
**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, 2018**

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 type="checkbox"/> (Do not check if a smaller reporting company) | 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

As of August 1, 2018, there were outstanding 15,313,383 shares of the registrant's common stock, \$0.001 par value.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

| | <u>June 30,</u> <u>2018</u> | <u>December 31,</u> <u>2017</u> |
|---|--------------------------------|------------------------------------|
| | <u>(Unaudited)</u> | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,080,988 | \$ 1,055,281 |
| Accounts receivable, less allowance for doubtful accounts of \$562,280 and \$699,102 as of June 30, 2018 and December 31, 2017, respectively | 17,877,746 | 16,263,276 |
| Prepaid expenses and other current assets | 1,788,334 | 1,508,014 |
| Total current assets | <u>20,747,068</u> | <u>18,826,571</u> |
| Goodwill | 58,208,490 | 58,337,290 |
| Intangible assets, net | 3,166,483 | 5,031,595 |
| Property and equipment, net, and other assets | 1,146,032 | 1,320,342 |
| Total assets | <u>\$ 83,268,073</u> | <u>\$ 83,515,798</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 17,493,790 | \$ 14,253,818 |
| Deferred revenue and other current liabilities | 125,933 | 328,763 |
| Total current liabilities | <u>17,619,723</u> | <u>14,582,581</u> |
| Revolving credit facility, net | 4,924,412 | 6,763,497 |
| Other long-term liabilities | 2,158 | 21,990 |
| Total liabilities | <u>22,546,293</u> | <u>21,368,068</u> |
| 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, 2018 and December 31, 2017 | — | — |
| Common stock, \$0.001 par value, 200,000,000 shares authorized, 15,313,383 and 15,302,455 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively | 15,313 | 15,302 |
| Additional paid-in capital | 159,292,700 | 158,867,600 |
| Accumulated deficit | (98,586,233) | (96,735,172) |
| Total stockholders' equity | <u>60,721,780</u> | <u>62,147,730</u> |
| Total liabilities and stockholders' equity | <u>\$ 83,268,073</u> | <u>\$ 83,515,798</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>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Revenue | \$ 27,928,626 | \$ 41,370,594 | \$ 52,624,549 | \$ 83,910,416 |
| Cost of revenue | 23,500,848 | 36,922,533 | 44,648,944 | 75,276,603 |
| Gross profit | <u>4,427,778</u> | <u>4,448,061</u> | <u>7,975,605</u> | <u>8,633,813</u> |
| Operating expenses: | | | | |
| Selling, general, and administrative | 3,879,280 | 4,581,897 | 7,631,040 | 9,561,992 |
| Depreciation and amortization | 981,610 | 996,326 | 1,966,191 | 1,997,060 |
| Total operating expenses | <u>4,860,890</u> | <u>5,578,223</u> | <u>9,597,231</u> | <u>11,559,052</u> |
| Operating loss | (433,112) | (1,130,162) | (1,621,626) | (2,925,239) |
| Other expense: | | | | |
| Interest expense | (105,430) | (120,491) | (229,435) | (234,766) |
| Total other expense | <u>(105,430)</u> | <u>(120,491)</u> | <u>(229,435)</u> | <u>(234,766)</u> |
| Loss before taxes | (538,542) | (1,250,653) | (1,851,061) | (3,160,005) |
| Income tax expense | — | — | — | — |
| Net loss | <u>\$ (538,542)</u> | <u>\$ (1,250,653)</u> | <u>\$ (1,851,061)</u> | <u>\$ (3,160,005)</u> |
| | | | | |
| Net loss applicable to common stockholders | <u>\$ (538,542)</u> | <u>\$ (1,250,653)</u> | <u>\$ (1,851,061)</u> | <u>\$ (3,160,005)</u> |
| Net loss per share | | | | |
| Basic and diluted | <u>\$ (0.04)</u> | <u>\$ (0.08)</u> | <u>\$ (0.12)</u> | <u>\$ (0.21)</u> |
| Weighted average number of common shares outstanding | | | | |
| Basic and diluted | <u>15,307,859</u> | <u>15,276,228</u> | <u>15,305,172</u> | <u>15,274,412</u> |

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

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(UNAUDITED)

| | <u>Common Stock</u> | | <u>Additional Paid-in Capital</u> | <u>Accumulated Deficit</u> | <u>Total Stockholders' Equity</u> |
|--|---------------------|------------------|---|--------------------------------|---|
| | <u>Shares</u> | <u>Par Value</u> | | | |
| Balance, December 31, 2017 | 15,302,455 | \$ 15,302 | \$ 158,867,600 | \$ (96,735,172) | \$ 62,147,730 |
| Stock-based compensation | — | — | 406,715 | — | 406,715 |
| Shares issued for Employee Stock Purchase Plan options | 10,928 | 11 | 18,385 | — | 18,396 |
| Net loss | — | — | — | (1,851,061) | (1,851,061) |
| Balance, June 30, 2018 | 15,313,383 | \$ 15,313 | \$ 159,292,700 | \$ (98,586,233) | \$ 60,721,780 |

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)

| | For the Six Months Ended June 30, | |
|---|--|----------------------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net loss | \$ (1,851,061) | \$ (3,160,005) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 203,972 | 228,690 |
| Amortization of intangibles | 1,853,217 | 1,851,669 |
| Amortization of debt issuance costs | 46,951 | 31,300 |
| Provision for doubtful accounts | 159,915 | 418,939 |
| Stock-based compensation | 406,715 | 1,183,720 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,774,385) | 4,323,184 |
| Prepaid expenses and other current assets | (280,320) | (210,701) |
| Security deposits and other assets | 259,210 | 365,839 |
| Accounts payable and accrued liabilities | 3,239,972 | (5,905,408) |
| Deferred revenue and other liabilities | (196,544) | (9,044) |
| Net cash provided by (used in) operating activities | <u>2,067,642</u> | <u>(881,817)</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (42,287) | (35,929) |
| Purchase of capitalized software development | (105,890) | (161,761) |
| Net cash used in investing activities | <u>(148,177)</u> | <u>(197,690)</u> |
| Cash flows from financing activities: | | |
| Proceeds from credit facilities | 48,875,349 | 38,990,201 |
| Repayments of credit facilities | (50,761,385) | (37,582,164) |
| Debt issuance costs | — | (234,334) |
| Proceeds from shares issued for Employee Stock Purchase Plan | 18,396 | 11,972 |
| Repayments of capital lease obligations | (26,118) | (35,617) |
| Net cash provided by (used in) financing activities | <u>(1,893,758)</u> | <u>1,150,058</u> |
| Net increase in cash and cash equivalents | 25,707 | 70,551 |
| Cash and cash equivalents at beginning of period | 1,055,281 | 1,328,174 |
| Cash and cash equivalents at end of period | <u>\$ 1,080,988</u> | <u>\$ 1,398,725</u> |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$ 224,486 | \$ 155,194 |
| Supplemental non-cash activities: | | |
| Sale of goodwill and intangible assets | \$ 246,585 | \$ — |
| Investment in Earth Media Partners, LLC | \$ (246,585) | \$ — |
| Draw on Citizens ABL facility | \$ — | \$ 9,250,000 |
| Repayment of Regions line of credit | \$ — | \$ (9,250,000) |
| Draw on Citizens ABL facility for repayment of capital lease obligation | \$ — | \$ 212,609 |
| Debt issuance costs financed with Citizens ABL facility | \$ — | \$ 235,173 |

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, Description of Business, and Liquidity

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.

Liquidity – As of June 30, 2018 and December 31, 2017, our working capital balance was \$3,127,345 and \$4,243,990, respectively.

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, 2017. 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, 2018 and the results of our operations and cash flows for the periods presented. We derived the December 31, 2017 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, 2018 are not necessarily indicative of the results to be expected for the full year.

Net Loss Per Share

We compute basic net loss per share by dividing net loss applicable to common stockholders by the weighted average number of shares of common stock outstanding during the period. We have other potentially dilutive securities outstanding that are not shown in a diluted net loss per share calculation because their effect in both 2018 and 2017 would be anti-dilutive. These potentially dilutive securities include stock options and warrants and totaled 3,487,381 and 3,095,132 shares at June 30, 2018 and 2017, respectively.

The following table sets forth the anti-dilutive securities excluded from diluted loss per share:

| | June 30, | |
|---|---------------------|---------------------|
| | 2018 (Unaudited) | 2017 (Unaudited) |
| Anti-dilutive securities excluded from diluted loss per share: | | |
| Stock options | 1,753,816 | 1,361,567 |
| Warrants | 1,733,565 | 1,733,565 |
| Total anti-dilutive securities excluded from diluted loss per share | <u>3,487,381</u> | <u>3,095,132</u> |

Recent Accounting Pronouncements

Adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. On January 1, 2018, we adopted ASU 2014-09 using the full retrospective approach for

all ongoing customer contracts. There was no impact to our financial statements as a result of adopting ASU 2014-09 for the six months ended June 30, 2018 and 2017. See Note 8 for additional information and disclosures related to this amended guidance.

Pending Adoption

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The update improves financial reporting about leasing transactions by requiring a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by lease terms of more than 12 months. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are still evaluating the impact of adopting ASU 2016-02 on our consolidated financial statements. However, given the material amount of our future minimum payments under non-cancellable operating leases, primarily office rent, at June 30, 2018, we expect to recognize a material right-of-use lease asset and lease liability upon adoption of the ASU.

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, with early adoption permitted on January 1, 2019. 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, 2018 and December 31, 2017, property and equipment, net, and other assets consisted of the following:

| | <u>June 30, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------------|------------------------------|
| | (Unaudited) | |
| Property and equipment, net of accumulated depreciation of \$2,396,516 and \$2,193,231 as of June 30, 2018 and December 31, 2017, respectively | \$ 795,182 | \$ 956,867 |
| Security deposits and other assets | 350,850 | 363,475 |
| Property and equipment, net, and other assets | <u>\$ 1,146,032</u> | <u>\$ 1,320,342</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, 2018 was \$100,662, inclusive of \$45,702 of depreciation expense reflected within “Cost of revenue” in our condensed consolidated statement of operations as it related to assets used in directly servicing customer contracts, and was \$203,972 for the six months ended June 30, 2018, inclusive of \$90,998 of depreciation expense reflected within “Cost of revenue.” Depreciation expense for the three months ended June 30, 2017 was \$113,444, inclusive of \$42,224 of depreciation expense reflected within “Cost of revenue,” and was \$228,690 for the six months ended June 30, 2017, inclusive of \$83,299 of depreciation expense reflected within “Cost of revenue.” At June 30, 2018, the carrying value of our capital lease assets was \$191,680, net of \$308,417 of accumulated depreciation. At December 31, 2017, the carrying value of our capital lease assets was \$243,778, net of \$256,319 of accumulated depreciation.

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 revenues, and accounts receivable as of the Closing Date. Following 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 \$22,155 related to the earn-out as of June 30, 2018. 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, 2018 (Unaudited) | Estimated Useful Life | Gross Carrying Amount | Accumulated Amortization | Net |
|--|-----------------------|-----------------------|--------------------------|---------------------|
| Finite lived intangible assets: | | | | |
| Customer relationships | 5 years | \$ 12,720,000 | \$ 12,614,000 | \$ 106,000 |
| Trademarks | 7 years | 6,242,055 | 4,414,941 | 1,827,114 |
| Patents | 7 years | 230,683 | 230,683 | — |
| Software | 7 years | 1,836,751 | 613,382 | 1,223,369 |
| Customer lists | 5 years | 307,153 | 297,153 | 10,000 |
| Total finite lived intangible assets | | <u>\$ 21,336,642</u> | <u>\$ 18,170,159</u> | <u>\$ 3,166,483</u> |

| December 31, 2017 | Estimated Useful Life | Gross Carrying Amount | Accumulated Amortization | Net |
|--|-----------------------|-----------------------|--------------------------|---------------------|
| Finite lived intangible assets: | | | | |
| Customer relationships | 5 years | \$ 12,720,000 | \$ 11,342,000 | \$ 1,378,000 |
| Trademarks | 7 years | 6,242,055 | 3,969,576 | 2,272,479 |
| Patents | 7 years | 230,683 | 230,683 | — |
| Software | 7 years | 1,904,279 | 548,163 | 1,356,116 |
| Customer lists | 5 years | 307,153 | 282,153 | 25,000 |
| Total finite lived intangible assets | | <u>\$ 21,404,170</u> | <u>\$ 16,372,575</u> | <u>\$ 5,031,595</u> |

| | Carrying Amount |
|---|----------------------|
| Changes in goodwill: | |
| Goodwill balance at December 31, 2017 | \$ 58,337,290 |
| Adjustment related to Earth911, Inc. asset sale | (128,800) |
| Goodwill balance at June 30, 2018 | <u>\$ 58,208,490</u> |

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 \$926,650 and \$925,106 for the three months ended June 30, 2018 and 2017, respectively. Amortization expense related to finite lived intangible assets was \$1,853,217 and \$1,851,669 for the six months ended June 30, 2018 and 2017, respectively.

We have no indefinite-lived intangible assets other than goodwill. The goodwill is not deductible for tax purposes. See Note 3 for discussion of sale of certain assets related to Earth911, Inc.

We performed our annual impairment analysis for goodwill and other intangible assets in the second quarter of 2017 with no impairment recorded.

5. Accounts Payable and Accrued Liabilities

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

| | June 30, 2018 (Unaudited) | December 31, 2017 |
|-----------------------|------------------------------|----------------------|
| Accounts payable | \$ 15,903,734 | \$ 12,739,117 |
| Accrued taxes | 588,901 | 807,037 |
| Employee compensation | 622,011 | 434,358 |
| Other | 379,144 | 273,306 |
| | <u>\$ 17,493,790</u> | <u>\$ 14,253,818</u> |

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% (6.25% as of June 30, 2018), or the LIBOR lending rate for the interest period in effect, plus a margin ranging from 2.0% to 2.5% (4.59% as of June 30, 2018). The maturity date of the ABL Facility is February 24, 2022.

Loans under the equipment loan facility may be requested at any time until February 24, 2019. Each loan under the equipment loan facility bears interest, at our option, at either the Base Rate, as defined in the Citizens Loan Agreement, plus 2.00%, or the LIBOR lending rate for the interest period in effect, plus 3.00%. The maturity date of the equipment loan facility is February 24, 2022.

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, 2018 and 2017 was \$81,140 and \$87,435, respectively. The amount of interest expense related to borrowings for the six months ended June 30, 2018 and 2017 was \$165,428 and \$197,359, respectively. Debt issuance cost of \$469,507 is being amortized to interest expense over the life of the ABL Facility beginning March 1, 2017. As of June 30, 2018, the unamortized portion of the debt issuance costs was \$344,306. The amount of interest expense related to the amortization of the discount on the ABL Facility for the six months ended June 30, 2018 was \$46,951. As of June 30, 2018, the ABL Facility borrowing base availability was \$12,128,000 and the outstanding liability was \$4,924,412, net of unamortized debt issuance cost of \$344,306. There were no draws made on the equipment loan facility as of June 30, 2018.

7. Capital Lease Obligations

At June 30, 2018 and December 31, 2017, total capital lease obligations outstanding consisted of the following:

| | <u>June 30, 2018</u> | <u>December 31, 2017</u> |
|---|--------------------------|------------------------------|
| | <u>(Unaudited)</u> | |
| Capital lease obligations, imputed interest at 4.88% to 13.29%, with monthly payments of approximately \$6,000, expiring through September 2019, secured by computer and office equipment | \$ 15,547 | \$ 41,664 |
| Total | 15,547 | 41,664 |
| Less: current maturities | (15,030) | (39,067) |
| Long-term portion | <u>\$ 517</u> | <u>\$ 2,597</u> |

Our capital lease obligations are included within “Deferred revenue and other current liabilities” and “Other long-term liabilities” in our condensed consolidated balance sheets. The amount of interest expense related to our capital leases for the three months ended June 30, 2018 and 2017 was \$425 and \$1,636, respectively. The amount of interest expense related to our capital leases for the six months ended June 30, 2018 and 2017 was \$1,043 and \$4,098, respectively.

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, revenue is recognized 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 revenues 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. We previously had a contract accounted for as a net basis management fee contract, with revenue of \$34,057 and gross billings of \$878,563 for the three months ended June 30, 2017 and revenue of \$78,145

and gross billings of \$2,173,022 for the six months ended June 30, 2017. This management fee contract ended in the second quarter of 2017, and we currently have no other net basis contracts.

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 53.0% of revenue for the three months ended June 30, 2018, and two customers accounted for 51.8% of revenue for the three months ended June 30, 2017. Three customers accounted for 50.8% of revenue for the six months ended June 30, 2018, and two customers accounted for 53.5% of revenue for the six months ended June 30, 2017. We operate primarily in the United States, with minor services in Canada.

| Revenue Type: | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------|-----------------------------|----------------------|---------------------------|----------------------|
| | 2018 (Unaudited) | 2017 (Unaudited) | 2018 (Unaudited) | 2017 (Unaudited) |
| Services | \$ 25,324,837 | \$ 38,080,577 | \$ 47,330,409 | \$ 77,916,252 |
| Product sales and other | 2,603,789 | 3,290,017 | 5,294,140 | 5,994,164 |
| Total revenue | <u>\$ 27,928,626</u> | <u>\$ 41,370,594</u> | <u>\$ 52,624,549</u> | <u>\$ 83,910,416</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. Our contract acquisition costs are classified 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, 2018 and December 31, 2017, we had \$111,250 and \$136,139, respectively, of deferred contract costs. 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, 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. During the three months ended June 30, 2017, we amortized \$10,000 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, 2017, we amortized \$110,000 and \$36,139 of deferred contract costs to selling, general, and administrative expense and as a reduction to income, respectively.

Certain customers are billed in advance, and, accordingly, recognition of related revenues is deferred as a contract liability until the services are provided and control transferred to the customer. As of June 30, 2018 and December 31, 2017, we had \$112,544 and \$309,089, respectively, of deferred revenue, the majority of which was classified in "Deferred revenue and other current liabilities."

9. Income Taxes

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 for the amount of deferred tax assets that, based on available evidence, are more likely than not to be realized. Realization of our net operating loss carryforward was not reasonably assured as of June 30, 2018 and December 31, 2017, and we have recorded a valuation allowance of \$11,800,000 and \$12,150,000, respectively, against deferred tax assets in excess of deferred tax liabilities in the accompanying condensed consolidated financial statements. As of June 30, 2018 and December 31, 2017, we had federal income tax net operating loss carryforwards of approximately \$19,700,000, which expire at various dates beginning in 2031.

On December 22, 2017, The Tax Cuts and Jobs Act (the "2017 Act") was enacted. The most significant impact to us of the 2017 Act was a decrease in the federal corporate income tax rate from 35% to 21% beginning in 2018.

10. Fair Value of Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, deferred revenue, the ABL Facility, and capital lease obligations. 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 long-term portions of capital lease obligations and 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 15,313,383 and 15,302,455 shares were issued and outstanding as of June 30, 2018 and December 31, 2017, respectively.

Employee Stock Purchase Plan— On September 17, 2014, our stockholders approved our 2014 Employee Stock Purchase Plan (“ESPP”). On May 16, 2018, we issued 10,928 shares to employees for \$18,396 under our ESPP for options that vested and were exercised. We recorded expense of \$5,262 and \$8,990 related to the ESPP during the six months ended June 30, 2018 and 2017, respectively.

Warrants— At June 30, 2018, 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, 2018:

| 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 \$401,453 and \$337,230 for the six months ended June 30, 2018 and 2017, respectively. The following table summarizes the stock option activity for the six month period ended June 30, 2018:

| | Stock Options | | |
|----------------------------------|------------------|--------------------------|---|
| | Number of Shares | Exercise Price Per Share | Weighted-Average Exercise Price Per Share |
| Outstanding at December 31, 2017 | 1,389,816 | \$1.17 — \$26.00 | \$ 8.39 |
| Granted | 400,000 | \$2.39 — \$2.47 | \$ 2.39 |
| Canceled/Forfeited | (36,000) | \$2.39 — \$23.20 | \$ 5.62 |
| Outstanding at June 30, 2018 | 1,753,816 | \$1.17 — \$26.00 | \$ 7.08 |

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 and Section 21E of the Securities Exchange Act. 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. 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, 2017.

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, 2018 and 2017 Operating Results

The following table summarizes our operating results for the three and six months ended June 30, 2018 and 2017:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------------|-----------------------------|----------------|---------------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Revenue | \$ 27,928,626 | \$ 41,370,594 | \$ 52,624,549 | \$ 83,910,416 |
| Cost of revenue | 23,500,848 | 36,922,533 | 44,648,944 | 75,276,603 |
| Gross profit | 4,427,778 | 4,448,061 | 7,975,605 | 8,633,813 |
| Operating expenses: | | | | |
| Selling, general, and administrative | 3,879,280 | 4,581,897 | 7,631,040 | 9,561,992 |
| Depreciation and amortization | 981,610 | 996,326 | 1,966,191 | 1,997,060 |
| Total operating expenses | 4,860,890 | 5,578,223 | 9,597,231 | 11,559,052 |
| Operating loss | (433,112) | (1,130,162) | (1,621,626) | (2,925,239) |
| Interest expense | (105,430) | (120,491) | (229,435) | (234,766) |
| Income tax expense | — | — | — | — |
| Net loss | \$ (538,542) | \$ (1,250,653) | \$ (1,851,061) | \$ (3,160,005) |

Three and Six Months Ended June 30, 2018 compared to Three and Six Months Ended June 30, 2017

Revenue

For the quarter ended June 30, 2018, revenue was \$27.9 million, a decrease of \$13.4 million, or 32.5%, compared with \$41.4 million for the quarter ended June 30, 2017. For the six months ended June 30, 2018, revenue was \$52.6 million, a decrease of \$31.3 million, or 37.3%, compared with \$83.9 million for the six months ended June 30, 2017. As part of our strategic plan, we took actions during 2017 to transition our business to deliver improved operational and financial performance, which included making sustainable improvements to our procurement processes, as well as taking a disciplined approach to customer acquisition and renewal. Primarily

as a result of changes in our mix of services and reductions of services with certain customers in the latter half of 2017, we experienced an overall decrease in revenue for the quarter and six months ended June 30, 2018 relative to 2017, which was partially offset by increased service revenue from the continuing and new customer base. The period-over-period decrease in revenue was partially offset by a net decrease in cost of sales, resulting in a higher gross profit margin percentage in the first six months of 2018 relative to 2017.

Cost of Revenue/Gross Profit

Cost of revenue decreased \$13.4 million to \$23.5 million for the quarter ended June 30, 2018 from \$36.9 million for the quarter ended June 30, 2017. Cost of revenue decreased \$30.6 million to \$44.6 million for the six months ended June 30, 2018 from \$75.3 million for the six months ended June 30, 2017. The decrease was primarily due to the changes in our mix of services, decreased cost of certain contracted services, and reductions of services with certain customers, partially offset by increased services from the continuing and new customer base.

Gross profit remained stable at \$4.4 million for the quarter ended June 30, 2018 compared to the quarter ended June 30, 2017. Gross profit margin rose to 15.9% of second quarter 2018 revenue compared with 10.8% of second quarter 2017 revenue. Gross profit decreased \$658,000 to \$8.0 million for the six months ended June 30, 2018 from \$8.6 million for the six months ended June 30, 2017. The gross profit margin rose to 15.2% of net sales for the six months ended June 30, 2018 compared with 10.3% of net sales for the six months ended June 30, 2017. The decrease in gross profit and increase in gross margin percentage for the three and six months ended June 30, 2018 was primarily due to the net effect of reductions of services with certain customers, the overall lower cost of subcontracted services, and the exiting of lower margin services with certain customers.

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

Operating Expenses

Operating expenses were \$4.9 million and \$5.6 million for the three months ended June 30, 2018 and 2017, respectively, a decrease of \$717,000. Operating expenses were \$9.6 million and \$11.6 million for the six months ended June 30, 2018 and 2017, respectively, a decrease of \$2.0 million.

Selling, general, and administrative expenses were \$3.9 million and \$4.6 million for the three months ended June 30, 2018 and 2017, respectively, a decrease of approximately \$703,000. The decrease for the three months ended June 30, 2018 was primarily related to a decrease in stock related compensation of \$387,000 and labor related expenses of approximately \$159,000. Selling, general, and administrative expenses were \$7.6 million and \$9.6 million for the six months ended June 30, 2018 and 2017, respectively, a decrease of approximately \$1.9 million. The decrease for the six months ended June 30, 2018 was primarily related to a decrease in stock related compensation of \$777,000, labor related expenses of approximately \$485,000, and severance costs of \$252,000.

Operating expenses also included depreciation and amortization of approximately \$1.0 million for the three months ended June 30, 2018 and 2017. Depreciation and amortization expenses were approximately \$2.0 million for the six months ended June 30, 2018 and 2017.

Interest Expense

For the three months ended June 30, 2018, interest expense decreased by \$15,000 to \$105,000 from \$120,000 for the three months ended June 30, 2017. For the six months ended June 30, 2018, interest expense decreased \$5,000 to \$230,000 from \$235,000 for the six months ended June 30, 2017. See Note 6 to our condensed consolidated financial statements for a discussion of our revolving credit facility.

Net Loss

Net loss for the quarter ended June 30, 2018 was \$539,000 compared with a net loss of \$1.3 million for the quarter ended June 30, 2017. Net loss for the six months ended June 30, 2018 was \$1.9 million compared with a net loss of \$3.2 million for the six months ended June 30, 2017. The explanations above detail the majority of the changes related to the decrease in net loss.

Our operating results, including revenue, operating expenses, and operating margins, may vary from period to period depending on commodity prices, the blend of services, the nature of the contracts, and sales volumes.

Loss per Share

Net loss per basic and diluted share was \$(0.04) for the quarter ended June 30, 2018 compared with a net loss per basic and diluted share of \$(0.08) for the quarter ended June 30, 2017. The weighted average number of shares of common stock outstanding increased to 15.3 million for the three months ended June 30, 2018 from slightly under 15.3 million shares for the three months ended June 30, 2017.

Net loss per basic and diluted share was \$(0.12) for the six months ended June 30, 2018 compared with a net loss per basic and diluted share of \$(0.21) for the six months ended June 30, 2017. The weighted average number of shares of common stock outstanding

increased to 15.3 million for the six months ended June 30, 2018 from slightly under 15.3 million for the six months ended June 30, 2017. The increase in the share count for the three and six months ended June 30, 2018 was primarily from the issuance of shares for the ESPP options exercised during 2018 and 2017.

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,” 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, 2018, other adjustments include legal fees related to our sale of certain assets of Earth911, Inc. and aggregated \$2,839 and \$51,684, respectively. For the six months ended June 30, 2017, other adjustments of \$244,371 included certain severance costs.

The following table reflects Adjusted EBITDA for the three and six months ended June 30, 2018 and 2017:

| | RECONCILIATION OF NET LOSS TO ADJUSTED EBITDA (UNAUDITED) | | | |
|----------------------------------|--|--------------------|----------------------------------|--------------------|
| | As Reported | | As Reported | |
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Net loss | \$ (538,542) | \$ (1,250,653) | \$ (1,851,061) | \$ (3,160,005) |
| Depreciation and amortization | 1,027,312 | 1,038,550 | 2,057,189 | 2,080,359 |
| Interest expense | 105,430 | 120,491 | 229,435 | 234,766 |
| Stock-based compensation expense | 182,592 | 569,455 | 406,715 | 1,183,720 |
| Other adjustments | 2,839 | — | 51,684 | 244,371 |
| Income tax expense | — | — | — | — |
| Adjusted EBITDA | \$ 779,631 | \$ 477,843 | \$ 893,962 | \$ 583,211 |

Liquidity and Capital Resources

As of June 30, 2018 and December 31, 2017, we had \$1.1 million in cash and cash equivalents. Working capital was \$3.1 million as of June 30, 2018 compared with \$4.2 million as of December 31, 2017.

We derive our primary sources of funds for conducting our business activities from sales of services, commodities, and consulting; borrowings under our credit facilities; and the placement of our equity securities with 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 \$1.1 million, our borrowing capacity under our \$20.0 million ABL Facility (which was \$12.1 million as of June 30, 2018), 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 equity capital markets with placements of our securities.

Cash Flows

The following discussion relates to the major components of our cash flows for the six months ended June 30, 2018 and 2017.

Cash Flows from Operating Activities

Net cash provided by operating activities was \$2.1 million for the six months ended June 30, 2018 compared with net cash used in operating activities of \$0.9 million for the six months ended June 30, 2017.

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 \$1.3 million, primarily associated with relative changes in accounts receivable, accounts payable, and accrued liabilities.

Net cash used in operating activities for the six months ended June 30, 2017 related primarily to the net effect of the following:

- net loss of \$3.2 million;

- offset by non-cash items of \$3.7 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 \$1.4 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, 2018 and 2017 was \$148,000 and \$198,000, respectively, primarily from purchases of property and equipment and costs related to software development.

Cash Flows from Financing Activities

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. Cash provided by financing activities was \$1.2 million for the six months ended June 30, 2017, primarily from net draws from 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, 2018 and 2017.

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, long-lived assets, 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 2017 Annual Report. There have been no changes in our critical accounting policies during the first six months of 2018.

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 the reasonable assurance level as of June 30, 2018.

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. Exhibits

| <u>Exhibit No.</u> | <u>Exhibit</u> |
|--------------------|---|
| 10.5(h)* | 2012 Incentive Compensation Plan, as amended and restated (1) |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer |
| 32.1 | Section 1350 Certification of Chief Executive Officer |
| 32.2 | Section 1350 Certification of Chief Financial Officer |
| 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 to the Registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 13, 2018.

*Indicates management contract or compensatory plan or arrangement.

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, 2018

By: /s/ S. Ray Hatch
S. Ray Hatch
President and Chief Executive Officer

Date: August 14, 2018

By: /s/ Laurie L. Latham
Laurie L. Latham
Senior Vice President and Chief Financial 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, 2018

/s/ S. Ray Hatch

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, 2018

/s/ Laurie L. Latham

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, 2018, 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

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

Date: August 14, 2018

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, 2018, 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

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

Date: August 14, 2018

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.