

**ADAMS**  
*Resources & Energy, Inc.*

**2021 Annual Report**

## FINANCIAL HIGHLIGHTS

	Year Ended December 31,		
	2021	2020	2019
	(In thousands, except per share data)		
Revenues . . . . .	\$2,025,204	\$1,022,422	\$1,811,247
Net earnings . . . . .	11,888	995	8,207
Cash and cash equivalents . . . . .	97,825	39,293	112,994
Working capital . . . . .	87,199	72,965	87,747
Total assets . . . . .	374,703	296,187	330,842
Long term debt . . . . .	—	—	—
Finance lease obligations . . . . .	13,335	15,619	6,543
Earnings per common share . . . . .	\$ 2.75	\$ 0.23	\$ 1.94
Dividends per common share . . . . .	\$ 0.96	\$ 0.96	\$ 0.94

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## ABOUT THE COMPANY

Adams Resources & Energy, Inc. is engaged in the business of crude oil marketing, transportation, terminalling and storage and tank truck transportation of liquid chemicals, pressurized gases, asphalt and dry bulk through its subsidiaries, GulfMark Energy, Inc., Service Transport Company, Victoria Express Pipeline, LLC and GulfMark Terminals, LLC.

## LETTER TO SHAREHOLDERS

### To Our Fellow Shareholders:

The Company generated net earnings of \$11.9 million, or \$2.75 per diluted common share, on revenues of \$2.03 billion for 2021, compared to \$1.0 million, or \$0.23 per diluted common share, on revenues of \$1.02 billion for 2020. On an adjusted basis, net earnings were \$3.8 million, or \$0.88 per diluted common share, for 2021, compared to \$12.2 million, or \$2.87 per diluted common share, for 2020. Adjusted net earnings, adjusted earnings per common share and adjusted cash flow are non-generally accepted accounting principle (“non-GAAP”) financial measures that are defined and reconciled in the financial tables below.

### Summary of Financial Results (in thousands)

	Year Ended December 31,		
	2021	2020	2019
<b>Operating earnings (losses):</b>			
Marketing .....	\$ 25,243	\$ 2,974	\$ 16,099
Transportation .....	7,104	1,873	1,899
Pipeline and storage .....	(2,487)	(310)	—
General and administrative .....	(13,701)	(10,284)	(10,198)
<b>Operating earnings (losses) .....</b>	<u>16,159</u>	<u>(5,747)</u>	<u>7,800</u>
<b>Other income (expense):</b>			
Gain on dissolution of investment .....	—	—	573
Interest income .....	243	656	2,766
Interest expense .....	(746)	(444)	(636)
<b>Earnings (losses) before income taxes .....</b>	<u>15,656</u>	<u>(5,535)</u>	<u>10,503</u>
Income tax (provision) benefit .....	(3,768)	6,530	(2,296)
<b>Net earnings .....</b>	<u>\$ 11,888</u>	<u>\$ 995</u>	<u>\$ 8,207</u>

## LETTER TO SHAREHOLDERS— (Continued)

	Year Ended December 31,		
	2021	2020	2019
<b>Reconciliation of Adjusted Cash Flow to Net Earnings:</b>			
Net earnings . . . . .	\$ 11,888	\$ 995	\$ 8,207
Add (subtract):			
Income tax provision (benefit) . . . . .	3,768	(6,530)	2,296
Depreciation and amortization . . . . .	19,797	18,573	16,641
Gains on sales of property . . . . .	(733)	(1,859)	(1,400)
Gain on dissolution of investment . . . . .	—	—	(573)
Stock-based compensation expense . . . . .	854	643	478
Inventory liquidation gains . . . . .	(10,344)	—	(3,749)
Inventory valuation losses . . . . .	—	14,967	—
Net change in fair value contracts . . . . .	(14)	(9)	23
Costs of voluntary early retirement program . . . . .	—	431	—
Adjusted cash flow . . . . .	<u>\$ 25,216</u>	<u>\$27,211</u>	<u>\$21,923</u>

	Year Ended December 31,		
	2021	2020	2019
<b>Reconciliation of Adjusted Cash Flow to Net Cash</b>			
<b>Provided by (Used in) Operating Activities:</b>			
Net cash provided by (used in) operating activities . . . . .	\$ 81,026	\$(43,999)	\$ 46,899
Add (subtract):			
Income tax provision (benefit) . . . . .	3,768	(6,530)	2,296
Deferred income taxes . . . . .	1,401	(6,389)	(2,085)
Provision for doubtful accounts . . . . .	6	27	12
Inventory liquidation gains . . . . .	(10,344)	—	(3,749)
Inventory valuation losses . . . . .	—	14,967	—
Costs of voluntary early retirement program . . . . .	—	431	—
Changes in assets and liabilities . . . . .	<u>(50,641)</u>	<u>68,704</u>	<u>(21,450)</u>
Adjusted cash flow . . . . .	<u>\$ 25,216</u>	<u>\$ 27,211</u>	<u>\$ 21,923</u>

## LETTER TO SHAREHOLDERS— (Continued)

	Year Ended December 31,		
	2021	2020	2019
<b>Adjusted net earnings and earnings per common share (Non-GAAP):</b>			
Net earnings . . . . .	\$ 11,888	\$ 995	\$ 8,207
Add (subtract):			
Gain on dissolution of investment . . . . .	—	—	(573)
Gains on sales of property . . . . .	(733)	(1,859)	(1,400)
Stock-based compensation expense . . . . .	854	643	478
Costs of voluntary early retirement program . . . . .	—	431	—
Net change in fair value contracts . . . . .	(14)	(9)	23
Inventory liquidation gains . . . . .	(10,344)	—	(3,749)
Inventory valuation losses . . . . .	—	14,967	—
Tax effect of adjustments to earnings . . . . .	2,149	(2,976)	1,096
Adjusted net earnings . . . . .	<u>\$ 3,800</u>	<u>\$12,192</u>	<u>\$ 4,082</u>
Adjusted earnings per common share . . . . .	<u>\$ 0.88</u>	<u>\$ 2.87</u>	<u>\$ 0.97</u>

As you can see from the foregoing Financial Highlights, and as further detailed below, we enjoyed another year of sound growth generating solid operating performance across our segments during 2021 overcoming the significant business disruption caused by the harsh February freeze in the South. While an improved macro-economic environment contributed to this performance, the primary driver of these solid results was the continued execution of targeted company initiatives. All three of our segments benefited from acquisitions gaining traction in their respective markets, continued best in class safety performance, and a commitment to combating the current driver shortage by implementing programs to reduce driver turnover. We look forward to executing on additional initiatives in 2022 designed to drive long-term benefit to our shareholders.

Our focus in 2022 will be to continue to expand our core businesses and enhance the quality of the service offerings we provide for our customers while delivering value to our shareholders. The Company will continue its focus on ESG initiatives to insure we are good stewards of the environment, strong in our governance practices and committed to a diverse workforce. We will work to achieve positive results in markets with strong competition and margin pressures throughout all segments of our business.

Our major objectives for 2022 are as follows:

- Crude oil marketing – We plan to focus on increasing margins to maximize cash flow and capturing midstream opportunities in an increasingly volatile market. We will utilize a new fleet dispatch and maintenance software system to help drive more efficiency in our fleet operations and lower our operating costs, which we believe will help drive increased profitability. In addition, we will look for opportunities to increase our trucking fleet to add to our overall ability to gather and distribute crude oil.
- Transportation – We plan to continue to increase truck utilization, upgrade our fleet quality and enhance driver retention and recruitment. We also plan to capitalize on our recent acquisitions to improve quality of revenue through improved efficiencies, and we will continue to look for ways to expand our terminal footprint to put us in a position to better compete for new business.
- Pipeline and storage – We will focus on opportunities to increase our pipeline and storage capacity utilization, by identifying opportunities with our existing and new customers to increase volumes. In addition, we will explore new connections for the pipeline system both upstream and downstream of the pipeline, to increase the crude oil supply and take-away capability of the system.
- Strategic business development – We will deploy a disciplined investment approach to growth in our three segments and funding new growth opportunities that are adjacent and complimentary to existing operating activities.

**LETTER TO SHAREHOLDERS— (Continued)**

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We are positioned to have flexibility to continue to take advantage of market opportunities. We want to thank all of our employees for their tireless efforts as we continue to safely serve our customers. We are looking forward to continuing our momentum in 2022 and finding and developing creative ideas that will generate value to all of our stakeholders during 2022.

Sincerely,



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Townes G. Pressler  
*Chairman of the Board*



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Kevin J. Roycraft  
*Chief Executive Officer and President*

March 23, 2022

## OPERATIONS SUMMARY

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### Business Activities

Adams Resources & Energy, Inc. (“AE”) is a publicly traded Delaware corporation organized in 1973, the common shares of which are listed on the NYSE American LLC (“NYSE American”) under the ticker symbol “AE”. Through our subsidiaries, we are primarily engaged in crude oil marketing, transportation, terminalling and storage in various crude oil and natural gas basins in the lower 48 states of the United States (“U.S.”). We also conduct tank truck transportation of liquid chemicals, pressurized gases, asphalt and dry bulk primarily in the lower 48 states of the U.S. with deliveries into Canada and Mexico, and with nineteen terminals across the U.S. Our headquarters are located in 22,197 square feet of office space located at 17 South Briar Hollow Lane, Suite 100, Houston, Texas 77027. Unless the context requires otherwise, references to “we,” “us,” “our,” the “Company” or “AE” are intended to mean the business and operations of Adams Resources & Energy, Inc. and its consolidated subsidiaries.

We operate and report in three business segments: (i) crude oil marketing, transportation and storage; (ii) tank truck transportation of liquid chemicals, pressurized gases, asphalt and dry bulk; and (iii) pipeline transportation, terminalling and storage of crude oil.

For detailed financial information regarding our business segments, see Note 9 in the Notes to Consolidated Financial Statements included in this annual report.

### 2021 Developments

#### *COVID-19 Update*

The outbreak of the novel coronavirus (“COVID-19”) in 2019 has evolved into a continuing global pandemic that has spread to many regions of the world, including the areas of the U.S. where we operate. In an attempt to control the spread of the virus, significant governmental measures have been implemented, including quarantines, travel restrictions, business shutdowns, restrictions on non-essential activities in the U.S. and abroad and vaccine mandates. The ongoing pandemic has resulted in a number of adverse economic effects, including changes in consumer behavior related to the economic slowdown, disruption of historical supply and demand patterns, and changes in the work force, which has affected our business and the businesses of our customers. These adverse economic effects of the COVID-19 outbreak have impacted our crude oil marketing operations and our transportation services.

The COVID-19 pandemic has created business challenges primarily related to changes in the work force, which has impacted our ability to hire and retain qualified truck drivers in both of our business units, and issues with the supply chain, resulting in delays in purchasing items, including new tractors. While demand for transportation of products and demand for crude oil has increased from 2020 levels during the initial months of the pandemic, our growth in 2021 has been limited in certain markets by the availability of truck drivers.

Our primary focus continues to be the safety of our employees and operations while providing uninterrupted service to our customers. We continue to maintain the safety protocols we established, including encouraging our employees to seek vaccination when eligible. We are dependent on our workforce of truck drivers to transport crude oil and products for our customers. Developments such as social distancing and shelter-in-place directives thus far have not had a significant impact on our ability to deploy our workforce effectively as the transportation industry has been deemed an essential service under current Cybersecurity and Infrastructure Security Agency guidelines. We have taken measures to seek to ensure the safety of our employees and operations while maintaining uninterrupted service to our customers. The safety of our employees and operations while providing uninterrupted service to our customers remains our primary focus.

We have also been seeking ways to overcome supply shortages in tractors, by additional maintenance to extend vehicle lives, shortages in tires and other inventory by having additional items on hand and increases in the price of diesel fuel by continuing to pass costs through to customers or attempting to reduce costs through efficiencies.

## **OPERATIONS SUMMARY— (Continued)**

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We are actively monitoring the global situation and its effect on our financial condition, liquidity, operations, customers, industry and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, we cannot estimate the length or gravity of the impacts of these events at this time. While we consider the overall effects of the pandemic to be temporary, if the pandemic and its economic effects continue, particularly in light of new and variant strains of the virus and the plateau of vaccination rates, it may have a material adverse effect on our results of future operations, financial position and liquidity.

We plan to continue to operate our remaining business segments with internally generated cash flows and borrowings under the Credit Agreement (discussed further below) during 2022, but we intend to remain flexible as the focus will be on increasing efficiencies and on business development opportunities, as well as on the hiring and retention of qualified truck drivers. During 2022, we plan to continue our efforts to diversify service offerings and leverage back haul opportunities in our transportation segment, and we plan to grow in new or existing areas with our crude oil marketing segment, while focusing on opportunities to increase our pipeline and storage capacity utilization.

### *Credit Agreement*

On May 4, 2021, we entered into a Credit Agreement (“Credit Agreement”) with Wells Fargo Bank, National Association, as Agent and Issuing Lender, under which we may borrow or issue letters of credit in an aggregate of up to \$40.0 million under a revolving credit facility, which will mature on May 4, 2024, subject to our compliance with certain financial covenants. See Note 12 in the Notes to Consolidated Financial Statements in this annual report.

## **Business Segments**

### *Crude Oil Marketing*

Our crude oil marketing segment consists of the operations of our wholly owned subsidiary, GulfMark Energy, Inc. (“GulfMark”). Our crude oil marketing activities generate revenue from the sale and delivery of crude oil purchased either directly from producers or from others on the open market. We also derive revenue from third party transportation contracts. We purchase crude oil and arrange sales and deliveries to refiners and other customers, primarily onshore in Texas, Oklahoma, North Dakota, Michigan, Wyoming and Louisiana.

Our crude oil marketing activities includes a fleet of 201 tractor-trailer rigs, the majority of which we own and operate, used to transport crude oil. We also maintain approximately 180 pipeline inventory locations or injection stations. We have the ability to barge crude oil from six crude oil storage facilities along the Intracoastal Waterway of Texas and Louisiana, and we have access to approximately 889,000 barrels of storage capacity at the dock facilities in order to access waterborne markets for our products.



**OPERATIONS SUMMARY— (Continued)**

The following table shows the age of our owned and leased tractors and trailers within our crude oil marketing segment at December 31, 2021:

	<u>Tractors<sup>(1)</sup></u>	<u>Trailers</u>
<b>Model Year:</b>		
2021.....	40	—
2020.....	51	—
2019.....	38	—
2018.....	15	—
2017.....	4	—
2015.....	37	29
2014.....	11	33
2013.....	1	41
2012.....	1	30
2011.....	3	109
2010 and earlier .....	<u>—</u>	<u>40</u>
Total.....	<u>201</u>	<u>282</u>

<sup>(1)</sup> Includes forty 2021 tractors, thirty 2019 tractors and fifteen 2018 tractors that we lease from a third party under finance lease agreements. See Note 17 in the Notes to Consolidated Financial Statements for further information.

We purchase crude oil at the field (wellhead) level. Volume and price information were as follows for the periods indicated:

	<u>Year Ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Field level purchase volumes – per day <sup>(1)</sup>			
Crude oil – barrels .....	89,061	91,957	107,383
Average purchase price			
Crude oil – per barrel.....	\$ 65.48	\$ 36.90	\$ 56.28

<sup>(1)</sup> Reflects the volume purchased from third parties at the field level of operations.

Field level purchase volumes depict our day-to-day operations of acquiring crude oil at the wellhead, transporting crude oil, and delivering it to market sales points. We held crude oil inventory at a weighted average composite price as follows at the dates indicated (in barrels):

	<u>December 31,</u>					
	<u>2021</u>		<u>2020</u>		<u>2019</u>	
	<u>Barrels</u>	<u>Average Price</u>	<u>Barrels</u>	<u>Average Price</u>	<u>Barrels</u>	<u>Average Price</u>
Crude oil inventory .....	259,489	\$71.86	421,759	\$45.83	426,397	\$61.93

## OPERATIONS SUMMARY— (Continued)

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We deliver physical supplies to refinery customers or enter into commodity exchange transactions from time to time to protect from a decline in inventory valuation. During the year ended December 31, 2021, we had sales to two customers that comprised approximately 23.7 percent and 11.6 percent, respectively, of total consolidated revenues. We believe alternative market outlets for our commodity sales are readily available and a loss of any of these customers would not have a material adverse effect on our operations. See Note 19 in the Notes to Consolidated Financial Statements for further information regarding credit risk.

Operating results for our crude oil marketing segment are sensitive to a number of factors. These factors include commodity location, grades of product, individual customer demand for grades or location of product, localized market price structures, availability of transportation facilities, actual delivery volumes that vary from expected quantities, and the timing and costs to deliver the commodity to the customer.

### *Transportation*

Our transportation segment consists of the operations of our wholly owned subsidiary, Service Transport Company (“STC”). STC transports liquid chemicals, pressurized gases, asphalt and dry bulk on a “for hire” basis throughout the continental U.S., and into Canada and Mexico. For deliveries into Mexico, our drivers meet a third party carrier at the border, and the third party contractor delivers the products to the customer within Mexico. We do not own any of the products that we haul; rather we act as a third party carrier to deliver our customers’ products from point A to point B, using predominately our employees and our owned or leased tractors and trailers. However, we also use contracted independent owner operators to provide transportation services. Transportation services are provided to customers under multiple load contracts in addition to loads covered under STC’s standard price list. Our customers include major oil and chemical companies and large and mid-sized industrial companies.

STC operates nineteen truck terminals in ten states: (i) Texas, with terminals in Houston, Corpus Christi, Nederland and Freeport; (ii) Louisiana, with terminals in Baton Rouge (St. Gabriel), St. Rose, Boutte and Sterlington; (iii) Florida, with terminals in Jacksonville and Tampa; (iv) Georgia, with terminals in Atlanta and Augusta; (v) Mobile, Alabama; (vi) Charlotte, North Carolina; (vii) Cincinnati, Ohio; (viii) South Charleston, West Virginia; (ix) West Memphis, Arkansas; and (x) Illinois, with terminals in East St. Louis and Joliet. The St. Gabriel, Louisiana and the Corpus Christi, Texas terminals are situated on 11.5 acres and 3.5 acres, respectively, that we own, and both include an office building, maintenance bays and tank cleaning facilities.

Transportation operations are headquartered at a terminal facility situated on 26.5 acres that we own in Houston, Texas. This property includes maintenance facilities, administrative offices and terminal facility, tank wash rack facilities and a water treatment system. Pursuant to regulatory requirements, STC holds a Hazardous Materials Certificate of Registration issued by the U.S. Department of Transportation (“DOT”).

**OPERATIONS SUMMARY— (Continued)**

The following table shows the age of our owned and leased tractors and trailers within our transportation segment at December 31, 2021:

<b>Model Year:</b>	<u>Tractors<sup>(1)(2)</sup></u>	<u>Trailers<sup>(3)</sup></u>
2022 .....	28	50
2021 .....	33	12
2020 .....	137	100
2019 .....	82	—
2018 .....	1	20
2016 .....	29	6
2015 .....	13	76
2014 .....	—	34
2013 .....	—	5
2012 .....	—	30
2008 and earlier .....	<u>—</u>	<u>504</u>
<b>Total</b> .....	<u><u>323</u></u>	<u><u>837</u></u>

<sup>(1)</sup> Excludes 83 contracted independent owner operator tractors.

<sup>(2)</sup> Includes thirty-three 2021 tractors that we lease from a third party under finance lease agreements.

<sup>(3)</sup> Includes twenty 2020 and twenty 2018 trailers that we lease from a third party under a finance lease agreement. See Note 17 in the Notes to Consolidated Financial Statements for further information.

Miles traveled was as follows for the periods indicated (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Mileage <sup>(1)</sup> .....	27,902	24,239	20,535

<sup>(1)</sup> The increase in mileage from 2019 to 2021 is primarily due to the acquisition of substantially all of the transportation assets of Comcar's subsidiary, CTL Transportation, LLC ("CTL") in June 2020, which added services to new and existing customers, new product lines and six new market areas to our transportation segment portfolio. See Note 6 in the Notes to Consolidated Financial Statements included in this annual report for further information.

All company and independent contractor tractors are equipped with in-cab communication technology, enabling two-way communications between our dispatch office and our drivers, through both standardized and free-form messaging, including electronic logging. We have also installed electronic logging devices (ELDs) on 100 percent of our tractor fleet. This technology enables us to dispatch drivers efficiently in response to customers' requests and to provide real-time information to customers about the status of their shipments. We have also equipped our tractor fleet with forward-facing and in-ward facing event recorders. These cameras are constantly recording the movements of the vehicles, and our management team is alerted via email in the event the unit triggers a G-force event. A snapshot of this recording is then sent to the management team for review.

STC holds the American Chemistry Council's certification as a Responsible Care Management System ("RCMS") company. The scope of this RCMS certification covers the carriage of bulk liquids throughout STC's area of operations as well as the tank trailer cleaning facilities and equipment maintenance. Certification was granted based on STC's conformance to the RCMS's comprehensive environmental health, safety and security requirements. STC's quality management process is one of its major assets. The practice of using statistical process control covering safety, on-time performance and customer satisfaction aids continuous improvement in all areas of quality service.

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**OPERATIONS SUMMARY— (Continued)**

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STC is a Partner in the U.S. Environmental Protection Agency's ("EPA") SmartWay Transport Partnership, a national voluntary program developed by the EPA and freight industry representatives to reduce greenhouse gases and air pollution and promote cleaner, more efficient ground freight transportation.

During 2020, STC applied for and received its first bronze star rating from EcoVadis, a global leader in monitoring, benchmarking and enabling sustainability in global supply chains.

STC is a member of Texas TRANSCAER®, a non-profit organization with membership from the chemical, transportation and emergency response industries. The mission of Texas TRANSCAER® is to promote safe transportation and handling of hazardous materials, educate about the safety and security of hazardous materials that are transported through communities, and provide education and training for emergency responders along transportation routes. As members of Texas TRANSCAER®, STC Safety Personnel assist with training events for first responders all over Texas.

Our strategy is to build long-term relationships with our customers based upon the highest level of customer service, safety and reliability. We believe that our commitment to safety, flexibility, size and capabilities provide us with a competitive advantage over other carriers.

#### *Pipeline and Storage Segment*

Our new pipeline and storage segment consists of the operations of two wholly-owned subsidiaries of GulfMark, which constitute the VEX Pipeline System: (i) VEX, which we acquired on October 22, 2020 and which owns the VEX pipeline, and (ii) GMT, which was formed in October 2020 to hold the related terminal facility assets we acquired with the VEX Pipeline System. The VEX Pipeline System complements our existing storage terminal and dock at the Port of Victoria, where with our crude oil marketing segment, we now control approximately 450,000 barrels of storage with three docks.

The VEX Pipeline System, with truck and storage terminals at both Cuero and the Port of Victoria, Texas, is a crude oil and condensate pipeline system, which connects the heart of the Eagle Ford Basin to the Gulf Coast waterborne market. The VEX Pipeline System includes 56 miles of 12-inch pipeline, which spans DeWitt County to Port of Victoria in Victoria County, Texas, with approximately 350,000 barrels of above ground storage at its two terminals. The pipeline system has a current capacity of 90,000 barrels per day and is regulated by the Federal Energy Regulatory Commission ("FERC") and the Texas Railroad Commission. The VEX Pipeline System can receive crude oil by pipeline and truck, and has downstream pipeline connections to two terminals today, with potential for additional downstream connection opportunities in the future.

The Cuero terminal has 40,000 barrels per day of offload capacity via eight truck unloading stations, with two 80,000 barrels and one 16,000 barrels of storage tanks. The Port of Victoria terminal has 40,000 barrels per day of offload capacity via eight truck unloading stations and water access via two barge docks, which have been leased from the Port Authority in Victoria. The Port of Victoria has four 40,000 barrels and one 10,000 barrels storage tanks.

The VEX Pipeline System supports GulfMark's Gulf Coast region crude oil supply and marketing business and integrates into GulfMark's value chain, serving as the link between producers/operators and our end-user markets we supply directly along the Gulf Coast waterborne market. With GulfMark's ownership of the VEX Pipeline System, we have the opportunity to increase our efficiency by more effectively managing the pipeline and terminalling portion of our overall transportation costs.

In addition to the VEX Pipeline System serving GulfMark, we currently have opportunities to work with third parties both upstream and downstream of the VEX Pipeline System. We also continue to provide services to our existing customer at the Port of Victoria terminal.

We expect that this acquisition will further strengthen and ensure that we continue to provide excellent service to the producers in the Gulf Coast region, as well as increase our margin opportunity as we more cost effectively service our end-user markets along the Gulf Coast.

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**OPERATIONS SUMMARY— (Continued)**

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*Investment in Unconsolidated Affiliate*

We own an approximate 15 percent equity interest (less than 3 percent voting interest) in VestaCare, Inc., a California corporation (“VestaCare”), through Adams Resources Medical Management, Inc. (“ARMM”), a wholly owned subsidiary. We acquired our interest in VestaCare in April 2016 for a \$2.5 million cash payment, which we impaired in 2017. VestaCare provides an array of software as a service (SaaS) electronic payment technologies to medical providers, payers and patients including VestaCare’s product offering, VestaPay™. VestaPay™ allows medical care providers to structure fully automated and dynamically updating electronic payment plans for their patients. We do not currently have any plans to pursue additional medical-related investments. See Note 2 in the Notes to Consolidated Financial Statements for further information.

*Competition*

In all phases of our operations, we encounter strong competition from a number of entities. Many of these competitors possess financial resources substantially in excess of ours and may have a more expansive geographic footprint than we have. We face competition principally in establishing trade credit, pricing of available materials, quality of service and location of service. Our strategy is to build long-term partnerships with our customers based upon the safety of our operations, reliability and superior customer service.

Our crude oil marketing segment competes with major crude oil companies and other large industrial concerns that own or control significant refining, midstream and marketing facilities. These major crude oil companies may offer their products to others on more favorable terms than those available to us.

In the trucking industry, the tank lines transportation business is extremely competitive and fragmented. Price, service and location are the major competitive factors in each local market.

*Seasonality*

In the trucking industry, revenue has historically followed a seasonal pattern for various commodities and customer businesses. Peak freight demand has historically occurred in the months of September, October and November. After the December holiday season and during the remaining winter months, freight volumes are typically lower as many customers reduce shipment levels. Operating expenses have historically been higher in the winter months primarily due to decreased fuel efficiency, increased cold weather-related maintenance costs of revenue equipment, and increased insurance claim costs attributable to adverse winter weather conditions. Revenue can also be impacted by weather, holidays and the number of business days that occur during a given period, as revenue is directly related to the available working days of shippers.

Although our crude oil marketing business is not materially affected by seasonality, certain aspects of our operations are impacted by seasonal changes, such as tropical weather conditions, energy demand in connection with heating and cooling requirements and the summer driving season.

*Inflation*

Most of our operating expenses are inflation-sensitive, with inflation generally producing increased costs of operations. During the past three years, inflation has been fairly modest with its impacts mostly related to the price of equipment and tires and compensation paid to drivers.

In addition to inflation, fluctuations in fuel prices can affect profitability. Most of our transportation contracts with customers contain fuel surcharge provisions. Although we historically has been able to pass through most long-term increases in fuel prices and operating taxes to customers in the form of surcharges and higher rates, there is no guarantee that this will be possible in the future.

**Human Capital Resources***General*

Our business strategy and ability to serve customers relies on employing talented professionals and attracting, training, developing and retaining a skilled workforce.

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**OPERATIONS SUMMARY— (Continued)**

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There is substantial competition for qualified truck drivers in the trucking industry. Recruitment, training, and retention of a professional driver workforce is essential to our continued growth and fulfillment of customer needs. We hire qualified professional drivers who hold a valid commercial driver's license, satisfy applicable federal and state safety performance and measurement requirements, and meet our hiring criteria. These guidelines relate primarily to safety history, road test evaluations, and various other evaluations, which include physical examinations and mandatory drug and alcohol testing. We provide comfortable, late model equipment, encourage direct communication with management, and pay competitive wages and benefits, and other incentives intended to encourage driver safety, retention and long-term employment. Prior to being released for individual duty, each new hire is required to undergo a mandatory training and evaluation period by a certified driver trainer/instructor. The length of this training period will be dependent on experience and the new hire adaptation to company policies and procedures.

*Employees*

At December 31, 2021, we employed 710 persons, of which 469, or 66 percent, were truck drivers. We believe our employee relations are satisfactory, and none of our employees are subject to union contracts or part of a collective bargaining unit.

*Independent Contractors*

In addition to company drivers, we enter into contracts with independent contractors, who provide a tractor and a driver and are responsible for all operating expenses in exchange for an agreed upon fee structure. At December 31, 2021, we had 83 independent contractor operated tractors, which comprised approximately 15 percent of our professional truck driving fleet.

*Health and Safety*

Safety is one of our guiding principles as we are committed to providing our employees a safe working environment. We have implemented safety programs and management practices to promote a culture of safety. We are continuously working toward maintaining a strong safety culture and to emphasizing the importance of our employees' role in identifying, mitigating and communicating safety risks.

With respect to the current COVID-19 pandemic, we have updated and implemented our pandemic plan to ensure the continuation of safe and reliable service to customers and to maintain the safety of our employees, as well as to incorporate any new governmental guidance and rules and regulations regarding workplace safety. Since the beginning of the pandemic, we have been deemed an essential entity by virtue of the transportation services we provide.

*Diversity and Inclusion*

We are committed to providing a professional work environment where all employees are treated with respect and dignity and provided with equal opportunities. We do not discriminate based upon race, religion, color, national origin, gender (including pregnancy, childbirth, or related medical conditions), sexual orientation, gender identity, gender expression, age, status as a protected veteran, status as an individual with a disability or other applicable legally protected characteristics. We also support the hiring of veterans and are honored to provide opportunities to men and women who have served their respective countries.

We also partner with the Women in Trucking Association to support our efforts to advance the careers of women and gender diversity. It is our goal to empower the professional development of all employees and to operate from a mindset of sharing, caring, inclusion and equity.

We support basic human rights throughout our business enterprise and prohibit the use of child, compulsory or forced labor. Our employees are strictly prohibited from using our equipment to transport, or our facilities to shelter, unauthorized persons, or to take any other act in support of human trafficking or human rights abuses. Employees are required to immediately report any human trafficking concerns to the appropriate law enforcement agency.

## **OPERATIONS SUMMARY— (Continued)**

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We work with Truckers Against Trafficking (“TAT”) to train all over-the-road drivers on how to spot and report signs of human trafficking. Our drivers receive training from TAT and become registered as TAT trained and certified.

### *Benefits*

Our compensation and benefits programs are designed to attract, retain and motivate our employees and to reward them for their services and success. In addition to providing competitive salaries and other compensation opportunities, we offer comprehensive and competitive benefits to our eligible employees including, depending on location, life and health (medical, dental and vision) insurance, prescription drug benefits, flexible spending accounts, parental leave, disability coverage, mental and behavioral health resources, paid time off and retirement savings plan.

### **Federal and State Taxation**

We are subject to the provisions of the Internal Revenue Code of 1986, as amended (the “Code”). In accordance with the Code, we computed our income tax provision based on a 21 percent tax rate for the year ended December 31, 2021. We conduct a significant amount of business within the State of Texas. Texas operations are subject to a one-half percent state tax on its revenues net of cost of goods sold as defined by the state. We believe we are currently in compliance with all federal and state tax regulations.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with our Consolidated Financial Statements and accompanying notes included in this annual report. Our financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in the U.S.

### Results of Operations

#### Crude Oil Marketing

Our crude oil marketing segment revenues, operating earnings and selected costs were as follows for the periods indicated (in thousands):

	Year Ended December 31,				
	2021	2020	Change <sup>(1)</sup>	2019	Change <sup>(1)</sup>
Revenues . . . . .	\$1,930,042	\$950,426	103.1%	\$1,748,056	(45.6%)
Operating earnings <sup>(2)</sup> . . . . .	25,243	2,974	748.8%	16,099	(81.5%)
Depreciation and amortization . . . . .	6,673	7,421	(10.1%)	8,741	(15.1%)
Driver compensation . . . . .	17,717	18,549	(4.5%)	22,754	(18.5%)
Insurance . . . . .	6,193	6,109	1.4%	7,772	(21.4%)
Fuel . . . . .	8,064	5,967	35.1%	8,979	(33.5%)

<sup>(1)</sup> Represents the percentage increase (decrease) from the prior year.

<sup>(2)</sup> Operating earnings included net inventory liquidation gains of \$10.3 million, net inventory valuation losses of \$15.0 million and net inventory liquidation gains of \$3.7 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Volume and price information were as follows for the periods indicated:

	Year Ended December 31,		
	2021	2020	2019
Field level purchase volumes – per day <sup>(1)</sup>			
Crude oil – barrels . . . . .	89,061	91,957	107,383
Average purchase price			
Crude oil – per barrel . . . . .	\$ 65.48	\$ 36.90	\$ 56.28

<sup>(1)</sup> Reflects the volume purchased from third parties at the field level of operations.

*2021 compared to 2020.* Crude oil marketing revenues increased by \$979.6 million during the year ended December 31, 2021 as compared to 2020, primarily as a result of an increase in the market price of crude oil, which increased revenues by approximately \$1,053.3 million, partially offset by lower crude oil volumes, which decreased revenues by approximately \$73.7 million. The average crude oil price received was \$36.90 for 2020, which increased to \$65.48 for 2021. Revenues from legacy volumes are based upon the market price in our other market areas, primarily in the Gulf Coast. The market price of crude oil increased during 2021 as compared to 2020 primarily as a result of increased competition for supply from shippers and marketers to fill obligations to pipelines with the lower crude oil production available, partially offset by lower volumes in 2021.

Our crude oil marketing operating earnings for the year ended December 31, 2021 increased by \$22.3 million as compared to 2020, primarily as a result of inventory liquidation gains of \$10.3 million in 2021 as compared to inventory valuation losses of \$15.0 million in 2020 (as shown in the following table), and an increase in the average market price of crude oil, partially offset by decreases in crude oil volumes in 2021.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS— (Continued)**

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Driver compensation decreased by \$0.8 million during the year ended December 31, 2021 as compared to 2020, primarily as a result of a decrease in the number of drivers employed by us as well as lower volumes transported in 2021 as compared to 2020.

Insurance costs increased by \$0.1 million during the year ended December 31, 2021 as compared to 2020, primarily due to favorable adjustments to reserves in 2020 for insurance claims resulting from our favorable safety record over the policy period, partially offset by a lower driver count and lower miles driven in 2021. Fuel costs increased by \$2.1 million during the year ended December 31, 2021 as compared to 2020, primarily due to higher fuel prices in 2021.

Depreciation and amortization expense decreased by \$0.7 million during the year ended December 31, 2021 as compared to 2020, primarily due to the timing of purchases and retirements of tractors and other field equipment during 2020 and 2021.

*2020 compared to 2019.* Crude oil marketing revenues decreased by \$797.6 million during the year ended December 31, 2020 as compared to 2019, primarily as a result of a decrease in the market price of crude oil, which decreased revenues by approximately \$641.2 million, and lower crude oil volumes, which decreased revenues by approximately \$156.4 million. The average crude oil price received was \$56.28 for 2019, which decreased to \$36.90 for 2020. The decrease in the market price of crude oil and the lower crude oil volumes produced and available for purchase were due to the effects of the COVID-19 outbreak on the economy and the delay of OPEC to agree on crude oil production levels during the second quarter of 2020, both of which resulted in market disruptions that decreased the demand for and price of crude oil.

Our crude oil marketing operating earnings for the year ended December 31, 2020 decreased by \$13.1 million as compared to 2019, primarily as a result of inventory valuation losses of \$15.0 million in 2020 as compared to inventory liquidation gains of \$3.7 million in 2019 (as shown in the following table), decreases in crude oil volumes in 2020, and a decrease in the average market price of crude oil.

Driver compensation decreased by \$4.2 million during the year ended December 31, 2020 as compared to 2019, primarily as a result of a decrease in the number of drivers required for volumes transported in 2020 as compared to 2019.

Insurance costs decreased by \$1.7 million during the year ended December 31, 2020 as compared to 2019, primarily due to a decreases in reserves for insurance claims resulting from our favorable safety record over the policy period, lower hours worked by drivers and lower miles driven in 2020. Fuel costs decreased by \$3.0 million during the year ended December 31, 2020 as compared to 2019 consistent with the lower driver count and lower miles driven in 2020.

Depreciation and amortization expense decreased by \$1.3 million during the year ended December 31, 2020 as compared to 2019, primarily due to the timing of purchases and retirements of tractors and other field equipment during 2019 and 2020.

*Field Level Operating Earnings (Non-GAAP Financial Measure).* Inventory valuations and forward commodity contract (derivatives or mark-to-market) valuations are two significant factors affecting comparative crude oil marketing segment operating earnings. As a purchaser and shipper of crude oil, we hold inventory in storage tanks and third-party pipelines. During periods of increasing crude oil prices, we recognize inventory liquidation gains while during periods of falling prices, we recognize inventory liquidation and valuation losses.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS— (Continued)

Crude oil marketing operating earnings can be affected by the valuations of our forward month commodity contracts (derivative instruments). These non-cash valuations are calculated and recorded at each period end based on the underlying data existing as of such date. We generally enter into these derivative contracts as part of a pricing strategy based on crude oil purchases at the wellhead (field level). The valuation of derivative instruments at period end requires the recognition of non-cash “mark-to-market” gains and losses.

The impact of inventory liquidations and derivative valuations on our crude oil marketing segment operating earnings is summarized in the following reconciliation of our non-GAAP financial measure for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
As reported segment operating earnings <sup>(1)</sup> .....	\$ 25,243	\$ 2,974	\$16,099
Add (subtract):			
Inventory liquidation gains.....	(10,344)	—	(3,749)
Inventory valuation losses.....	—	14,967	—
Derivative valuation (gains) losses.....	(14)	(9)	24
Field level operating earnings <sup>(2)</sup> .....	\$ 14,885	\$17,932	\$12,374

<sup>(1)</sup> Segment operating earnings included net inventory liquidation gains of \$10.3 million, net inventory valuation losses of \$15.0 million and net inventory liquidation gains of \$3.7 million for the years ended December 31, 2021, 2020 and 2019, respectively.

<sup>(2)</sup> The use of field level operating earnings is unique to us, not a substitute for a GAAP measure and may not be comparable to any similar measures developed by industry participants. We utilize this data to evaluate the profitability of our operations.

Field level operating earnings and field level purchase volumes depict our day-to-day operation of acquiring crude oil at the wellhead, transporting the product and delivering the product to market sales points. Field level operating earnings decreased during the year ended December 31, 2021 as compared to 2020, primarily due to higher fuel and insurance costs and lower crude oil volumes, partially offset by an increase in the market price of crude oil in 2021.

Field level operating earnings increased during the year ended December 31, 2020 as compared to 2019, primarily due to lower operating expenses, partially offset by lower revenues resulting from lower volumes and a decrease in the market price of crude oil in 2020.

We held crude oil inventory at a weighted average composite price as follows at the dates indicated (in barrels and price per barrel):

	December 31,					
	2021		2020		2019	
	Barrels	Average Price	Barrels	Average Price	Barrels	Average Price
Crude oil inventory.....	259,489	\$71.86	421,759	\$45.83	426,397	\$61.93

Historically, prices received for crude oil have been volatile and unpredictable with price volatility expected to continue.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS— (Continued)

### Transportation

Our transportation segment revenues, operating earnings and selected costs were as follows for the periods indicated (in thousands):

	Year Ended December 31,				
	2021	2020	Change <sup>(1)</sup>	2019	Change <sup>(1)</sup>
Revenues . . . . .	\$94,498	\$71,724	31.8%	\$63,191	13.5%
Operating earnings. . . . .	\$ 7,104	\$ 1,873	279.3%	\$ 1,899	(1.4%)
Depreciation and amortization . . . . .	\$12,099	\$10,963	10.4%	\$ 7,900	38.8%
Driver commissions. . . . .	\$14,948	\$12,575	18.9%	\$10,774	16.7%
Insurance . . . . .	\$ 8,368	\$ 6,462	29.5%	\$ 5,938	8.8%
Fuel . . . . .	\$ 8,201	\$ 5,065	61.9%	\$ 6,279	(19.3%)
Maintenance expense. . . . .	\$ 3,932	\$ 3,949	(0.4%)	\$ 3,849	2.6%
Mileage (000s) <sup>(2)</sup> . . . . .	27,902	24,239	15.1%	20,535	18.0%

<sup>(1)</sup> Represents the percentage increase (decrease) from the prior year.

<sup>(2)</sup> The increase in mileage from 2019 to 2021 is primarily due to the CTL acquisition in June 2020, which added services to new and existing customers, new product lines and six new market areas.

Our revenue rate structure includes a component for fuel costs in which fuel cost fluctuations are largely passed through to the customer over time. Revenues, net of fuel costs, were as follows for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Total transportation revenue . . . . .	\$94,498	\$71,724	\$63,191
Diesel fuel cost . . . . .	(8,201)	(5,065)	(6,279)
Revenues, net of fuel costs <sup>(1)</sup> . . . . .	<u>\$86,297</u>	<u>\$66,659</u>	<u>\$56,912</u>

<sup>(1)</sup> Revenues, net of fuel costs, is a non-GAAP financial measure and is utilized for internal analysis of the results of our transportation segment.

2021 compared to 2020. Transportation revenues increased by \$22.8 million during the year ended December 31, 2021 as compared to 2020. Transportation revenues, net of fuel costs, increased by \$19.6 million during the year ended December 31, 2021 as compared to 2020. These increases were primarily due to the CTL acquisition in June 2020 (see Note 6 in the Notes to Consolidated Financial Statements), an increase in business activities as a result of continued market recovery after COVID-19 lockdowns, higher transportation rates and additional revenues associated with our new terminals. During 2021, we opened four new terminals in Charleston, West Virginia, West Memphis, Arkansas, Joliet, Illinois, and Augusta, Georgia. Our 2020 revenues were also lower due to fewer miles traveled as a result of decreases in certain business activities of our customers as a result of the COVID-19 outbreak.

Our transportation operating earnings increased by \$5.2 million during the year ended December 31, 2021 as compared to 2020, primarily due to increased transportation rates as well as higher revenues as a result of the CTL acquisition, partially offset by higher depreciation and amortization expense related to the timing of new assets placed into service and higher insurance, driver commissions and fuel costs.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS— (Continued)

Driver commissions increased by \$2.4 million during the year ended December 31, 2021 as compared to 2020, primarily due to a higher driver count, increased miles driven in 2021 and an increase in driver pay mid-2021, partially offset by the impact of Hurricane Ida in August 2021, which affected our Louisiana operations, resulting in a loss of days worked by drivers in the area, thus decreasing driver commissions. The impact of the storm affected our Louisiana locations through mid-September.

Fuel costs increased by \$3.1 million during the year ended December 31, 2021 as compared to 2020, primarily as a result of the CTL acquisition, which increased the number of miles traveled during 2021, and an increase in the price of fuel. Insurance costs increased \$1.9 million during the year ended December 31, 2021 as compared to 2020, primarily due to the CTL acquisition which resulted in a higher driver count, increased miles driven in 2021 and higher insurance premiums.

Depreciation and amortization expense increased by \$1.1 million during the year ended December 31, 2021 as compared to 2020, primarily as a result of the CTL acquisition in June 2020 and the purchase and lease of new tractors and trailers in 2020 and 2021.

*2020 compared to 2019.* Transportation revenues increased by \$8.5 million during the year ended December 31, 2020 as compared to 2019, primarily as a result of the CTL acquisition in June 2020 and the purchase of transportation assets from EH Transport, Inc. and affiliates ("EH Transport") in May 2019 (see Note 6 in the Notes to Consolidated Financial Statements), partially offset by a decrease in customer activity as a result of the COVID-19 outbreak resulting in lower miles traveled in 2020. Revenues, net of fuel costs, increased by \$9.7 million during the year ended December 31, 2020 as compared to 2019, primarily as a result of the higher transportation revenues and miles traveled during 2020.

Our transportation operating earnings for the year ended December 31, 2020 were consistent with the year ended December 31, 2019, primarily due to higher depreciation and amortization expense related to the CTL acquisition, the EH Transport acquisition and new assets placed into service, and higher insurance and certain other operating expenses, offset by higher revenues and increased miles traveled during 2020.

Fuel costs decreased by \$1.2 million during the year ended December 31, 2020 as compared to 2019, primarily as a result of lower fuel prices and fewer miles traveled during the first six months of 2020, partially offset by an increase in the number of miles traveled as a result of the CTL acquisition in June 2020. Insurance costs increased by \$0.5 million during the year ended December 31, 2020 as compared to 2019, primarily due to the CTL acquisition which resulted in a higher driver count and increased miles driven in 2020. Maintenance expense increased by \$0.1 million during the year ended December 31, 2020 as compared to 2019, as a result of the purchase of new tractors and the retirement of older tractors, as the age of our fleet has decreased.

Depreciation and amortization expense increased by \$3.1 million during the year ended December 31, 2020 as compared to 2019, primarily as a result of the CTL acquisition in June 2020, the EH Transport acquisition in May 2019 and the purchase and lease of new tractors and trailers in 2019 and 2020.

Equipment additions and retirements for the transportation fleet were as follows for the periods indicated:

	Year Ended December 31,		
	2021	2020	2019
New tractors purchased <sup>(1)(2)</sup> .....	28 units	12 units	151 units
Tractors retired .....	79 units	49 units	107 units
New trailers purchased <sup>(1)(2)</sup> .....	67 units	10 units	77 units
Trailers retired .....	33 units	30 units	20 units

<sup>(1)</sup> 2020 amounts do not include 163 tractors and 328 trailers purchased in connection with the CTL asset acquisition in June 2020.

<sup>(2)</sup> 2020 amounts do not include 33 tractors and 40 trailers which were acquired under finance lease agreements.

The sales of retired equipment in our transportation segment produced gains of approximately \$0.4 million, \$0.2 million and \$0.5 million during the years ended December 31, 2021, 2020 and 2019, respectively.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS— (Continued)

Our customers are primarily in the domestic petrochemical industry. Customer demand is affected by low natural gas prices (a basic feedstock cost for the petrochemical industry) and high export demand for petrochemicals.

### *Pipeline and Storage*

Our pipeline and storage segment revenues, operating losses and selected costs were as follows for the periods indicated (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020<sup>(1)</sup></b>
Segment revenues <sup>(2)</sup> .....	\$ 4,524	\$ 272
Less: Intersegment revenues <sup>(2)</sup> .....	(3,860)	—
Revenues .....	<u>\$ 664</u>	<u>\$ 272</u>
Operating losses .....	(2,487)	(310)
Depreciation and amortization .....	1,025	189
Insurance .....	726	138

(1) Represents the period from acquisition, October 22, 2020 through December 31, 2020.

(2) Segment revenues include intersegment revenues from our crude oil marketing segment, which are eliminated in consolidation in our consolidated statements of operations.

Volume information was as follows for the periods indicated (in barrels per day):

	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Pipeline throughput <sup>(1)</sup> .....	7,670	1,395
Terminalling <sup>(1)</sup> .....	8,132	2,581

(1) 2020 amounts represent the period from acquisition, October 22, 2020 through December 31, 2020.

In October 2020, we purchased the VEX Pipeline System. The VEX Pipeline System, with truck and storage terminals at both Cuero and the Port of Victoria, Texas, is a crude oil and condensate pipeline system, which connects the heart of the Eagle Ford Basin to the Gulf Coast waterborne market. The VEX Pipeline System includes 56 miles of 12-inch pipeline, which spans DeWitt County to Victoria County, Texas, with approximately 350,000 barrels of above ground storage, two 8 bay truck offload stations, and access to two docks at the Port of Victoria. The VEX Pipeline System can receive crude oil by pipeline and truck, and has downstream pipeline connections to two terminals today, with potential for additional downstream connection opportunities in the future and has a current capacity of 90,000 barrels per day.

We are focusing on opportunities to increase our pipeline and storage capacity utilization, by identifying opportunities with our existing and new customers to increase volumes. In addition, we are exploring new connections for the pipeline system both upstream and downstream of the pipeline, to increase the crude oil supply and take-away capability of the system.

### *General and Administrative Expense*

General and administrative expenses increased by \$3.4 million during the year ended December 31, 2021 as compared to 2020, primarily due to higher salaries and wages and related personnel costs, insurance costs and outside service costs, partially offset by lower legal fees and director fees.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS— (Continued)

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General and administrative expenses increased by \$0.1 million during the year ended December 31, 2020 as compared to 2019, primarily due to higher personnel costs, including approximately \$0.3 million of additional personnel expenses related to a voluntary early retirement program and terminations for certain employees, and higher rental expense and director fees in 2020, partially offset by lower insurance costs, audit fees and outside service fees.

### *Gain on Dissolution of Investment*

During 2019, we received a cash payment from our upstream crude oil and natural gas exploration and production subsidiary, Adams Resources Exploration Company (“AREC”), totaling approximately \$1.0 million, related to the final settlement of its bankruptcy and dissolution. Of the amount received, approximately \$0.4 million was offset against a receivable that had been set up as of December 31, 2018 and \$0.6 million was recorded as a gain in our consolidated statements of operations during the year ended December 31, 2019.

### *Income Taxes*

Provision for (benefit from) income taxes is based upon federal and state tax rates, and variations in amounts are consistent with taxable income (loss) in the respective accounting periods.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted and signed into law in response to the COVID-19 pandemic. The CARES Act, among other things, permits net operating losses (“NOL”) incurred in tax years 2018, 2019 and 2020 to offset 100 percent of taxable income and be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes.

We have determined that the NOL carryback provision in the CARES Act would result in a cash benefit to us for the fiscal years 2018, 2019 and 2020. We carried back our NOL for fiscal year 2018 to 2013, and in June 2020, we received a cash refund of approximately \$2.7 million. We also carried back our NOL for the fiscal year 2019 to 2014, and in April 2021, we received a cash refund of approximately \$3.7 million. We have an income tax receivable at December 31, 2021 of approximately \$6.8 million for the benefit of carrying back our NOL for the fiscal year 2020 to 2015 and 2016. As we are carrying the losses back to years beginning before January 1, 2018, the receivables were recorded at the previous 35 percent federal tax rate rather than the current statutory rate of 21 percent.

We account for interest and penalties related to uncertain tax positions as part of our provision for federal and state income taxes. At December 31, 2021 and 2020, we have not recorded any uncertain tax benefits.

At December 31, 2021 and 2020, we had deferred tax liabilities of approximately \$11.3 million and \$12.7 million, respectively.

See Note 14 in the Notes to Consolidated Financial Statements for further information.

## **Liquidity and Capital Resources**

### *General*

Our primary sources of liquidity are (i) our cash balance, (ii) cash flow from operating activities, (iii) borrowings under our credit agreement and (iv) funds received from the sale of equity securities. Our primary cash requirements include, but are not limited to, (i) ordinary course of business uses, such as the payment of amounts related to the purchase of crude oil, and other expenses, (ii) discretionary capital spending for investments in our business and (iii) dividends to our shareholders. We believe we will have sufficient liquidity through our current cash balances, availability under our credit agreement, expected cash generated from future operations, and the ease of financing tractor and trailer additions through leasing arrangements (should the need arise) to meet our short-term and long-term liquidity needs for the reasonably foreseeable future. Our cash balance and cash flow from operating activities is dependent on the success of future operations. If our cash inflow subsides or turns negative, we will evaluate our investment plan accordingly and remain flexible.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS— (Continued)

We maintain cash balances in order to meet the timing of day-to-day cash needs. Cash and cash equivalents (excluding restricted cash) and working capital, the excess of current assets over current liabilities, were as follows at the dates indicated (in thousands):

	December 31,		
	2021	2020	2019
Cash and cash equivalents . . . . .	\$97,825	\$39,293	\$112,994
Working capital . . . . .	87,199	72,965	87,747

Our cash balance at December 31, 2021 increased by 149.0 percent from December 31, 2020, as discussed further below.

On May 4, 2021, we entered into a Credit Agreement with Wells Fargo Bank, National Association, as Agent and Issuing Lender, under which we may borrow or issue letters of credit in an aggregate of up to \$40.0 million under a revolving credit facility, which will mature on May 4, 2024, subject to our compliance with certain financial covenants. At December 31, 2021, we had no borrowings outstanding under the Credit Agreement and \$6.1 million of letters of credit issued under the Credit Agreement at a fee of 1.75 percent per annum. See Note 12 in the Notes to Consolidated Financial Statements for further information.

On December 23, 2020, we entered into an At Market Issuance Sales Agreement (“ATM Agreement”) with B. Riley Securities, Inc., as agent (the “Agent”). Pursuant to the ATM Agreement, we may offer to sell shares of our common stock through or to the Agent for cash from time to time. We filed a registration statement initially registering an aggregate of \$20.0 million of shares of common stock for sale under the ATM Agreement. The total number of shares of common stock to be sold, if any, and the price the shares will be sold at will be determined by us periodically in connection with any such sales, though the total amount sold may not exceed the limitations stated in the registration statement. During the year ended December 31, 2021, we received net proceeds of approximately \$2.8 million (net of offering costs to B. Riley Securities, Inc. of \$0.1 million) from the sale of 97,623 of our common shares at an average price per share of approximately \$30.70 under this agreement.

We utilize cash from operations to make discretionary investments in our crude oil marketing, transportation and pipeline and storage businesses. With the exception of operating and finance lease commitments primarily associated with storage tank terminal arrangements, leased office space, tractors, trailers and other equipment, our future commitments and planned investments can be readily curtailed if operating cash flows decrease. See below for information regarding our operating and finance lease obligations. We have no off-balance sheet arrangements that have or are reasonably expected to have a material current or future effect on our financial position, results of operations or cash flows.

The most significant item affecting future increases or decreases in liquidity is earnings from operations, and these earnings are dependent on the success of future operations.

### *Cash Flows from Operating, Investing and Financing Activities*

Our consolidated cash flows from operating, investing and financing activities were as follows for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Cash provided by (used in):			
Operating activities . . . . .	\$ 81,026	\$(43,999)	\$ 46,899
Investing activities . . . . .	(10,096)	(19,663)	(36,037)
Financing activities . . . . .	(15,678)	(6,528)	(5,673)

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS— (Continued)

*Operating activities.* Net cash flows provided by operating activities was \$81.0 million for the year ended December 31, 2021 as compared to net cash flows used in operating activities of \$44.0 million for the year ended December 31, 2020. The increase in net cash flows from operating activities of \$125.0 million was primarily due to higher earnings in 2021 and changes in our working capital accounts.

Net cash flows used in operating activities was \$44.0 million for the year ended December 31, 2020 as compared to net cash flows provided by operating activities of \$46.9 million for the year ended December 31, 2019. The decrease in net cash flows from operating activities of \$90.9 million was primarily due to lower earnings in 2020 and changes in our working capital accounts.

At various times each month, we may make cash prepayments and/or early payments in advance of the normal due date to certain suppliers of crude oil within our crude oil marketing operations. Crude oil supply prepayments are recouped and advanced from month to month as the suppliers deliver product to us. In addition, in order to secure crude oil supply, we may also “early pay” our suppliers in advance of the normal payment due date of the twentieth of the month following the month of production. These “early payments” reduce cash and accounts payable as of the balance sheet date.

We also require certain customers to make similar early payments or to post cash collateral with us in order to support their purchases from us. Early payments and cash collateral received from customers increases cash and reduces accounts receivable as of the balance sheet date.

Early payments received from customers and prepayments made to suppliers were as follows at the dates indicated (in thousands):

	December 31,		
	2021	2020	2019
Early payments received . . . . .	\$52,841	\$ 939	\$54,108
Prepayments to suppliers . . . . .	—	1,085	—
Early payments to suppliers . . . . .	5,732	—	—

We rely heavily on our ability to obtain open-line trade credit from our suppliers especially with respect to our crude oil marketing operations. During December 2019, we received several early payments from certain customers in our crude oil marketing operations, while during December 2020, we received significantly less in early payments from customers primarily due to the volatility in the price of crude oil. During December 2021, we received several early payments from certain customers primarily due to the increase in the price of crude oil, and as such, our cash balance increased by approximately \$58.5 million at December 31, 2021 relative to the year ended December 31, 2020.

*Investing activities.* Net cash used in investing activities for the year ended December 31, 2021 decreased by \$9.6 million when compared to 2020. This decrease in net cash flows used in investing activities was primarily due a decrease of \$20.2 million in cash paid for asset acquisitions (\$10.0 million was paid in October 2020 for the purchase the VEX Pipeline System and \$9.2 million was paid in June 2020 for the purchase of the CTL transportation assets (see Note 6 in the Notes to Consolidated Financial Statements for further information)). This decrease in net cash flows used in investing activities was partially offset by an increase of \$7.4 million in capital spending for property and equipment (see “Capital Spending” below), a decrease of \$2.2 million in cash proceeds from sales of assets and a decrease of \$1.0 million in insurance and state collateral refunds in 2021.

Net cash used in investing activities for the year ended December 31, 2020 decreased by \$16.4 million when compared to 2019. This decrease in net cash used in investing activities was primarily due to a decrease of \$30.7 million in capital spending for property and equipment (see “Capital Spending” below), an increase of \$0.8 million in cash proceeds from sales of assets and an increase of \$0.4 million in insurance and state collateral refunds in 2020. These decreases in net cash flows used in investing activities were partially offset by an increase in cash paid for asset acquisitions (\$10.0 million was paid in October 2020 for the purchase the VEX Pipeline



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS— (Continued)

System and \$9.2 million was paid in June 2020 for the purchase of the CTL transportation assets, while \$5.6 million was paid in May 2019 for the purchase of the EH Transport assets) and the receipt in 2019 of \$1.0 million in cash proceeds related to the final settlement of AREC's bankruptcy.

*Financing activities.* Net cash used in financing activities for the year ended December 31, 2021 increased by \$9.2 million when compared to 2020. This increase in net cash used in financing activities was primarily due to the payment of the \$10.0 million outstanding payable related to the purchase of the VEX Pipeline System in October 2020 and an increase of \$2.0 million in principal repayments made for finance lease obligations (see "Material Cash Requirements" below for information regarding our finance lease obligations). During 2021, we borrowed and repaid \$8.0 million under the Credit Agreement, the borrowing of which was used to repay the amount due for the remaining purchase price of the VEX Pipeline System. During both of the years ended December 31, 2021 and 2020, we paid aggregate cash dividends of \$0.96 per common share, or totals of \$4.1 million and \$4.1 million, respectively. During the year ended December 31, 2021, we received net proceeds of approximately \$2.8 million from the sale of 97,623 of our common share under the ATM Agreement.

Net cash used in financing activities for the year ended December 31, 2020 increased by \$0.9 million when compared to 2019. This increase in net cash used in financing activities was primarily due to an increase of \$0.6 million in principal repayments made for finance lease obligations. During the years ended December 31, 2020 and 2019, we paid aggregate cash dividends of \$0.96 per common share, or a total of \$4.1 million, and \$0.94 per common share, or a total of \$4.0 million, respectively.

### *Capital Spending*

We use cash from operations and existing cash balances to make discretionary investments in our businesses. Capital spending was as follows for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Crude oil marketing <sup>(1)</sup> . . . . .	\$ 3,245	\$3,130	\$ 7,249
Transportation <sup>(2)</sup> . . . . .	7,960	1,355	28,472
Pipeline and storage <sup>(3)</sup> . . . . .	1,169	—	—
Other <sup>(4)</sup> . . . . .	8	523	22
Capital spending . . . . .	\$12,382	\$5,008	\$35,743

<sup>(1)</sup> Amounts for the years ended December 31, 2021, 2020 and 2019, do not include approximately \$2.1 million, \$3.6 million and \$4.1 million, respectively, of tractors and other equipment acquired under finance leases.

<sup>(2)</sup> Amounts for the years ended December 31, 2020 and 2019 do not include approximately \$9.2 million and \$6.4 million of capital spending related to the acquisitions of CTL and EH Transport, respectively. Amount for the year ended December 31, 2020 does not include approximately \$7.3 million of tractors and trailers acquired under finance leases.

<sup>(3)</sup> Amount for the year ended December 31, 2020 does not include approximately \$10.0 million of capital spending related to the acquisition of the VEX Pipeline System.

<sup>(4)</sup> Amounts relate to the purchase of software and equipment and leasehold improvements at our corporate headquarters, which are not attributed or allocated to any of our reporting segments.

*Crude oil marketing.* Capital expenditures during 2021 were for the purchase of 16 tractors, 2 trailers and other field equipment. Capital expenditures during 2020 were primarily for the purchase of 16 tractors and other field equipment, and during 2019, amounts were primarily for the purchase of 43 tractors and other field equipment.

*Transportation.* Capital expenditures during 2021 were for the purchase of 28 tractors, 52 trailers and computer software and equipment. Capital expenditures during 2020 were for the purchase of other field equipment and computer software and equipment. As a result of the uncertainty relating to the economic environment resulting from the COVID-19 pandemic, we significantly reduced our capital spending in 2020 and,

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS— (Continued)

as a result, entered into finance lease agreements for the use of 33 tractors and 40 trailers during 2020. Capital expenditures during 2019 were for the purchase of 152 tractors and 77 trailers. See “Material Cash Requirements” below for information regarding our finance lease obligations.

*Pipeline and storage.* Capital expenditures for 2021 were for the purchase of computer equipment and field equipment.

### *Material Cash Requirements*

The following table summarizes our contractual obligations with material cash requirements at December 31, 2021 (in thousands):

<u>Contractual Obligations</u>	<u>Total</u>	<u>Payments due by period</u>			
		<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Finance lease obligations <sup>(1)</sup> . . . . .	\$ 14,004	\$ 3,941	\$5,491	\$4,572	\$ —
Operating lease obligations <sup>(2)</sup> . . . . .	7,572	2,399	3,991	727	455
Purchase obligations:					
Crude oil marketing — crude oil <sup>(3)</sup> . . . . .	188,044	188,044	—	—	—
Tractors and trailers <sup>(4)</sup> . . . . .	13,680	13,680	—	—	—
Total contractual obligations . . . . .	<u>\$223,300</u>	<u>\$208,064</u>	<u>\$9,482</u>	<u>\$5,299</u>	<u>\$455</u>

<sup>(1)</sup> Amounts represent our principal contractual commitments, including interest, outstanding under finance leases for certain tractors, trailers, tank storage and throughput arrangements and other equipment.

<sup>(2)</sup> Amounts represent rental obligations under non-cancelable operating leases and terminal arrangements with terms in excess of one year.

<sup>(3)</sup> Amount represents commitments to purchase certain quantities of crude oil substantially in January 2022 in connection with our crude oil marketing activities. These commodity purchase obligations are the basis for commodity sales, which generate the cash flow necessary to meet these purchase obligations.

<sup>(4)</sup> Amount represents commitments to purchase 43 new tractors in our transportation business and 52 new tractors and 2 new trailers in our crude oil marketing business.

We maintain certain lease arrangements with independent truck owner-operators for use of their equipment and driver services on a month-to-month basis. In addition, we enter into office space and certain lease and terminal access contracts in order to provide tank storage and dock access for our crude oil marketing business. These storage and access contracts require certain minimum monthly payments for the term of the contracts.

Rental expense was as follows for the periods indicated (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Rental expense . . . . .	\$21,604	\$16,585	\$14,662

### *Insurance*

Our primary insurance needs are workers' compensation, automobile and umbrella liability coverage for our trucking fleet and medical insurance for our employees. See Note 18 in the Notes to Consolidated Financial Statements for further information. Insurance costs were as follows for the periods indicated (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Insurance costs . . . . .	\$15,610	\$13,283	\$14,149

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS— (Continued)

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### *Related Party Transactions*

For information regarding our related party transactions, see Note 10 in the Notes to Consolidated Financial Statements in this annual report.

### *Recent Accounting Developments*

For information regarding recent accounting developments, see Note 2 in the Notes to Consolidated Financial Statements in this annual report.

## **Critical Accounting Policies and Estimates**

In our financial reporting processes, we employ methods, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our financial statements. These methods, estimates and assumptions also affect the reported amounts of revenues and expenses for each reporting period. Investors should be aware that actual results could differ from these estimates if the underlying assumptions prove to be incorrect. The following sections discuss the use of estimates within our critical accounting policies and estimates.

### *Valuation and Amortization Methods of Customer Relationship Intangible Assets*

Customer relationship intangible assets represent the estimated economic value assigned to relationships between an acquisition target and its various customers to whom we did not have a previous relationship. These customer relationships provide us with access to those customers to whom we did not have a previous relationship and allows us to enter product markets in which we have not previously participated.

In order to estimate the fair value of the customer relationships, we use a discounted cash flow analysis that relies on Level 3 fair value inputs. Level 3 fair values are based on unobservable inputs. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date. The Level 3 inputs generally include such items as the rate of retention of the current customers of the acquisition target as of the valuation date, our historical customer retention rate and projected future revenues associated with the customers. The customers expected to remain with us after the transaction are included in the valuation of the customer relationships. For our existing customer relationship intangible assets, we are amortizing these assets over a period of seven years, using a modified straight-line approach.

At December 31, 2021 and 2020, the carrying values of our customer relationship intangible assets were \$3.3 million and \$4.1 million, respectively. See Note 6 and Note 8 in the Notes to Consolidated Financial Statements for further information.

### *Fair Value Accounting*

We enter into certain forward commodity contracts that are required to be recorded at fair value, and these contracts are recorded as either an asset or liability measured at its fair value. Changes in fair value are recognized immediately in earnings unless the derivatives qualify for, and we elect, cash flow hedge accounting. We had no contracts designated for hedge accounting during the years ended December 31, 2021, 2020 and 2019.

We utilize a market approach to valuing our commodity contracts. On a contract by contract, forward month by forward month basis, we obtain observable market data for valuing our contracts that typically have durations of less than 18 months. At December 31, 2021, all of our market value measurements were based on inputs based on observable market data (Level 2 inputs). See discussion under "Fair Value Measurements" in Note 2 and Note 13 in the Notes to Consolidated Financial Statements.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS— (Continued)

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Our fair value contracts give rise to market risk, which represents the potential loss that may result from a change in the market value of a particular commitment. We monitor and manage our exposure to market risk to ensure compliance with our risk management policies. These risk management policies are regularly assessed to ensure their appropriateness given our objectives, strategies and current market conditions.

### *Liability and Contingency Accruals, including those related to Insurance Liabilities*

We establish a liability under the automobile and workers' compensation insurance policies for expected claims incurred but not reported on a monthly basis. We retain a third-party consulting actuary to establish loss development factors, based on historical claims experience as well as industry experience. We apply those factors to current claims information to derive an estimate of the ultimate claims liability. See Note 18 in the Notes to Consolidated Financial Statements for further information.

From time to time as incidental to our operations, we become involved in various accidents, lawsuits and/or disputes. As an operator of an extensive trucking fleet, we are a party to motor vehicle accidents, worker compensation claims or other items of general liability as are typical for the industry. In addition, we have extensive operations that must comply with a wide variety of tax laws, environmental laws and labor laws, among others. Should an incident occur, we evaluate the claim based on its nature, the facts and circumstances and the applicability of insurance coverage. When our assessment indicates that it is probable that a liability has occurred and the amount of the liability can be reasonably estimated, we make appropriate accruals or disclosure. We base our estimates on all known facts at the time and our assessment of the ultimate outcome, including consultation with external experts and counsel. We revise these estimates as additional information is obtained or resolution is achieved. At December 31, 2021, we do not believe any of our outstanding legal matters would have a material adverse effect on our financial position, results of operations or cash flows.

### *Revenue Recognition*

On January 1, 2018, we adopted Financial Accounting Standards Board Accounting Standards Codification 606, *Revenue from Contracts with Customers* ("ASC 606") and all related Accounting Standards Updates by applying the modified retrospective approach to all contracts that were not completed on January 1, 2018. The new revenue standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new revenue standard requires entities to recognize revenue through the application of a five-step model, which includes: identification of the contract; identification of the performance obligations; determination of the transaction price; allocation of the transaction price to the performance obligations; and recognition of revenue as the entity satisfies the performance obligations.

Our revenues are primarily generated from the marketing, transportation, storage and terminalling of crude oil and other related products and the tank truck transportation of liquid chemicals, pressurized gases, asphalt and dry bulk. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC 606. To identify the performance obligations, we considered all of the products or services promised in the contracts with customers, whether explicitly stated or implied based on customary business practices. Revenue is recognized when, or as, each performance obligation is satisfied under terms of the contract. Payment is typically due in full within 30 days of the invoice date.

*Crude oil marketing segment.* Crude oil marketing activities generate revenues from the sale and delivery of crude oil purchased either directly from producers or on the open market. Most of our crude oil purchase and sale contracts qualify and are designated as non-trading activities, and we consider these contracts as normal purchases and sales activity. For normal purchases and sales, our customers are invoiced monthly based upon contractually agreed upon terms with revenue recognized in the month in which the physical product is delivered to the customer, generally upon delivery of the product to the customer. Revenue is recognized based on the transaction price and the quantity delivered.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS— (Continued)

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The majority of our crude oil sales contracts have multiple distinct performance obligations as the promise to transfer the individual goods (e.g., barrels of crude oil) is separately identifiable from the other goods promised within the contracts. Our performance obligations are satisfied at a point in time. For normal sales arrangements, revenue is recognized in the month in which control of the physical product is transferred to the customer, generally upon delivery of the product to the customer.

*Transportation segment.* Transportation activities generate revenue from the truck transportation of liquid chemicals, pressurized gases, asphalt or dry bulk for customers. Each sales order is associated with our master transportation agreements and is considered a distinct performance obligation. The performance obligations associated with this segment are satisfied over time as the goods and services are delivered.

*Pipeline and storage segment.* Pipeline and storage activities generate revenue by transporting crude oil on our pipeline and providing storage and terminalling services for our customers. Our operations generally consist of fee-based activities associated with the transportation of crude oil and providing storage and terminalling services for crude oil. Revenues from pipeline tariffs and fees are associated with the transportation of crude oil at a published tariff. We primarily recognize pipeline tariff and fee revenues over time as services are rendered, based on the volumes transported. As is common in the pipeline transportation industry, our tariffs incorporate a loss allowance factor. We recognize the allowance volumes collected as part of the transaction price and record this non-cash consideration at fair value, measured as of the contract inception date.

Storage fees are typically recognized in revenue ratably over the term of the contract regardless of the actual storage capacity utilized as our performance obligation is to make available storage capacity for a period of time. Terminalling fees are recognized as the crude oil enters or exits the terminal and are received from or delivered to the connecting carrier or third-party terminal, as applicable.

See Note 3 in the Notes to Consolidated Financial Statements for further information.

## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

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*This annual report for the year ended December 31, 2021 (our “annual report”) contains various forward-looking statements and information that are based on our beliefs, as well as assumptions made by us and information currently available to us. When used in this document, words such as “anticipate,” “project,” “expect,” “plan,” “seek,” “goal,” “estimate,” “forecast,” “intend,” “could,” “should,” “would,” “will,” “believe,” “may,” “potential” and similar expressions and statements regarding our plans and objectives for future operations are intended to identify forward-looking statements. Although we believe that our expectations reflected in such forward-looking statements are reasonable, we cannot give any assurances that such expectations will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions as described in more detail under Part I, Item 1A of our 2021 Form 10-K. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. You should not put undue reliance on any forward-looking statements. The forward-looking statements in this annual report speak only as of the date hereof. Except as required by federal and state securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason.*

## FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share data)

	December 31,	
	2021	2020
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 97,825	\$ 39,293
Restricted cash . . . . .	9,492	12,772
Accounts receivable, net of allowance for doubtful accounts of \$108 and \$114, respectively . . . . .	137,789	99,799
Accounts receivable – related party . . . . .	2	—
Inventory . . . . .	18,942	19,336
Derivative assets . . . . .	347	61
Income tax receivable . . . . .	6,424	13,288
Prepayments and other current assets . . . . .	2,389	2,964
Total current assets . . . . .	<u>273,210</u>	<u>187,513</u>
Property and equipment, net . . . . .	88,036	94,134
Operating lease right-of-use assets, net . . . . .	7,113	8,051
Intangible assets, net . . . . .	3,317	4,106
Other assets . . . . .	3,027	2,383
Total assets . . . . .	<u>\$374,703</u>	<u>\$296,187</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable . . . . .	\$168,224	\$ 85,991
Derivative liabilities . . . . .	324	52
Current portion of finance lease obligations . . . . .	3,663	4,112
Current portion of operating lease liabilities . . . . .	2,178	2,050
Other current liabilities . . . . .	11,622	22,343
Total current liabilities . . . . .	<u>186,011</u>	<u>114,548</u>
Other long-term liabilities:		
Asset retirement obligations . . . . .	2,376	2,308
Finance lease obligations . . . . .	9,672	11,507
Operating lease liabilities . . . . .	4,938	6,000
Deferred taxes and other liabilities . . . . .	11,320	12,732
Total liabilities . . . . .	<u>214,317</u>	<u>147,095</u>
Commitments and contingencies (Note 18)		
Shareholders' equity:		
Preferred stock – \$1.00 par value, 960,000 shares authorized, none outstanding . . . . .	—	—
Common stock – \$0.10 par value, 7,500,000 shares authorized, 4,355,001 and 4,243,716 shares outstanding, respectively . . . . .	433	423
Contributed capital . . . . .	16,913	13,340
Retained earnings . . . . .	143,040	135,329
Total shareholders' equity . . . . .	<u>160,386</u>	<u>149,092</u>
Total liabilities and shareholders' equity . . . . .	<u>\$374,703</u>	<u>\$296,187</u>

*See Notes to Consolidated Financial Statements.*



**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

	Year Ended December 31,		
	2021	2020	2019
<b>Revenues:</b>			
Marketing . . . . .	\$1,930,042	\$ 950,426	\$1,748,056
Transportation . . . . .	94,498	71,724	63,191
Pipeline and storage . . . . .	664	272	—
Total revenues . . . . .	<u>2,025,204</u>	<u>1,022,422</u>	<u>1,811,247</u>
<b>Costs and expenses:</b>			
Marketing . . . . .	1,898,126	940,031	1,723,216
Transportation . . . . .	75,295	58,888	53,392
Pipeline and storage . . . . .	2,126	393	—
General and administrative . . . . .	13,701	10,284	10,198
Depreciation and amortization . . . . .	19,797	18,573	16,641
Total costs and expenses . . . . .	<u>2,009,045</u>	<u>1,028,169</u>	<u>1,803,447</u>
<b>Operating earnings (losses)</b> . . . . .	<u>16,159</u>	<u>(5,747)</u>	<u>7,800</u>
<b>Other income (expense):</b>			
Gain on dissolution of investment . . . . .	—	—	573
Interest income . . . . .	243	656	2,766
Interest expense . . . . .	(746)	(444)	(636)
Total other income (expense), net . . . . .	<u>(503)</u>	<u>212</u>	<u>2,703</u>
<b>Earnings (Losses) before income taxes</b> . . . . .	<u>15,656</u>	<u>(5,535)</u>	<u>10,503</u>
Income tax (provision) benefit:			
Current . . . . .	(5,169)	12,919	(211)
Deferred . . . . .	1,401	(6,389)	(2,085)
Income tax (provision) benefit . . . . .	<u>(3,768)</u>	<u>6,530</u>	<u>(2,296)</u>
<b>Net earnings</b> . . . . .	<u>\$ 11,888</u>	<u>\$ 995</u>	<u>\$ 8,207</u>
<b>Earnings per share:</b>			
Basic net earnings per common share . . . . .	<u>\$ 2.78</u>	<u>\$ 0.23</u>	<u>\$ 1.94</u>
Diluted net earnings per common share . . . . .	<u>\$ 2.75</u>	<u>\$ 0.23</u>	<u>\$ 1.94</u>
<b>Dividends per common share</b> . . . . .	<u>\$ 0.96</u>	<u>\$ 0.96</u>	<u>\$ 0.94</u>

*See Notes to Consolidated Financial Statements.*

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	Year Ended December 31,		
	2021	2020	2019
<b>Operating activities:</b>			
Net earnings	\$ 11,888	\$ 995	\$ 8,207
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	19,797	18,573	16,641
Gains on sales of property	(733)	(1,859)	(1,400)
Provision for doubtful accounts	(6)	(27)	(12)
Stock-based compensation expense	854	643	478
Deferred income taxes	(1,401)	6,389	2,085
Net change in fair value contracts	(14)	(9)	23
Gain on dissolution of AREC	—	—	(573)
<b>Changes in assets and liabilities:</b>			
Accounts receivable	(37,984)	(5,162)	(8,373)
Accounts receivable/payable, affiliates	(2)	(5)	(24)
Inventories	394	4,751	(3,628)
Income tax receivable	6,864	(10,719)	(165)
Prepayments and other current assets	575	(1,401)	(2)
Accounts payable	82,170	(61,116)	31,795
Accrued liabilities	(692)	5,052	1,154
Other	(684)	(104)	693
Net cash provided (used in) by operating activities	<u>81,026</u>	<u>(43,999)</u>	<u>46,899</u>
<b>Investing activities:</b>			
Property and equipment additions	(12,382)	(5,008)	(35,743)
Acquisitions	—	(20,200)	(5,624)
Proceeds from property sales	2,286	4,515	3,680
Proceeds from dissolution of AREC	—	—	998
Insurance and state collateral (deposits) refunds	—	1,030	652
Net cash used in investing activities	<u>(10,096)</u>	<u>(19,663)</u>	<u>(36,037)</u>
<b>Financing activities:</b>			
Borrowings under Credit Agreement	8,000	—	—
Repayments under Credit Agreement	(8,000)	—	—
Principal repayments of finance lease obligations	(4,367)	(2,336)	(1,697)
Payment for financed portion of VEX acquisition	(10,000)	—	—
Net proceeds from sale of equity	2,830	—	—
Payment of contingent consideration liability	—	(111)	—
Dividends paid on common stock	(4,141)	(4,081)	(3,976)
Net cash used in financing activities	<u>(15,678)</u>	<u>(6,528)</u>	<u>(5,673)</u>
<b>Increase (Decrease) in cash and cash equivalents, including restricted cash</b>	<b>55,252</b>	<b>(70,190)</b>	<b>5,189</b>
<b>Cash and cash equivalents, including restricted cash, at beginning of period</b>	<b>52,065</b>	<b>122,255</b>	<b>117,066</b>
<b>Cash and cash equivalents, including restricted cash, at end of period</b>	<b><u>\$107,317</u></b>	<b><u>\$ 52,065</u></b>	<b><u>\$122,255</u></b>

See Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(In thousands, except per share data)

	<u>Common Stock</u>	<u>Contributed Capital</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
<b>Balance, January 1, 2019</b> .....	\$422	\$11,948	\$134,228	\$146,598
Net earnings .....	—	—	8,207	8,207
Stock-based compensation expense .....	—	478	—	478
Issuance of common shares for acquisition .....	1	391	—	392
Cancellation of shares withheld to cover taxes upon vesting of restricted awards .....	—	(39)	—	(39)
Dividends declared:				
Common stock, \$0.94 per share .....	—	—	(3,976)	(3,976)
Awards under LTIP, \$0.94 per share .....	—	—	(19)	(19)
<b>Balance, December 31, 2019</b> .....	423	12,778	138,440	151,641
Net earnings .....	—	—	995	995
Stock-based compensation expense .....	—	643	—	643
Cancellation of shares withheld to cover taxes upon vesting of restricted awards .....	—	(81)	—	(81)
Dividends declared:				
Common stock, \$0.96 per share .....	—	—	(4,070)	(4,070)
Awards under LTIP, \$0.96 per share .....	—	—	(36)	(36)
<b>Balance, December 31, 2020</b> .....	423	13,340	135,329	149,092
Net earnings .....	—	—	11,888	11,888
Stock-based compensation expense .....	—	854	—	854
Shares sold under at-the-market offering program .....	9	2,821	—	2,830
Vesting of restricted awards .....	1	(1)	—	—
Cancellation of shares withheld to cover taxes upon vesting of restricted awards .....	—	(101)	—	(101)
Dividends declared:				
Common stock, \$0.96 per share .....	—	—	(4,112)	(4,112)
Awards under LTIP, \$0.96 per share .....	—	—	(65)	(65)
<b>Balance, December 31, 2021</b> .....	<u>\$433</u>	<u>\$16,913</u>	<u>\$143,040</u>	<u>\$160,386</u>

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Note 1. Organization and Basis of Presentation

#### *Organization*

Adams Resources & Energy, Inc. is a publicly traded Delaware corporation organized in 1973, the common shares of which are listed on the NYSE American LLC under the ticker symbol “AE”. Through our subsidiaries, we are primarily engaged in crude oil marketing, transportation, terminalling and storage in various crude oil and natural gas basins in the lower 48 states of the United States (“U.S.”). We also conduct tank truck transportation of liquid chemicals, pressurized gases, asphalt and dry bulk primarily in the lower 48 states of the U.S. with deliveries into Canada and Mexico, and with nineteen terminals across the U.S. Unless the context requires otherwise, references to “we,” “us,” “our” or the “Company” are intended to mean the business and operations of Adams Resources & Energy, Inc. and its consolidated subsidiaries.

We operate and report in three business segments: (i) crude oil marketing, transportation and storage; (ii) tank truck transportation of liquid chemicals, pressurized gases, asphalt and dry bulk; and (iii) pipeline transportation, terminalling and storage of crude oil. See Note 9 for further information regarding our business segments.

The consolidated financial statements and the accompanying notes are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and the rules of the U.S. Securities and Exchange Commission (“SEC”). All significant intercompany transactions and balances have been eliminated in consolidation.

#### *Use of Estimates*

The preparation of our financial statements in conformity with GAAP requires management to use estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on historical experience and on various other assumptions and information we believe to be reasonable under the circumstances. Estimates and assumptions about future events and their effects cannot be perceived with certainty and, accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. While we believe the estimates and assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates.

### Note 2. Summary of Significant Accounting Policies

We adhere to the following significant accounting policies in the preparation of our consolidated financial statements.

#### *Accounts Receivable and Allowance for Doubtful Accounts*

Accounts receivable associated with crude oil marketing activities comprise approximately 87 percent of our total receivables, and industry practice requires payment for these sales to occur within 20 days of the end of the month following a transaction. Our customer makeup, credit policies and the relatively short duration of receivables mitigate the uncertainty typically associated with receivables management. We manage our crude oil marketing receivables by participating in a monthly settlement process with each of our counterparties. Ongoing account balances are monitored monthly, and we reconcile outstanding balances with counterparties. We also place great emphasis on collecting cash balances due.

We maintain and monitor our allowance for doubtful accounts. Our allowance for doubtful accounts is determined based on specific identification combined with a review of the general status of the aging of all accounts. We consider the following factors in our review of our allowance for doubtful accounts: (i) historical experience with customers, (ii) the perceived financial stability of customers based on our research, (iii) the levels of credit we grant to customers, and (iv) the duration of the receivable. We may increase the allowance for doubtful accounts in response to the specific identification of customers involved in bankruptcy proceedings and similar financial difficulties. On a routine basis, we review estimates associated with the allowance for doubtful accounts

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

to ensure that we have recorded sufficient reserves to cover potential losses. Customer payments are regularly monitored. However, a degree of risk remains due to the custom and practices of the industry. See Note 19 for further information regarding credit risk.

The following table presents our allowance for doubtful accounts activity for the periods indicated (in thousands):

	December 31,		
	2021	2020	2019
Balance at beginning of period.....	\$114	\$141	\$153
Charges to costs and expenses .....	—	—	26
Deductions.....	(6)	(27)	(38)
Balance at end of period.....	<u>\$108</u>	<u>\$114</u>	<u>\$141</u>

### *Cash, Cash Equivalents and Restricted Cash*

Cash and cash equivalents represent unrestricted cash on hand and highly liquid investments with original maturities of less than three months from the date of purchase. Cash and cash equivalents are maintained with major financial institutions, and deposit amounts may exceed the amount of federally backed insurance provided. While we regularly monitor the financial stability of these institutions, cash and cash equivalents ultimately remain at risk subject to the financial viability of these institutions.

The following table provides a reconciliation of cash and cash equivalents and restricted cash as reported in the consolidated balance sheets that totals to the amounts shown in the consolidated statements of cash flows at the dates indicated (in thousands):

	December 31,	
	2021	2020
Cash and cash equivalents .....	\$ 97,825	\$39,293
Restricted cash:		
Collateral for outstanding letters of credit <sup>(1)</sup> .....	—	5,144
Captive insurance subsidiary <sup>(2)</sup> .....	9,492	7,628
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows .....	<u>\$107,317</u>	<u>\$52,065</u>

<sup>(1)</sup> Represents amounts that were previously held in a segregated bank account by Wells Fargo as collateral for outstanding letters of credit. Effective with our entry into the credit agreement (see Note 12), letters of credit are now secured under the credit agreement.

<sup>(2)</sup> \$1.5 million of the restricted cash balance relates to the initial capitalization of our captive insurance company formed in late 2020, and the remainder represents amounts paid to our captive insurance company for insurance premiums.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)**


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*Common Shares Outstanding*

The following table reconciles our outstanding common stock for the periods indicated:

	<b>Common shares</b>
<b>Balance, January 1, 2019</b> .....	4,217,596
Issuance of shares in acquisition (see Note 6) .....	11,145
Vesting of restricted stock unit awards (see Note 15) .....	7,604
Shares withheld to cover taxes upon vesting of restricted stock unit awards .....	(883)
Other .....	71
<b>Balance, December 31, 2019</b> .....	4,235,533
Vesting of restricted stock unit awards (see Note 15) .....	10,290
Shares withheld to cover taxes upon vesting of restricted stock unit awards .....	(2,107)
<b>Balance, December 31, 2020</b> .....	4,243,716
Vesting of restricted stock unit awards (see Note 15) .....	14,244
Vesting of performance share unit awards (see Note 15) .....	2,461
Shares withheld to cover taxes upon vesting of equity awards .....	(3,043)
Shares sold under at-the-market offering program .....	97,623
<b>Balance, December 31, 2021</b> .....	<u>4,355,001</u>

*Derivative Instruments*

In the normal course of our operations, our crude oil marketing segment purchases and sells crude oil. We seek to profit by procuring the commodity as it is produced and then delivering the product to the end users or the intermediate use marketplace. As typical for the industry, these transactions are made pursuant to the terms of forward month commodity purchase and/or sale contracts. Some of these contracts meet the definition of a derivative instrument, and therefore, we account for these contracts at fair value, unless the normal purchase and sale exception is applicable. These types of underlying contracts are standard for the industry and are the governing document for our crude oil marketing segment. None of our derivative instruments have been designated as hedging instruments.

*Earnings Per Share*

Basic earnings per share is computed by dividing our net earnings by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by giving effect to all potential shares of common stock outstanding, including our stock related to unvested restricted stock unit awards. Unvested restricted stock unit awards granted under the Adams Resources & Energy, Inc. 2018 Long-Term Incentive Plan (“2018 LTIP”) are not considered to be participating securities as the holders of these shares do not have non-forfeitable dividend rights in the event of our declaration of a dividend for common shares (see Note 15 for further discussion).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

A reconciliation of the calculation of basic and diluted earnings per share was as follows for the periods indicated (in thousands, except per share data):

	Year Ended December 31,		
	2021	2020	2019
<b>Earnings per share – numerator:</b>			
Net earnings . . . . .	\$11,888	\$ 995	\$8,207
<b>Denominator:</b>			
Basic weighted average number of shares outstanding . . . . .	4,283	4,240	4,228
<b>Basic earnings per share</b> . . . . .	<u>\$ 2.78</u>	<u>\$ 0.23</u>	<u>\$ 1.94</u>
<b>Diluted earnings per share:</b>			
Diluted weighted average number of shares outstanding:			
Common shares . . . . .	4,283	4,240	4,228
Restricted stock unit awards . . . . .	23	11	5
Performance share unit awards <sup>(1)</sup> . . . . .	17	3	—
Total . . . . .	<u>4,323</u>	<u>4,254</u>	<u>4,233</u>
<b>Diluted earnings per share</b> . . . . .	<u>\$ 2.75</u>	<u>\$ 0.23</u>	<u>\$ 1.94</u>

<sup>(1)</sup> The dilutive effect of performance share awards are included in the calculation of diluted earnings per share when the performance share award performance conditions have been achieved. The performance conditions for the performance share unit awards granted in 2019, 2020 and 2021 were achieved as of December 31, 2019, 2020 and 2021, respectively. For the year ended December 31, 2019, the effects of the performance share awards on earning per share were anti-dilutive.

### Employee Benefits

We maintain a 401(k) savings plan for the benefit of our employees. We do not maintain any other pension or retirement plans. Our 401(k) plan contributory expenses were as follows for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Contributory expenses . . . . .	\$1,159	\$1,100	\$1,117

### Equity At-The-Market Offerings

During the year ended December 31, 2021, we received net proceeds of approximately \$2.8 million (net of offering costs to B. Riley Securities, Inc. of \$0.1 million) from the sale of 97,623 of our common shares at an average price per share of approximately \$30.70 in at-the-market offerings under our At Market Issuance Sales Agreement with B. Riley Securities, Inc. dated December 23, 2020.

### Fair Value Measurements

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of the immediate or short-term maturity of these financial instruments. Marketable securities are recorded at fair value based on market quotations from actively traded liquid markets.

Our fair value estimates are based on either (i) actual market data or (ii) assumptions that other market participants would use in pricing an asset or liability, including estimates of risk, in the principal market of the asset or liability at a specified measurement date. Recognized valuation techniques employ inputs such as contractual prices, quoted market prices or rates, operating costs, discount factors and business growth rates. These inputs may be either readily observable, corroborated by market data or generally unobservable. In developing our

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)**

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estimates of fair value, we endeavor to utilize the best information available and apply market-based data to the highest extent possible. Accordingly, we utilize valuation techniques (such as the market approach) that maximize the use of observable inputs and minimize the use of unobservable inputs.

A three-tier hierarchy has been established that classifies fair value amounts recognized in the financial statements based on the observability of inputs used to estimate such fair values. The hierarchy considers fair value amounts based on observable inputs (Levels 1 and 2) to be more reliable and predictable than those based primarily on unobservable inputs (Level 3). At each balance sheet reporting date, we categorize our financial assets and liabilities using this hierarchy.

The characteristics of the fair value amounts classified within each level of the hierarchy are described as follows:

- Level 1 fair values are based on quoted prices, which are available in active markets for identical assets or liabilities as of the measurement date. Active markets are defined as those in which transactions for identical assets or liabilities occur with sufficient frequency so as to provide pricing information on an ongoing basis. For Level 1 valuation of marketable securities, we utilize market quotations provided by our primary financial institution. For the valuations of derivative financial instruments, we utilize the New York Mercantile Exchange (“NYMEX”) for certain commodity valuations.
- Level 2 fair values are based on (a) quoted prices for similar assets or liabilities in active markets, (b) quoted prices for identical assets or liabilities but in markets that are not actively traded or in which little information is released to the public, (c) observable inputs other than quoted prices, and (d) inputs derived from observable market data. Source data for Level 2 inputs include information provided by the NYMEX, published price data and indices, third party price survey data and broker provided forward price statistics.
- Level 3 fair values are based on unobservable market data inputs for assets or liabilities.

See Note 6 for a discussion of the Level 3 inputs used in the determination of the fair value of the intangible assets acquired in asset acquisitions.

Fair value contracts consist of derivative financial instruments and are recorded as either an asset or liability measured at its fair value. Changes in fair value are recognized immediately in earnings unless the derivatives qualify for, and we elect, cash flow hedge accounting. We had no contracts designated for hedge accounting during any of the current reporting periods (see Note 13 for further information).

Fair value estimates are based on assumptions that market participants would use when pricing an asset or liability, and we use a fair value hierarchy of three levels that prioritizes the information used to develop those assumptions. Currently, for all items presented herein, we utilize a market approach to valuing our contracts. On a contract by contract, forward month by forward month basis, we obtain observable market data for valuing our contracts. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data.

#### *Impairment Testing for Long-Lived Assets*

Long-lived assets (primarily property and equipment and intangible assets) are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Long-lived assets with carrying values that are not expected to be recovered through future cash flows are written-down to their estimated fair values. The carrying value of a long-lived asset is deemed not recoverable if it exceeds the sum of undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset’s carrying value exceeds the sum of its undiscounted cash flows, a non-cash asset impairment charge equal to the excess of the asset’s carrying value over its estimated fair value is recorded. Fair value is defined as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at a specified measurement date. We measure fair value using market price indicators or, in the absence of such data, appropriate valuation techniques.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)**

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*Income Taxes*

Income taxes are accounted for using the asset and liability method. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of such items and their respective tax basis (see Note 14 for further information). On December 22, 2017, the Tax Cut and Jobs Act was enacted into law resulting in a reduction in the federal corporate income tax rate from 35 percent to 21 percent for years beginning in 2018, which impacts our income tax provision or benefit.

We are subject to income taxes in the U.S. and numerous states. We record uncertain tax positions on the basis of a two-step process in which (1) we determine whether it is more-likely-than-not the tax positions will be sustained on the basis of technical merits of the position and (2) for those tax positions meeting the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

Interest and penalties related to income taxes are included in the benefit (provision) for income taxes in our consolidated statements of operations.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted and signed into law in response to the COVID-19 pandemic. The CARES Act, among other things, permits net operating losses (“NOL”) incurred in tax years 2018, 2019 and 2020 to offset 100 percent of taxable income and be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes.

We have determined that the NOL carryback provision in the CARES Act would result in a cash benefit to us for the fiscal years 2018, 2019 and 2020. We carried back our NOL for fiscal year 2018 to 2013, and in June 2020, we received a cash refund of approximately \$2.7 million. We also carried back our NOL for the fiscal year 2019 to 2014, and in April 2021, we received a cash refund of approximately \$3.7 million. We have an income tax receivable at December 31, 2021 of approximately \$6.8 million for the benefit of carrying back our NOL for the fiscal year 2020 to 2015 and 2016. As we are carrying the losses back to years beginning before January 1, 2018, the receivables were recorded at the previous 35 percent federal tax rate rather than the current statutory rate of 21 percent.

*Inventory, and Linefill and Base Gas*

Inventory consists of crude oil held in storage tanks and at third-party pipelines as part of our crude oil marketing and pipeline and storage operations. Crude oil inventory is carried at the lower of cost or net realizable value. At the end of each reporting period, we assess the carrying value of our inventory and make adjustments necessary to reduce the carrying value to the applicable net realizable value. Any resulting adjustments are a component of marketing costs and expenses or pipeline and storage expenses on our consolidated statements of operations. During the year ended December 31, 2020, we recorded a charge of \$24.2 million related to the write-down of our crude oil inventory in our crude oil marketing segment due to declines in prices in 2020. There were no charges recognized during the years ended December 31, 2021 and 2019.

Linefill and base gas in assets we own are recorded at historical cost and consist of crude oil. We classify as linefill or base gas our proportionate share of barrels used to fill a pipeline that we own and barrels that represent the minimum working requirements in storage tanks that we own. These crude oil barrels are not considered to be available for sale because the volumes must be maintained in order to continue normal operation of the related pipeline or tanks. Linefill and base gas are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Linefill and base gas are included in “Property and equipment” on our Consolidated Balance Sheets. See Note 5 for additional information regarding linefill and base gas.

*Investment in Unconsolidated Affiliate*

We own an approximate 15 percent equity interest (less than 3 percent voting interest) in VestaCare, Inc., a California corporation (“VestaCare”), which we purchased for a \$2.5 million cash payment in 2016. VestaCare provides an array of software as a service (SaaS) electronic payment technologies to medical providers, payers and patients including VestaCare’s product offering, VestaPay™. VestaPay™ allows medical care providers to

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)**

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structure fully automated and dynamically updating electronic payment plans for their patients. We account for this investment under the cost method of accounting. During 2017, we reviewed our investment in VestaCare and determined that the current projected operating results did not support the carrying value of the investment. As a result, during 2017, we recognized an impairment charge of \$2.5 million to write-off our investment in VestaCare. At December 31, 2021, we continue to own an approximate 15 percent equity interest in VestaCare.

*Property and Equipment*

Property and equipment is recorded at cost. Expenditures for additions, improvements and other enhancements to property and equipment are capitalized, and minor replacements, maintenance and repairs that do not extend asset life or add value are charged to expense as incurred. When property and equipment assets are retired or otherwise disposed of, the related cost and accumulated depreciation is removed from the accounts and any resulting gain or loss is included in results of operations in operating costs and expenses for the respective period. Property and equipment, except for land, is depreciated using the straight-line method over the estimated average useful lives of two to thirty-nine years.

Asset retirement obligations (“AROs”) are legal obligations associated with the retirement of tangible long-lived assets that result from their acquisition, construction, development and/or normal operation. When an ARO is incurred, we record a liability for the ARO and capitalize an equal amount as an increase in the carrying value of the related long-lived asset. ARO amounts are measured at their estimated fair value using expected present value techniques. Over time, the ARO liability is accreted to its present value (through accretion expense), and the capitalized amount is depreciated over the remaining useful life of the related long-lived asset. We will incur a gain or loss to the extent that our ARO liabilities are not settled at their recorded amounts.

See Note 5 for additional information regarding our property and equipment and AROs.

*Stock-Based Compensation*

We measure all share-based payment awards, including the issuance of restricted stock unit awards and performance share unit awards to employees and board members, using a fair-value based method. The cost of services received from employees and non-employee board members in exchange for awards of equity instruments is recognized in the consolidated statements of operations based on the estimated fair value of those awards on the grant date and is amortized on a straight-line basis over the requisite service period. The fair value of restricted stock unit awards and performance share unit awards is based on the closing price of our common stock on the grant date. We account for forfeitures as they occur. See Note 15 for additional information regarding our 2018 LTIP.

**Note 3. Revenue Recognition**

We account for our revenues under Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*. ASC 606’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASC 606 requires entities to recognize revenue through the application of a five-step model, which includes: identification of the contract; identification of the performance obligations; determination of the transaction price; allocation of the transaction price to the performance obligations; and recognition of revenue as the entity satisfies the performance obligations.

Our revenues are primarily generated from the marketing, transportation, storage and terminalling of crude oil and other related products and the tank truck transportation of liquid chemicals, pressurized gases, asphalt and dry bulk. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC 606. To identify the performance obligations, we considered all of the products or services promised in the contracts with customers, whether explicitly stated or implied based on customary business practices. Revenue is recognized when, or as, each performance obligation is satisfied under terms of the contract. Payment is typically due in full within 30 days of the invoice date.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)**

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The following information describes the nature of our significant revenue streams by segment and type:

*Crude oil marketing segment.* Crude oil marketing activities generate revenues from the sale and delivery of crude oil purchased either directly from producers or on the open market. Most of our crude oil purchase and sale contracts qualify and are designated as non-trading activities, and we consider these contracts as normal purchases and sales activity. For normal purchases and sales, our customers are invoiced monthly based upon contractually agreed upon terms with revenue recognized in the month in which the physical product is delivered to the customer, generally upon delivery of the product to the customer. Revenue is recognized based on the transaction price and the quantity delivered.

The majority of our crude oil sales contracts have multiple distinct performance obligations as the promise to transfer the individual goods (e.g., barrels of crude oil) is separately identifiable from the other goods promised within the contracts. Our performance obligations are satisfied at a point in time. For normal sales arrangements, revenue is recognized in the month in which control of the physical product is transferred to the customer, generally upon delivery of the product to the customer.

*Transportation segment.* Transportation activities generate revenue from the truck transportation of liquid chemicals, pressurized gases, asphalt or dry bulk from point A to point B for customers. Each sales order is associated with our master transportation agreements and is considered a distinct performance obligation. The performance obligations associated with this segment are satisfied over time as the goods and services are delivered.

*Pipeline and storage segment.* Pipeline and storage activities generate revenue by transporting crude oil on our pipeline and providing storage and terminalling services for our customers. Our operations generally consist of fee-based activities associated with the transportation of crude oil and providing storage and terminalling services for crude oil. Revenues from pipeline tariffs and fees are associated with the transportation of crude oil at a published tariff. We primarily recognize pipeline tariff and fee revenues over time as services are rendered, based on the volumes transported. As is common in the pipeline transportation industry, our tariffs incorporate a loss allowance factor. We recognize the allowance volumes collected as part of the transaction price and record this non-cash consideration at fair value, measured as of the contract inception date.

Storage fees are typically recognized in revenue ratably over the term of the contract regardless of the actual storage capacity utilized as our performance obligation is to make available storage capacity for a period of time. Terminalling fees are recognized as the crude oil enters or exits the terminal and is received from or delivered to the connecting carrier or third-party terminal, as applicable.

#### *Contract Balances*

The timing of revenue recognition, billings and cash collections results in billed accounts receivable and customer advances and deposits (contract liabilities) on our consolidated balance sheets. Currently, we do not record any contract assets in our financial statements due to the timing of revenue recognized and when our customers are billed. Our crude oil marketing customers are generally billed monthly based on contractually agreed upon terms. However, we sometimes receive advances or deposits from customers before revenue is recognized, resulting in contract liabilities. These contract assets and liabilities, if any, are reported on our consolidated balance sheets at the end of each reporting period.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

### Revenue Disaggregation

The following table disaggregates our revenue by segment and by major source for the periods indicated (in thousands):

	Reporting Segments			Total
	Crude Oil Marketing	Transportation	Pipeline and storage <sup>(1)</sup>	
<b>Year Ended December 31, 2021</b>				
Revenues from contracts with customers.....	\$1,898,160	\$94,498	\$664	\$1,993,322
Other <sup>(2)</sup> .....	31,882	—	—	31,882
Total revenues.....	<u>\$1,930,042</u>	<u>\$94,498</u>	<u>\$664</u>	<u>\$2,025,204</u>
Timing of revenue recognition:				
Goods transferred at a point in time.....	\$1,898,160	\$ —	\$ —	\$1,898,160
Services transferred over time.....	—	94,498	664	95,162
Total revenues from contracts with customers.....	<u>\$1,898,160</u>	<u>\$94,498</u>	<u>\$664</u>	<u>\$1,993,322</u>
<b>Year Ended December 31, 2020</b>				
Revenues from contracts with customers.....	\$ 915,438	\$71,724	\$272	\$ 987,434
Other <sup>(2)</sup> .....	34,988	—	—	34,988
Total revenues.....	<u>\$ 950,426</u>	<u>\$71,724</u>	<u>\$272</u>	<u>\$1,022,422</u>
Timing of revenue recognition:				
Goods transferred at a point in time.....	\$ 915,438	\$ —	\$ —	\$ 915,438
Services transferred over time.....	—	71,724	272	71,996
Total revenues from contracts with customers.....	<u>\$ 915,438</u>	<u>\$71,724</u>	<u>\$272</u>	<u>\$ 987,434</u>
<b>Year Ended December 31, 2019</b>				
Revenues from contracts with customers.....	\$1,555,393	\$63,191	\$ —	\$1,618,584
Other <sup>(2)</sup> .....	192,663	—	—	192,663
Total revenues.....	<u>\$1,748,056</u>	<u>\$63,191</u>	<u>\$ —</u>	<u>\$1,811,247</u>
Timing of revenue recognition:				
Goods transferred at a point in time.....	\$1,555,393	\$ —	\$ —	\$1,555,393
Services transferred over time.....	—	63,191	—	63,191
Total revenues from contracts with customers.....	<u>\$1,555,393</u>	<u>\$63,191</u>	<u>\$ —</u>	<u>\$1,618,584</u>

<sup>(1)</sup> On October 22, 2020, we acquired a crude oil pipeline and related terminal facility assets, resulting in a new operating segment. See Note 6 and Note 9 for further information.

<sup>(2)</sup> Other crude oil marketing revenues are recognized under ASC 815, *Derivatives and Hedging*, and ASC 845, *Nonmonetary Transactions – Purchases and Sales of Inventory with the Same Counterparty*.

### Other Crude Oil Marketing Revenue

Certain of the commodity purchase and sale contracts utilized by our crude oil marketing segment qualify as derivative instruments with certain specifically identified contracts also designated as trading activity. From the time of contract origination, these contracts are marked-to-market and recorded on a net revenue basis in the accompanying consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

Certain of our crude oil contracts may be with a single counterparty to provide for similar quantities of crude oil to be bought and sold at different locations. These contracts are entered into for a variety of reasons, including effecting the transportation of the commodity, to minimize credit exposure, and/or to meet the competitive demands of the customer. These buy/sell arrangements are reflected on a net revenue basis in the accompanying consolidated financial statements.

Reporting these crude oil contracts on a gross revenue basis would increase our reported revenues as follows for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Revenue gross-up .....	\$761,369	\$419,127	\$859,091

### Note 4. Prepayments and Other Current Assets

The components of prepayments and other current assets were as follows at the dates indicated (in thousands):

	December 31,	
	2021	2020
Insurance premiums .....	\$ 641	\$ 690
Vendor prepayment .....	602	1,085
Rents, licenses and other .....	1,146	1,189
Total prepayments and other current assets .....	<u>\$2,389</u>	<u>\$2,964</u>

### Note 5. Property and Equipment

The historical costs of our property and equipment and related accumulated depreciation and amortization balances were as follows at the dates indicated (in thousands):

	Estimated Useful Life in Years	December 31,	
		2021	2020
Tractors and trailers .....	5 – 6	\$ 106,558	\$101,813
Field equipment .....	2 – 5	22,851	22,139
Finance lease ROU assets <sup>(1)</sup> .....	3 – 6	22,349	20,266
Pipeline and related facilities .....	20 – 25	20,336	21,265
Linefill and base gas <sup>(2)</sup> .....	N/A	3,922	3,333
Buildings .....	5 – 39	16,163	14,977
Office equipment .....	2 – 5	2,060	1,893
Land .....	N/A	2,008	1,790
Construction in progress .....	N/A	3,396	1,626
Total property and equipment, at cost .....		199,643	189,102
Less accumulated depreciation and amortization .....		<u>(111,607)</u>	<u>(94,968)</u>
Property and equipment, net .....		<u>\$ 88,036</u>	<u>\$ 94,134</u>

<sup>(1)</sup> Our finance lease right-of-use (“ROU”) assets arise from leasing arrangements for the right to use various classes of underlying assets including tractors, trailers, a tank storage and throughput arrangement and office equipment (see Note 17 for further information). Accumulated amortization of the assets presented as “Finance lease ROU assets” was \$9.8 million and \$5.0 million as of December 31, 2021 and 2020, respectively.

<sup>(2)</sup> Linefill and base gas represents crude oil in the VEX pipeline (Note 6) and storage tanks we own, and the crude oil is recorded at historical cost.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

Components of depreciation and amortization expense were as follows for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Depreciation and amortization, excluding amounts under finance leases . . . . .	\$15,053	\$16,026	\$14,833
Amortization of property and equipment under finance leases . . . . .	4,744	2,547	1,808
Total depreciation and amortization. . . . .	<u>\$19,797</u>	<u>\$18,573</u>	<u>\$16,641</u>

### *Gains on Sales of Assets*

We sold certain used tractors, trailers and other equipment and recorded net pre-tax gains as follows for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Gains on sales of used tractors, trailers and equipment . . . . .	\$733	\$1,859	\$1,400

### *Asset Retirement Obligations*

We record AROs for the estimated retirement costs associated with certain tangible long-lived assets. The estimated fair value of AROs are recorded in the period in which they are incurred and the corresponding cost is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its then present value each period, and the capitalized cost is depreciated over the useful life of the asset. If the liability is settled for an amount other than the recorded amount, an increase or decrease to expense is recognized. The following table reflects a summary of our AROs for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
ARO liability at beginning of year . . . . .	\$2,307	\$1,573	\$1,525
Liabilities incurred . . . . .	—	—	17
Accretion of discount . . . . .	69	49	48
Liabilities settled. . . . .	—	(38)	(17)
ARO related to pipeline acquisition (see Note 6) . . . . .	—	723	—
ARO liability at end of year . . . . .	<u>\$2,376</u>	<u>\$2,307</u>	<u>\$1,573</u>

## Note 6. Acquisitions

### *Acquisition of Pipeline and Related Terminal Facility Assets*

On October 22, 2020, we and our subsidiary, GulfMark Terminals, LLC (“GMT”) entered into a purchase and sale agreement with EnLink Midstream Operating, L.P. for the purchase of the outstanding equity interests of Victoria Express Pipeline, LLC (“VEX”) and certain related pipeline terminal facility assets for \$20.0 million, plus a cash payment of \$0.5 million for working capital items. Of the purchase price, \$10.0 million was paid at closing, with the remainder to be paid in four quarterly installments of \$2.5 million, plus interest at a rate of 4.0 percent per annum, beginning in March 2021. The equity interests in GMT, VEX and the other acquired assets were pledged to secure the payment of the installment portions of the purchase price as part of the agreement.

The VEX Pipeline System, with truck and storage terminals at both Cuero and the Port of Victoria, Texas, is a crude oil and condensate pipeline system, which connects the heart of the Eagle Ford Basin to the Gulf Coast waterborne market. The VEX Pipeline System includes 56 miles of 12-inch pipeline, which spans DeWitt County



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)**


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to Victoria County, Texas, with 350,000 barrels of above ground storage, two 8 bay truck offload stations, and access to two docks at the Port of Victoria. The VEX Pipeline System is able to receive crude oil by pipeline and truck, and has downstream pipeline connections to two terminals, with potential for additional downstream connection opportunities in the future. The pipeline system has a current capacity of 90,000 barrels per day.

The VEX Pipeline System and related terminal assets have been included in our new pipeline and storage segment. We expect that this acquisition will further strengthen our ability to provide excellent service to the producers in the Gulf Coast region, as well as more effectively service our end-user markets along the Gulf Coast. In addition, the VEX Pipeline System complements our existing storage terminal and dock at the Port of Victoria, where we now control approximately 450,000 barrels of storage with three docks after giving effect to the acquisition.

In addition to the purchase price of \$20.0 million and a cash payment of \$0.5 million for working capital items, we also incurred approximately \$0.6 million of acquisition costs in connection with this acquisition, which has been included in the allocation of the total purchase price of \$21.0 million to the assets acquired. We accounted for this acquisition as an asset acquisition as substantially all of the fair value of the gross assets is concentrated in a group of similar identifiable assets.

The following table summarizes the allocation of the purchase price based on the estimated fair value of the assets and liabilities acquired at the acquisition date (in thousands):

Accounts receivable and other current assets . . . . .	\$ 80
Linefill and base gas . . . . .	1,013
Property and equipment — Pipeline and related terminal facilities . . . . .	20,542
Accounts payable and other accrued liabilities . . . . .	<u>(598)</u>
Total purchase price . . . . .	<u>\$21,037</u>

The estimated fair value of the acquired property and equipment was determined using the cost approach, specifically determining the replacement cost value of each type of asset.

In connection with the acquisition, we recorded an asset retirement obligation of approximately \$0.7 million related to legal and regulatory requirements to perform specified retirement activities, including purging and sealing the pipeline if it is abandoned.

#### *Acquisition of Transportation Assets — CTL*

On May 17, 2020, we entered into a purchase and sale agreement with Comcar Industries, Inc. (“Comcar”), a bulk carrier trucking company, for the purchase of substantially all of the transportation assets of Comcar’s subsidiary, CTL Transportation, LLC (“CTL”). CTL provides short-haul delivery services to customers in the chemical industry, with operations in nine locations in the southeastern United States. On June 26, 2020, we closed on the asset acquisition for approximately \$9.0 million in cash. This acquisition added approximately 163 tractors and 328 trailers to our existing transportation fleet, and these assets were included in our transportation segment. This acquisition added new customers, new market areas and new product lines to our transportation segment portfolio. As a result of the acquisition, we added services to new and existing customers in six new market areas, including new terminals in Louisiana, Missouri, Ohio, Georgia and Florida.

We also incurred approximately \$0.1 million of acquisition costs in connection with this acquisition, which has been included in the allocation of the total purchase price of \$9.2 million to the assets acquired.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)**


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The following table summarizes the allocation of the purchase price based on the estimated fair value of the assets acquired at the acquisition date (in thousands):

Property and equipment — tractors and trailers . . . . .	\$5,901
Materials and supplies . . . . .	87
Intangible assets — customer relationships . . . . .	<u>3,175</u>
Total purchase price . . . . .	<u>\$9,163</u>

The estimated fair value of the acquired property and equipment was determined using the estimated market value of each type of asset. The estimated fair value of the acquired customer relationship intangible assets was determined using an income approach, specifically a discounted cash flow analysis. The income approach estimates the future benefits of the customer relationships and deducts the expenses incurred in servicing the relationships and the contributions from the other business assets to derive the future net benefits of these assets. The future net benefits are discounted back to present value using the appropriate discount rate, which results in the value of the customer relationships.

A customer relationship intangible asset is the relationship between CTL and various customers to whom we did not have a previous relationship. The customer relationships we acquired in this transaction provide us with access to those customers to whom we did not have a previous relationship and allows us to enter product markets in which we have not previously participated. Because of the highly competitive and fragmented transportation market, we believe access to these customers will provide us with an entry into new market areas.

The discounted cash flow analysis used to estimate the fair value of the CTL customer relationships relied on Level 3 fair value inputs. Level 3 fair values are based on unobservable inputs. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date. With respect to the CTL customer relationships, the Level 3 inputs included the rate of retention of the current customers of CTL as of the valuation date, our transportation segment's historical customer retention rate and projected future revenues associated with the customers. The CTL customers expected to remain with us after the transaction were included in the valuation of the customer relationships. We are amortizing the customer relationship intangible assets over a period of seven years, using a modified straight-line approach. See Note 8 for further information regarding our intangible assets.

In connection with the acquisition, we entered into a finance lease agreement for an additional 40 trailers with a six year term. See Note 17 for further information regarding finance leases.

#### *Acquisition of Transportation Assets — EH Transport*

On April 10, 2019, we entered into a purchase and sale agreement with EH Transport, Inc. and affiliates (collectively, "EH Transport"), a Houston, Texas based bulk carrier trucking company, for the purchase of certain transportation assets. On May 6, 2019, we closed on the asset acquisition for approximately \$6.4 million, which consisted of \$5.6 million in cash after post-closing adjustments related to equipment qualifications, 11,145 of our common shares valued at \$0.4 million and contingent consideration valued at approximately \$0.4 million.

This acquisition added approximately 39 tractors and 51 trailers to our existing transportation fleet, and these assets were included in our transportation segment. This acquisition added new customers and new product lines to our transportation segment portfolio, which allows us to grow into new markets. As a result of the acquisition, in addition to general chemical products, we transport liquefied petroleum gas, asphalt and bleach for customers.

We incurred approximately \$0.1 million of acquisition costs in connection with this acquisition, which has been included in the allocation of the purchase price to the assets acquired.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)**


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The following table summarizes the consideration paid for the EH Transport assets and the estimated fair value of the assets acquired at the acquisition date (in thousands):

**Consideration:**

Cash .....	\$5,624
Value of AE common shares issued .....	392
Contingent consideration arrangement .....	<u>431</u>
Fair value of total consideration transferred .....	<u>\$6,447</u>

**Recognized amounts of identifiable assets acquired:**

Property and equipment — tractors and trailers .....	\$4,576
Shop, office and telecommunication equipment .....	20
Intangible assets — customer relationships .....	<u>1,851</u>
Total purchase price .....	<u>\$6,447</u>

The fair market value of the common shares issued in this transaction was determined based upon the closing share price of AE common stock on May 6, 2019 of \$35.15.

We assumed no liabilities in this acquisition. The estimated fair value of the acquired property and equipment was determined using the estimated market value of each type of asset. The estimated fair value of the acquired customer relationship intangible assets was determined using an income approach, specifically a discounted cash flow analysis. The income approach estimates the future benefits of the customer relationships and deducts the expenses incurred in servicing the relationships and the contributions from the other business assets to derive the future net benefits of these assets. The future net benefits are discounted back to present value using the appropriate discount rate, which results in the value of the customer relationships.

A customer relationship intangible asset is the relationship between EH Transport and various customers to whom we did not have a previous relationship. The customer relationships we acquired in this transaction provide us with access to those customers to whom we did not have a previous relationship and allows us to enter product markets in which we had not previously participated. Because of the highly competitive and fragmented transportation market, we believe access to these customers and product lines will provide us with an entry into new markets.

The discounted cash flow analysis used to estimate the fair value of the EH Transport customer relationships relied on Level 3 fair value inputs. Level 3 fair values are based on unobservable inputs. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date. With respect to the EH Transport customer relationships, the Level 3 inputs include the rate of retention of the current customers of EH Transport as of the valuation date, our transportation segment's historical customer retention rate and projected future revenues associated with the customers. The EH Transport customers expected to remain with us after the transaction were included in the valuation of the customer relationships. We are amortizing the customer relationship intangible assets over a period of seven years, using a modified straight-line approach. See Note 8 for further information regarding our intangible assets.

The purchase and sale agreement included a contingent consideration arrangement that required us to pay the former owner of the assets up to a quarterly maximum amount of \$146,875 (undiscounted) plus interest for the first four quarters following the closing date of the acquisition. The amount to be paid was based upon the number of qualified truck drivers that were employed by us at the end of each quarter. The potential undiscounted amount of all future payments that could be required to be paid under the contingent consideration arrangement was between \$0 and \$587,500. The fair value of the contingent consideration arrangement of \$0.4 million was estimated by applying an income valuation approach, which is based on Level 3 inputs, including the number of qualified truck drivers we expect will be employed at each payment date. At December 31, 2021, all amounts outstanding under the contingent consideration arrangement had been paid.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

### Note 7. Other Assets

Components of other assets were as follows at the dates indicated (in thousands):

	December 31,	
	2021	2020
Amounts associated with liability insurance program:		
Insurance collateral deposits . . . . .	\$ 721	\$ 714
Excess loss fund . . . . .	622	617
Accumulated interest income . . . . .	489	449
Other amounts:		
State collateral deposits . . . . .	36	31
Materials and supplies . . . . .	574	488
Debt issuance costs . . . . .	292	—
Other . . . . .	293	84
Total other assets . . . . .	<u>\$3,027</u>	<u>\$2,383</u>

We have established certain deposits to support participation in our liability insurance program and remittance of state crude oil severance taxes and other state collateral deposits. Insurance collateral deposits are held by the insurance company to cover past or potential open claims based upon a percentage of the maximum assessment under our insurance policies. Insurance collateral deposits are invested at the discretion of our insurance carrier. Excess amounts in our loss fund represent premium payments in excess of claims incurred to date that we may be entitled to recover through settlement or commutation as claim periods are closed. Interest income is earned on the majority of amounts held by the insurance companies and will be paid to us upon settlement of policy years.

### Note 8. Intangible Assets

The following table summarizes our intangible assets at the dates indicated (in thousands):

	December 31, 2021			December 31, 2020		
	Gross Value	Accumulated Amortization	Net	Gross Value	Accumulated Amortization	Net
Customer relationships:						
EH Transport acquisition . . . . .	\$1,703	\$ (765)	\$ 938	\$1,703	\$(500)	\$1,203
CTL acquisition . . . . .	3,173	(794)	2,379	3,173	(270)	2,903
Intangible assets, net . . . . .	<u>\$4,876</u>	<u>\$(1,559)</u>	<u>\$3,317</u>	<u>\$4,876</u>	<u>\$(770)</u>	<u>\$4,106</u>

We are amortizing the customer relationship intangible assets over a period of seven years, using a modified straight-line approach. During the years ended December 31, 2021, 2020 and 2019, we recorded \$0.8 million, \$0.6 million and \$0.2 million, respectively, of amortization expense related to these intangible assets. The following table presents our forecast of amortization expense associated with these intangible assets for the years indicated (in thousands):

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
EH Transport acquisition . . . . .	\$245	\$227	\$209	\$193	\$ 63
CTL acquisition . . . . .	492	460	428	413	397
Total . . . . .	<u>\$737</u>	<u>\$687</u>	<u>\$637</u>	<u>\$606</u>	<u>\$460</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

### Note 9. Segment Reporting

We operate and report in three business segments: (i) crude oil marketing, transportation and storage; (ii) tank truck transportation of liquid chemicals, pressurized gases, asphalt and dry bulk; and (iii) beginning in the fourth quarter of 2020, pipeline transportation, terminalling and storage of crude oil, which includes the pipeline and related terminal facility assets we acquired in October 2020 (see Note 6 for further information regarding our acquisition). Our business segments are generally organized and managed according to the types of services rendered. See Note 3 for a summary of the types of products and services from which each segment derives its revenues.

Our Chief Operating Decision Maker (“CODM”) (our Chief Executive Officer) evaluates segment performance based on measures including segment operating (losses) earnings and capital spending (property and equipment additions). Segment operating (losses) earnings is calculated as segment revenues less segment operating costs and depreciation and amortization expense.

Financial information by reporting segment was as follows for the periods indicated (in thousands):

	Reporting Segments				Total
	Crude Oil Marketing	Transportation	Pipeline and storage	Other	
<b>Year Ended December 31, 2021</b>					
Segment revenues <sup>(1)</sup> . . . . .	\$1,930,042	\$94,824	\$ 4,524	\$ —	\$2,029,390
Less: Intersegment revenues <sup>(1)</sup> . . . . .	—	(326)	(3,860)	—	(4,186)
Revenues . . . . .	<u>\$1,930,042</u>	<u>\$94,498</u>	<u>\$ 664</u>	<u>\$ —</u>	<u>\$2,025,204</u>
Segment operating (losses) earnings <sup>(2)</sup> . . . . .	25,243	7,104	(2,487)	—	29,860
Depreciation and amortization . . . . .	6,673	12,099	1,025	—	19,797
Property and equipment additions <sup>(3)(4)</sup> . . . . .	3,245	7,960	1,169	8	12,382
<b>Year Ended December 31, 2020</b>					
Segment revenues . . . . .	\$ 950,426	\$71,724	\$ 272	\$ —	\$1,022,422
Less: Intersegment revenues . . . . .	—	—	—	—	—
Revenues . . . . .	<u>\$ 950,426</u>	<u>\$71,724</u>	<u>\$ 272</u>	<u>\$ —</u>	<u>\$1,022,422</u>
Segment operating (losses) earnings <sup>(2)</sup> . . . . .	2,974	1,873	(310)	—	4,537
Depreciation and amortization . . . . .	7,421	10,963	189	—	18,573
Property and equipment additions <sup>(3)(4)</sup> . . . . .	3,130	1,355	—	523	5,008
<b>Year Ended December 31, 2019</b>					
Segment revenues . . . . .	\$1,748,056	\$63,191	\$ —	\$ —	\$1,811,247
Less: Intersegment revenues . . . . .	—	—	—	—	—
Revenues . . . . .	<u>\$1,748,056</u>	<u>\$63,191</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$1,811,247</u>
Segment operating (losses) earnings <sup>(2)</sup> . . . . .	16,099	1,899	—	—	17,998
Depreciation and amortization . . . . .	8,741	7,900	—	—	16,641
Property and equipment additions <sup>(3)(4)</sup> . . . . .	7,249	28,472	—	22	35,743

<sup>(1)</sup> Segment revenues include intersegment amounts that are eliminated in operating costs and expenses in our consolidated statements of operations. Intersegment activities are conducted at posted tariff rates where applicable, or otherwise at rates similar to those charged to third parties or rates that we believe approximate market at the time the agreement is executed.

<sup>(2)</sup> Our crude oil marketing segment’s operating earnings included net inventory liquidation gains of \$10.3 million, net inventory valuation losses of \$15.0 million, and net inventory liquidation gains of \$3.7 million for the years ended December 31, 2021, 2020 and 2019, respectively.

<sup>(3)</sup> Our segment property and equipment additions do not include assets acquired under finance leases during the years ended December 31, 2021, 2020 and 2019. See Note 17 for further information.

<sup>(4)</sup> Amounts included in property and equipment additions for Other are additions for leasehold improvements and computer equipment at our corporate headquarters, which were not attributed or allocated to any of our reporting segments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

Segment operating earnings reflect revenues net of operating costs and depreciation and amortization expense and are reconciled to earnings (losses) before income taxes, as follows for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Segment operating earnings . . . . .	\$ 29,860	\$ 4,537	\$ 17,998
General and administrative . . . . .	(13,701)	(10,284)	(10,198)
Operating earnings (losses) . . . . .	16,159	(5,747)	7,800
Gain on dissolution of investment . . . . .	—	—	573
Interest income . . . . .	243	656	2,766
Interest expense . . . . .	(746)	(444)	(636)
Earnings (losses) before income taxes . . . . .	<u>\$ 15,656</u>	<u>\$ (5,535)</u>	<u>\$ 10,503</u>

Identifiable assets by industry segment were as follows at the dates indicated (in thousands):

	December 31,		
	2021	2020	2019
Reporting segment:			
Marketing . . . . .	\$162,770	\$128,441	\$141,402
Transportation . . . . .	67,167	72,247	58,483
Pipeline and storage . . . . .	25,569	24,541	—
Cash and other <sup>(1)</sup> . . . . .	<u>119,197</u>	<u>70,958</u>	<u>130,957</u>
Total assets . . . . .	<u>\$374,703</u>	<u>\$296,187</u>	<u>\$330,842</u>

<sup>(1)</sup> Other identifiable assets are primarily corporate cash, corporate accounts receivable, properties and operating lease right-of-use assets not identified with any specific segment of our business.

All of our property and equipment is located in the U.S. Substantially all of our consolidated revenues are earned in the U.S. and derived from a wide customer base. Accounting policies for transactions between business segments are consistent with applicable accounting policies as disclosed herein.

### Note 10. Transactions with Affiliates

We enter into certain transactions in the normal course of business with affiliated entities including direct cost reimbursement for shared phone and administrative services from KSA Industries, Inc. (“KSA”), an affiliated entity. We lease our corporate office space in a building operated by 17 South Briar Hollow Lane, LLC, an affiliate of KSA.

Activities with affiliates were as follows for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Affiliate billings to us . . . . .	\$ 13	\$ 18	\$ 83
Billings to affiliates . . . . .	14	5	5
Rentals paid to affiliate . . . . .	605	644	487

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

During the year ended December 31, 2021, we paid West Point Buick GMC, an affiliate of KSA, a total of approximately \$0.5 million (net of trade-in values) for the purchase of twelve pickup trucks.

### Note 11. Other Current Liabilities

The components of other current liabilities were as follows at the dates indicated (in thousands):

	December 31,	
	2021	2020
Accrued purchase price for VEX acquisition (see Note 6) . . . . .	\$ —	\$10,000
Accrual for payroll, benefits and bonuses . . . . .	5,210	6,575
Accrued automobile and workers' compensation claims. . . . .	4,127	3,171
Accrued medical claims . . . . .	1,100	915
Accrued taxes . . . . .	534	772
Other . . . . .	651	910
Total other current liabilities. . . . .	<u>\$11,622</u>	<u>\$22,343</u>

### Note 12. Credit Agreement

On May 4, 2021, we entered into a Credit Agreement (“Credit Agreement”) with Wells Fargo Bank, National Association, as Agent and Issuing Lender, under which we may borrow or issue letters of credit in an aggregate of up to \$40.0 million under a revolving credit facility (the “Revolving Credit Facility”), which will mature on May 4, 2024, subject to our compliance with certain financial covenants. At December 31, 2021, we had no borrowings outstanding under the Credit Agreement and \$6.1 million of letters of credit issued under the Credit Agreement at a fee of 1.75 percent per annum.

For each borrowing under the Revolving Credit Facility, we can elect whether the loans bear interest at (i) the Base Rate plus Applicable Margin; or (ii) the LIBOR Rate plus Applicable Margin. Base Rate is the highest of (a) the Prime Rate, (b) the Federal Funds Rate, plus 0.50 percent and (c) LIBOR for an interest period of three months plus 1.00 percent. The Applicable Margin to be added to a Base Rate borrowing is 0.75 percent. The LIBOR Rate is (x) LIBOR (which shall not be less than 1.00 percent) divided by (y) 1.00 minus the Eurodollar Reserve Percentage. The Applicable Margin to be added to a LIBOR borrowing is 1.75 percent. A commitment fee of 0.25 percent per annum will accrue on the daily average unused amount of the commitments under the Revolving Credit Facility.

Under the Credit Agreement, we are required to maintain compliance with the following financial covenants on a pro forma basis, after giving effect to any borrowings (in each case commencing with the fiscal quarter ending June 30, 2021): (i) the Consolidated Total Leverage Ratio, which is the ratio of (a) Consolidated Funded Indebtedness on such date to (b) Consolidated EBITDA for the most recently completed Reference Period shall not be greater than 3.00 to 1.00; (ii) the Current Ratio, which is (a) consolidated current assets to (b) consolidated current liabilities, in each case with certain exclusions, shall not be less than 1.25 to 1.00; (iii) Consolidated Interest Coverage Ratio, which is the ratio of (a) Consolidated EBITDA for the most recently completed Reference Period to (b) Consolidated Interest Expense for the most recently completed Reference Period shall be not be less than 3.00 to 1.00; and (iv) the Consolidated Tangible Net Worth, which is (a) our shareholders' equity as shown on our consolidated statement of financial position, with certain exclusions, minus (b) all goodwill and intangible assets as of such date, shall not be less than \$100.0 million. The Reference Period is the most recently completed four consecutive fiscal quarters.

Consolidated EBITDA is defined under the Credit Agreement as: (a) Consolidated Net Income for such period plus (b) the sum of the following, without duplication, to the extent deducted in determining Consolidated Net Income for such period: (i) Consolidated Interest Expense; (ii) expense for taxes measured by net income, profits or capital (or any similar measures), paid or accrued, including federal and state and local income taxes,

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)**

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foreign income taxes and franchise taxes; and (iii) depreciation, amortization and other non-cash charges or expenses, excluding any non-cash charge or expense that represents an accrual for a cash expense to be taken in a future period; less (c) the sum of the following, without duplication, to the extent included in determining Consolidated Net Income for such period: (i) interest income, (ii) federal, state, local and foreign income tax credits us and our subsidiaries for such period (to the extent not netted from income tax expense); (iii) any unusual and non-recurring gains; (iv) non-cash gains or non-cash items; and (v) any cash expense made during such period which represents the reversal of any non-cash expense that was added in a prior period pursuant to clause (b)(iii) above subsequent to the fiscal quarter in which the relevant non-cash expenses, charges or losses were incurred.

The Credit Agreement contains certain customary representations and warranties and affirmative and negative covenants. The affirmative covenants require us to provide the lenders with certain financial statements, business plans, compliance certificates and other documents and reports and to comply with certain laws. The negative covenants restrict each of the borrowers' ability to incur additional indebtedness, create additional liens on its assets, make certain investments, dispose of its assets or engage in a merger or other similar transaction or engage in transactions with affiliates, subject, in each case, to the various exceptions and conditions described in the Credit Agreement. The negative covenants further restrict our ability to make certain restricted payments.

Our obligations under the Credit Agreement are secured by a pledge of substantially all of our personal property and substantially all of the personal property of certain of our other direct and indirect subsidiaries.

At December 31, 2021, we were in compliance with all covenants under the Credit Agreement. We incurred \$0.3 million of debt issuance costs, which are included in other assets and are being amortized to interest expense over the term of the Credit Agreement.

### **Note 13. Derivative Instruments and Fair Value Measurements**

#### *Derivative Instruments*

At December 31, 2021, we had in place four commodity purchase and sale contracts, of which two had a fair value associated with them as the contractual prices of crude oil were outside the range of prices specified in the agreements. These commodity purchase and sale contracts encompass approximately 324 barrels per day of crude oil during January 2022 through December 2022.

At December 31, 2020, we had in place six commodity purchase and sale contracts, of which three had a fair value associated with them as the contractual prices of crude oil were outside the range of prices specified in the agreements. These commodity purchase and sale contracts encompassed approximately 192 barrels per day of crude oil during January 2021 through December 2021.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

The estimated fair value of forward month commodity contracts (derivatives) reflected in the accompanying consolidated balance sheets were as follows at the dates indicated (in thousands):

	Balance Sheet Location and Amount			
	Current Assets	Other Assets	Current Liabilities	Other Liabilities
<b>December 31, 2021</b>				
Asset derivatives:				
Fair value forward hydrocarbon commodity contracts at gross valuation . . . . .	\$347	\$—	\$ —	\$—
Liability derivatives:				
Fair value forward hydrocarbon commodity contracts at gross valuation . . . . .	—	—	324	—
Less counterparty offsets . . . . .	—	—	—	—
As reported fair value contracts . . . . .	<u>\$347</u>	<u>\$—</u>	<u>\$324</u>	<u>\$—</u>
<b>December 31, 2020</b>				
Asset derivatives:				
Fair value forward hydrocarbon commodity contracts at gross valuation . . . . .	\$ 61	\$—	\$ —	\$—
Liability derivatives:				
Fair value forward hydrocarbon commodity contracts at gross valuation . . . . .	—	—	52	—
Less counterparty offsets . . . . .	—	—	—	—
As reported fair value contracts . . . . .	<u>\$ 61</u>	<u>\$—</u>	<u>\$ 52</u>	<u>\$—</u>

We only enter into commodity contracts with creditworthy counterparties and evaluate our exposure to significant counterparties on an ongoing basis. At December 31, 2021 and 2020, we were not holding nor have we posted any collateral to support our forward month fair value derivative activity. We are not subject to any credit-risk related trigger events. We have no other financial investment arrangements that would serve to offset our derivative contracts.

Forward month commodity contracts (derivatives) reflected in the accompanying consolidated statements of operations were as follows for the periods indicated (in thousands):

	Gains (Losses)		
	Year Ended December 31,		
	2021	2020	2019
Revenues – marketing . . . . .	\$14	\$9	\$(24)

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)**


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*Fair Value Measurements*

The following table reflects, by level with the Level 1, 2 and 3 fair value hierarchy, the carrying values of our financial assets and liabilities at the dates indicated (in thousands):

	<u>Fair Value Measurements Using</u>				<u>Total</u>
	<u>Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Counterparty Offsets</u>	
<b><u>December 31, 2021</u></b>					
Derivatives:					
Current assets .....	\$—	\$ 347	\$—	\$—	\$ 347
Current liabilities .....	—	(324)	—	—	(324)
Net value .....	<u>\$—</u>	<u>\$ 23</u>	<u>\$—</u>	<u>\$—</u>	<u>\$ 23</u>
 <b><u>December 31, 2020</u></b>					
Derivatives:					
Current assets .....	\$—	\$ 61	\$—	\$—	\$ 61
Current liabilities .....	—	(52)	—	—	(52)
Net value .....	<u>\$—</u>	<u>\$ 9</u>	<u>\$—</u>	<u>\$—</u>	<u>\$ 9</u>

These assets and liabilities are measured on a recurring basis and are classified based on the lowest level of input used to estimate their fair value. Our assessment of the relative significance of these inputs requires judgments.

When determining fair value measurements, we make credit valuation adjustments to reflect both our own nonperformance risk and our counterparty's nonperformance risk. When adjusting the fair value of derivative contracts for the effect of nonperformance risk, we consider the impact of netting and any applicable credit enhancements. Credit valuation adjustments utilize Level 3 inputs, such as credit scores to evaluate the likelihood of default by us or our counterparties. At December 31, 2021 and 2020, credit valuation adjustments were not significant to the overall valuation of our fair value contracts. As a result, applicable fair value assets and liabilities are included in their entirety in the fair value hierarchy.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

### Note 14. Income Taxes

The components of our income tax (provision) benefit were as follows for the periods indicated (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current:			
Federal .....	\$(4,811)	\$13,246	\$ 164
State .....	(358)	(327)	(375)
Total current.....	<u>(5,169)</u>	<u>12,919</u>	<u>(211)</u>
Deferred:			
Federal .....	1,347	(6,631)	(2,063)
State .....	54	242	(22)
Total deferred.....	<u>1,401</u>	<u>(6,389)</u>	<u>(2,085)</u>
Total (provision for) benefit from income taxes .....	<u><u>\$(3,768)</u></u>	<u><u>\$ 6,530</u></u>	<u><u>\$(2,296)</u></u>

A reconciliation of the (provision for) benefit from income taxes with amounts determined by applying the statutory U.S. federal income tax rate to income before income taxes was as follows for the periods indicated (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Pre-tax net book income (loss) .....	\$15,656	\$(5,535)	\$10,503
Statutory federal income tax (provision) benefit .....	\$ (3,288)	\$ 1,162	\$ (2,206)
State income tax provision .....	(224)	(16)	(397)
2018/2019 carryback .....	—	2,664	—
2020 carryback.....	—	2,642	—
Return to provision adjustments .....	(88)	13	285
Other.....	(168)	65	22
Total (provision for) benefit from income taxes .....	<u><u>\$(3,768)</u></u>	<u><u>\$ 6,530</u></u>	<u><u>\$(2,296)</u></u>
Effective income tax rate <sup>(1)</sup> .....	<u><u>24%</u></u>	<u><u>118%</u></u>	<u><u>22%</u></u>

<sup>(1)</sup> Excluding the adjustment related to the carryback of the 2018, 2019 and 2020 net operating losses, the effective income tax rate for the year ended December 31, 2020 was 22 percent.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

Deferred income taxes reflect the net difference between the financial statement carrying amounts and the underlying income tax basis in these items. The components of the federal deferred tax asset (liability) were as follows at the dates indicated (in thousands):

	December 31,	
	2021	2020
Long-term deferred tax asset (liability):		
Prepaid and other insurance.....	\$ (832)	\$ (861)
Property.....	(11,682)	(12,807)
Investment in unconsolidated affiliate.....	525	525
Valuation allowance related to investment in unconsolidated affiliate . . . .	(525)	(525)
Net operating loss.....	621	536
Other.....	<u>586</u>	<u>423</u>
Net long-term deferred tax liability.....	<u>(11,307)</u>	<u>(12,709)</u>
Net deferred tax liability . . . . .	<u><u>\$(11,307)</u></u>	<u><u>\$(12,709)</u></u>

Financial statement recognition and measurement of positions taken, or expected to be taken, by an entity in its income tax returns must consider the uncertainty and judgment involved in the determination and filing of income taxes. Tax positions taken in an income tax return that are recognized in the financial statements must satisfy a more-likely-than-not recognition threshold, assuming that the tax position will be examined by taxing authorities with full knowledge of all relevant information. We have no significant unrecognized tax benefits. Interest and penalties associated with income tax liabilities are classified as income tax expense.

The earliest tax years remaining open for audit for federal and major states of operations are as follows:

	Earliest Open Tax Year
Federal.....	2015
Texas.....	2017
Louisiana.....	2018
Michigan.....	2017

### Note 15. Stock-Based Compensation Plan

In May 2018, our shareholders approved the 2018 LTIP, a long-term incentive plan under which any employee or non-employee director who provides services to us is eligible to participate in the plan. The 2018 LTIP, which is overseen by the Compensation Committee of our Board of Directors, provides for the grant of various types of equity awards, of which restricted stock unit awards and performance-based compensation awards have been granted. The maximum number of shares authorized for issuance under the 2018 LTIP is 150,000 shares, and the 2018 LTIP is effective until May 8, 2028. We began awarding stock-based compensation to eligible employees and directors in June 2018. After giving effect to awards granted and forfeitures made under the 2018 LTIP, and the achievement of performance factors through December 31, 2021, a total of 55,809 shares were available for issuance.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

Compensation expense recognized in connection with equity-based awards was as follows for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Compensation expense .....	\$854	\$643	\$478

If dividends are paid with respect to our common shares during the vesting period, an equivalent amount will accrue and be held by us without interest until the restricted stock unit awards and performance share unit awards vest, at which time the amount will be paid to the recipient. If the award is forfeited prior to vesting, the accrued dividends will also be forfeited. At December 31, 2021 and 2020, we had \$82,500 and \$50,800, respectively, of accrued dividend amounts for awards granted under the 2018 LTIP.

### *Restricted Stock Unit Awards*

A restricted stock unit award is a grant of a right to receive our common shares in the future at no cost to the recipient apart from fulfilling service and other conditions once a defined vesting period expires, subject to customary forfeiture provisions. A restricted stock unit award will either be settled by the delivery of common shares or by the payment of cash based upon the fair market value of a specified number of shares, at the discretion of the Compensation Committee, subject to the terms of the applicable award agreement. The Compensation Committee intends for these awards to vest with the settlement of common shares. Restricted stock unit awards generally vest at a rate of approximately 33 percent per year beginning one year after the grant date and are non-vested until the required service periods expire.

The fair value of a restricted stock unit award is based on the market price per share of our common shares on the date of grant. Compensation expense is recognized based on the grant date fair value over the requisite service or vesting period.

The following table presents restricted stock unit award activity for the periods indicated:

	Number of Shares	Weighted- Average Grant Date Fair Value per Share <sup>(1)</sup>
Restricted stock unit awards at January 1, 2019 .....	13,733	\$43.00
Granted <sup>(2)</sup> .....	14,376	\$34.00
Vested .....	(7,188)	\$41.90
Forfeited .....	(2,139)	\$38.42
Restricted stock unit awards at December 31, 2019 .....	18,782	\$37.05
Granted <sup>(3)</sup> .....	20,346	\$24.85
Vested .....	(9,578)	\$36.36
Forfeited .....	(2,060)	\$30.07
Restricted stock unit awards at December 31, 2020 .....	27,490	\$28.64
Granted <sup>(4)</sup> .....	26,369	\$29.70
Vested .....	(14,244)	\$30.20
Forfeited .....	(1,350)	\$28.92
Restricted stock unit awards at December 31, 2021 .....	38,265	\$28.78

<sup>(1)</sup> Determined by dividing the aggregate grant date fair value of awards by the number of awards issued.

<sup>(2)</sup> The aggregate grant date fair value of restricted stock unit awards issued during 2019 was \$0.5 million based on a grant date market price of our common shares of \$34.00 per share.

<sup>(3)</sup> The aggregate grant date fair value of restricted stock unit awards issued during 2020 was \$0.5 million based on grant date market prices of our common shares ranging from \$24.77 to \$26.23 per share.

<sup>(4)</sup> The aggregate grant date fair value of restricted stock unit awards issued during 2021 was \$0.8 million based on grant date market prices of our common shares ranging from \$29.70 to \$30.00 per share.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

Unrecognized compensation cost associated with restricted stock unit awards was approximately \$0.4 million at December 31, 2021. Due to the graded vesting provisions of these awards, we expect to recognize the remaining compensation cost for these awards over a weighted-average period of 1.4 years.

### *Performance Share Unit Awards*

An award granted as performance-based compensation is awarded to a participant contingent upon attainment of our future performance goals during a performance cycle. Performance goals are pre-established by the Compensation Committee. Following the end of the performance period, the holder of a performance-based compensation award is entitled to receive payment of an amount not exceeding the number of shares of common stock subject to, or the maximum value of, the performance-based compensation award, based on the achievement of the performance measures for the performance period. The performance share unit awards generally vest in full approximately three years after grant date, and are non-vested until the required service period expires.

The fair value of a performance share unit award is based on the market price per share of our common shares on the date of grant. Compensation expense is recognized based on the grant date fair value over the requisite service or vesting period. Compensation expense is generally adjusted for the performance goals on a quarterly basis.

The following table presents performance share unit award activity for the periods indicated:

	Number of Shares	Weighted- Average Grant Date Fair Value per Share <sup>(1)</sup>
Performance share unit awards at January 1, 2019 . . . . .	3,966	\$43.00
Granted <sup>(2)</sup> . . . . .	8,094	\$34.00
Performance factor decrease <sup>(3)</sup> . . . . .	(7,312)	\$34.23
Vested . . . . .	(416)	\$43.00
Forfeited . . . . .	<u>(1,545)</u>	\$37.37
Performance share unit awards at December 31, 2019 . . . . .	2,787	\$43.00
Granted <sup>(4)</sup> . . . . .	10,781	\$24.92
Performance factor increase <sup>(3)</sup> . . . . .	3,981	\$24.92
Vested . . . . .	(713)	\$28.55
Forfeited . . . . .	<u>(595)</u>	\$30.22
Performance share unit awards at December 31, 2020 . . . . .	16,241	\$27.67
Granted <sup>(5)</sup> . . . . .	12,205	\$29.70
Performance factor decrease <sup>(3)</sup> . . . . .	(4,493)	\$29.70
Vested . . . . .	(2,461)	\$43.00
Forfeited . . . . .	<u>—</u>	\$ —
Performance share unit awards at December 31, 2021 . . . . .	<u>21,492</u>	\$26.64

<sup>(1)</sup> Determined by dividing the aggregate grant date fair value of awards by the number of awards issued.

<sup>(2)</sup> The aggregate grant date fair value of performance share unit awards issued during 2019 was \$0.3 million based on a grant date market price of our common shares of \$34.00 per share and assuming a performance factor of 100 percent.

<sup>(3)</sup> The performance factor for awards granted in 2019 was lowered to 0 percent based on a comparison of actual results for 2019 to performance goals. The performance factor for awards granted in 2020 was increased to 138.5 percent based upon a comparison of actual results for 2020 to performance goals. The performance factor for awards granted in 2021 decreased to 63.1 percent based upon a comparison of actual results for 2021 to performance goals.

<sup>(4)</sup> The aggregate grant date fair value of performance share unit awards issued during 2020 was \$0.2 million based on grant date market prices of our common shares ranging from \$24.77 to \$26.23 per share and assuming a performance factor of 100 percent.

<sup>(5)</sup> The aggregate grant date fair value of performance share unit awards issued during 2021 was \$0.4 million based on a grant date market price of our common shares of \$29.70 per share and assuming a performance factor of 100 percent.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

Unrecognized compensation cost associated with performance share unit awards was approximately \$0.3 million at December 31, 2021. We expect to recognize the remaining compensation cost for these awards over a weighted-average period of 1.7 years.

### Note 16. Supplemental Cash Flow Information

Supplemental cash flows and non-cash transactions were as follows for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Cash paid for interest . . . . .	\$ 746	\$ 444	\$ 636
Cash paid for federal and state income taxes . . . . .	2,251	418	234
Cash refund for NOL carryback under CARES Act . . . . .	3,712	2,703	—
Non-cash transactions:			
Change in accounts payable related to property and equipment additions . . . . .	—	(1,237)	(448)
Property and equipment acquired under finance leases . . . . .	2,083	11,412	4,148
Issuance of common shares in asset acquisition (see Note 6) . . . . .	—	—	392
Receivable for sale of property and equipment . . . . .	—	—	952

See Note 17 for information related to non-cash transactions related to leases.

### Note 17. Leases

We account for leases under ASC 842, *Leases*, which requires lessees to recognize a ROU asset and a corresponding lease liability for leases with terms longer than twelve months. We determine if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets, current liabilities and long-term operating lease liabilities in the consolidated balance sheets. Finance leases are included in property and equipment, current liabilities and long-term finance lease liabilities in the consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. For determining the present value of lease payments, we use the discount rate implicit in the lease when readily determinable. As most of our leases do not provide an implicit rate, we use an incremental borrowing rate in determining the present value of lease payments that approximates the rate of interest we would have to pay to borrow on a collateralized basis over a similar term. At adoption, the ROU asset also includes any lease payment made and excludes lease incentives and initial direct costs. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

We are a lessee in noncancellable (i) operating leases for office space, equipment and lease and terminal access contracts for tank storage and dock access for our crude oil marketing business, and (ii) finance leases for tractors, trailers, a tank storage and throughput arrangement in our crude oil marketing business and office equipment. Leases with an initial term of twelve months or less are not recorded on the balance sheet. Our lease agreements have remaining lease terms ranging from one year to approximately eight years. Five of our finance lease agreements for tractors and trailers contain residual value guarantee provisions, which would become due at the expiration of the finance lease if the fair value of the lease vehicles is less than the guaranteed residual value. At December 31, 2021, we have recorded a liability of \$2.2 million for the estimated end of term loss related to these residual value guarantees as we expect that we will pay the full amount of the guarantees at the end of the leases.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

Our lease agreements do not contain any leases with material variable lease payments (i.e., payments that depend on a percentage of sales of a lessee or payments that increase based upon an index such as CPI), residual value guarantees probable of being paid other than those noted above or material restrictive covenants. Lease agreements with lease and non-lease components are generally accounted for separately when practical. For leases where the lease and non-lease component are comingled and the non-lease component is determined to be insignificant when compared to the lease component, the lease and the non-lease components are treated as a single lease component for all asset classes.

Some leases include one or more options to renew, with renewal terms that can extend the lease term for generally one year with exercise of lease renewal options being at our sole discretion as lessee.

The following table provides the components of lease expense for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Finance lease cost:			
Amortization of ROU assets . . . . .	\$ 4,744	\$ 2,547	\$ 1,807
Interest on lease liabilities . . . . .	413	300	295
Operating lease cost . . . . .	2,560	2,718	2,933
Short-term lease cost . . . . .	13,880	11,020	9,627
Variable lease cost . . . . .	7	—	—
Total lease expense . . . . .	<u>\$21,604</u>	<u>\$16,585</u>	<u>\$14,662</u>

The following table provides supplemental cash flow and other information related to leases for the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Cash paid for amounts included in measurement of lease liabilities:			
Operating cash flows from operating leases <sup>(1)</sup> . . . . .	\$2,560	\$ 2,717	\$ 2,934
Operating cash flows from finance leases . . . . .	326	291	295
Financing cash flows from finance leases . . . . .	4,367	2,336	1,697
ROU assets obtained in exchange for new lease liabilities:			
Finance leases <sup>(2)</sup> . . . . .	2,083	11,412	4,148
Operating leases . . . . .	1,385	819	12,006

<sup>(1)</sup> Amounts are included in Other operating activities on the consolidated cash flow statements.

<sup>(2)</sup> 2020 amount consists of a finance lease agreements for 58 tractors with five year terms, 40 trailers with a six year term that we entered into in connection with the CTL acquisition (see Note 6 for further information) and other office equipment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

The following table provides lease terms and discount rates for the periods indicated:

	<u>Year Ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Weighted-average remaining lease term (years):			
Finance leases . . . . .	3.60	4.16	3.03
Operating leases . . . . .	3.85	4.57	4.78
Weighted-average discount rate:			
Finance leases . . . . .	2.6%	3.0%	4.9%
Operating leases . . . . .	3.8%	4.3%	5.0%

The following table provides supplemental balance sheet information related to leases at the dates indicated (in thousands):

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
Finance lease ROU assets <sup>(1)</sup> . . . . .	\$12,590	\$15,251
Operating lease ROU assets . . . . .	7,113	8,051
<b>Liabilities</b>		
<i>Current</i>		
Finance lease liabilities . . . . .	3,663	4,112
Operating lease liabilities . . . . .	2,178	2,050
<i>Noncurrent</i>		
Finance lease liabilities . . . . .	9,672	11,507
Operating lease liabilities . . . . .	4,938	6,000

<sup>(1)</sup> Amounts are included in Property and equipment, net on the consolidated balance sheets.

The following table provides maturities of undiscounted lease liabilities at December 31, 2021 (in thousands):

	<u>Finance Lease</u>	<u>Operating Lease</u>
2022 . . . . .	\$ 3,941	\$ 2,399
2023 . . . . .	3,143	2,080
2024 . . . . .	2,348	1,911
2025 . . . . .	3,771	394
2026 . . . . .	801	333
Thereafter . . . . .	—	455
Total lease payments . . . . .	14,004	7,572
Less: Interest . . . . .	(669)	(456)
Present value of lease liabilities . . . . .	13,335	7,116
Less: Current portion of lease obligation . . . . .	(3,663)	(2,178)
Total long-term lease obligation . . . . .	<u>\$ 9,672</u>	<u>\$ 4,938</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)**


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The following table provides maturities of undiscounted lease liabilities at December 31, 2020 (in thousands):

	<u>Finance Lease</u>	<u>Operating Lease</u>
2021 .....	\$ 4,496	\$ 2,343
2022 .....	3,562	2,002
2023 .....	2,764	1,821
2024 .....	1,969	1,700
2025 .....	2,992	222
Thereafter .....	<u>802</u>	<u>675</u>
Total lease payments .....	16,585	8,763
Less: Interest .....	<u>(966)</u>	<u>(713)</u>
Present value of lease liabilities .....	15,619	8,050
Less: Current portion of lease obligation .....	<u>(4,112)</u>	<u>(2,050)</u>
Total long-term lease obligation .....	<u>\$11,507</u>	<u>\$ 6,000</u>

## Note 18. Commitments and Contingencies

### *Insurance*

We have accrued liabilities for estimated workers' compensation and other casualty claims incurred based upon claim reserves plus an estimate for loss development and incurred but not reported claims. We self-insure a significant portion of expected losses relating to workers' compensation, general liability and automobile liability, with a self-insured retention of \$1.0 million. Insurance is purchased over our retention to reduce our exposure to catastrophic events. Estimates are recorded for potential and incurred outstanding liabilities for workers' compensation, auto and general liability claims and claims that are incurred but not reported. Estimates are based on adjusters' estimates, historical experience and statistical methods commonly used within the insurance industry that we believe are reliable. We have also engaged a third-party actuary to perform a review of our accrued liability for these claims as well as potential funded losses in our captive insurance company. Insurance estimates include certain assumptions and management judgments regarding the frequency and severity of claims, claim development and settlement practices and the selection of estimated loss among estimates derived using different methods. Unanticipated changes in these factors may produce materially different amounts of expense that would be reported under these programs.

On October 1, 2020, we elected to utilize a wholly owned insurance captive to insure the self-insured retention for our workers' compensation, general liability and automobile liability insurance programs. All accrued liabilities associated with periods from October 1, 2017 through current were transferred to the captive.

We maintain excess property and casualty programs with third-party insurers in an effort to limit the financial impact of significant events covered under these programs. Our operating subsidiaries pay premiums to both the excess and reinsurance carriers and our captive for the estimated losses based on an external actuarial analysis. These premiums held by our wholly owned captive are currently held in a restricted account, resulting in a transfer of risk from our operating subsidiaries to the captive.

We also maintain a self-insurance program for managing employee medical claims in excess of employee deductibles. As claims are paid, the liability is relieved. We also maintain third party insurance stop-loss coverage for individual medical claims exceeding a certain minimum threshold. In addition, we maintain \$1.2 million of umbrella insurance coverage for annual aggregate medical claims exceeding approximately \$11.5 million.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)**


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Our accruals for automobile, workers' compensation and medical claims were as follows at the dates indicated (in thousands):

	December 31,	
	2021	2020
Pre-funded premiums for losses incurred but not reported . . . . .	\$ 50	\$ 55
Accrued automobile and workers' compensation claims . . . . .	4,127	3,171
Accrued medical claims . . . . .	1,100	915

### *Litigation*

From time to time as incidental to our operations, we may become involved in various lawsuits and/or disputes. Primarily as an operator of an extensive trucking fleet, we are a party to motor vehicle accidents, worker compensation claims and other items of general liability as would be typical for the industry. We are presently unaware of any claims against us that are either outside the scope of insurance coverage or that may exceed the level of insurance coverage and could potentially represent a material adverse effect on our financial position, results of operations or cash flows.

### *Guarantees*

We issue parent guarantees of commitments associated with the activities of our subsidiary companies. The guarantees generally result from subsidiary commodity purchase obligations, subsidiary operating lease commitments and subsidiary banking transactions. The nature of these arrangements is to guarantee the performance of the subsidiary in meeting their respective underlying obligations. We would only be called upon to perform under the guarantee in the event of a payment default by the applicable subsidiary company. In satisfying these obligations, we would first look to the assets of the defaulting subsidiary company.

At December 31, 2021, parental guaranteed obligations were approximately \$24.1 million. Currently, neither we nor any of our subsidiaries has any other types of guarantees outstanding that require liability recognition, except for the residual value guarantees for certain of our finance leases (see Note 17 for further discussion).

## **Note 19. Concentration of Credit Risk**

We may incur credit risk to the extent our customers do not fulfill their obligations to us pursuant to contractual terms. Risks of nonpayment and nonperformance by our customers are a major consideration in our business, and our credit procedures and policies may not be adequate to sufficiently eliminate customer credit risk. Managing credit risk involves a number of considerations, such as the financial profile of the customer, the value of collateral held, if any, specific terms and duration of the contractual agreement, and the customer's sensitivity to economic developments. We have established various procedures to manage credit exposure, including initial credit approval, credit limits and rights of offset. We also utilize letters of credit and guarantees to limit exposure.

Our largest customers consist of large multinational integrated crude oil companies and independent domestic refiners of crude oil. In addition, we transact business with independent crude oil producers, major chemical companies, crude oil trading companies and a variety of commercial energy users. Within this group of customers, we derive approximately 50 percent of our revenues from four to five large crude oil refining customers. While we have ongoing established relationships with certain domestic refiners of crude oil, alternative markets are readily available since we supply less than one percent of U.S. domestic refiner demand. As a fungible commodity delivered to major Gulf Coast supply points, our crude oil sales can be readily delivered to alternative end markets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

The following tables reflect the percentages of individual customer sales in excess of 10 percent of our consolidated revenues and individual customer receivables in excess of 10 percent of our total consolidated receivables for the periods indicated. We believe that a loss of any of the customers where we currently derive more than 10 percent of our revenues would not have a material adverse effect on our operations.

Individual customer sales in excess of 10% of revenues			Individual customer receivables in excess of 10% of total receivables		
Year Ended December 31,			December 31,		
2021	2020	2019	2021	2020	2019
23.7%	24.0%	37.3%	11.5%	11.3%	16.6%
11.6%	10.8%	11.4%	— %	10.9%	12.6%
			— %	10.7%	
			17.0%	10.4%	
			12.6%		

### Note 20. Quarterly Financial Information (Unaudited)

The following table presents selected quarterly financial data for the periods indicated (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Year Ended December 31, 2021</b>				
Revenues . . . . .	\$325,491	\$486,744	\$568,181	\$644,788
Operating earnings . . . . .	3,851	6,335	2,301	3,672
Net earnings . . . . .	2,808	4,709	1,546	2,825
<b>Earnings per share:<sup>(1)</sup></b>				
Basic net earnings per share . . . . .	\$ 0.66	\$ 1.11	\$ 0.36	\$ 0.65
Diluted net earnings per share . . . . .	\$ 0.66	\$ 1.10	\$ 0.36	\$ 0.64
<b>Year Ended December 31, 2020</b>				
Revenues . . . . .	\$353,477	\$152,286	\$266,904	\$249,755
Operating (losses) earnings <sup>(2)</sup> . . . . .	(19,940)	2,935	6,056	5,202
Net (losses) earnings . . . . .	(11,427)	3,503	3,073	5,846
<b>Earnings (losses) per share:<sup>(1)</sup></b>				
Basic net (losses) earnings per share . . . . .	\$ (2.70)	\$ 0.83	\$ 0.72	\$ 1.38
Diluted net (losses) earnings per share . . . . .	\$ (2.69)	\$ 0.82	\$ 0.72	\$ 1.37

<sup>(1)</sup> The sum of our quarterly earnings (losses) per share amounts may not equal our full year amounts due to slight rounding differences.

<sup>(2)</sup> The first quarter of 2020 includes inventory valuation losses of approximately \$24.2 million in our crude oil marketing segment.

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## Report of Independent Registered Public Accounting Firm

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To the Shareholders and Board of Directors  
Adams Resources & Energy, Inc.:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Adams Resources & Energy, Inc. and subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, 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 U.S. generally accepted accounting principles.

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, and our report dated March 9, 2022 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 was 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 matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### *Measurement of accrued liabilities for automobile and workers' compensation claims*

As discussed in Note 18 to the consolidated financial statements, the Company establishes accrued liabilities for automobile and workers' compensation claims reported plus an estimate for loss development and potential claims that have been incurred but not reported to the Company or its insurance provider. The

estimates are based on insurance adjusters' estimates, historical experience and statistical methods commonly used within the insurance industry. The Company retains a third-party actuary to review its accrued liabilities for such claims. As of December 31, 2021, the accrued liabilities for automobile and workers' compensation were \$4.1 million.

We identified the assessment of the accrued liabilities for automobile and workers' compensation claims that have been incurred but not reported as a critical audit matter. Specialized skills and knowledge were required to evaluate the Company's actuarial models and underlying assumptions made by the Company to estimate these accrued liabilities for incurred but not reported claims. Specifically, the accrued liabilities were sensitive to possible changes to the following key underlying assumptions:

- incurred and paid loss development factors used in the determination of the ultimate loss
- initial expected loss rates
- the selection of estimated loss among estimates derived using different methods.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's process to estimate accrued liabilities for automobile and workers compensation claims that have been incurred but not reported, including controls related to the development of the key assumptions listed above. In addition, we involved actuarial professionals with specialized skills and knowledge, who assisted in:

- assessing the actuarial models and procedures used by the Company by comparing them to generally accepted actuarial methods and procedures to estimate the ultimate losses
- evaluating the Company's key assumptions and judgments underlying the Company's estimate by developing an independent range of the incurred but not reported claims and comparing it against the Company's recorded amount.

/s/ KPMG LLP

We have served as the Company's auditor since 2017.

Houston, Texas  
March 9, 2022



## **MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

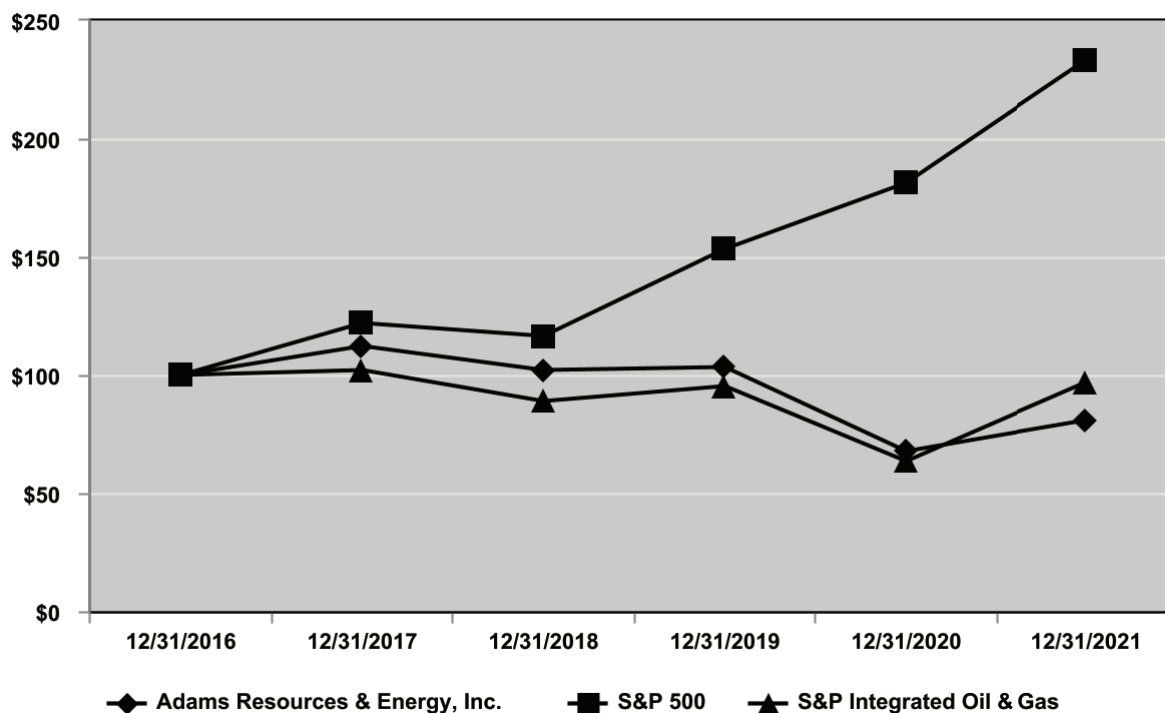
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Our common stock is traded on the NYSE American under the ticker symbol "AE". As of March 1, 2022, there were approximately 121 shareholders of record of our common shares, however, the actual number of beneficial holders of our common stock may be substantially greater than the stated number of holders of record because a substantial portion of our common stock is held in street name.

We have paid dividends to our common shareholders each year since 1994. Our Board of Directors expects to continue paying dividends in the near future, although the declaration, amount and timing of any dividends falls within the sole discretion of our Board, whose decision will depend on many factors, including our financial condition, earnings, capital requirements and other factors that our Board may deem relevant.

## PERFORMANCE GRAPH

The following graph compares the total shareholder return performance of our common stock with the performance of: (i) the Standard & Poor's 500 Stock Index ("S&P 500") and (ii) the S&P 500 Integrated Oil and Gas Index ("S&P Integrated Oil & Gas"). The graph assumes that \$100 was invested in our common stock and each comparison index beginning on December 31, 2016 and that all dividends were reinvested on a quarterly basis on the ex-dividend dates. The graph was prepared under the applicable rules of the SEC based on data supplied by Research Data Group. The stock performance shown on the graph is not necessarily indicative of future price performance.



	December 31,					
	2016	2017	2018	2019	2020	2021
Adams Resources & Energy, Inc.	\$100.00	\$112.19	\$101.92	\$103.08	\$ 67.73	\$ 80.79
S&P 500	100.00	121.83	116.49	153.17	181.35	233.41
S&P Integrated Oil & Gas	100.00	102.08	88.84	95.23	63.40	96.89

## TRANSFER AGENT & REGISTRAR

Broadridge Corporate Issuer Solutions, Inc.  
P.O. Box 1342  
Brentwood, New York 11717  
www.shareholder.broadridge.com  
Email: shareholder@broadridge.com  
(877) 830-4396 or (720) 378-5591

## ANNUAL MEETING

The Annual Meeting of Shareholders of Adams Resources & Energy, Inc. will be held at 11:00 a.m., Tuesday, May 10, 2022 at 17 South Briar Hollow Lane, Suite 100, Houston, Texas 77027. Shareholders are cordially invited to attend.

## FORM 10-K

The annual report of Adams Resources & Energy, Inc. on Form 10-K, as filed with the Securities and Exchange Commission, is available upon request. Please address all such requests to Virginia Krobot (vkrobot@adamsresources.com), Investor Relations, Adams Resources & Energy, Inc., P.O. Box 844, Houston, Texas 77001.

## NYSE AMERICAN EXCHANGE SYMBOL — AE

## CORPORATE OFFICES

Adams Resources & Energy, Inc.  
17 South Briar Hollow Lane, Suite 100  
Houston, Texas 77027  
(713) 881-3600  
www.adamsresources.com

## EXECUTIVE OFFICERS OF THE COMPANY

Kevin J. Roycraft  
Chief Executive Officer and President

Sharon C. Davis  
Executive Vice President, Chief Accounting Officer and  
Chief Operating Officer

Tracy E. Ohmart  
Executive Vice President,  
Chief Financial Officer and Treasurer

## SUBSIDIARY MANAGEMENT

Wade M. Harrison  
President of Service Transport Company

Greg L. Mills  
President of GulfMark Energy, Inc.

David B. Hurst  
Secretary of the Company

Equal Opportunity Employer

## DIRECTORS

**Townes G. Pressler**  
Chairman of the Board  
Houston, Texas

**Murray E. Brasseux**  
Retired — Former Bank Managing Director of Oil & Gas Finance  
Houston, Texas

**Dennis E. Dominic**  
Retired — Former Vice President of Domestic Crude Supply &  
Trading  
New Braunfels, Texas

**Michelle A. Earley**  
Partner — Locke Lord LLP  
Austin, Texas

**Richard C. Jenner**  
Managing Partner — Endeavor Natural Gas, LP  
Houston, Texas

**John O. Niemann Jr.**  
Managing Director — Andersen Tax LLC  
Houston, Texas

**W.R. Scofield**  
President and Chief Operating Officer —  
KSA Industries, Inc.  
Houston, Texas

**ADAMS**  
*Resources & Energy, Inc.*

**P O Box 844**  
**Houston, Texas 77001**  
**[adamsresources.com](http://adamsresources.com)**