017	—	—	13,351

	Year Ended December 31, 2020				
	Specialty Petrochemicals	Specialty Waxes	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Intangible assets, net	\$ —	\$ 12,893	\$ —	\$ —	\$ 12,893
Total assets	298,198	83,108	127,260	(191,733)	316,833

NOTE 18 - NET INCOME (LOSS) PER COMMON SHARE

	Year ended December 31,		
	2021	2020	2019
	<i>(thousands of dollars, except per share amounts)</i>		
<u>Net Income per Common Share - Continuing Operations</u>			
Net income (loss) from continuing operations	\$ 4,963	\$ 4,966	\$ (12,884)
Basic income (loss) from continuing operations per common share:			
Weighted average shares outstanding	24,459	24,802	24,698
Per share amount (dollars)	<u>\$ 0.20</u>	<u>\$ 0.20</u>	<u>\$ (0.52)</u>
Diluted income (loss) from continuing operations per common share:			
Weighted average shares outstanding	25,081	25,356	24,698
Per share amount (dollars)	<u>\$ 0.20</u>	<u>\$ 0.20</u>	<u>\$ (0.52)</u>
Weighted average shares-denominator basic computation	24,459	24,802	24,698
Unvested restricted stock unit grant	622	554	—
Weighted average shares, as adjusted denominator diluted computation	<u>25,081</u>	<u>25,356</u>	<u>24,698</u>
<u>Net Income per Common Share - Discontinued Operations</u>			
Net income (loss) from discontinued operations	\$ —	\$ 26,209	\$ (2,090)
Basic income (loss) from discontinued operations per common share:			
Weighted average shares outstanding	24,459	24,802	24,698
Per share amount (dollars)	<u>\$ —</u>	<u>\$ 1.06</u>	<u>\$ (0.08)</u>
Diluted income (loss) from discontinued operations per common share:			
Weighted average shares outstanding	25,081	25,356	24,698
Per share amount (dollars)	<u>\$ —</u>	<u>\$ 1.03</u>	<u>\$ (0.08)</u>
Weighted average shares-denominator basic computation	24,459	24,802	24,698
Unvested restricted stock unit grant	622	554	—
Weighted average shares, as adjusted denominator diluted computation	<u>25,081</u>	<u>25,356</u>	<u>24,698</u>
<u>Net Income per Common Share</u>			
Net income (loss)	\$ 4,963	\$ 31,175	\$ (14,974)
Basic income (loss) per common share:			
Weighted average shares outstanding	24,459	24,802	24,698
Per share amount (dollars)	<u>\$ 0.20</u>	<u>\$ 1.26</u>	<u>\$ (0.60)</u>
Diluted income (loss) per common share:			
Weighted average shares outstanding	25,081	25,356	24,698
Per share amount (dollars)	<u>\$ 0.20</u>	<u>\$ 1.23</u>	<u>\$ (0.60)</u>
Weighted average shares-denominator basic computation	24,459	24,802	24,698
Unvested restricted stock unit grant	622	554	—
Effect of dilutive stock options	—	—	—
Weighted average shares, as adjusted denominator diluted computation	<u>25,081</u>	<u>25,356</u>	<u>24,698</u>

At December 31, 2021, 2020, and 2019, 0.5 million, 0.5 million and 0.5 million potential common stock shares, respectively, were issuable upon the exercise of options and warrants. At December 31, 2021, the Company had 0.5 million stock options that were not included in the computation of diluted earnings per share because such options would be anti-dilutive.

NOTE 19 – RELATED PARTY TRANSACTIONS

In November 2020, Company Director Adam C. Peakes joined Merichem Company as Executive Vice President and Chief Financial Officer. The Company incurred expenses of less than \$0.1 million during each of the years ended December 31, 2021, 2020, and 2019, respectively, for Merichem Company. At December 31, 2021 and 2020, we had outstanding liabilities payable to Merichem Company of less than \$0.1 million and \$0.1 million, respectively.

Consulting fees of approximately nil, nil and \$0.1 million were incurred during 2021, 2020, and 2019, respectively, from Nicholas Carter, Director and former CEO. Due to his history and experience with the Company and to provide continuity after his retirement, a consulting agreement was entered into with Mr. Carter in July 2015, which terminated effective December 31, 2019.

NOTE 20 – POST-RETIREMENT OBLIGATIONS

As previously disclosed, the Company entered into agreements with certain former executive officers to provide certain welfare benefits. At December 31, 2021 and 2020, respectively, approximately \$0.3 million and \$0.3 million was outstanding and included in other liabilities. For the period ended December 31, 2021, and 2020, approximately \$0.00 million and \$0.01 million, respectively, had been paid.

TRECORA RESOURCES AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
Three years ended December 31, 2021

Description	Beginning balance	Additions	Deductions	Ending balance
<hr/> <u>ALLOWANCE FOR DEFERRED TAX ASSET</u>				
December 31, 2019	225,622	—	—	225,622
December 31, 2020	225,622	—	—	225,622
December 31, 2021	225,622	—	(225,622)	—
<hr/>				
Description	Beginning balance	Additions	Deductions	Ending balance
<u>ALLOWANCE FOR DOUBTFUL ACCOUNTS</u>				
December 31, 2019	452,000	—	(23,000)	429,000
December 31, 2020	429,000	—	(129,000)	300,000
December 31, 2021	300,000	—	—	300,000

May 8, 2020
Michael W. Silberman
[* * *]
[* * *]
[* * *]

RE: Offer of Employment

Dear Michael,

We are pleased to extend this offer of employment for the position of General Counsel and Secretary with Trecora Resources, a Delaware corporation ("Trecora"). Please review this summary of terms and conditions for your anticipated employment with us. If you accept this offer, your start date will be Monday, June 1, 2020, or another mutually agreed upon date, and you will report to Patrick Quarles, the President and CEO of the Company. Please find below the terms and conditions of your employment, should you accept this offer:

- 1. Position.** Your title will be General Counsel and Secretary. The scope of your duties will include functioning as the chief legal officer, corporate secretary, and head of compliance, for the Company and its subsidiaries. This is a fulltime position, based in the Company's corporate headquarters in Sugar Land, Texas, typically requiring more than 40 hours per week. While you are employed by the Company you will not engage in any other employment, consulting or other business activity (whether full-time or part-time) that would create a conflict of interest with the Company or its subsidiaries. By countersigning this letter, you confirm that you have no contractual commitments or other legal obligations that would prohibit you from performing your duties for the Company.
 - 2. Base Salary.** The Company will pay you an annual base salary of \$325,000 per year. Your salary will be payable in accordance with the Company's standard payroll schedule, beginning on your start date. Assuming you begin on June 1, 2020, you will receive your first payment on June 12, 2020. Your salary will be subject to adjustment in the discretion of the Company from time to time.
 - 3. Bonus Potential.** You will be entitled to participate in the Company's executive compensation program as outlined in the Company's Proxy Statement dated April 6, 2020, with any awards considered for the 2020 calendar year prorated as appropriate. It is our understanding that you have previously reviewed the Executive Compensation section of the Company's Proxy Statement. Your target annual cash bonus will be 55% of your base salary, and your target long-term equity incentive award under the Company's long-term equity incentive compensation plan will be 55% of your base salary. As an incentive to accept the Company's offer of employment, you will be awarded restricted stock units ("RSUs") of the Company's common stock under the Company's long-term equity incentive compensation plan equivalent to \$240,000 effective as of your start date. This RSU award will vest in annual 1/3 increments over a three-year period. Except as otherwise provided in the Company's executive compensation program, vesting will be subject to your still being employed by the Company on the vesting dates.
 - 4. Employee Benefits.** As an employee of the Company, you will be eligible to participate in a number of Company-sponsored benefits. You will be entitled to 20 days of paid vacation per calendar year (prorated for 2020) in accordance with the Company's vacation policy. You will also be entitled to participate in the Company's Change In Control benefit plan applicable to identified employees of the Company. Other benefits including health insurance, 401(k) plan, etc. are available which are offered to all employees and are detailed in the included Employee Handbook. Your participation in these benefits will be on the same basis as other employees of the Company. It is the Company's current policy to match 100% of the first 6% of an employee's 401(k) contributions on a per pay period basis. 401(k) qualification begins after six months of employment with the Company. In addition, the Company will pay you a housing and relocation package of (i) \$5,000 per month for the first 12 months of your employment, and (ii) a lump sum of \$35,000 upon receipt of confirmation that you have relocated to Houston, Texas.
 - 5. Employment Relationship.** Employment with the Company is for no specific period of time. Your employment with the Company will be "at will", meaning that either you or the Company may terminate your employment at any time and for any reason, with or without cause. Any contrary representations that have been made to you are superseded by this offer letter. This is the full and complete agreement between you and the Company. Although your job duties, title,
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compensation and benefits, as well as the Company's personnel policies and procedures, may change from time to time, the "at will" nature of your employment may only be changed in an express written agreement signed by you and a duly authorized officer of the Company.

6. **Termination.** The Company reserves the right to terminate employment of any employee for just cause at any time without notice and without payment in lieu of notice. The Company will be entitled to terminate our employment for any reason other than for just cause, upon providing to you such minimum notice as required by law. Notwithstanding the forgoing, if you are terminated by the Company other than for just cause, the Company will pay you, following receipt of an executed separation and release agreement acceptable to the Company, an aggregate amount equal to (i) the portion of your annual base salary that is accrued and unpaid through the date of termination; (ii) all reimbursable business expenses accrued and unpaid through the date of termination; (iii) wages for any accrued and unused vacation through the date of termination; (iv) a lump sum separation payment equal to (a) 12 months of your then-current base salary and (b) one-year target bonus (based on your annual bonus target percentage). Further, if you are terminated without cause, the Company will not contest any unemployment claims.
7. **Privacy.** You are required to observe and uphold all of the Company's privacy policies and procedures as implemented or varied from time to time. Collection, storage, access to and dissemination of employee personal information will be in accordance with privacy legislation.
8. **Tax Advice.** You are encouraged to obtain your own tax advice regarding your compensation from the Company. You agree that the Company does not have a duty to design its compensation policies in a manner that minimizes your tax liabilities, and you will not make any claim against the Company or its Board of Directors related to tax liabilities arising from your compensation.
9. **Interpretation, Amendment and Enforcement.** This offer letter supersedes and replaces any prior agreements, representations or understandings (whether written, oral, implied or otherwise) between you and the Company regarding the subject matter set forth herein. This offer letter may not be amended or modified, except by an express written agreement signed by you and a duly authorized representative of the Company. This offer letter will be governed by the laws of the State of Texas without regard to conflicts of law rules that would refer to another jurisdiction.

This offer of employment is conditioned upon you passing a background check, pre-employment physical and drug screening in accordance with our normal Company policies and standards.

If you agree with the terms of this offer, please return a countersigned copy of this letter to Patrick Quarles, pquarles@treccora.com, on or before May 22, 2020. Upon your acceptance of this employment offer, the Company will provide you with necessary paperwork and instructions.

We look forward to having you join the Treccora team!

Sincerely,

/s/ Patrick D. Quarles
Patrick D. Quarles President and CEO

AGREED AND ACCEPTED
As of May 8, 2020

/s/ Michael W. Silberman
Michael W. Silberman

April 19, 2021
via email
Rafael Pons
[***]
[***]

RE: *Offer of Promotion (Chief Manufacturing Officer)*

Dear Ralph:

We are pleased to extend to you an offer of promotion to the position of Chief Manufacturing Officer with **Trecora Resources**, a Delaware corporation (the "Company"). Below are the terms and conditions of your promotion if you were to accept this offer:

1. **Position:** Your title will be Chief Manufacturing Officer and you will report to Patrick Quarles, the President and Chief Executive Officer of the Company. The scope of your duties will be those customary to an individual performing the same or similar services for companies comparable to the Company. This is a full-time position based in the Company's corporate headquarters located in Sugar Land, Texas, and typically requires more than 40 hours per week.
2. **Effective Date:** If you accept this offer, your start date in your new role shall be Saturday, May 15, 2021, or another mutually agreed upon date (the "Effective Date").
3. **Base Salary:** The Company will pay you an annual base salary at a rate of **\$300,000** per year. Your new base salary will be payable in accordance with the Company's standard payroll schedule, beginning on your Effective Date. Your salary will be subject to adjustment at the discretion of the Company from time to time.
4. **Annual Cash Incentive Plan:** You will be entitled to continue to participate in the Company's annual cash incentive plan with a new annual cash bonus target of **55%**. Any annual cash bonus will be prorated based on your periods of service prior to and after the Effective Date, and the applicable cash bonus target in effect, and base salary paid, for such periods. In particular, please note:
 - (a) For the period from January 1, 2021 to the Effective Date, your prorated annual cash bonus target will be based on your previous annual cash bonus target of 40% of the cumulative base salary that you are paid for such period;
 - (b) For the period from the Effective Date to December 31, 2021, your annual cash bonus target will be 55% of the new base salary that you are paid for such period; and
 - (c) For future calendar years, your annual cash bonus target will be 55% of the cumulative base salary that you are paid in such applicable calendar year.

Your annual cash bonus target will be subject to adjustment at the discretion of the Company from time to time.

5. **Annual Long Term Incentive ("LTI") Plan:** You will be entitled to continue to participate in the Company's LTI plan with a new annual LTI award target of **55%**. Any annual LTI equity award will be prorated based on your periods of service prior to and after the Effective Date, and the applicable LTI award target in effect, and base salary paid, for such periods. In particular, please note:
 - (a) On February 25, 2021, you were granted 12,640 restricted stock units (the "Initial 2021 LTI Award") under the LTI Plan based upon your then current annual LTI award target of your then current salary (40% of \$225,000);
 - (b) On the Effective Date, after taking into account the Initial 2021 LTI Award, you shall be granted a prorated number of additional restricted stock units (the "Additional 2021 LTI Award") under the LTI Plan for the period from the Effective Date to December 31, 2021, based upon your new annual LTI award target of the new base salary (55% of \$300,000); and
 - (c) For future calendar years, your annual LTI award target will be 55% of the base salary in effect at the time of such grant in such applicable calendar year.
-

The Additional 2021 LTI Award will be treated in the same manner as the Initial 2021 LTI Award, including with respect to the award structure, vesting schedule, and the determinations of achievement of applicable performance metrics for the performance-based portion of the LTI equity awards.

Your annual LTI award target will be subject to adjustment at the discretion of the Company from time to time. Any future LTI equity awards will be administered in accordance with their respective plan and award documents, and except as otherwise provided in the Company's executive compensation program, vesting will be subject to you still being employed by the Company on the vesting dates.

6. **Employee Benefits:** As an employee of the Company, you will continue to be eligible to participate in a number of Company-sponsored benefits and vacation programs and these programs will not be affected by this promotion. You will also be entitled to participate in the Company's Change of Control Severance Plan to the extent applicable to you under the terms of the plan.
7. **Employment Relationship:**
 - (a) Your employment with the Company is for no specific period of time and will continue to be "at will", meaning that either you or the Company may terminate your employment at any time and for any reason, with or without cause. Although your job duties, title, compensation and benefits, as well as the Company's personnel policies and procedures, may change from time to time, the "at will" nature of your employment may only be changed in an express written agreement signed by you and a duly authorized officer of the Company.
 - (b) The Company reserves the right to terminate employment of any employee for just cause at any time without notice and without payment in lieu of notice. The Company will be entitled to terminate your employment for any reason other than for just cause, upon providing to you such minimum notice as required by law.
 - (c) While you are employed by the Company, you will not engage in any other employment, consulting or other business activity (whether full-time or part-time) that would create a conflict of interest with the Company or its subsidiaries. By countersigning this letter, you confirm that you have no contractual commitments or other legal obligations that would prohibit you from performing your duties for the Company.
8. **Tax Advice:** You are encouraged to obtain your own tax advice regarding your compensation from the Company. You agree that the Company does not have a duty to design its compensation policies in a manner that minimizes your tax liabilities, and you will not make any claim against the Company or its Board of Directors related to tax liabilities arising from your compensation.
9. **Entire Agreement:** This letter constitutes the entire agreement of you and the Company, and supersedes any prior or contemporaneous written or oral agreements between the parties regarding the subject matter contained in this letter, and this letter may only be modified by a written document signed by you and a duly authorized representative of the Company.
10. **Governing Law:** This letter shall be governed by, and construed and enforced under, the laws of the State of Texas, U.S.A., without regard to its otherwise applicable conflicts of laws rules.

If you agree with the terms of this offer of promotion, please return a countersigned copy of this letter in portable document format (pdf) to me via email (pquarles@treco.com) on or before **April 20, 2021**. Upon your acceptance of this offer, the Company will provide you with any necessary paperwork and instructions. We look forward to your continued contributions to the Treco team.

Sincerely,

Treco Resources

By: /s/ Patrick D. Quarles
Patrick D. Quarles

President and Chief Executive Officer

Accepted and agreed to
as of April 19, 2021

/s/ Rafael Pons
Rafael Pons

Trecora Resources
D&O Indemnification Agreement

This D&O Indemnification Agreement (this "Agreement"), dated as of [March ___, 2022], is entered into by and between **Trecora Resources**, a Delaware corporation (the "Company"), and [_____] ("Indemnitee").

Background

- A. Indemnitee's service to the Company substantially benefits the Company.
- B. Individuals are reluctant to serve as directors or officers of corporations or in certain other capacities unless they are provided with adequate protection through insurance and/or indemnification against the risks of claims and actions against them arising out of such service.
- C. In order to induce Indemnitee to initially provide or to continue to provide services to the Company, the Company's Certificate of Incorporation and/or Bylaws require the Company to indemnify, and to advance expenses on behalf of, its directors and officers from and against liabilities and expenses they incur in their capacities as such, as permitted by applicable law, and such indemnification is not exclusive of any other rights to indemnification and advancement of expenses.
- D. Indemnitee does not regard the protection currently provided by applicable law, the Company's governing documents and any insurance as adequate under the present circumstances, and Indemnitee may not be willing to serve as a director or officer without additional protection.
- E. In order to induce Indemnitee to provide services to the Company, it is reasonable, prudent and necessary for the Company to contractually obligate itself to indemnify, and to advance expenses on behalf of, Indemnitee as permitted by applicable law.
- F. This Agreement is a supplement to and in furtherance of the indemnification provided in the Company's Certificate of Incorporation and/or Bylaws, and any resolutions adopted in connection therewith, and this Agreement shall not be deemed a substitute therefor, nor shall this Agreement be deemed to limit, diminish, or abrogate any rights of Indemnitee thereunder. However, to the extent that the provisions of this Agreement confer on Indemnitee broader rights to indemnification and advancement of Expenses (as that term is defined below) than are provided for in the Company's Certificate of Incorporation and/or Bylaws, the provisions of this Agreement shall control.

Now, therefore, in consideration of the premises and the covenants contained herein, and for good and valuable consideration, the sufficiency of which is acknowledged, the parties hereto agree as follows:

1. **Definition:**

- (a) "Acquisition Transaction" means any merger, amalgamation, take-over bid, arrangement, recapitalization, consolidation, liquidation, wind-up, dissolution, share exchange, tender offer, material sale of assets or similar transaction between or among the Company and one or more third parties.
- (b) "Corporate Status" describes the status of a person who is or was a director, trustee, general partner, managing member, officer, employee, agent or fiduciary of the Company or any other Enterprise.
- (c) "DGCL" means the General Corporation Law of the State of Delaware, as may be amended.
- (d) "Enterprise" means the Company and any other corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the request of the Company as a director, trustee, general partner, managing member, officer, employee, agent or fiduciary.

(e) "Expenses" include all reasonable attorneys' fees or other professional fees, retainers, court costs, transcript costs, fees and costs of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding. Expenses also include (i) Expenses incurred in connection with any appeal resulting from any Proceeding, including without limitation the premium, security for, and other costs relating to any cost bond, supersedes bond or other appeal bond or their equivalent, and (ii) for purposes of Section 11(d), Expenses incurred by Indemnitee in connection with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company. Expenses shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(f) "Independent Counsel" means a law firm that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent (i) the Company or Indemnitee in any matter (other than as Independent Counsel with respect to matters concerning Indemnitee under this Agreement, or other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

(g) "Proceeding" means any threatened, pending or completed action, suit, arbitration, mediation, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or proceeding, whether brought in the right of the Company or otherwise and whether of a civil, criminal, administrative or investigative nature, including any appeal therefrom and including without limitation any such Proceeding pending as of the date of this Agreement, in which Indemnitee was, is or will be involved as a party, a potential party, a non-party witness or otherwise by reason of (i) the fact that Indemnitee is or was a director or officer of the Company, (ii) any action taken by Indemnitee or any action or inaction on Indemnitee's part while acting as a director or officer of the Company, or (iii) the fact that he or she is or was serving at the request of the Company as a director, trustee, general partner, managing member, officer, employee, agent or fiduciary of the Company or any other Enterprise, in each case whether or not serving in such capacity at the time any liability or Expense is incurred for which indemnification or advancement of Expenses can be provided under this Agreement.

(h) References to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; references to "serving at the request of the Company" shall include any service as a director, officer, employee, trustee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee, trustee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted honestly and in good faith and in a manner he or she reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement.

2. **Indemnity in Third-Party Proceedings:** The Company shall indemnify Indemnitee in accordance with the provisions of this Section 0 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding other than a Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 0, Indemnitee shall be indemnified to the fullest extent permitted by applicable law against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on his or her behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company and, with respect to any criminal Proceeding, had no reasonable grounds to believe that his or her conduct was unlawful. For the avoidance of doubt, the indemnity provided in this Section 0 shall also apply to any liability to Indemnitee for wages to employees pursuant to the DGCL and any other liabilities arising by operation of statute and incurred by or imposed upon the Indemnitee in relation to the affairs of the Company as a result of the Indemnitee's Corporate Status.

3. **Indemnity in Proceedings by or in the Right of the Company:** The Company shall indemnify Indemnitee in accordance with the provisions of this Section 0 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 0, Indemnitee shall be indemnified to the fullest extent permitted by applicable law against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company and, with respect to any criminal Proceeding, had no reasonable grounds to believe that his or her conduct was unlawful. No indemnification for Expenses shall be made under this Section 0 in respect of any claim, issue or matter as to which Indemnitee shall have been finally adjudged by a court of competent jurisdiction (from which no further appeal may be had) to be liable to the Company, unless and only to the extent that the court in which the Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification for such Expenses as the court shall deem proper.

4. **Indemnification for Expenses of a Witness:** In furtherance and not in limitation of the rights provided hereunder, to the extent that Indemnitee is, by reason of his or her Corporate Status, a witness, or is made (or asked) to respond to discovery requests, in any Proceeding to which Indemnitee is not a party, the Company shall indemnify Indemnitee to the fullest extent permitted by applicable law against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

5. **Additional Indemnification:**

(a) In furtherance and not in limitation of the above, the Company shall indemnify Indemnitee to the fullest extent permitted by applicable law if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding (including a Proceeding by or in the right of the Company to procure a judgment in its favor) against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on his or her behalf in connection with the Proceeding or any claim, issue or matter therein.

(b) For purposes of Section 0, the meaning of the phrase "to the fullest extent permitted by applicable law" shall include, but not be limited to:

(i) the fullest extent permitted by any provision of the DGCL that authorizes or contemplates additional indemnification by agreement, or the corresponding provision of any amendment to or replacement of the DGCL; and

(ii) the fullest extent authorized or permitted by any amendments to or replacements of the DGCL adopted after the date of this Agreement that increase the extent to which a corporation may indemnify its officers and directors.

6. **Exclusions:** Notwithstanding any provision in this Agreement to the contrary, the Company shall not be obligated under this Agreement to make any indemnity in connection with any Proceeding (or any part of any Proceeding):

(a) for which payment has actually been made to or on behalf of Indemnitee under any statute, insurance policy, indemnity provision, vote or otherwise, except with respect to any excess beyond the amount paid, subject to any subrogation rights set forth in Section 14;

(b) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees, agents or other indemnitees, unless (i) the Company's Board of Directors authorized the Proceeding (or the relevant part of the Proceeding) prior to its initiation, (ii) the Proceeding asserts a claim against the Company and/or its Board of Directors to enforce Indemnitee's rights under this Agreement; (iii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law, (iv) otherwise authorized in Section 0 or (v) otherwise required by applicable law;

(c) in connection with any claim made against Indemnitee for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company

within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of state statutory law or common law; or

(d) if prohibited by applicable law.

7. **Advances of Expenses:** The Company shall advance, to the fullest extent permitted by applicable law, the Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding, and such advancement shall be made as soon as reasonably practicable, but in any event no later than 30 days, after the receipt by the Company of a written statement or statements requesting such advances from time to time (which shall include invoices received by Indemnitee in connection with such Expenses but, in the case of invoices in connection with legal services, references to legal work performed or to expenditures made whose disclosure might put at risk any of Indemnitee's privileges or protections shall not be included with the invoice). Advances shall be unsecured and interest free and made without regard to Indemnitee's ability to repay such advances. Indemnitee hereby undertakes to repay any advance to the extent that it is ultimately determined that Indemnitee is not entitled to be indemnified by the Company. This Section 0 shall not apply to the extent advancement is prohibited by law and shall not apply to any Proceeding for which indemnity is not permitted under this Agreement.

8. **Procedures for Notification and Defense of Claim:**

(a) Indemnitee shall notify the Company in writing of any matter with respect to which Indemnitee intends to seek indemnification or advancement of Expenses as soon as reasonably practicable following the receipt by Indemnitee of notice thereof. The failure by Indemnitee to notify the Company will not relieve the Company from any liability which it may have to Indemnitee hereunder or otherwise than under this Agreement, and any delay in so notifying the Company shall not constitute a waiver by Indemnitee of any rights.

(b) If, at the time of the receipt of a notice of a Proceeding pursuant to the terms hereof, the Company has directors' and officers' liability insurance in effect, the Company shall give prompt notice of the commencement of the Proceeding to the insurers in accordance with the procedures set forth in the applicable policies. The Company shall thereafter take all commercially reasonable actions to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.

(c) In the event the Company may be obligated to provide any indemnity to Indemnitee in connection with a Proceeding, Indemnitee shall have the express right to retain legal counsel of his or her choice to represent Indemnitee's interests in connection with said Proceeding, and the Company shall advance to Indemnitee in accordance with the terms of this Agreement the Expenses incurred by Indemnitee in connection therewith. If the Company and Indemnitee conclude that it would not create any conflict of interest, Indemnitee may request that the Company's legal counsel assume the representation of Indemnitee in connection with the Proceeding, and the Company shall grant said request and bear all of the attorneys' fees and costs of said representation.

(d) Indemnitee shall provide the Company with ten (10) days' prior written notice before settling a Proceeding (or any part thereof).

(e) The Company shall not settle any Proceeding (or any part thereof) for which Indemnitee is entitled to indemnification hereunder as it relates to Indemnitee, without Indemnitee's prior written consent, which shall not be unreasonably withheld.

9. **Procedures upon Application for Indemnification:**

(a) To obtain indemnification, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and as is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification following the final disposition of the Proceeding. The Company shall, as soon as reasonably practicable after receipt of such a request for indemnification, advise the Company's Board of Directors that Indemnitee has requested indemnification.

(b) Upon written request by Indemnitee for indemnification pursuant to Section 0, a determination with respect to Indemnitee's entitlement thereto shall be made in the specific case by the

Company's Board of Directors, which determination shall be delivered to Indemnitee in writing. If Indemnitee is a director or officer at the time of such determination, such determination shall be made: (i) by a majority vote of the directors who are not parties to such Proceeding ("Disinterested Directors"), even though less than a quorum; (ii) by a committee of directors designated by majority vote of Disinterested Directors, even though less than a quorum; (iii) if there are no such Disinterested Directors, or if such Disinterested Directors so direct, by Independent Counsel in a written opinion; or (iv) by the stockholders of the Company. If the Company's Board of Directors (or a committee thereof) determines that Indemnitee is not entitled to indemnification, then upon written request by Indemnitee, Independent Counsel shall make such determination in a written opinion to the Company's Board of Directors, a copy of which shall be delivered to Indemnitee. If it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made promptly, and in any event within 30 days, upon the receipt of a written request from Indemnitee pursuant to Section 9(a). If determination whether Indemnitee is entitled to indemnification pursuant to this Section 9(b) is required, and the Company fails to respond within 30 days to a written request from Indemnitee seeking such indemnification pursuant to Section 9(a), the Company shall be deemed to have approved such request. Indemnitee shall cooperate with the Company's Board of Directors or the Independent Counsel making such determination, as applicable, with respect to Indemnitee's entitlement to indemnification, including providing upon reasonable advance request any documentation or information that is not privileged or otherwise protected from disclosure and that is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or expenses (including attorneys' fees and disbursements) reasonably incurred by Indemnitee in so cooperating with the Company's Board of Directors or the Independent Counsel, as applicable, shall be borne by the Company, to the fullest extent permitted by applicable law.

(c) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 0, then the Independent Counsel shall be selected as provided in this Section 0. The Independent Counsel shall be selected by the Company's Board of Directors, and the Company shall give written notice to Indemnitee advising him or her of the identity of the Independent Counsel so selected. The Indemnitee may, within ten days after such written notice of selection shall have been given, deliver to the Company a written objection to such selection; *provided, however*, that such objection must be made in good faith and may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" herein, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If such written objection is so made, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If, within 20 days after the later of (i) submission by Indemnitee of a written request for indemnification pursuant to Section 0 hereof and (ii) the final disposition of the Proceeding, the parties have not agreed upon an Independent Counsel, either the Company or Indemnitee may petition a court of competent jurisdiction for resolution of any objection which shall have been made by the Indemnitee to the selection of Independent Counsel and for the appointment as Independent Counsel of a person selected by the court or by such other person as the court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 0 hereof. Upon the due commencement of any proceeding pursuant to Section 0 of this Agreement, the Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

(d) The Company agrees to pay the reasonable fees and expenses of any Independent Counsel and to fully defend, indemnify and hold harmless such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

10. **Presumptions and Effect of Certain Proceedings :**

(a) In making a determination with respect to entitlement to indemnification hereunder, the Independent Counsel making such determination shall, to the fullest extent not prohibited by law, presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 0 of this Agreement, and the Company shall, to the fullest extent not prohibited by law, have the burden of proof to overcome that presumption if the Company objects to Indemnitee's request for indemnification under this Agreement.

(b) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal or administrative Proceeding, that Indemnitee had reasonable grounds to believe that his or her conduct was unlawful.

(c) For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith to the extent Indemnitee relied in good faith on (i) the records or books of account of the Enterprise, including financial statements, (ii) information supplied to Indemnitee by the officers of the Enterprise in the course of their duties, (iii) the advice of legal counsel for the Enterprise or its board of directors or counsel selected by any committee of the board of directors or (iv) information or records given or reports made to the Enterprise by an independent certified public accountant, an appraiser, investment banker or other expert selected by the Enterprise or its board of directors or any committee of the board of directors. The provisions of this Section 0 shall not be deemed to be exclusive or to limit in any way the other circumstances in which Indemnitee may be deemed to have met the applicable standard of conduct set forth in this Agreement.

(d) Neither the knowledge, actions nor failure to act of any other director, officer, agent or employee of the Enterprise shall be imputed to Indemnitee for purposes of determining Indemnitee's right to indemnification under this Agreement.

11. **Remedies of Indemnitee:**

(a) Subject to Section 0, in the event that (i) a determination is made pursuant to Section 0 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 0 of this Agreement, (iii) determination of entitlement to indemnification is not timely made pursuant to Section 0 of this Agreement, (iv) payment of indemnification to which Indemnitee is entitled pursuant to this Agreement is not made within 30 days after receipt by the Company of a written request therefor, or (v) the Company or any other person or entity takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any Proceeding designed to deny, or to recover from, Indemnitee the benefits provided or intended to be provided to Indemnitee hereunder, Indemnitee shall be entitled to an adjudication by a court of competent jurisdiction of his or her entitlement to such indemnification and/or advancement of Expenses. Alternatively, Indemnitee, in his or her sole discretion, may seek an award in arbitration with respect to his or her entitlement to such indemnification or advancement of Expenses under this Agreement, to be conducted by a single arbitrator pursuant to the then existing National Arbitration Rules of the American Arbitration Association. Upon request by Indemnitee, the Company shall participate in said arbitration and shall waive its right to pursue any litigation relating to this Agreement or the subject matter hereof in any court or tribunal (other than the arbitration proceeding). (The judicial and arbitration proceedings referenced in this Section 0 shall be referred to hereinafter jointly as the "Enforcement Proceeding.")

(b) Neither (i) the failure of the Company, its Board of Directors, any committee or subgroup of the Board of Directors, Independent Counsel or shareholders to have made a determination that indemnification of Indemnitee is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor (ii) an actual determination by the Company, its Board of Directors, any committee or subgroup of the Board of Directors, Independent Counsel or shareholders that Indemnitee has not met the applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has or has not met the applicable standard of conduct. In the event that a determination shall have been made pursuant to Section 0 of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 0 shall be conducted in all respects as a *de novo* trial, or arbitration, on the merits, and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Section 0, the Company shall, to the fullest extent not prohibited by law, have the burden of proving Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

(c) To the fullest extent not prohibited by law, the Company shall be precluded from asserting in any Proceeding commenced pursuant to this Section 0 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement. If a determination shall have been made pursuant to Section 0 of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any Proceeding commenced pursuant to this Section 0, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statements not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) To the extent not prohibited by law, the Company shall indemnify Indemnitee against all Expenses that are incurred by Indemnitee in connection with any action for indemnification or advancement of Expenses from the Company under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company to the extent Indemnitee is successful in such action, and, if requested by Indemnitee, shall (as soon as reasonably practicable, but in any event no later than 30 days, after receipt by the Company of a written request therefor) advance such Expenses to Indemnitee, subject to the provisions of Section 0.

(e) Notwithstanding anything in this Agreement to the contrary, no determination as to Indemnitee's entitlement to indemnification shall be required to be made prior to the final disposition of the Proceeding.

12. **Contribution:**

(a) Whether or not the indemnification provided in Sections 2, 3 and 5 hereof is available, in respect of any threatened, pending or completed Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such Proceeding), the Company shall pay, in the first instance, the entire amount of any judgment or settlement of such Proceeding without requiring Indemnitee to contribute to such payment and the Company hereby waives and relinquishes any right of contribution it may have against Indemnitee. The Company shall not enter into any settlement of any Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such Proceeding) unless such settlement provides for a full and final release of all claims asserted against Indemnitee.

(b) Without diminishing or impairing the obligations of the Company set forth in the preceding subparagraph, if, for any reason, Indemnitee shall elect or be required to pay all or any portion of any judgment or settlement in any threatened, pending or completed Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such Proceeding), the Company shall contribute to the amount of Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in proportion to the relative benefits received by the Company and all officers, directors or employees of the Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such Proceeding), on the one hand, and Indemnitee, on the other hand, from the transaction or events from which such Proceeding arose; provided, however, that the proportion determined on the basis of relative benefit may, to the extent necessary to conform to law, be further adjusted by reference to the relative fault of the Company and all officers, directors or employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such Proceeding), on the one hand, and Indemnitee, on the other hand, in connection with the transaction or events that resulted in such expenses, judgments, fines or settlement amounts, as well as any other equitable considerations which applicable law may require to be considered. The relative fault of the Company and all officers, directors or employees of the Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such Proceeding), on the one hand, and Indemnitee, on the other hand, shall be determined by reference to, among other things, the degree to which their actions were motivated by intent to gain personal profit or advantage, the degree to which their liability is primary or secondary and the degree to which their conduct is active or passive.

(c) The Company hereby agrees to fully defend, indemnify and hold Indemnitee harmless from any claims of contribution which may be brought by officers, directors, or employees of the Company, other than Indemnitee, who may be jointly liable with Indemnitee.

(d) To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amounts incurred by Indemnitee, whether for Expenses, judgments, fines or amounts paid or to be paid in settlement, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the events and transactions giving rise to such Proceeding; and (ii) the relative fault of Indemnitee and the Company (and its other directors, officers, employees and agents) in connection with such events and transactions.

13. **Non-Exclusivity:** The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Company's Certificate of Incorporation or Bylaws, any agreement, a vote of shareholders or a resolution of directors, insurance or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in Delaware law, whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than would be afforded currently under the Company's Certificate of Incorporation and Bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change, subject to the restrictions expressly set forth herein or therein. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

14. **Primary Responsibility:**

(a) The Company acknowledges that Indemnitee may have certain rights to indemnification, advancement of expenses and/or insurance provided under policies obtained by the Company (collectively, the "Secondary Indemnitors"). The Company acknowledges that, as between the Company and the Secondary Indemnitors, the Company is primarily responsible for amounts required to be indemnified or advanced under the Company's Certificate of Incorporation, Bylaws and/or this Agreement, and any obligation of the Secondary Indemnitors to provide indemnification or advancement for the same amounts is secondary to those Company obligations. The Company waives any right of contribution or subrogation against the Secondary Indemnitors with respect to the indemnification and advancement amounts for which the Company is primarily responsible under this Section 0.

(b) In the event of any payment by the Secondary Indemnitors of amounts otherwise required to be indemnified or advanced by the Company under the Company's Certificate of Incorporation or bylaws or this Agreement, the Secondary Indemnitors shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee for indemnification or advancement of Expenses under the Company's Certificate of Incorporation or Bylaws and/or this Agreement or, to the extent such subrogation is unavailable and contribution is found to be the applicable remedy, shall have a right of contribution with respect to the amounts paid. The Secondary Indemnitors are express third-party beneficiaries of the terms of this Section 14.

(c) If any Secondary Indemnitor is or was a party or is threatened to be made a party to or is otherwise involved in (including, without limitation, as a witness or responding to discovery) any Proceeding, and such Secondary Indemnitor's involvement in the Proceeding arises from the Indemnitee's Corporate Status, or from such Secondary Indemnitor's financial interest (whether through equity, debt or otherwise) in or control or alleged control of the Company or any Enterprise, then such Secondary Indemnitor shall be entitled to all of the indemnification rights and remedies (including, without limitation, the advancement of Expenses), and shall to the extent indemnified hereunder undertake the obligations, of the Indemnitee under this Agreement to the same extent as the Indemnitee. The Company and Indemnitee agree that the Secondary Indemnitors are express third party beneficiaries of the terms hereof. Notwithstanding anything contained herein to the contrary, no Secondary Indemnitor shall be entitled to indemnification or advancement of Expenses under this Agreement to the extent such Secondary Indemnitor is involved in a Proceeding solely in its capacity as a stockholder of, or as a result of its financial interest in, the Company.

15. **No Duplication of Payments:** Subject to any subrogation rights set forth in Section 0, the Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder (or for which advancement is provided hereunder) if and to the extent that Indemnitee has otherwise actually received payment for such amounts under any insurance policy, contract, agreement or otherwise.

16. **Insurance:** The Company shall maintain an insurance policy or policies providing liability insurance for directors and officers of the Company, and Indemnitee shall be covered by such policy or policies to the same extent as the most favorably-insured persons under such policy or policies in a comparable position. The Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies, and the Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies. In the event the aforementioned insurance policy or policies are discontinued for any reason, or in the event of a consummation of an Acquisition Transaction, the Company shall purchase, maintain and administer, or cause to be purchased, maintained and administered, for a period of six years after such discontinuance or Acquisition Transaction, as the case may be, insurance for the benefit of the Indemnitee on a "run-off" basis, on such terms as the Company then maintains in existence for its directors and officers, to the fullest extent permitted by applicable law, and the Company shall provide a copy of such policy to the Indemnitee; *provided, however,* that in no event shall the Company be required to expend an amount in excess of 300% of the annual amount paid by the Company at the time of such discontinuance or Acquisition Transaction for such insurance.

17. **Deductible:** If for any reason whatsoever, any directors' and officers' liability insurer asserts that the Indemnitee is subject to a deductible under any existing or future directors' and officers' liability insurance purchased and maintained by the Company for the benefit of the Indemnitee, the Company shall pay the deductible for and on behalf of the Indemnitee.

18. **Subrogation:** In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee (other than with respect to any Secondary Indemnitor), who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

19. **Inducement to Indemnitee:** The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed herein in order to induce Indemnitee to serve as a director and/or officer of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in agreeing to serve in any such capacity. In consideration of the Company's agreement to discharge its obligations under this Agreement, Indemnitee agrees to serve as a director or officer of the Company (as applicable) or, at the request of the Company, as a director or officer of another Enterprise, for so long as Indemnitee is duly elected or appointed or until Indemnitee tenders his or her resignation or is removed from such position. Indemnitee may at any time and for any reason resign from such position.

20. **Duration:** This Agreement shall continue until and terminate upon the later of (a) 10 years after the date on which Indemnitee last ceases to serve as a director or officer of the Company or of any other Enterprise, as applicable; (b) one year after the final termination of any Proceeding, including all appeals in connection therewith; or (c) one year after the final termination of any Enforcement Proceeding, including all appeals in connection therewith.

21. **Successors:** This Agreement shall be binding upon the Company and its successors and assigns, including any direct or indirect successor as a result of an Acquisition Transaction or otherwise to all or substantially all of the business or assets of the Company, and shall inure to the benefit of Indemnitee and Indemnitee's heirs, executors and administrators. The Company shall require and cause any successor (whether direct or indirect by Acquisition Transaction or otherwise) to all or substantially all of the business or assets of the Company, by written agreement, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

22. **Severability:** Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order or other applicable law, to perform its obligations under this Agreement shall not

constitute a breach of this Agreement. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (i) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by applicable law; (ii) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (iii) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

23. **Entire Agreement:** This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof; *provided, however*, that this Agreement is a supplement to and in furtherance of the Company's Certificate of Incorporation and Bylaws.

24. **Modification and Waiver:** No supplement, modification or amendment to this Agreement shall be binding unless in a writing executed by the parties hereto. No amendment, alteration or repeal of this Agreement shall adversely affect any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his or her Corporate Status prior to such amendment, alteration or repeal. No waiver of any of the provisions of this Agreement shall constitute or be deemed a waiver of any other provision of this Agreement nor shall any waiver constitute a continuing waiver.

25. **Notices:** All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, sent by facsimile or electronic mail or otherwise delivered by hand, messenger or courier service addressed:

(a) if to Indemnitee, to Indemnitee's address, facsimile number or electronic mail address as shown on the signature page of this Agreement, or at such other address as Indemnitee shall have furnished to the Company; or

(b) if to the Company, to the attention of the Company's General Counsel, 1650 Hwy 6 S., Suite 190, Sugar Land, Texas 77478, email: msilberman@treco.com; Fax: (281) 980-5533.

Each such notice or other communication shall for all purposes of this Agreement be treated as effective or having been given (i) if delivered by hand, messenger or courier service, when delivered (or if sent via a nationally-recognized overnight courier service, freight prepaid, specifying next-business-day delivery, one business day after deposit with the courier), (ii) if sent via mail, at the earlier of its receipt or five days after the same has been deposited in a regularly-maintained receptacle for the deposit of the United States mail, addressed and mailed as aforesaid, or (iii) if sent via facsimile, upon confirmation of facsimile transfer or, (iv) if sent via electronic mail, upon confirmation of delivery when directed to the relevant electronic mail address, if sent during normal business hours of the recipient, or if not sent during normal business hours of the recipient, then on the recipient's next business day.

26. **Applicable Law:** This Agreement shall be governed by and construed exclusively in accordance with the internal laws of the State of Delaware applicable therein excluding that body of law relating to conflict of laws.

27. **Independent Legal Advice:** The Indemnitee acknowledges that he or she has been advised to obtain independent legal advice with respect to entering into this Agreement, that the Indemnitee has obtained such independent legal advice or has expressly determined not to seek such advice, and that the Indemnitee is entering into this Agreement with full knowledge of the contents of this Agreement, of the Indemnitee's own free will and with full capacity and authority to do so.

28. **Counterparts:** This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Facsimile or other electronically-transmitted signatures shall be treated as originals and shall bind the signatories to the terms of this Agreement.

29. **Captions:** The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

[signature page follows]

IN WITNESS WHEREOF, each of the undersigned, intending to be legally bound, hereby executes this Agreement as of the date of this Agreement.

COMPANY:

Trecora Resources

By: _____
Patrick D. Quarles
President and Chief Executive Officer

INDEMNITEE:

[Name of Indemnitee]

Address:

Email Address:
Phone Number:
Facsimile Number:

SUBSIDIARIES

1. Texas Oil & Chemical Co. II, Inc. is a Texas corporation doing business under its corporate name. Trecora Resources owns 100% of the capital stock of Texas Oil & Chemical Co. II, Inc.
2. Trecora Chemical, Inc. is a Texas corporation doing business under its corporate name. Texas Oil & Chemical Co. II, Inc. owns 100% of the capital stock of Trecora Chemical, Inc.
3. South Hampton Resources, Inc. is a Texas corporation doing business under its corporate name. Texas Oil & Chemical Co. II, Inc. owns 100% of the capital stock of South Hampton Resources, Inc.
4. Gulf State Pipe Line Company is a Texas corporation doing business under its corporate name. South Hampton Resources, Inc. owns 100% of the capital stock of Gulf State Pipe Line Company.

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-227095, 333-188451, 333-15470, and 333-39543) and Form S-3 (Nos. 333-208335, 333-183350, and 333-160991) of Trecora Resources (the “Company”) of our reports dated March 10, 2022 with respect to the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, stockholders’ equity and cash flows for each of the years in the three-year period ended December 31, 2021, and financial statement schedules, and the effectiveness of internal control over financial reporting as of December 31, 2021, both of which appear in the December 31, 2021 annual report on Form 10-K of Trecora Resources.

/s/ BKM Sowan Horan, LLP
Addison, Texas
March 10, 2022

CERTIFICATION PURSUANT TO RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Patrick D. Quarles, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2021, 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 financial statements, and other financial information included in this 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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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 auditors 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 controls 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 controls over financial reporting.

Date: March 10, 2022

/s/ Patrick D. Quarles

Patrick D. Quarles
President and Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Sami Ahmad, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2021, 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 financial statements, and other financial information included in this 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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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 auditors 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 controls 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 controls over financial reporting.

Date: March 10, 2022

/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**

Each of the undersigned hereby certifies, for the purposes of 18 U.S.C. Section 1350, in his capacity as an officer of Trecora Resources (the “Company”), that, to such person’s knowledge:

- (a) the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2021, as filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 10, 2022

/s/ Patrick D. Quarles

Patrick D. Quarles
President and Chief Executive Officer

/s/ Sami Ahmad

Sami Ahmad
Chief Financial Officer

This certification is not deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. This certification is not deemed to be incorporated by reference into any filing under the Securities Act of 1933 or Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.