

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

**FORM 10-Q**

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

For the quarterly period ended June 30, 2019

Commission file number: 001-36451

**Quest Resource Holding Corporation**

(Exact Name of Registrant as Specified in its Charter)

Nevada  
(State or other Jurisdiction of  
Incorporation or Organization)

51-0665952  
(I.R.S. Employer  
Identification No.)

3481 Plano Parkway  
The Colony, Texas 75056  
(Address of Principal Executive Offices and Zip Code)

(972) 464-0004  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock	QRHC	NASDAQ

As of August 1, 2019, there were outstanding 15,350,153 shares of the registrant's common stock, \$0.001 par value, outstanding .

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements (Unaudited)**

**QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2019	December 31, 2018
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,087,606	\$ 2,122,297
Accounts receivable, less allowance for doubtful accounts of \$977,088 and \$929,399 as of June 30, 2019 and December 31, 2018, respectively	15,893,340	16,711,809
Prepaid expenses and other current assets	1,373,431	965,755
Total current assets	19,354,377	19,799,861
Goodwill	58,208,490	58,208,490
Intangible assets, net	2,124,698	2,610,921
Property and equipment, net, and other assets	2,806,442	968,025
Total assets	<u>\$ 82,494,007</u>	<u>\$ 81,587,297</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 15,248,086	\$ 15,777,921
Deferred revenue and other current liabilities	23,140	71,717
Total current liabilities	15,271,226	15,849,638
Revolving credit facility, net	4,861,355	5,194,588
Other long-term liabilities	1,452,457	353
Total liabilities	21,585,038	21,044,579
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, no shares issued or outstanding as of June 30, 2019 and December 31, 2018	—	—
Common stock, \$0.001 par value, 200,000,000 shares authorized, 15,350,153 and 15,328,870 shares issued and outstanding as of June 30, 2019 and December 31, 2018	15,350	15,329
Additional paid-in capital	160,204,422	159,701,542
Accumulated deficit	(99,310,803)	(99,174,153)
Total stockholders' equity	60,908,969	60,542,718
Total liabilities and stockholders' equity	<u>\$ 82,494,007</u>	<u>\$ 81,587,297</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>Revenue</b>	\$ 25,445,373	\$ 27,928,626	\$ 52,094,414	\$ 52,624,549
Cost of revenue	20,695,798	23,500,848	42,801,994	44,648,944
<b>Gross profit</b>	<u>4,749,575</u>	<u>4,427,778</u>	<u>9,292,420</u>	<u>7,975,605</u>
Operating expenses:				
Selling, general, and administrative	4,226,912	3,879,280	8,441,142	7,631,040
Depreciation and amortization	327,093	981,610	652,880	1,966,191
Total operating expenses	<u>4,554,005</u>	<u>4,860,890</u>	<u>9,094,022</u>	<u>9,597,231</u>
<b>Operating income (loss)</b>	195,570	(433,112)	198,398	(1,621,626)
Interest expense	113,697	105,430	225,508	229,435
Income (loss) before taxes	81,873	(538,542)	(27,110)	(1,851,061)
Income tax expense	54,771	—	109,540	—
<b>Net income (loss)</b>	<u>\$ 27,102</u>	<u>\$ (538,542)</u>	<u>\$ (136,650)</u>	<u>\$ (1,851,061)</u>
<b>Net income (loss) applicable to common stockholders</b>	<u>\$ 27,102</u>	<u>\$ (538,542)</u>	<u>\$ (136,650)</u>	<u>\$ (1,851,061)</u>
<b>Net income (loss) per share applicable to common stockholders</b>				
Basic	<u>\$ 0.00</u>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ (0.12)</u>
Diluted	<u>\$ 0.00</u>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ (0.12)</u>
<b>Weighted average number of common shares outstanding</b>				
Basic	15,339,743	15,307,859	15,334,397	15,305,172
Diluted	15,362,406	15,307,859	15,334,397	15,305,172

The accompanying notes are an integral part of these condensed consolidated financial statements.

**QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(UNAUDITED)**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Par Value			
<b>Balance, December 31, 2018</b>	<b>15,328,870</b>	<b>\$ 15,329</b>	<b>\$ 159,701,542</b>	<b>\$ (99,174,153)</b>	<b>\$ 60,542,718</b>
Stock-based compensation	—	—	204,031	—	204,031
Net loss	—	—	—	(163,752)	(163,752)
Balance, March 31, 2019	15,328,870	15,329	159,905,573	(99,337,905)	60,582,997
Stock-based compensation	—	—	269,201	—	269,201
Shares issued for Employee Stock Purchase Plan options	21,283	21	29,648	—	29,669
Net income	—	—	—	27,102	27,102
<b>Balance, June 30, 2019</b>	<b>15,350,153</b>	<b>\$ 15,350</b>	<b>\$ 160,204,422</b>	<b>\$ (99,310,803)</b>	<b>\$ 60,908,969</b>

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Par Value			
<b>Balance, December 31, 2017</b>	<b>15,302,455</b>	<b>\$ 15,302</b>	<b>\$ 158,867,600</b>	<b>\$ (96,735,172)</b>	<b>\$ 62,147,730</b>
Stock-based compensation	—	—	224,133	—	224,133
Net loss	—	—	—	(1,312,519)	(1,312,519)
Balance, March 31, 2018	15,302,455	15,302	159,091,733	(98,047,691)	61,059,344
Stock-based compensation	—	—	182,582	—	182,582
Shares issued for Employee Stock Purchase Plan options	10,928	11	18,385	—	18,396
Net loss	—	—	—	(538,542)	(538,542)
<b>Balance, June 30, 2018</b>	<b>15,313,383</b>	<b>\$ 15,313</b>	<b>\$ 159,292,700</b>	<b>\$ (98,586,233)</b>	<b>\$ 60,721,780</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	<b>For the Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (136,650)	\$ (1,851,061)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	116,629	203,972
Amortization of intangibles	585,260	1,853,217
Amortization of debt issuance costs	46,951	46,951
Provision for doubtful accounts	45,000	159,915
Stock-based compensation	473,232	406,715
Changes in operating assets and liabilities:		
Accounts receivable	773,469	(1,774,385)
Prepaid expenses and other current assets	(407,676)	(280,320)
Security deposits and other assets	91,720	259,210
Accounts payable and accrued liabilities	(930,793)	3,239,972
Deferred revenue and other liabilities	(203,545)	(196,544)
Net cash provided by operating activities	<u>453,597</u>	<u>2,067,642</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(36,862)	(42,287)
Purchase of capitalized software development	(99,037)	(105,890)
Net cash used in investing activities	<u>(135,899)</u>	<u>(148,177)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from credit facilities	51,978,018	48,875,349
Repayments of credit facilities	(52,358,202)	(50,761,385)
Proceeds from shares issued for Employee Stock Purchase Plan	29,669	18,396
Repayments of finance lease obligations	(1,874)	(26,118)
Net cash used in financing activities	<u>(352,389)</u>	<u>(1,893,758)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(34,691)</b>	<b>25,707</b>
Cash and cash equivalents at beginning of period	2,122,297	1,055,281
<b>Cash and cash equivalents at end of period</b>	<b><u>\$ 2,087,606</u></b>	<b><u>\$ 1,080,988</u></b>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 186,069	\$ 224,486
Cash paid for income taxes	\$ 26,905	\$ —
<b>Supplemental non-cash activities:</b>		
Sale of goodwill and intangible assets	\$ —	\$ 246,585
Investment in Earth Media Partners, LLC	\$ —	\$ (246,585)

The accompanying notes are an integral part of these condensed consolidated financial statements.

**QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. The Company and Description of Business**

The accompanying condensed consolidated financial statements include the accounts of Quest Resource Holding Corporation (“QRHC”) and its subsidiaries, Quest Resource Management Group, LLC (“Quest”), Landfill Diversion Innovations, LLC (“LDI”), Youchange, Inc. (“Youchange”), Quest Vertigent Corporation (“QVC”), Quest Vertigent One, LLC (“QV One”), and Quest Sustainability Services, Inc. (“QSS”) (collectively, “we,” “us,” “our,” or “our company”).

*Operations* – We are a national provider of reuse, recycling, and disposal services that enable our customers to achieve and satisfy their environmental and sustainability goals and responsibilities. We provide businesses across multiple industry sectors with single source solutions for the reuse, recycling, and disposal of a wide variety of waste streams and recyclables generated by their operations.

**2. Summary of Significant Accounting Policies**

*Principles of Presentation and Consolidation*

The condensed consolidated financial statements included herein have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and should be read in conjunction with our audited financial statements for the year ended December 31, 2018. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted as permitted by the SEC, although we believe the disclosures that are made are adequate to make the information presented herein not misleading.

The accompanying condensed consolidated financial statements reflect, in our opinion, all normal recurring adjustments necessary to present fairly our financial position at June 30, 2019 and the results of our operations and cash flows for the periods presented. We derived the December 31, 2018 condensed consolidated balance sheet data from audited financial statements; however, we did not include all disclosures required by GAAP. As QRHC, Quest, LDI, Youchange, QVC, QV One, and QSS each operate as environmental-based service companies, we did not deem segment reporting necessary.

All intercompany accounts and transactions have been eliminated in consolidation. Interim results are subject to seasonal variations, and the results of operations for the six months ended June 30, 2019 are not necessarily indicative of the results to be expected for the full year.

*Recent Accounting Pronouncements*

***Adopted***

On January 1, 2019, we adopted Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*, using a modified retrospective approach with an effective date as of January 1, 2019. Accordingly, prior year financial statement data is presented in accordance with the previous ASC Topic 840, *Leases*, and no retrospective adjustments were made to the comparative periods presented. We elected the package of practical expedients, which allowed us to carryforward our historical assessment of (1) whether contracts are or contain leases, (2) lease classification, and (3) initial direct costs. As of January 1, 2019, we recognized an operating right-of-use asset of approximately \$2.0 million and corresponding operating lease liabilities of approximately \$2.2 million. Finance lease assets were not impacted by the adoption of ASC 842, as finance lease liabilities and the corresponding assets were already recorded on the balance sheet under ASC 840. The adoption did not materially impact our results of operations or cash flows and no cumulative adjustment to accumulated deficit was necessary as of January 1, 2019. Refer to Note 7, *Leases* for additional information and enhanced disclosures related to this amended guidance.

On January 1, 2018, we adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the full retrospective approach for all ongoing customer contracts. Refer to Note 8, *Revenue* for additional information and disclosures related to this amended guidance.

***Pending Adoption***

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which provides guidance on measuring credit losses on financial instruments. The amended guidance replaces current incurred loss impairment methodology of recognizing credit losses when a loss is probable with a methodology that reflects expected credit losses and requires a broader range of reasonable and supportable information to assess credit loss estimates. ASU 2016-13 is effective for us on January 1, 2020. We are assessing the provisions of this amended guidance; however, the adoption of the standard is not expected to have a material effect on our consolidated financial statements.

There have been no other recent accounting pronouncements or changes in accounting pronouncements that have been issued but not yet adopted that are of significance, or potential significance, to us.

### 3. Property and Equipment, net, and Other Assets

At June 30, 2019 and December 31, 2018, property and equipment, net, and other assets consisted of the following:

	June 30, 2019 (Unaudited)	December 31, 2018
Property and equipment, net of accumulated depreciation of \$2,640,329 and \$2,523,700 as of June 30, 2019 and December 31, 2018, respectively	\$ 534,752	\$ 614,518
Right-of-use operating lease asset	1,872,499	—
Security deposits and other assets	399,191	353,507
Property and equipment, net, and other assets	<u>\$ 2,806,442</u>	<u>\$ 968,025</u>

We compute depreciation using the straight-line method over the estimated useful lives of the property and equipment. Depreciation expense for the three months ended June 30, 2019 was \$49,112, including \$15,511 of depreciation expense reflected within “Cost of revenue” in our condensed consolidated statements of operations as it related to assets used in directly servicing customer contracts, and was \$116,629 for the six months ended June 30, 2019, including \$49,009 of depreciation expense reflected within “Cost of revenue.” Depreciation expense for the three months ended June 30, 2018 was \$100,662, including \$45,702 of depreciation expense reflected within “Cost of revenue,” and was \$203,972 for the six months ended June 30, 2018, including \$90,998 reflected within “Cost of revenue.”

We recorded a right-of-use operating lease asset of \$2.0 million related to our corporate office lease upon the adoption of ASC 842 effective January 1, 2019. Refer to Note 7, *Leases* for additional information.

On February 20, 2018 (the “Closing Date”), we entered into an Asset Purchase Agreement with Earth Media Partners, LLC to sell certain assets of our wholly owned subsidiary, Earth911, Inc., in exchange for a 19% interest in Earth Media Partners, LLC, which was recorded as an investment in the amount of \$246,585 as of the Closing Date, and a potential future earn-out amount of approximately \$350,000. The net assets sold related to the Earth911.com website business and consisted primarily of the website and its content and customers, deferred revenue, and accounts receivable as of the Closing Date. Earth911, Inc. was subsequently renamed Quest Sustainability Services, Inc. In addition to our investment in Earth Media Partners, LLC, we accrued a receivable in the amount of \$107,815 related to the earn-out as of June 30, 2019. The carrying amount of our investment and the accrued earn-out receivable are included in other assets.

### 4. Goodwill and Other Intangible Assets

The components of goodwill and other intangible assets were as follows:

June 30, 2019 (Unaudited)	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
<b>Finite lived intangible assets:</b>				
Customer relationships	5 years	\$ 12,720,000	\$ 12,720,000	\$ —
Trademarks	7 years	6,235,068	5,305,671	929,397
Patents	7 years	230,683	230,683	—
Software	7 years	2,033,345	838,044	1,195,301
Customer lists	5 years	307,153	307,153	—
Total finite lived intangible assets		<u>\$ 21,526,249</u>	<u>\$ 19,401,551</u>	<u>\$ 2,124,698</u>

December 31, 2018	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
<b>Finite lived intangible assets:</b>				
Customer relationships	5 years	\$ 12,720,000	\$ 12,720,000	\$ —
Trademarks	7 years	6,235,068	4,860,305	1,374,763
Patents	7 years	230,683	230,683	—
Software	7 years	1,934,308	698,150	1,236,158
Customer lists	5 years	307,153	307,153	—
Total finite lived intangible assets		<u>\$ 21,427,212</u>	<u>\$ 18,816,291</u>	<u>\$ 2,610,921</u>

June 30, 2019 (Unaudited) and December 31, 2018	Estimated Useful Life	Carrying Amount
<b>Indefinite lived intangible asset:</b>		
Goodwill	Indefinite	\$ 58,208,490

We compute amortization using the straight-line method over the estimated useful lives of the finite lived intangible assets. Amortization expense related to finite lived intangible assets was \$293,491 and \$926,650 for the three months ended June 30, 2019 and 2018, respectively. Amortization expense related to finite lived intangible assets was \$585,260 and \$1,853,217 for the six months ended June 30, 2019 and 2018, respectively.

We have no indefinite-lived intangible assets other than goodwill. The goodwill is not deductible for tax purposes.

We performed our annual impairment analysis for goodwill and other intangible assets in the third quarter of 2018 with no impairment recorded.

## 5. Accounts Payable and Accrued Liabilities

The components of Accounts payable and accrued liabilities were as follows:

	June 30, 2019 (Unaudited)	December 31, 2018
Accounts payable	\$ 12,895,242	\$ 14,025,221
Accrued taxes	743,347	548,126
Employee compensation	765,837	910,796
Operating lease liability - current portion	609,304	—
Other	234,356	293,778
	<u>\$ 15,248,086</u>	<u>\$ 15,777,921</u>

Refer to Note 7, *Leases* for additional disclosure related to the operating lease liability recorded upon the adoption of ASC 842 *Leases*.

## 6. Revolving Credit Facility

We entered into a Loan, Security and Guaranty Agreement (the “Citizens Loan Agreement”), dated as of February 24, 2017, with Citizens Bank, National Association as a lender, and as administrative agent, collateral agent, and issuing bank, which provides for an asset-based revolving credit facility (the “ABL Facility”) of up to \$20 million and an equipment loan facility in the maximum principal amount of \$2.0 million.

Each loan under the ABL Facility bears interest, at our option, at either the Base Rate, as defined in the Citizens Loan Agreement, plus a margin ranging from 1.0% to 1.5% (6.75% as of June 30, 2019), or the LIBOR lending rate for the interest period in effect, plus a margin ranging from 2.0% to 2.5% (4.77% as of June 30, 2019). The maturity date of the ABL Facility is February 24, 2022.

We had no borrowings under the equipment loan facility, which were required to be requested no later than February 24, 2019.

The ABL Facility contains certain specific financial covenants regarding a minimum liquidity requirement and a minimum fixed charge coverage ratio. In addition, the ABL Facility contains negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, mergers and acquisitions, and other matters customarily restricted in such agreements.

The amount of interest expense related to borrowings for the three months ended June 30, 2019 and 2018 was \$90,035 and \$81,140, respectively. The amount of interest expense related to borrowings for the six months ended June 30, 2019 and 2018 was \$176,777 and \$165,428, respectively. Debt issuance cost of \$469,507 is being amortized to interest expense over the term of the ABL Facility beginning March 1, 2017. As of June 30, 2019, the unamortized portion of the debt issuance costs was \$250,404. The amount of interest expense related to the amortization of the discount on the ABL Facility for the six months ended June 30, 2019 and 2018 was \$46,951. As of June 30, 2019, the ABL Facility borrowing base availability was \$11,631,000 and the outstanding liability was \$4,861,355, net of unamortized debt issuance cost of \$250,404.

## 7. Leases

### ASU 2016-02 Adoption

On January 1, 2019, we adopted ASU 2016-02, *Leases (Topic 842)*, and the related amendments (collectively “ASC 842”). We used the optional transition method of adoption, in which the cumulative effect of initially applying the new standard, as of January 1, 2019, to our existing leases was approximately \$2.0 million and \$2.2 million to record the operating lease right-of-use asset and the related liabilities, respectively, all of which relate to our corporate office lease. Under this method of adoption, the comparative information in the condensed consolidated financial statements has not been revised and continues to be reported under the previous applicable lease accounting guidance (ASC 840). Leases with terms of 12 months or less are not recorded on the balance sheet.

When we have the option to extend the lease term, terminate the lease before the contractual expiration date, or purchase the leased asset, and if it is reasonably certain that we will exercise the option, we consider these options in determining the classification and measurement of the lease.

As of December 31, 2018, leases classified as capital leases under ASC 840 were included in Property and equipment, net and represented almost fully depreciated office equipment with a negligible book value.

We lease certain equipment to a customer under a lease arrangement that expires in 2020. The capital lease receivable amounts are approximately \$30,000 at June 30, 2019, the majority of which is included in Prepaid expenses and other current assets.

### Balance Sheet Classification

The table below presents the lease related assets and liabilities recorded on the balance sheet. Right-of-use assets and related liabilities related to finance leases at June 30, 2019 are de minimis and mature in less than 12 months.

	<u>June 30,</u> <u>2019</u>
<b>Operating Leases:</b>	
Right-of-use operating lease asset:	
Property and equipment, net and other assets	\$ 1,872,499
Lease Liabilities:	
Accounts payable and accrued liabilities	\$ 609,304
Other long-term liabilities	1,452,457
Total operating lease liabilities	<u>\$ 2,061,761</u>

### Lease Costs

For the three and six months ended June 30, 2019, we recorded approximately \$150,000 and \$300,000 of fixed cost operating lease expense, respectively. Our operating lease expense is offset by a minimum annual incentive received from a local Economic Development Council, which is accrued monthly and will continue over the term of the lease through August 2022. This minimum annual incentive is \$63,000, which will increase to \$93,600 for the annual incentive period starting September 2020.

Cash paid for operating leases approximated operating lease expense and non-cash right of use asset amortization for the three and six months ended June 30, 2019. We did not obtain any new operating lease right-of-use assets in the six months ended June 30, 2019.

### Other Information

Our office lease had a remaining term of 3.25 years as of June 30, 2019, and we used an effective interest rate of 2.456%, which was our incremental borrowing rate in effect at the inception of the lease as our lease does not provide a readily determinable implicit rate.

The future minimum lease payments required under our office lease as of June 30, 2019 were as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 321,120
2020	664,200
2021	664,200
2022	498,150
Total lease payments	<u>2,147,670</u>
Less: Interest	85,909
Present value of lease liabilities	<u>\$ 2,061,761</u>

## 8. Revenue

### Operating Revenues

We provide businesses with services to reuse, recycle, and dispose of a wide variety of waste streams and recyclables generated by their operations. In addition, we have product sales and other revenue primarily from sales of products, such as antifreeze and windshield washer fluid, as well as minor ancillary services.

### Revenue Recognition

We recognize revenue as services are performed or products are delivered. For example, we recognize revenue as waste and recyclable material are collected or when products are delivered. We recognize revenue net of any contracted pricing discounts or rebate arrangements.

We generally recognize revenue for the gross amount of consideration received as we are generally the primary obligor (or principal) in our contracts with customers as we hold complete responsibility to the customer for contract fulfillment. We record amounts collected from customers for sales tax on a net basis.

### Disaggregation of Revenue

The following table presents our revenue disaggregated by source. Sales and usage-based taxes are excluded from revenue. Three customers accounted for 54.1% of revenue for the three months ended June 30, 2019, and three customers accounted for 53.0% of revenue for the three months ended June 30, 2018. Three customers accounted for 57.0% of revenue for the six months ended June 30, 2019, and three customers accounted for 50.8% of revenue for the six months ended June 30, 2018. We operate primarily in the United States, with minor services in Canada.

Revenue Type:	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Services	\$ 22,767,059	\$ 25,324,837	\$ 46,821,578	\$ 47,330,409
Product sales and other	2,678,314	2,603,789	5,272,836	5,294,140
Total revenue	<u>\$ 25,445,373</u>	<u>\$ 27,928,626</u>	<u>\$ 52,094,414</u>	<u>\$ 52,624,549</u>

### Contract Balances

Our incremental direct costs of obtaining a customer contract are generally deferred and amortized to selling, general, and administrative expense or as a reduction to revenue (depending on the nature of the cost) over the estimated life of the customer contract. We classify our contract acquisition costs as current or noncurrent based on the timing of when we expect to recognize the amortization and are included in other assets.

As of June 30, 2019 and December 31, 2018, we had \$121,250 and \$7,448, respectively, of deferred contract costs. During the three months ended June 30, 2019, we amortized \$53,750 and nil of deferred contract costs to selling, general, and administrative expense and as a reduction to revenue, respectively. During the three months ended June 30, 2018, we amortized \$70,417 and \$18,070 of deferred contract costs to selling, general, and administrative expense and as a reduction to income, respectively. During the six months ended June 30, 2019, we amortized \$107,500, and nil of deferred contract costs to selling, general, and administrative expense and as a reduction to income, respectively. During the six months ended June 30, 2018, we amortized \$103,750 and \$36,139 of deferred contract costs to selling, general, and administrative expense and as a reduction to income, respectively.

We bill certain customers in advance, and, accordingly, we defer recognition of related revenues as a contract liability until the services are provided and control is transferred to the customer. As of June 30, 2019 and December 31, 2018, we had \$22,416 and \$69,473, respectively, of deferred revenue, the majority of which was classified in "Deferred revenue and other current liabilities."

## 9. Income Taxes

Our statutory income tax rate is anticipated to be 27%. However, we had income tax expense of \$109,540 on a net operating loss for the six months ended June 30, 2019, which is attributable to state tax obligations for states with no net operating loss carryforwards, and the continued reserve against the benefit of the net operating losses at the federal level.

We compute income taxes using the asset and liability method in accordance with FASB ASC Topic 740, *Income Taxes*. Under the asset and liability method, we determine deferred income tax assets and liabilities based on the differences between the financial reporting and tax bases of assets and liabilities and measure them using currently enacted tax rates and laws. We provide a valuation allowance to reduce the amount of deferred tax assets that, based on available evidence, is more likely than not to be realized. Realization of our net operating loss carryforward was not reasonably assured as of June 30, 2019 and December 31, 2018, and we had recorded a valuation allowance of \$12,152,000 and \$12,202,000, respectively, against deferred tax assets in excess of deferred tax liabilities in the accompanying condensed consolidated financial statements. As of June 30, 2019 and December 31, 2018, we had

federal income tax net operating loss carryforwards of approximately \$18,300,000 and \$18,900,000, respectively, which expire at various dates ranging from 2031-2037.

## 10. Fair Value of Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, deferred revenue, and the ABL Facility. We do not believe that we are exposed to significant interest, currency, or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values using Level 3 inputs, based on their short maturities or, for the ABL Facility, based on borrowing rates currently available to us for loans with similar terms and maturities.

## 11. Stockholders' Equity

**Preferred Stock** – Our authorized preferred stock consists of 10,000,000 shares of preferred stock with a par value of \$0.001, of which no shares have been issued or are outstanding.

**Common Stock** – Our authorized common stock consists of 200,000,000 shares of common stock with a par value of \$0.001, of which 15,350,153 and 15,328,870 shares were issued and outstanding as of June 30, 2019 and December 31, 2018, respectively.

**Employee Stock Purchase Plan** – On September 17, 2014, our stockholders approved our 2014 Employee Stock Purchase Plan (“ESPP”). On May 14, 2019, we issued 21,283 shares to employees for \$29,669 under our ESPP for options that vested and were exercised. We recorded expense of \$13,827 and \$5,262 related to the ESPP for the six months ended June 30, 2019 and 2018, respectively.

**Warrants** – At June 30, 2019, we had outstanding exercisable warrants to purchase 1,733,565 shares of common stock. The following table summarizes the warrants issued and outstanding as of June 30, 2019:

Description	Date of		Exercise Price	Shares of Common Stock
	Issuance	Expiration		
Exercisable warrants				
Warrants	09/24/2014	09/24/2019	\$ 20.00	1,125,005
Warrants	10/20/2014	10/20/2019	\$ 20.00	87,500
Warrants	3/30/2016	03/30/2021	\$ 3.88	521,060
Total warrants issued and outstanding				1,733,565

**Stock Options** – We recorded stock option expense of \$459,405 and \$401,453 for the six months ended June 30, 2019 and 2018, respectively. The following table summarizes the stock option activity for the six months ended June 30, 2019:

	Stock Options		
	Number of Shares	Exercise Price Per Share	Weighted-Average Exercise Price Per Share
Outstanding at December 31, 2018	1,773,066	\$1.17 — \$26.00	\$ 7.02
Granted	1,004,015	\$1.51 — \$3.12	\$ 1.90
Canceled/Forfeited	(64,125)	\$1.51 — \$16.40	\$ 3.05
Outstanding at June 30, 2019	2,712,956	\$1.17 — \$26.00	\$ 5.22

## 12. Net Income (Loss) per Share

We compute basic net income (loss) per share using the weighted average number of shares of common stock outstanding during the period. We compute diluted net income (loss) per share using the weighted average number of shares of common stock outstanding during the period, adjusted for the dilutive effect of common stock equivalents. In periods where losses are reported, the weighted average number of shares of common stock outstanding excludes common stock equivalents because their inclusion would be anti-dilutive. Dilutive potential common shares consist of the incremental common shares issuable upon the exercise of outstanding stock options. Dilutive potential securities are excluded from the computation of earnings per share if their effect is antidilutive.

The dilutive effect of outstanding stock options and warrants is reflected in diluted earnings per share by application of the treasury stock method.

The computation of basic and diluted net income (loss) per share attributable to common stockholders is as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>	
<b>Numerator:</b>				
Net income (loss) applicable to common stockholders	\$ 27,102	\$ (538,542)	\$ (136,650)	\$ (1,851,061)
<b>Denominator:</b>				
Weighted average common shares outstanding, basic	15,339,743	15,307,859	15,334,397	15,305,172
Effect of dilutive common shares	22,663	—	—	—
Weighted average common shares outstanding, diluted	<u>15,362,406</u>	<u>15,307,859</u>	<u>15,334,397</u>	<u>15,305,172</u>
<b>Net income (loss) per share:</b>				
Basic	\$ 0.00	\$ (0.04)	\$ (0.01)	\$ (0.12)
Diluted	\$ 0.00	\$ (0.04)	\$ (0.01)	\$ (0.12)
<b>Anti-dilutive securities excluded from diluted net income (loss) per share:</b>				
Stock options	2,690,293	1,753,816	2,712,956	1,753,816
Warrants	1,733,565	1,733,565	1,733,565	1,733,565
Total anti-dilutive securities excluded from net income (loss) per share	<u>4,423,858</u>	<u>3,487,381</u>	<u>4,446,521</u>	<u>3,487,381</u>

### 13. Related Party Transactions

During the quarter ended June 30, 2019, three stockholders sold approximately 4.3 million shares of our common stock in a registered public offering that closed on April 11, 2019. In a separate private transaction, a certain selling stockholder sold 1,750,000 shares of our common stock. The offering and private transaction, together the “Transactions”, closed on April 11, 2019. We did not receive any proceeds from sales by the selling stockholders in the Transactions. We incurred costs and expenses in connection with the Transactions, consisting of various registration, due diligence, printing, and professional service fees and expenses, and such costs, less amounts reimbursed by the selling stockholders at the closing of the Transactions, were approximately \$248,000, and is included in selling, general, and administrative expense for the six months ended June 30, 2019. The majority of the costs associated with the Transactions were recognized in the first quarter of 2019, with approximately \$17,000 recognized in the quarter ended June 30, 2019.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts contained in or incorporated by reference into this Form 10-Q, including statements regarding our future operating results, future financial position, business strategy, objectives, goals, plans, prospects, and markets, and plans and objectives for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "estimates," "expects," "intends," "targets," "contemplates," "projects," "predicts," "may," "might," "plan," "will," "would," "should," "could," "may," "can," "potential," "continue," "objective," or the negative of those terms, or similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. Specific forward-looking statements in this Form 10-Q include statements regarding the impact, if any, of the adoption of the ASU on our consolidated financial statements; exposure to significant interest, currency, or credit risks arising from our financial instruments; sufficiency of our cash and cash equivalents, borrowing capacity, and cash generated from operations to fund our operations for the next 12 months; and estimated amortization expense of intangible assets for future periods. All forward-looking statements included herein are based on information available to us as of the date hereof and speak only as of such date. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. The forward-looking statements contained in or incorporated by reference into this Form 10-Q reflect our views as of the date of this Form 10-Q about future events and are subject to risks, uncertainties, assumptions, and changes in circumstances that may cause our actual results, performance, or achievements to differ significantly from those expressed or implied in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, performance, or achievements. A number of factors could cause actual results to differ materially from those indicated by the forward-looking statements and other risks detailed from time to time in our reports to the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2018.

### Overview

We were incorporated in Nevada in July 2002 under the name BlueStar Financial Group, Inc. On July 16, 2013, we acquired all of the issued and outstanding membership interests of Quest Resource Management Group, LLC, or Quest, held by Quest Resource Group LLC, or QRG, comprising 50% of the membership interests of Quest, or the Quest Interests. Our wholly owned subsidiary, Quest Sustainability Services, Inc., or QSS, (formerly known as Earth911, Inc.), held the remaining 50% of the membership interests of Quest for several years. Concurrently with our acquisition of the Quest Interests, we assigned the Quest Interests to QSS so that QSS now holds 100% of the issued and outstanding membership interests of Quest. On October 28, 2013, we changed our name to Quest Resource Holding Corporation.

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" is based on and relates primarily to the operations of QRHC and Quest.

### Three and Six Months Ended June 30, 2019 and 2018 Operating Results

The following table summarizes our operating results for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
<b>Revenue</b>	\$ 25,445,373	\$ 27,928,626	\$ 52,094,414	\$ 52,624,549
Cost of revenue	20,695,798	23,500,848	42,801,994	44,648,944
<b>Gross profit</b>	<u>4,749,575</u>	<u>4,427,778</u>	<u>9,292,420</u>	<u>7,975,605</u>
Operating expenses:				
Selling, general, and administrative	4,226,912	3,879,280	8,441,142	7,631,040
Depreciation and amortization	327,093	981,610	652,880	1,966,191
Total operating expenses	<u>4,554,005</u>	<u>4,860,890</u>	<u>9,094,022</u>	<u>9,597,231</u>
<b>Operating income (loss)</b>	195,570	(433,112)	198,398	(1,621,626)
Interest expense	113,697	105,430	225,508	229,435
Income (loss) before taxes	81,873	(538,542)	(27,110)	(1,851,061)
Income tax expense	54,771	—	109,540	—
<b>Net income (loss)</b>	<u>\$ 27,102</u>	<u>\$ (538,542)</u>	<u>\$ (136,650)</u>	<u>\$ (1,851,061)</u>

## **Three and Six Months Ended June 30, 2019 compared to Three and Six Months Ended June 30, 2018**

### ***Revenue***

For the quarter ended June 30, 2019, revenue was \$25.4 million, a decrease of \$2.5 million, or 8.9%, compared with \$27.9 million for the quarter ended June 30, 2018. For the six months ended June 30, 2019, revenue was \$52.1 million, a decrease of \$530,000 or 1%, compared with \$52.6 million for the six months ended June 30, 2018. The decrease was primarily due to the impact of a production slowdown at one of our largest industrial customers and exiting out of a low-margin service with another customer, partially offset by increased services from both our continuing and new customer base.

### ***Cost of Revenue/Gross Profit***

Cost of revenue decreased \$2.8 million to \$20.7 million for the quarter ended June 30, 2019 from \$23.5 million for the quarter ended June 30, 2018. Cost of revenue decreased \$1.8 million to \$42.8 million for the six months ended June 30, 2019 from \$44.6 million for the six months ended June 30, 2018. The decrease was primarily due to the impact of a production slowdown at one of our largest industrial customers, and the exiting out of a low-margin service with another customer, partially offset by increased services from both our continuing and new customer base.

Gross profit for the quarter ended June 30, 2019 was \$4.7 million, an increase of \$322,000, or 7.3%, compared with \$4.4 million for the quarter ended June 30, 2018. The gross profit margin rose to 18.7% for the second quarter of 2019 compared with 15.9% for the second quarter of 2018. Gross profit for the six months ended June 30, 2019 was \$9.3 million, an increase of \$1.3 million, or 16.5%, compared with \$8.0 million for the six months ended June 30, 2018. The gross profit margin rose to 17.8% for the six months ended June 30, 2019 compared with 15.2% for the six months ended June 30, 2018. The changes in gross profit and the increase in gross profit margin percentage for the three and six months ended June 30, 2019 were primarily due to the net effect of increased services from both our continuing and new customer base, and lower cost of certain contracted services.

Revenue, gross profit, and gross profit margins are affected period to period by the volumes of waste and recycling materials generated by our customers, the frequency and type of services provided, the price and mix of the services provided, commodity index adjustments for recycled materials, and the cost and mix of subcontracted services provided in any one reporting period.

### ***Operating Expenses***

Operating expenses were \$4.6 million and \$4.9 million for the three months ended June 30, 2019 and 2018, respectively, a decrease of \$307,000. Operating expenses were \$9.1 million and \$9.6 million for the six months ended June 30, 2019 and 2018, respectively, a decrease of \$503,000.

In the quarter ended June 30, 2019, three stockholders sold approximately 4.3 million shares of our common stock in a registered public offering that closed on April 11, 2019. In a separate private transaction, a certain selling stockholder sold 1,750,000 shares of our common stock. The offering and private transaction, together the "Transactions", closed on April 11, 2019. We did not receive any proceeds from sales by the selling stockholders in the Transactions. We incurred costs and expenses in connection with the Transactions, consisting of various registration, due diligence, printing, and professional service fees and expenses, and such costs, less amounts reimbursed by the selling stockholders at the closing of the Transactions, were approximately \$248,000, and is included in selling, general, and administrative expense for the six months ended June 30, 2019. The majority of the costs associated with the Transactions were recognized in the first quarter of 2019, with approximately \$17,000 recognized in the quarter ended June 30, 2019.

Selling, general, and administrative expenses were \$4.2 million and \$3.9 million for the three months ended June 30, 2019 and 2018, respectively, an increase of approximately \$348,000. The increase was primarily related to increases in labor related expenses of approximately \$312,000, stock related compensation of \$87,000, professional fees of \$40,000, advertising and tradeshow expenses of \$31,000 and travel of \$30,000, partially offset by a decrease in bad debt expense of \$135,000. Selling, general, and administrative expenses were \$8.4 million and \$7.6 million for the six months ended June 30, 2019 and 2018, respectively, an increase of approximately \$810,000. The increase was primarily related to increases in labor related expenses of approximately \$468,000, professional fees of \$247,000, advertising and tradeshow expenses of \$81,000, stock related compensation of \$67,000, and travel of \$24,000, partially offset by a decrease in bad debt expenses of \$115,000. As discussed above, professional fees in the six months ended June 30, 2019 included costs of approximately \$248,000 related to the Transactions.

Operating expenses also included depreciation and amortization of approximately \$327,000 and \$982,000 for the three months ended June 30, 2019 and 2018, respectively, a decrease of approximately \$655,000. Depreciation and amortization expenses were approximately \$653,000 and \$2.0 million for the six months ended June 30, 2019 and 2018, respectively. The decrease in depreciation and amortization was primarily due to lower amortization related to certain intangible assets that were fully amortized as of July 2018.

### ***Interest Expense***

Interest expense was \$114,000 and \$105,000 for the three months ended June 30, 2019 and 2018, respectively, an increase of approximately \$8,000. Interest expense was \$226,000 and \$230,000 for the six months ended June 30, 2019 and 2018, respectively, a

decrease of approximately \$4,000. See Note 6 to our condensed consolidated financial statements for a discussion of our revolving credit facility.

### **Income Taxes**

We recorded a provision for income taxes of \$55,000 and \$110,000 for the three and six months ended June 30, 2019, respectively, primarily related to tax basis net income at the state level for several states with no net operating loss carryforwards. For the three and six months ended June 30, 2018, we were in a net loss position and recorded no provision.

### **Net Income (Loss)**

Net income for the quarter ended June 30, 2019 was \$27,000 compared with a net loss of \$539,000 for the quarter ended June 30, 2018. Net loss for the six months ended June 30, 2019 was \$137,000 compared to a net loss of \$1.9 million for the six months ended June 30, 2018. The explanations above detail the majority of the changes related to net income (loss).

Our operating results, including revenue, operating expenses, and operating margins, will vary from period to period depending on commodity prices of recycled materials, the volume and mix of services provided, as well as customer mix during the reporting period.

### **Income (Loss) per Share**

Net income per basic and diluted share was \$0.00 for the quarter ended June 30, 2019 compared with a net loss per basic and diluted share of \$(0.04) for the quarter ended June 30, 2018. The basic weighted average number of shares of common stock outstanding were approximately 15.3 million for both the three months ended June 30, 2019 and the three months ended June 30, 2018. The diluted weighted average number of shares of common stock outstanding were approximately 15.4 and 15.3 million for the three months ended June 30, 2019 and 2018, respectively.

Net loss per basic and diluted share was \$(0.01) for the six months ended June 30, 2019 compared with a net loss per basic and diluted share of \$(0.12) for the six months ended June 30, 2018. The basic and diluted weighted average number of shares of common stock outstanding were approximately 15.3 million for both the six months ended June 30, 2019 and June 30, 2018.

### **Adjusted EBITDA**

We use the non-GAAP measurement of earnings before interest, taxes, depreciation, amortization, stock-related compensation charges, and other adjustments, or "Adjusted EBITDA," as another metric to evaluate our performance. Adjusted EBITDA is a non-GAAP measure that we believe can be helpful in assessing our overall performance as an indicator of operating and earnings quality. We suggest that Adjusted EBITDA be viewed in conjunction with our reported financial results or other financial information prepared in accordance with GAAP. For the three and six months ended June 30, 2019, other adjustments of \$17,378 and \$247,589 included costs related to the Transactions as further discussed above. For the three and six months ended June 30, 2018, other adjustments of \$2,839 and \$51,684, respectively, included legal fees related to our sale of certain Earth911 assets.

The following table reflects Adjusted EBITDA for the three and six months ended June 30, 2019 and 2018:

#### **RECONCILIATION OF NET INCOME (LOSS) TO ADJUSTED EBITDA (UNAUDITED)**

	<b>As Reported</b>		<b>As Reported</b>	
	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
<b>Net income (loss)</b>	\$ 27,102	\$ (538,542)	\$ (136,650)	\$ (1,851,061)
Depreciation and amortization	342,604	1,027,312	701,889	2,057,189
Interest expense	113,697	105,430	225,508	229,435
Stock-based compensation expense	269,201	182,582	473,232	406,715
Other adjustments	17,378	2,839	247,589	51,684
Income tax expense	54,771	—	109,540	—
<b>Adjusted EBITDA</b>	<b>\$ 824,753</b>	<b>\$ 779,621</b>	<b>\$ 1,621,108</b>	<b>\$ 893,962</b>

### **Liquidity and Capital Resources**

As of June 30, 2019 and December 31, 2018, we had \$2.1 million in cash and cash equivalents. Working capital was \$4.1 million as of June 30, 2019 compared to \$4.0 million as of December 31, 2018.

We derive our primary sources of funds for conducting our business activities from operating revenues; borrowings under our credit facilities; and the placement of our equity securities to investors. We require working capital primarily to carry accounts receivable,

service debt, purchase capital assets, fund operating expenses, address unanticipated competitive threats or technical problems, withstand adverse economic conditions, fund potential acquisition transactions, and pursue goals and strategies.

We believe our existing cash and cash equivalents of \$2.1 million, our borrowing capacity under our \$20.0 million ABL Facility (which was \$11.6 million as of June 30, 2019), and cash expected to be generated from operations will be sufficient to fund our operations for the next 12 months. In addition, we believe we can access the capital markets with placements of our securities, if necessary or desirable. We have no agreements, commitments or understandings with respect to any such placements of our securities and any such placements could be dilutive to our stockholders.

### **Cash Flows**

The following discussion relates to the major components of our cash flows for the six months ended June 30, 2019 and 2018.

#### ***Cash Flows from Operating Activities***

Net cash provided by operating activities was \$454,000 for the six months ended June 30, 2019 compared with \$2.1 million for the six months ended June 30, 2018.

Net cash provided by operating activities for the six months ended June 30, 2019 related primarily to the net effect of the following:

- net loss of \$137,000;
- offset by non-cash items of \$1.3 million, which primarily related to depreciation, amortization of intangible assets, provision for doubtful accounts, and stock-based compensation; and
- net cash used in the net change in operating assets and liabilities of \$677,000, primarily associated with relative changes in accounts receivable, accounts payable, and accrued liabilities.

Net cash provided by operating activities for the six months ended June 30, 2018 related primarily to the net effect of the following:

- net loss of \$1.9 million;
- offset by non-cash items of \$2.7 million, which primarily related to depreciation, amortization of intangible assets, provision for doubtful accounts, and stock-based compensation; and
- net cash provided by the net change in operating assets and liabilities of \$1.2 million, primarily associated with relative changes in accounts receivable, accounts payable, and accrued liabilities.

Our business, including revenue, operating expenses, and operating margins, may vary depending on the blend of services we provide to our customers, the terms of customer contracts, commodity contracts, and our business volume levels. Our operating activities may require additional cash in the future from our debt facilities and/or equity financings depending on the level of our operations.

#### ***Cash Flows from Investing Activities***

Cash used in investing activities for the six months ended June 30, 2019 and 2018 was \$136,000 and \$148,000, respectively, primarily from costs related to software development and purchases of property and equipment.

#### ***Cash Flows from Financing Activities***

Net cash used in financing activities was \$352,000 for the six months ended June 30, 2019, primarily from net repayments on our revolving credit facility. Net cash used in financing activities was \$(1.9) million for the six months ended June 30, 2018, primarily from net repayments on our revolving credit facility. See Note 6 to our condensed consolidated financial statements for a discussion of the ABL Facility.

### ***Inflation***

We do not believe that inflation had a material impact on us during the six months ended June 30, 2019 and 2018.

### **Critical Accounting Estimates and Policies**

Our discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to areas that require a significant level of judgment or are otherwise subject to an inherent degree of uncertainty. These areas include carrying amounts of accounts receivable, goodwill and other intangible assets, stock-based compensation expense, and deferred taxes. We base our estimates on historical experience, our observance of trends in particular areas, and information or valuations and various other assumptions that we believe to be reasonable under the circumstances and which form the basis for making judgments about the carrying value of assets and liabilities that may not be readily apparent from other sources. Actual amounts could differ significantly from amounts previously estimated. For a discussion of our critical accounting policies, refer to Part I, Item 7 “Management’s

Discussion and Analysis of Financial Condition and Results of Operations” in our 2018 Annual Report. There have been no changes in our critical accounting policies during the first six months of 2019.

### **Recent Accounting Pronouncements**

See Note 2 to our condensed consolidated financial statements.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet debt or similar obligations. We have no transactions or obligations with related parties that are not disclosed, consolidated into, or reflected in our reported results of operations or financial position. We do not guarantee any third-party debt.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of June 30, 2019.

#### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **Limitations on Effectiveness of Controls and Procedures**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, misstatements, errors, and instances of fraud, if any, within our Company have been or will be prevented or detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls also can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. We base the design of any system of controls in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, internal controls may become inadequate as a result of changes in conditions, or through the deterioration of the degree of compliance with policies or procedures.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

We may be subject to legal proceedings in the ordinary course of business. As of the date of this Quarterly Report on Form 10-Q, we are not aware of any legal proceedings to which we are a party that we believe could have a material adverse effect on us.

### Item 1A. Risk Factors

Not applicable.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

- (a) None.
- (b) None.

**Item 6. Exhi bits**

<u>Exhibit No.</u>	<u>Exhibit</u>
10.26	<a href="#">Voting Agreement, dated April 11, 2019, by and among Mitchell A. Saltz, Jeffrey D. Forte, Brian Dick, Hampstead Park Capital Management, LLC, and Quest Resource Holding Corporation</a> (1)
10.27	<a href="#">Amendment to 2012 Incentive Compensation Plan</a>
31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer</a>
31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer</a>
32.1	<a href="#">Section 1350 Certification of Chief Executive Officer</a>
32.2	<a href="#">Section 1350 Certification of Chief Financial Officer</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1)Filed as Exhibit 10.26 to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on April 11, 2019.

**SIGNATURES**

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

**QUEST RESOURCE HOLDING CORPORATION**

Date: August 14, 2019

By: /s/ S. Ray Hatch

S. Ray Hatch

President and Chief Executive Officer

Date: August 14, 2019

By: /s/ Laurie L. Latham

Laurie L. Latham

Senior Vice President and Chief Financial Officer

AMENDMENT TO THE QUEST RESOURCE HOLDING CORPORATION  
2012 INCENTIVE COMPENSATION PLAN

WHEREAS, pursuant to Section 10(f) of the Quest Resource Holding Corporation 2012 Incentive Compensation Plan, as amended and restated (the “Plan”), the Board of Directors (the “Board”) of Quest Resource Holding Corporation (the “Company”) may amend, alter, suspend, discontinue or terminate the Plan, subject to stockholder approval of any increase in the number of Shares available under the Plan;

WHEREAS, capitalized terms used but not otherwise defined herein shall have the meaning ascribed to them in the Plan; and

WHEREAS, the Board desires to increase the number of Shares available under the Plan to 4,830,437 Shares.

NOW, THEREFORE, in accordance with Section 10(f) of the Plan, the Plan shall be amended effective upon stockholder approval as follows:

1. Amendment. Section 4(a) of the Plan is hereby amended and restated as follows:

“(a) ***Limitation on Overall Number of Shares Available for Delivery Under Plan*** . Subject to adjustment as provided in Section 10(c) hereof, the total number of Shares reserved and available for delivery under the Plan shall be equal to 4,830,437 Shares . Any Shares delivered under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares. ”

IN WITNESS WHEREOF, this Amendment to the Plan is adopted as of as of this 10th day of May, 2019.

QUEST RESOURCE HOLDING CORPORATION

By: /s/ S. Ray Hatch

Name: S. Ray Hatch

Title: Chief Executive Officer

**RULE 13 a -14( a )/15 d -14( a ) CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, S. Ray Hatch, certify that:

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

Date: August 14, 2019

*/s/ S. Ray Hatch*

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S. Ray Hatch  
President and Chief Executive Officer  
(Principal Executive Officer)

**RULE 13 a -14( a )/15 d -14( a ) CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Laurie L. Latham, certify that:

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

Date: August 14, 2019

*/s/ Laurie L. Latham*

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Laurie L. Latham  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

**SECTION 1350 CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

In connection with the Quarterly Report on Form 10-Q of Quest Resource Holding Corporation (the "Company") for the quarterly period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, S. Ray Hatch, President and Chief Executive Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ S. Ray Hatch*

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S. Ray Hatch  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 14, 2019

This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Quest Resource Holding Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.

**SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER**

In connection with the Quarterly Report on Form 10-Q of Quest Resource Holding Corporation (the "Company") for the quarterly period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laurie L. Latham, Senior Vice President and Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ Laurie L. Latham*

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Laurie L. Latham  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

Date: August 14, 2019

This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Quest Resource Holding Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.