TOR MINERALS INTERNATIONAL, INC. AND SUBSIDIARIES

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Independent Auditor's Report

To the Board of Directors and Shareholders of
TOR Minerals International, Inc.
Corpus Christi, Texas

We have audited the accompanying consolidated financial statements of TOR Minerals International, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive (loss) income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOR Minerals International, Inc. and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Houston, Texas
April 12, 2019

TOR Minerals International, Inc. and Subsidiaries
Consolidated Statements of Operations
(In thousands, except per share amounts)

	Years Ended December 31,	
	2018	**2017**
NET SALES	**$ 39,434**	**$ 38,966**
Cost of sales	35,346	35,412
GROSS MARGIN	**4,088**	**3,554**
Technical services and research and development	226	199
Selling, general and administrative expenses	4,581	4,682
Loss on disposal of assets	67	15
OPERATING LOSS	**(786)**	**(1,342)**
OTHER (EXPENSE) INCOME:		
Interest expense, net	(88)	(112)
Loss on foreign currency exchange rate	(145)	(26)
Other income, net	10	30
Total Other Expense	(223)	(108)
LOSS BEFORE INCOME TAX	**(1,009)**	**(1,450)**
Income tax benefit	(162)	(314)
NET LOSS	**$ (847)**	**$ (1,136)**
Loss per common share:		
Basic and Diluted	$ (0.24)	$ (0.32)
Weighted average common shares outstanding:		
Basic and Diluted	3,542	3,542

See accompanying notes to the consolidated financial statements.

TOR Minerals International, Inc. and Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income
(In thousands)

	Years Ended December 31,	
	2018	**2017**
NET LOSS	**$ (847)**	**$ (1,136)**
OTHER COMPREHENSIVE (LOSS) INCOME, net of tax		
Currency translation adjustment, net of tax:		
Net foreign currency translation adjustment (loss) income	(461)	1,586
Other comprehensive (loss) income, net of tax	(461)	1,586
COMPREHENSIVE (LOSS) INCOME	**$ (1,308)**	**$ 450**

See accompanying notes to the consolidated financial statements.

TOR Minerals International, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except per share amounts)

	December 31, 2018		December 31, 2017	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	2,308	$	3,609
Trade accounts receivable, net		4,681		4,323
Inventories, net		12,858		9,136
Other current assets		1,005		848
Total current assets		20,852		17,916
PROPERTY, PLANT AND EQUIPMENT, net		15,670		18,389
DEFERRED TAX ASSET, domestic		72		-
DEFERRED TAX ASSET, foreign		85		20
OTHER ASSETS		4		4
Total Assets	**$**	**36,683**	**$**	**36,329**
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	4,598	$	2,672
Accrued expenses		1,380		1,232
Notes payable under lines of credit		613		36
Export credit refinancing facility		78		-
Current maturities - capital leases		41		34
Current maturities of long-term debt – financial institutions		757		1,039
Total current liabilities		7,467		5,013
LONG-TERM DEBT - FINANCIAL INSTITUTIONS		1,573		2,378
LONG-TERM DEBT - CAPITAL LEASES		51		65
DEFERRED TAX LIABILITY, domestic		-		21
Total liabilities		9,091		7,477
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS' EQUITY:				
Common stock $1.25 par value: authorized, 6,000 shares; 3,542 shares issued and outstanding at December 31, 2018 and 2017		4,426		4,426
Additional paid-in capital		30,723		30,675
Accumulated deficit		(6,804)		(5,957)
Accumulated other comprehensive loss		(753)		(292)
Total shareholders' equity		27,592		28,852
Total Liabilities and Shareholders' Equity	**$**	**36,683**	**$**	**36,329**

TOR Minerals International, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
Years ended December 31, 2018 and 2017
(In thousands)

	Common Stock			Additional Paid-In		Accumulated		Accumulated Other Comprehensive		
	Shares		Amount		Capital		Deficit		(Loss) Income		Total

	Common Stock Shares		Common Stock Amount		Additional Paid-In Capital		Accumulated Deficit		Accumulated Other Comprehensive (Loss) Income		Total
Balance at January 1, 2017	**3,542**	**$**	**4,426**	**$**	**30,544**	**$**	**(4,821)**	**$**	**(1,878)**	**$**	**28,271**
Share based compensation					131						131
Net loss							(1,136)				(1,136)
Cumulative Translation Adjustment									1,586		1,586
Balance at December 31, 2017	**3,542**	**$**	**4,426**	**$**	**30,675**	**$**	**(5,957)**	**$**	**(292)**	**$**	**28,852**
Share based compensation					48						48
Net loss							(847)				(847)
Cumulative Translation Adjustment									(461)		(461)
Balance at December 31, 2018	**3,542**	**$**	**4,426**	**$**	**30,723**	**$**	**(6,804)**	**$**	**(753)**	**$**	**27,592**

See accompanying notes to the consolidated financial statements.

TOR Minerals International, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)

	Years Ended December 31,	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$ (847)	$ (1,136)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	2,994	2,774
Loss (gain) on disposal of assets	67	(3)
Share-based compensation	48	131
Deferred income tax benefit	(165)	(98)
Provision for bad debts	26	58
Changes in working capital:		
Trade accounts receivables	(432)	(601)
Inventories	(3,848)	3,235
Other current assets	(182)	(39)
Accounts payable and accrued expenses	2,119	(442)
Net cash (used in) provided by operating activities	(220)	3,879
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(817)	(3,099)
Proceeds from sales of property, plant and equipment	15	2
Net cash used in investing activities	(802)	(3,097)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from lines of credit	3,548	118
Payments on lines of credit	(2,969)	(82)
Proceeds from export credit refinancing facility	199	-
Payments on export credit refinancing facility	(121)	(228)
Proceeds from capital lease	30	107
Payments on capital lease	(32)	(8)
Payments on long-term bank debt	(938)	(977)
Net cash used in financing activities	(283)	(1,070)
Effect of foreign currency exchange rate fluctuations on cash and cash equivalents	4	181
Net decrease in cash and cash equivalents	(1,301)	(107)
Cash and cash equivalents at beginning of year	3,609	3,716
Cash and cash equivalents at end of year	$ 2,308	$ 3,609
Supplemental cash flow disclosures:		
Interest paid	$ 93	$ 117
Income taxes paid	$ 43	$ 76
Non-cash investing activities:		
Capital expenditures financed through accounts payable and accrued expenses	$ 60	$ 879

1. Description of Business

TOR Minerals International, Inc. and Subsidiaries ("TOR", "we", "us", "our", or the "Company"), a Delaware Corporation, is engaged in a single industry, the manufacture and sale of mineral products for use as pigments and extenders, primarily in the manufacture of paints, industrial coatings plastics, and solid surface applications. The Company's global headquarters and U.S. manufacturing plant are located in Corpus Christi, Texas ("TOR U.S." or "U.S. Operation"). The Asian Operation, TOR Minerals Malaysia, Sdn. Bhd. ("TMM"), is located in Ipoh, Malaysia, and the European Operation, TOR Processing and Trade, BV ("TPT"), is located in Hattem, The Netherlands.

Basis of Presentation and Use of Estimates: The consolidated financial statements include accounts of TOR Minerals International, Inc. and its wholly-owned subsidiaries, TMM and TPT. All significant intercompany transactions and balances are eliminated in the consolidation process.

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, we evaluate our estimates, including those related to bad debt, inventories, income taxes, financing operations, contingencies and litigation. TOR bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Cash and Cash Equivalents: The Company considers all highly liquid investments readily convertible to known cash amounts and with a maturity of twelve months or less at the date of purchase to be cash equivalents.

Allowance for Doubtful Accounts: The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The allowance for non-collection of accounts receivable is based upon the expected collectability of all accounts receivable including review of current aging schedules and current economic conditions and customer history. Accounts are written off when all reasonable internal and external collection efforts have been performed. At December 31, 2018 and 2017, we maintained a reserve for doubtful accounts of approximately $152,000 and 170,000, respectively.

Foreign Currency: Results of operations for the Company's foreign operations, TMM and TPT, are translated from the designated functional currency to the U.S. Dollar using average exchange rates during the period, while assets and liabilities are translated at the exchange rate in effect at the reporting date. Resulting gains or losses from translating foreign currency financial statements are reported as other comprehensive income (loss), net of income tax. The effect of changes in exchange rates between the designated functional currency and the currency in which a transaction is denominated are recorded as foreign currency transaction gains (losses) in earnings.

TMM measures and records its transactions in terms of the local Malaysian currency, the Ringgit ("RM"), which is also the functional currency. As a result, gains and losses resulting from translating the balance sheet from RM to U.S. Dollars are recorded as cumulative translation adjustments (which are included in accumulated other comprehensive income, a separate component of shareholders' equity) on the consolidated balance sheets. As of December 31, 2018, the cumulative translation adjustment included on the consolidated balance sheets was a loss of approximately $1,273,000.

TPT's functional currency is the Euro. As a result, gains and losses resulting from translating the balance sheet from Euros to U.S. Dollars are recorded as cumulative translation adjustments on the consolidated balance sheets. As of December 31, 2018, the cumulative translation adjustment included on the consolidated balance sheets was income of approximately $520,000.

Inventory: We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the net realizable value based upon assumptions about future demand and market conditions. Based on our 2018 and 2017 inventory analysis, no such write down was required.

Overhead is charged to inventory based on normal capacity and we expense abnormal amounts of idle facility expense, freight and handling costs in the period incurred. For the year ended December 31, 2018, the Company recorded a reduction in the 2018 Consolidated Statement of Operations as a component of "Cost of sales" of approximately $894,000, primarily related to operating efficiencies at the U.S. Operation. During 2017, we incurred approximately $2,150,000 related to idle facility expense primarily at the European operations which was included in the 2017 Consolidated Statement of Operations as a component of "Cost of sales".

Property, Plant and Equipment: Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of depreciable assets which range from 3 to 39 years. Maintenance and repair costs are charged to operations as incurred and major improvements extending asset lives are capitalized.

Impairment of Long-Lived Assets: The impairment of long-lived assets is assessed when changes in circumstances (such as, but not limited to, a decrease in market value of an asset, current and historical operating losses or a change in business strategy) indicate that their carrying value may not be recoverable. This assessment is based on management's estimates of future undiscounted cash flows, salvage values or net sales proceeds. These estimates take into account management's expectations and judgments regarding future business and economic conditions, future market values and disposal costs. Actual results and events could differ significantly from management's estimates. Based upon our most recent analysis, management determined no assets were impaired. There can be no assurance that future impairment tests will not result in a charge to net earnings (loss).

Revenue Recognition: Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Revenue from Contracts with Customers ("ASC 606"), using the modified retrospective method. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaborative arrangements and financial instruments. Under ASC 606, an entity recognizes revenue when it transfers control of the promised goods or services to its customer, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. If control transfers to the customer over time, an entity selects a method to measure progress that is consistent with the objective of depicting its performance. There was no impact upon adoption of ASC 606. As a result, no disclosure of the impact for each financial statement line items is applicable.

In determining the appropriate amount of revenue to be recognized as the Company fulfills the obligations under its contracts with customers, the following steps must be performed at contract inception: (i) identification of the promised goods in the contract; (ii) determination of whether the promised goods are performance obligations, including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

The Company conducts its business through three geographical segments: United States (TMI), Europe (TPT) and Asia (TMM). The products sold by each segment are based on mutually agreed upon pricing with the customer prior to delivery of the product and do not include any warranty and right of return. For more information on the Company's segments, see Note 6 — Segment Information.

The Company satisfies its performance obligation as the products are delivered to its customers or common carrier at which point control is transferred to the customer. The Company invoices customers once the product has shipped and collection generally occurs within the payment terms agreed with customers. Accordingly, there is no financing component to the Company's arrangements with customers.

Shipping and Handling: The Company records shipping and handling costs, associated with the outbound freight on products shipped to customers, as a component of cost of goods sold.

Earnings (Loss) Per Share: Basic earnings (loss) per share are based on the weighted average number of shares outstanding and exclude any dilutive effects of options, warrants, debentures and/or convertible preferred stock. Diluted earnings per share reflect the effect of all dilutive items.

Income Taxes: The Company records a provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Deferred income taxes are recognized by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as net operating loss and tax credit carry-forwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits for which future realization is uncertain.

When accounting for uncertainties in income taxes, the Company evaluates all tax years still subject to potential audit under the applicable state, federal and foreign income tax laws. The Company is subject to taxation in the United States, Malaysia and The Netherlands. Federal income tax returns in the United States are subject to examination for the tax years ended December 31, 2015 through December 31, 2018. State tax returns, which are filed in Texas, are subject to examination for the tax years ended December 31, 2014 through December 31, 2018. The Company's tax returns in various non-U.S. jurisdictions are subject to examination for various tax years dating back to December 31, 2013.

The Company did not recognize certain tax benefits from uncertain tax positions within the provision for income taxes. The Company may recognize a tax benefit only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement.

In addition, the Company did not recognize any interest and penalties in our consolidated financial statements during the years ended December 31, 2018 and 2017. If any interest or penalties related to any income tax liabilities are imposed in future reporting periods, the Company expects to record both of these items as components of income tax expense.

Share Based Compensation: The Company calculates share based compensation using the Black-Scholes-Merton ("Black-Scholes") option-pricing model, which requires the input of subjective assumptions including the expected stock price volatility. For the years ended December 31, 2018 and 2017, we recorded $48,000 and $131,000, respectively, in share-based employee compensation. This compensation cost is included in the general and administrative expenses in the accompanying consolidated statements of operations.

Derivatives: We manage the risk of changes in foreign currency exchange rates, primarily at our Malaysian operation, through the use of foreign currency contracts. Foreign exchange contracts are used to protect the Company from the risk that the eventual cash flows resulting from transactions in foreign currencies, including sales and purchases transacted in a currency other than the functional currency, will be adversely affected by changes in exchange rates. We report the fair value of the derivatives on our consolidated balance sheets and changes in the fair value are recognized in earnings in the period of the change. *(See Note 11, Derivatives and Other Financial Instruments).*

Recently Adopted Accounting Standards

In the second half of 2016, the FASB issued ASU Nos. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, and 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The objective of these updates is to reduce the diversity in practice in the classification of certain cash receipts and cash payments, and the presentation of restricted cash within an entity's statement of cash flows, respectively. These ASUs are effective for interim and annual fiscal periods beginning after December 15, 2017. The Company adopted the standard on January 1, 2018, and the adoption did not have a material impact on the Company's consolidated financial statements.

New Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes all existing guidance on accounting for leases in ASC Topic 840. ASU 2016-02 is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. ASU 2016-02 will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. ASU 2016-02 is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. We are currently in the initial stages of evaluating the potential impact of adopting ASU 2016-02 on our financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires that entities use a new forward looking "expected loss" model that generally will result in the earlier recognition of allowance for credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU No. 2016-13 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. We are currently assessing the potential impact that adoption of ASU No. 2016-13 will have in our consolidated financial statements.

2. Debt and Notes Payable

Long-term Debt – Financial Institutions
Below is a summary of our long-term debt to financial institutions as of December 31, 2018 and 2017:

(In thousands)	December 31,			
		2018		2017
Fixed rate Euro term note payable to a Netherlands bank, with an interest rate of 2.1% at December 31, 2018, due July 1, 2029, secured by TPT's land and buildings. (Euro balance at December 31, 2018, €157)	$	180	$	211
Fixed rate Euro term note payable to a Netherlands bank, with an interest rate of 2.1% at December 31, 2018, due January 31, 2030, secured by TPT's land and buildings. (Euro balance at December 31, 2018, €185)		212		245
Fixed rate Euro term note payable to a Netherlands bank, with an interest rate of 3.0% per annum, due December 31, 2025, is secured by TPT's land and buildings. (Euro balance at December 31, 2018, €700)		801		960
Variable rate Euro term note payable to a Netherlands bank, with a EURIBOR interest rate plus bank margin of 2.3% per annum, due December 31, 2020, is secured by substantially all of TPT's assets. The interest rate at December 31, 2018 was 2.3%. (Euro balance at December 31, 2018, €940)		1,076		1,692
Malaysian Ringgit term note payable to a Malaysian bank, with an interest rate of 2% above the bank base lending rate, due October 25, 2018, secured by TMM's property, plant and equipment. The interest rate at December 31, 2018 was 5.2%. (Ringgit balance at December 31, 2018, RM 250)		61		309
Total	$	2,330	$	3,417
Less current maturities		757		1,039
Total long-term debt - financial institutions	$	1,573	$	2,378

European Operations

On July 7, 2004, TPT entered into a mortgage loan (the "First Mortgage") with Rabobank. The First Mortgage, in the amount of €485,000 ($555,000 at 12/31/2018), is to be repaid over 25 years and the interest rate is to be adjusted every five years. Under the terms of the First Mortgage, the interest was adjusted to a fixed rate of 2.10%, effective August 1, 2018, for a period of five years. Thereafter, the rate will change to Rabobank prime plus 1.75%. TPT utilized €325,000 ($372,000 at 12/31/2018) of the loan to finance the July 14, 2004, purchase of land and an office building, as well as to remodel the office building. The balance of the loan proceeds, €160,000 ($183,000 at 12/31/2018), was used for the expansion of TPT's existing building. Monthly principal and interest payments commenced on September 1, 2004, and will continue through July 1, 2029. The monthly principal payment is €1,616 ($1,850 at 12/31/2018). The loan balance at December 31, 2018 was €157,000 ($180,000 at 12/31/2018). The First Mortgage is secured by the land and office building purchased on July 7, 2004.

On January 3, 2005, TPT entered into a second mortgage loan (the "Second Mortgage") with Rabobank to fund the acquisition of a 10,000 square foot warehouse with a loading dock that is located adjacent to TPT's existing production facility. The Second Mortgage, in the amount of €470,000 ($538,000 at 12/31/2018), is to be repaid over 25 years and the interest rate is to be adjusted every five years. Under the terms of the Second Mortgage, the interest was adjusted to a fixed rate of 2.10%, effective January 3, 2018, for a period of five years. Thereafter, the rate will change to Rabobank prime plus 1.75%. Monthly principal and interest payments commenced on February 28, 2005 and will continue through January 31, 2030. The monthly principal payment is €1,566 ($1,792 at 12/31/2018). The Second Mortgage is secured by the land and building purchased by TPT on January 3, 2005. The loan balance at December 31, 2018 was €185,000 ($212,000 at 12/31/2018).

On July 13, 2015, TPT entered into a third mortgage loan (the "Third Mortgage") with Rabobank to fund the completion of its plant expansion. The Third Mortgage, in the amount of €1,000,000 ($1,145,000 at 12/31/2018), will be repaid over 10 years and the interest rate, currently fixed at 3%, is to be adjusted every five years. Thereafter, the rate will change to Rabobank prime plus 1.75%. Monthly principal payments of €8,333 ($9,540 at 12/31/2018) commenced on January 31, 2016 and will continue through December 31, 2025. The Third Mortgage is secured by TPT's real estate. The loan balance at December 31, 2018 was €700,000 ($801,000 at 12/31/2018).

On July 13, 2015, TPT entered into a term loan (the "Term Loan") with Rabobank to fund equipment purchases designed to improve production efficiencies and increase capacity at TPT. The Term Loan, in the amount of €2,350,000 ($2,690,000 at 12/31/2018), will be repaid over a period of 5 years and is secured by TPT's assets. The interest rate, set for a period of three months, is based on the relevant EURIBOR rate plus the bank margin of 2.3%, which was 2.3% (bank margin which is floor) at December 31, 2018. The monthly principal payment of €39,167 ($44,800 at 12/31/2018) commenced on January 31, 2016 and continues through December 31, 2020. The loan balance at December 31, 2018 was €940,000 ($1,076,000 at 12/31/2018).

At December 31, 2018, TPT was in compliance with all financial covenants.

Asian Operations

September 6, 2018, TMM amended its banking facility (the "HSBC Facility") with HSBC Bank Malaysia Berhad ("HSBC"), a Malaysian Bank, extend the maturity date from June 30, 2018 to June 30, 2019. Under the terms of the HSBC Facility, HSBC granted a new term loan to TMM in the amount of RM 5,000,000 ($1,210,000 at 12/31/2018) which was used to finance a portion of the cost of plant improvements to increase efficiency and production capacity. Under the terms of the HSBC Facility, the term loan, which will be repaid over a period of five (5) years at an interest rate of 2.0% per annum above the HSBC's base lending rate, matures March 31, 2019. The interest rate at December 31, 2018 was 5.2% per annum. Monthly principal payments, in the amount of RM 83,333 ($20,167 at 12/31/2018), commenced October 25, 2013 and will continue through the loan's maturity date of March 31, 2019. The loan balance at December 31, 2018 was RM 250,000 ($61,000 at 12/31/2018). . TMM paid the loan balance due at maturity on March 28, 2019.

At December 31, 2018, TMM was not in compliance with the utilization ratio of the financial covenants.

Short term Debt

U.S. Operations

On December 31, 2010, the Company entered into the Agreement with the Lender which established a $1,000,000 line of credit (the "Line"), and on March 1, 2012, the Line was increased from $1,000,000 to $2,000,000. On May 15, 2013, the Company and the Lender entered into the Second Amendment to the Agreement which reduced the minimum interest rate floor from 5.5% to 4.5%. On May 15, 2015, the Company and the Lender entered into the Fifth Amendment to the Agreement which extended the Line from October 15, 2015 to October 15, 2016.

On June 23, 2016, the Company and the Lender amended and restated the credit agreement (the "Amended Agreement"). Under the terms of the Amended Agreement, the Lender extended the maturity date on the Line from October 15, 2016 to October 15, 2017. In addition, the Company requested that the Lender reduce the Line from $2,000,000 to $1,000,000.

On August 15, 2017, the Company entered into a new loan agreement ("Loan Agreement") with the Lender which replaced the Agreement with the Lender dated December 31, 2010 and the Amended Agreement dated June 23, 2016. Under the terms of the Loan Agreement, our Line was reestablished at $1,000,000 and the maturity date is extended from October 15, 2017 to October 15, 2018.

On November 29, 2018, the Company entered into a new loan agreement ("Loan Agreement") with the Lender which replaced the Agreement with the Lender dated August 15, 2017. Under the terms of the Loan Agreement, our Line was reestablished at $1,000,000 and the maturity date was established at November 15, 2019. Under the terms of the Loan Agreement, the Company is required to maintain positive net earnings before taxes, interest, depreciation, amortization and all other non-cash charges on a rolling four-quarter basis.

Under the terms of the Loan Agreement, the amount the Company is entitled to borrow under the Line is subject to a borrowing base, which is based on the loan value of the collateral pledged to the Lender to secure the indebtedness owing to the Lender by the Company. Amounts advanced under the Line bear interest at a variable rate equal to one percent per annum above the Wall Street Journal Prime Rate as such prime rate changes from time to time, with a minimum floor rate of 4.5%. At December 31, 2018, no funds were outstanding on the Line.

The U.S. Operation was in compliance with all financial covenants at December 31, 2018.

European Operations
On July 13, 2015, TPT amended the short term banking facility (the "TPT Amended Agreement") with Rabobank. Under the terms of the TPT Amended Agreement, the TPT line of credit was reduced from €1,100,000 to €500,000 ($1,259,000 to $572,000 at December 31, 2018) and interest was changed from a variable interest rate of bank prime plus 2.8% to the average 1-month EURIBOR plus the bank margin of 3.3%. The interest rate was 2.9% at December 31, 2018. At December 31, 2018, TPT had €212,000 ($243,000 at 12/31/2018) outstanding on the line.

TPT was in compliance with all financial covenants at December 31, 2018.

Asian Operations
On September 6, 2018, TMM amended its short-term banking facility with HSBC to extend the maturity date from June 30, 2018 to June 30, 2019. The HSBC facility includes the following in RM: (1) overdraft of RM 500,000 ($121,000 at 12/31/2018); (2) an import/export line ("ECR") of RM 10,460,000 ($2,531,000 at 12/31/2018); and (3) a foreign exchange contract limit of RM 5,000,000 ($1,210,000 at 12/31/2018). At December 31, 2018, TMM overdraft had RM 324,000 ($78,000 at 12/31/2018) outstanding on the HSBC short-term banking facility.

On August 28, 2018, TMM amended its short-term banking facility with RHB Bank Berhad ("RHB") to extend the maturity date from August 11, 2018 to February 11, 2019. Under the terms of the amended RHB facility, the multi-trade line was increased from RM 3,500,000 to RM 6,200,000 (from $847,000 to $1,500,000 at 12/31/2018) and the bank guarantee was reduced from RM 1,200,000 to RM 500,000 (from $290,000 to $121,000 at 12/31/2018); and the foreign exchange contract line was reduced from RM 25,000,000 to RM 5,000.000 (from $6,050,000 to $1,210,000 at 12/31/2018). At December 31, 2018, TMM had RM 1,529,000 ($370,000 at 12/31/2018) outstanding on the RHB short-term banking facility.

TMM was not in compliance with the utilization ration of the financial covenants at December 31, 2018.

The banking facilities with both HSBC and RHB bear an interest rate on the respective overdraft facilities at 1.25% over bank prime, and the respective ECR facilities bear interest at 1.0% above the funding rate stipulated by the Export-Import Bank of Malaysia Berhad. The ECR facilities, which are a government supported financing arrangement specifically for exporters, are used by TMM for short-term financing of up to 180 days against customers' and inter-company shipments.

The borrowings under both the HSBC and the RHB short term credit facility are subject to certain subjective acceleration covenants based on the judgment of the banks and a demand provision that provides that the banks may demand repayment at any time. A demand provision is customary in Malaysia for such facilities. The loan agreements are secured by TMM's property, plant and equipment. However, if demand is made by HSBC or RHB, we may be unable to refinance the demanded indebtedness, in which case, the lenders could foreclose on the assets of TMM. While repatriation is allowed in the form of dividends, the credit facilities prohibit TMM from paying dividends, and the HSBC facility further prohibits loans to related parties without the prior consent of HSBC.

The following is a summary of the future maturities of long-term debt to financial institutions as of December 31, 2018:

Years Ending December 31,	
(In thousands)	
2019	$ 757
2020	696
2021	158
2022	158
2023	158
Thereafter	403
Total	$ 2,330

3. Fair Value Measurements

The following table summarizes the valuation of our financial instruments recorded on a fair value basis as of December 31, 2018 and 217. The Company did not hold any non-financial assets and/or non-financial liabilities subject to fair value measurements on a non-recurring basis at December 31, 2018 or 2017.

The fair value measurements consist of the following three levels:

Level 1 inputs: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date (e. g., equity securities traded on the New York Stock Exchange).

Level 2 inputs: Level 2 inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (e. g., quoted prices of similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active).

Level 3 inputs: Level 3 inputs are unobservable inputs (e. g., a company's own data) for the asset or liability and should be used to measure fair value to the extent that relevant observable inputs are not available.

	Fair Value Measurements			
(In Thousands)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Current Asset				
December 31, 2018				
Currency forward contracts	$ 1	$ -	$ 1	$ -
December 31, 2017				
Currency forward contracts	$ 3	$ -	$ 3	$ -

Our foreign currency derivative financial instruments mitigate foreign currency exchange risks and include forward contracts. The forward contracts are marked-to-market at each balance sheet date with any resulting gain or loss recognized in income as part of the gain or loss on foreign currency exchange rate included under "Other Expense" on the Company's consolidated statement of operations. The fair value of the currency forward contracts is determined using Level 2 inputs based on the currency rate in effect at the end of the reporting period.

The fair value of the Company's debt is based on estimates using standard pricing models and Level 2 inputs, including the Company's estimated borrowing rate, that take into account the present value of future cash flows as of the consolidated balance sheet date. The computation of the fair value of these instruments is performed by the Company. The carrying amounts and estimated fair values of the Company's long-term debt, including current maturities, are summarized below:

	December 31, 2018		December 31, 2017	
(In Thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion	$ 2,330	$ 2,253	$ 3,417	$ 3,348

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, trade receivables, payables and accrued liabilities, accrued income taxes and short-term borrowings approximate fair values due to the short term nature of these instruments, accordingly, these items have been excluded from the above table.

4. Inventories

A summary of inventories follows:

(In thousands)	December 31,			
		2018		2017
Raw materials	$	7,163	$	3,205
Work in progress		795		1,446
Finished goods		4,488		4,087
Supplies		818		844
Total Inventories		13,264		9,582
Inventory reserve		(406)		(446)
Net Inventories	$	12,858	$	9,136

5. Property, Plant and Equipment

Major classifications and expected lives of property, plant and equipment are summarized below:

(In thousands)		December 31,			
	Expected Life		2018		2017
Land	--	$	313	$	324
Office buildings	39 years		4,609		4,785
Production facilities	10 - 20 years		11,501		11,509
Machinery and equipment	3 - 15 years		27,174		27,492
Furniture and fixtures	3 - 20 years		1,995		1,892
Total			45,592		46,002
Less accumulated depreciation			(31,401)		(29,503)
Property, plant and equipment, net			14,191		16,499
Construction in progress			1,479		1,890
		$	15,670	$	18,389

All property, plant and equipment is depreciated using the straight-line method over the estimated useful lives of depreciable assets which range from 3 to 39 years.

The amounts of depreciation expense recorded on the Company's property, plant and equipment for the year ended December 31, 2018 and 2017 was $2,994,000 and $2,774,000, respectively.

6. Segment Information

The Company and its subsidiaries operate in the business of pigment manufacturing and related products in three geographic segments – United States, European and Asian.

United States – This segment represents products manufactured at our facility located in Corpus Christi, Texas. The segment manufactures HITOX, BARTEX, HALTEX, OPTILOAD and TIOPREM which is sold primarily in North, Central and South America. Sales of this segment, which includes intercompany purchases of ALUPREM from our European operation, represented approximately 59% and 62% of our consolidated sales for the years ended December 31, 2018 and 2017, respectively.

European – This segment represents products manufactured at the Company's wholly-owned operation, TPT, located in the Netherlands. TPT manufactures ALUPREM and BARYPREM which is sold primarily in Europe. Sales of this segment, which include intercompany purchases HITOX and TIOPREM from our Asian operation, represented approximately 29% of our consolidated sales for the years ended December 31, 2018 and 2017. Intercompany sales of ALUPREM between the TPT and the U.S. operation, which are eliminated in consolidation, represented 26% of this segments total sales for the years ended December 31, 2018 and 2017.

Asian – This segment represents products manufactured at the Company's wholly-owned operation, TMM, located in Malaysia. TMM manufactures HITOX and TIOPREM which is sold primarily in Asia. Sales of this segment represented approximately 11% and 10% of our consolidated sales for the years ended December 31, 2018 and 2017, respectively. Intercompany sales of HITOX, TIOPREM and SR between the TMM and the U.S. and European operations are eliminated in consolidation represented 51% and 46% of this segments total sales for the years ended December 31, 2018 and 2017, respectively .

The accounting policies of the segments are the same as those described in the Summary of Significant Policies (See Note 1). Product sales of inventory between the U.S., European and Asian operations are based on inter-company pricing, which includes an inter-company profit margin. The segment profit (loss), included in the table below, from each location is reflective of these inter-company prices, as is inventory at the Corpus Christi location prior to elimination adjustments. The elimination entries include an adjustment to the cost of sales resulting from the adjustment to ending inventory to eliminate inter-company profit, and the reversal of a similar adjustment from a prior period. To the extent there are net increases/declines period over period in segment inventories that include an inter-company component, the net effect of these adjustments can decrease/increase location profit.

Sales from the subsidiary to the parent company are based upon profit margins which represent competitive pricing of similar products. Intercompany sales consist of ALUPREM, SR, HITOX and TIOPREM.

The Company sells its products to customers located in more than 60 countries. Sales to external customers are attributed to geographic area based on country of distribution. Sales to customers located in the U.S. represented approximately 50% and 53% for the years ended December 31, 2018 and 2017, respectively.

Approximately 7% of the Company's employees are represented by an in-house collective bargaining agreement during 2018 and 2017.

A summary of the Company's manufacturing operations by geographic segment is presented below:

(In thousands)		United States (Corpus Christi)		European (TPT)		Asian (TMM)		Company Eliminations		Consolidated
As of and for the years ended:										
December 31, 2018										
Net Sales:										
Customer sales	$	23,318		11,603		4,513	$	-	$	39,434
Intercompany sales		128		4,139		4,682		(8,949)		-
Total Net Sales	$	23,446	$	15,742	$	9,195	$	(8,949)	$	39,434
Share based compensation	$	48							$	48
Depreciation	$	1,094		1,750		150			$	2,994
Interest (income) expense	$	-		86		2			$	88
Income tax (benefit) expense	$	(91)		(11)		(12)		(48)	$	(162)
Location profit (loss)	$	(415)		(960)		691		(163)	$	(847)
Capital expenditures	$	198		342		277			$	817
Location long-lived assets	$	4,535		10,250		885			$	15,670
Location assets	$	17,905		14,838		7,409		(3,469)	$	36,683
December 31, 2017										
Net Sales:										
Customer sales	$	23,998	$	11,125	$	3,843	$	-	$	38,966
Intercompany sales		38		3,817		3,233		(7,088)		-
Total Net Sales	$	24,036	$	14,942	$	7,076	$	(7,088)	$	38,966
Share based compensation	$	131	$	-	$	-	$	-	$	131
Depreciation	$	1,119	$	1,521	$	134	$		$	2,774
Interest (income) expense	$	(2)	$	96	$	18	$		$	112
Income tax (benefit) expense	$	(104)	$	(218)	$	(2)	$	10	$	(314)
Location profit (loss)	$	(604)	$	(882)	$	331	$	19	$	(1,136)
Capital expenditures	$	1,062	$	1,975	$	62	$		$	3,099
Location long-lived assets	$	5,437	$	12,181	$	771	$	-	$	18,389
Location assets	$	16,822	$	15,608	$	6,407	$	(2,508)	$	36,329

7. Calculation of Basic and Diluted Loss per Share

(in thousands, except per share amounts)	Years Ended December 31, 2018	2017
Numerator:		
Net Loss	$ (847)	$ (1,136)
Denominator:		
Denominator for basic loss per share - weighted-average shares	3,542	3,542
Dilutive potential common shares	-	-
Denominator for diluted loss per share - weighted-average shares and assumed conversions	3,542	3,542
Basic and diluted loss per common share	**$ (0.24)**	**$ (0.32)**

Approximately 136,000 and 133,000 employee stock options were excluded from calculation of diluted earnings per share for the years ended December 31, 2018 and 2017, respectively, as the effect would be anti-dilutive.

8. Income Taxes

Loss before provision for income taxes was as follows:

(In thousands)	Years Ended December 31, 2018		Years Ended December 31, 2017	
Domestic	$	(506)	$	(708)
Foreign		(503)		(742)
Loss before income taxes	$	(1,009)	$	(1,450)

The components of provision for income taxes for periods presented are as follows:

	Components of Provision for Income Tax (Benefit) Expense											
	Years Ended December 31,											
	2018						2017					
(In thousands)		Current		Deferred		Total		Current		Deferred		Total
Federal	$			(93)	$	(93)	$	-	$	(102)	$	(102)
State		3				3		2		-		2
Foreign				(72)		(72)		(218)		4		(214)
Total Income Tax (Benefit) Expense	$	3	$	(165)	$	(162)	$	(216)	$	(98)	$	(314)

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. We calculated our best estimate of the impact of the Act in our year end income tax provision in accordance with our understanding of the Act and available guidance and as a result recorded $103,000 as additional income tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional amount related in part to the remeasurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future (a benefit of $13,000). The provisional amount also related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings and resulted in an increase in our tax expense of $116,000.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, the Company determined that the $13,000 of the deferred tax benefit recorded in connection with the remeasurement of certain deferred tax assets and liabilities and the $116,000 of current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings were reasonable estimates at December 31, 2017. In 2018, the Company completed its analysis and there were no material changes to the 2017 estimate. The Company also analyzed the portions of the Act that became effective in 2018, and determined they had no material impact on the Company, A reconciliation of the provision for income taxes, with the amount computed by applying the statutory Federal income tax rate to loss before income taxes is as follows:

Effective Tax Rate Reconciliation	**Years Ended December 31,**	
(In thousands)	**2018**	**2017**
Benefit computed at statutory rate	$ (212)	$ (493)
Change in valuation allowance - Foreign	1	(114)
Effect of items deductible for book not tax, net		
Share based compensation	10	32
Other - Domestic	3	5
Effect of foreign tax credit	12	33
Effect of foreign tax rate differential	21	118
State income taxes, net of Federal benefit	3	2
Impact of Tax Cuts and Jobs Act of 2017		
Change in tax rate	-	(13)
Transition Tax	-	116
	$ (162)	$ (314)

Significant Components of Deferred Taxes	**Year Ended December 31,**	
(In thousands)	**2018**	**2017**
Deferred Tax Assets:		
Net operating loss carry-forwards - Domestic	$ 151	$ 214
Net operating loss carry-forwards - Foreign	1,007	840
Intercompany profit	96	43
Alternative minimum tax credit carryforwards	-	20
Domestic reserves	21	20
Foreign tax credits	394	515
Other deferred assets - Domestic	38	25
	$ 1,707	$ 1,677
Valuation Allowance - Foreign	(1,365)	(1,364)
Total deferred tax assets	342	313
Deferred Tax Liabilities:		
PP&E - Domestic	$ 124	$ 287
PP&E - Foreign	45	14
Unrealized foreign currency gains - Domestic	14	11
Other	2	2
Total deferred tax liabilities	185	314
Net deferred tax asset (liability)	$ 157	$ (1)

Our effective tax rate is based on our level of pre-tax income, statutory rates and tax planning strategies. Significant management judgment is required in determining the effective rate and in evaluating our tax position. At December 31, 2018, our U.S. operation had federal NOL carry-forwards of approximately $721,000 which resulted in a deferred tax asset (“DTA”) of approximately $151,000 which will begin to expire in 2035. At December 31, 2018, the U.S. operation had deferred tax liabilities (“DTL”) of approximately $140,000, primarily related to book vs. tax depreciation. These temporary differences are expected to fully reverse prior to the expiration of the existing DTA. Based on this determination and consideration of other factors, the Company concluded that it is not necessary to provide a valuation allowance for our U.S. NOL as we believe the DTA is fully recoverable.

At December 31, 2018, our Netherlands operation, TPT, had NOL carry-forwards of approximately $918,000 which resulted in a DTA of approximately $184,000. Due to the uncertainties regarding TPT's ability to utilize these DTAs, the Company established a valuation allowance to fully reserve against these DTAs.

At December 31, 2018, our Asian operation, TMM, had NOL carry-forwards of approximately $3,429,000 and certain other deferred tax assets which resulted in a DTA of approximately $1,192,000. Due to the uncertainties regarding TMM's ability to utilize these DTAs, the Company established a valuation allowance to fully reserve against these DTAs.

9. Stock Options

On February 21, 2000, the Company's Board of Directors approved the adoption of the 2000 Incentive Stock Option Plan (the "Plan") for TOR Minerals International, Inc. The Plan provides for the award of a variety of incentive compensation arrangements, including restricted stock awards, performance units or other non-option awards, to such employees and directors as may be determined by a Committee of the Board. At the Annual Shareholders' meeting on May 11, 2012, the maximum number of shares of the Company's common stock that may be sold or issued under the Plan was increased to 500,000 shares subject to certain adjustments upon recapitalization, stock splits and combinations, merger, stock dividend and similar events; in addition the Plan was extended to May 23, 2022.

For the years ended December 31, 2018 and 2017, the Company recorded $48,000 and $131,000, respectively, in stock-based employee compensation. This compensation cost is included in the general and administrative expenses and cost of sales in the accompanying consolidated statements of operations.

On April 21, 2016, the Board of Directors granted the officers of the Company non-qualifying stock options (the "Performance Awards"). The Performance Awards, which are subject to the terms, definitions and provisions of the 2000 Incentive Plan as amended, consist of the following grants:

Officer's Name	Position	Five Year Performance Grant Award
Olaf Karasch	President & Chief Executive Officer	150,000
Mark Schomp	Executive Vice President, Sales & Marketing	50,000
Barbara Russell	Treasurer & Chief Financial Officer	15,000

The Performance Awards, which vest over a five year period, are based solely on the basis of satisfaction of the performance criteria established annually by the Company's Board of Directors. The Performance Periods begin on January 1 of each calendar year and ending on December 31 of such year. The first Performance Period began on January 1, 2016 and ended on December 31, 2017. The final Performance Period shall begin on January 1, 2020 and shall end on December 31, 2020. The exercise price for the Performance Awards was set at the closing price of the Company's stock on January 4, 2016, as established by NASDAQ, at $4.51 per share.

The 2018 Performance Awards consisted of 43,000 or one fifth of the five year total. Based on the satisfaction of the performance criteria established by the Company's Board of Directors for the year ended December 31, 2018, none of the Performance Awards for the year vested.

The Company granted options to purchase 6,000 shares of common stock in each of the years ended December 31, 2018 and 2017. The weighted average fair value per option at the date of grant for options granted in the years ended December 31, 2018 and 2017 was $3.90 and $3.79, respectively, as valued using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Twelve Months Ended December 31,	
	2018	2017
Risk-free interest rate	2.94%	2.10%
Expected dividend yield	0.00%	0.00%
Expected volatility	0.37	0.48
Expected term (in years)	7.00	7.00

The risk free interest rate is based on the Treasury Constant Maturity Rate as quoted by the Federal Reserve at the time of the grant for a term equivalent to the expected term of the grant. The estimated volatility is based on the historical volatility of our stock and other factors. The expected term of options represents the period of time the options are expected to be outstanding from grant date.

The following table summarizes certain information regarding stock option activity:

		Options		
	Total Reserved	Outstanding	Weighted Avg Exercise Price	Range of Exercise Prices
Balances at January 1, 2017	385,369	153,164	$10.84	$2.70 - $18.22
Granted		11,138	$6.04	$7.35 - $7.35
Forfeited or expired		(31,300)	$10.79	$4.51 - $13.45
Balances at December 31, 2017	385,369	133,002	$5.33	$2.70 - $18.22
Granted		6,000	$3.90	$3.90 - $3.90
Forfeited or expired		(2,500)	$10.45	$10.45 - $10.45
Balances at December 31, 2018	385,369	136,502	$10.16	$2.70 - $18.22

Of the 500,000 shares included in the Plan, there have been 114,631 options exercised. At December 31, 2018, there were 136,502 options outstanding and 248,867 were available for future issuance.

The number of shares of common stock underlying options exercisable at December 31, 2018 was 119,502 and the weighted-average remaining contractual life of those options is 5.35 years. Exercise prices on options outstanding at December 31, 2018, ranged from $2.70 to $18.22 per share as noted in the following table.

Options Outstanding at December 31,		
2018	2017	Range of Exercise Prices
29,563	23,563	$ 2.70 - $ 4.99
22,439	22,439	$ 5.00 - $ 9.99
20,500	23,000	$ 10.00 - $ 10.99
20,500	40,500	$ 11.00 - $ 12.99
43,500	23,500	$ 13.00 - $ 18.22
136,502	133,002	

As of December 31, 2018, there was approximately $8,000 of compensation expense related to non-vested awards. This expense is expected to be recognized over a weighted average period of 0.35years.

10. Profit Sharing Plan

The Company has a profit sharing plan that covers the U.S. employees. Contributions to the plan are at the option of and determined by the Board of Directors and are limited to the maximum amount deductible by the Company for Federal income tax purposes. For the years ended December 31, 2018 and 2017, there were no contributions to the plan.

The Company also offers U.S. employees a 401(k) savings plan administered by an investment services company. Employees are eligible to participate in the plan after completing six months of service with the Company. The Company matches contributions up to 4% of the employee's eligible earnings. Total Company contributions to the 401(k) plan for the years ended December 31, 2018 and 2017 was approximately $78,000 and $68,000, respectively.

11. Derivatives and Other Financial Instruments

The Company has exposure to certain risks relating to its ongoing business operations, including financial, market, political and economic risks. The following discussion provides information regarding our exposure to the risks of changing foreign currency exchange rates. The Company has not entered into these contracts for trading or speculative purposes in the past, nor do we currently anticipate entering into such contracts for trading or speculative purposes in the future. The foreign exchange contracts are used to mitigate uncertainty and volatility, and to cover underlying exposures.

Foreign Currency Forward Contracts

We manage the risk of changes in foreign currency exchange rates, primarily at our Malaysian operation, through the use of foreign currency contracts. Foreign exchange contracts are used to protect the Company from the risk that the eventual cash flows resulting from transactions in foreign currencies, including sales and purchases transacted in a currency other than the functional currency, will be adversely affected by changes in exchange rates. We report the fair value of the derivatives on our consolidated balance sheets and changes in the fair value are recognized in earnings in the period of the change.

At December 31, 2018, we had foreign currency contracts not designated as hedges. We marked these contracts to market, recording income of approximately $1,000 as a component of our 2018 net loss and $1,000 as a current asset on the consolidated balance sheet at December 31, 2018.

The following table summarizes the gross fair market value of all derivative instruments, in thousands, which are not designated as hedging instruments and their location in our consolidated balance sheets:

Asset Derivatives					
Derivative Instrument	**Location**		**December 31, 2018**		**December 31, 2017**
Foreign Currency Exchange Contracts	Other Current Assets	$	1	$	3

The following table summarizes the impact of the Company's derivatives, in thousands, on the consolidated financial statements of operations for the years ended December 31, 2018 and 2017:

			Amount of Gain Recognized in Operations		
			Year Ended December 31,		
Derivative Instrument	**Location of Gain on Derivative Instrument**		**2018**		**2017**
Foreign Currency Exchange Contracts	Gain on foreign currency exchange rate	$	1	$	3

12. Commitments and Contingencies

Land Lease

The Company operates a plant in Corpus Christi, Texas. The facility is located in the Rincon Industrial Park on approximately 15 acres of land, with approximately 14 acres leased from the Port of Corpus Christi Authority (the "Port") and approximately one acre owned by the Company. The lease payment is subject to an adjustment every 5 years for what the Port calls the "equalization valuation". This is used as a means of equalizing rentals on various Port lands and is determined solely at the discretion of the Port. The last equalization valuation was July 2017 at which time the annual lease increased from approximately $95,000 to $178,000. The Company and the Port executed an amended lease agreement on July 11, 2000, which extended the expiration date of the lease to June 30, 2027.

Minimum future rental payments for non-cancelable leases as of December 31, 2018 for the next five years ending December 31 and in total thereafter are as follows:

Years Ending December 31, (In thousands)	
2019	$ 189
2020	189
2021	182
2022	178
2023	178
Thereafter	622
Total minimum lease payments	$ 1,538

Rent expense under these leases was approximately $178,000 and $160,000 for the years ended December 31, 2018 and 2017, respectively.

Capital Leases

The Company's operation in The Netherlands entered into a capital lease, in the amount of €89,550 ($102,517) for a compressed air system from Diependael. The lease, which has an interest rate of 5.75%, includes executory costs of €270 ($309) and a purchase option of €9,950 ($11,390) at the end of the 36 month lease term.

The Company's U.S. operation entered into a capital lease with PNC Equipment Finance, in the amount of $30,773, for a forklift. The lease, which has an interest rate of 2.68%, includes sales tax of $2,715 and a purchase option of $1.00 at the end of the 60 month lease term.

Year Ending December 31, (In thousands)	
2019	$ 44
2020	35
2021	7
2022	7
2023	6
Total minimum lease payments	99
Less: Amount representing executory costs	-
Net minimum lease payments	99
Less: Amount representing interest	(5)
Less: Amount representing sales tax	(2)
Present value of net minimum lease payments	92

Contingencies
There are claims arising in the normal course of business that are pending against the Company. While it is not feasible to predict or determine the outcome of any case, it is the opinion of management that the ultimate dispositions will have no material effect on the consolidated financial statements of the Company.

The Company believes that it is in compliance with all applicable federal, state and local laws and regulations relating to the discharge of substances into the environment, and it does not expect that any material expenditure for environmental control facilities will be necessary in order to continue such compliance.

13. Significant Customers
For the years ended December 31, 2018 and 2017, one customer accounted for approximately 11% and 14%, respectively, of our total consolidated sales revenue. The amount included in accounts receivable at December 31, 2018, related to this customer was $870,670 and at December 31, 2017, this customer did not have any open invoices in accounts receivable.

14. Foreign Customer Sales
Revenues from sales to customers located outside the U.S. for the years ended December 31, 2018 and 2017 are as follows:

	Year Ended December 31,			
(In thousands)		2018		2017
Canada, Mexico & South/Central America	$	3,156	$	3,067
Pacific Rim		4,513		3,678
Europe, Africa & Middle East		12,020		11,591
Total Foreign Sales	$	19,689	$	18,336

15. Sales by Product
Revenues from sales by product for the years ended December 31, 2018 and 2017 are as follows (in thousands):

Product		2018			2017			Variance	
ALUPREM	$	15,242	39%	$	14,958	38%	$	284	2%
HITOX		10,764	27%		9,349	24%		1,415	15%
BARTEX / BARYPREM		6,810	18%		8,383	22%		(1,573)	-19%
HALTEX / OPTILOAD		5,601	14%		5,383	14%		218	4%
TIOPREM		606	1%		585	1%		21	4%
OTHER		411	1%		308	1%		103	33%
Total	$	39,434	100%	$	38,966	100%	$	468	1%

16. Subsequent Events
Subsequent events have been evaluated through April 12, 2019, the date the financial statement were available to be issued.