
**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 September 30, 2017

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 November 1, 2017, there were outstanding 15,281,324 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**

| | September 30, 2017 (Unaudited) | December 31, 2016 |
|--|--------------------------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,115,761 | \$ 1,328,174 |
| Accounts receivable, less allowance for doubtful accounts of \$824,074 and \$333,578 as of September 30, 2017 and December 31, 2016, respectively | 20,030,064 | 34,828,495 |
| Prepaid expenses and other current assets | 1,483,696 | 2,671,002 |
| Total current assets | 22,629,521 | 38,827,671 |
| Goodwill | 58,337,290 | 58,337,290 |
| Intangible assets, net | 5,910,239 | 8,489,586 |
| Property and equipment, net, and other assets | 1,582,006 | 2,414,921 |
| Total assets | <u>\$ 88,459,056</u> | <u>\$ 108,069,468</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 17,822,741 | \$ 35,305,559 |
| Deferred revenue and other current liabilities | 324,065 | 406,057 |
| Total current liabilities | 18,146,806 | 35,711,616 |
| Revolving credit facility, net | 6,730,893 | 4,750,000 |
| Other long-term liabilities | 43,552 | 335,644 |
| Total liabilities | 24,921,251 | 40,797,260 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value, 10,000,000 shares authorized, no shares issued or outstanding as of September 30, 2017 and December 31, 2016, respectively | — | — |
| Common stock, \$0.001 par value, 200,000,000 shares authorized, 15,281,324 and 15,272,575 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively | 15,281 | 15,273 |
| Additional paid-in capital | 158,677,737 | 158,171,831 |
| Accumulated deficit | (95,155,213) | (90,914,896) |
| Total stockholders' equity | 63,537,805 | 67,272,208 |
| Total liabilities and stockholders' equity | <u>\$ 88,459,056</u> | <u>\$ 108,069,468</u> |

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

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

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|---|---|-----------------------|--|-----------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Revenue | \$ 31,930,550 | \$ 46,157,414 | \$ 115,840,966 | \$ 138,771,985 |
| Cost of revenue | 27,904,006 | 42,562,397 | 103,180,609 | 128,036,082 |
| Gross profit | <u>4,026,544</u> | <u>3,595,017</u> | <u>12,660,357</u> | <u>10,735,903</u> |
| Operating expenses: | | | | |
| Selling, general, and administrative | 3,977,662 | 4,923,283 | 13,539,654 | 14,215,944 |
| Depreciation and amortization | 1,002,687 | 1,013,225 | 2,999,747 | 3,039,653 |
| Total operating expenses | <u>4,980,349</u> | <u>5,936,508</u> | <u>16,539,401</u> | <u>17,255,597</u> |
| Operating loss | (953,805) | (2,341,491) | (3,879,044) | (6,519,694) |
| Other expense: | | | | |
| Interest expense | (126,507) | (62,345) | (361,273) | (176,207) |
| Total other expense | <u>(126,507)</u> | <u>(62,345)</u> | <u>(361,273)</u> | <u>(176,207)</u> |
| Loss before taxes | <u>(1,080,312)</u> | <u>(2,403,836)</u> | <u>(4,240,317)</u> | <u>(6,695,901)</u> |
| Income tax expense | — | — | — | — |
| Net loss | <u>\$ (1,080,312)</u> | <u>\$ (2,403,836)</u> | <u>\$ (4,240,317)</u> | <u>\$ (6,695,901)</u> |
| | | | | |
| Net loss applicable to common stockholders | <u>\$ (1,080,312)</u> | <u>\$ (2,403,836)</u> | <u>\$ (4,240,317)</u> | <u>\$ (6,695,901)</u> |
| Net loss per share | | | | |
| Basic and diluted | <u>\$ (0.07)</u> | <u>\$ (0.16)</u> | <u>\$ (0.28)</u> | <u>\$ (0.46)</u> |
| Weighted average number of common shares outstanding | | | | |
| Basic and diluted | <u>15,281,324</u> | <u>14,853,675</u> | <u>15,276,741</u> | <u>14,559,874</u> |

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

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017
(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, 2016 | 15,272,575 | \$ 15,273 | \$ 158,171,831 | \$ (90,914,896) | \$ 67,272,208 |
| Stock-based compensation | — | — | 493,942 | — | 493,942 |
| Shares issued for Employee Stock Purchase Plan options | 8,749 | 8 | 11,964 | — | 11,972 |
| Net loss | — | — | — | (4,240,317) | (4,240,317) |
| Balance, September 30, 2017 | 15,281,324 | \$ 15,281 | \$ 158,677,737 | \$ (95,155,213) | \$ 63,537,805 |

The accompanying notes are an integral part of this condensed consolidated statement.

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

| | For the Nine Months Ended September 30, | |
|---|--|----------------------------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net loss | \$ (4,240,317) | \$ (6,695,901) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 339,272 | 354,495 |
| Amortization of intangibles | 2,787,236 | 2,771,912 |
| Amortization of debt issuance costs | 54,775 | — |
| Provision for doubtful accounts | 618,939 | 269,057 |
| Stock-based compensation | 1,540,817 | 1,882,572 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 14,179,492 | 824,928 |
| Prepaid expenses and other current assets | 140,431 | (690,394) |
| Security deposits and other assets | 533,810 | (943,102) |
| Accounts payable and accrued liabilities | (17,482,818) | (547,751) |
| Deferred revenue and other current liabilities | (79,913) | 191,109 |
| Other long-term liabilities | (33,356) | 114,240 |
| Net cash used in operating activities | <u>(1,641,632)</u> | <u>(2,468,835)</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (40,167) | (451,590) |
| Purchase of capitalized software development | (207,889) | (272,012) |
| Net cash used in investing activities | <u>(248,056)</u> | <u>(723,602)</u> |
| Cash flows from financing activities: | | |
| Proceeds from credit facilities | 81,939,205 | 16,500,000 |
| Repayments of credit facilities | (79,991,362) | (17,250,000) |
| Debt issuance costs | (234,334) | — |
| Proceeds from the sale of common stock and warrants, net of issuance costs | — | 2,889,350 |
| Proceeds from shares issued for Employee Stock Purchase Plan | 11,972 | 27,435 |
| Repayments of capital lease obligations | (48,206) | (90,304) |
| Net cash provided by financing activities | <u>1,677,275</u> | <u>2,076,481</u> |
| Net decrease in cash and cash equivalents | (212,413) | (1,115,956) |
| Cash and cash equivalents at beginning of period | 1,328,174 | 2,989,731 |
| Cash and cash equivalents at end of period | <u>\$ 1,115,761</u> | <u>\$ 1,873,775</u> |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$ 270,094 | \$ 175,219 |
| Supplemental non-cash activities: | | |
| 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 | \$ — |
| Acquisition of equipment under capital leases | \$ — | \$ 33,106 |
| Shares issued for consulting services | \$ — | \$ 1,675,000 |

The accompanying notes are an integral part of these condensed consolidated 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, Earth911, Inc. (“Earth911”), Quest Resource Management Group, LLC (“Quest”), Landfill Diversion Innovations, LLC (“LDI”), Youchange, Inc. (“Youchange”), Quest Vertigent Corporation (“QVC”), and Quest Vertigent One, LLC (“QV One”) (collectively, “we,” “us,” “our,” or “our company”).

Operations – We provide businesses with one-stop management programs to reuse, recycle, and dispose of a wide variety of waste streams and recyclables generated by their businesses. Our comprehensive reuse, recycling, and proper disposal management programs are designed to enable regional and national customers to have a single point of contact for managing a variety of waste streams and recyclables. This business generates substantially all of our revenue. We also operate environmentally based social media and online data platforms that contain information and instructions necessary to empower consumers and consumer product companies to recycle or properly dispose of household products and materials. Our directory of local recycling and proper disposal options empowers consumers directly and enables consumer product companies to empower their customers by giving them the guidance necessary for the proper recycling or disposal of a wide range of household products and materials, including the “why, where, and how” of recycling. Three customers accounted for 52.0% and two customers accounted for 55.6% of revenue for the three months ended September 30, 2017 and 2016, respectively. Three customers accounted for 57.8% and two customers accounted for 55.5% of revenue for the nine months ended September 30, 2017 and 2016, respectively.

Liquidity – As of September 30, 2017 and December 31, 2016, our working capital balance was \$4,482,715 and \$3,116,055, 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, 2016. 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 September 30, 2017 and the results of our operations and cash flows for the periods presented. We derived the December 31, 2016 condensed consolidated balance sheet data from audited financial statements, but did not include all disclosures required by GAAP. As Quest, Earth911, LDI, Youchange, QVC, and QV One each operate as ecology-based green 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 three months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year.

Revenue Recognition

We recognize revenue only when all of the following criteria have been met:

- persuasive evidence of an arrangement exists;
- delivery has occurred or services have been rendered;
- the fee for the arrangement is fixed or determinable; and
- collectibility is reasonably assured.

Persuasive Evidence of an Arrangement Exists – We document all terms of an arrangement in a service agreement or quote signed or confirmed by the customer prior to recognizing revenue.

Delivery Has Occurred or Services Have Been Rendered – We perform all services or deliver all products prior to recognizing revenue. We deem services to be performed when the services have been completed.

The Fee for the Arrangement is Fixed or Determinable – Prior to recognizing revenue, a customer’s fee is either fixed or determinable under the terms of the quote, service agreement, or accepted customer purchase order.

Collectibility Is Reasonably Assured – We assess collectibility on a customer by customer basis based on criteria developed by us.

We provide businesses with management programs to reuse, recycle, and dispose of a wide variety of waste streams and recyclables generated by their business. We utilize third-party subcontractors to execute the collection, transport, and recycling or disposal of used motor oil, oil filters, scrap tires, cooking oil, and expired food products. We evaluate the criteria outlined in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Subtopic 605-45, *Revenue Recognition—Principal Agent Considerations*, in determining whether it is appropriate to record the gross amount of service revenue and related costs or the net amount earned as management fees. Generally, when we are primarily obligated in a transaction, have latitude in establishing prices and selecting suppliers, have credit risk, or have several but not all of these indicators, we record revenue gross. We record amounts collected from customers for sales tax on a net basis. In situations in which we are not primarily obligated, we do not have credit risk, or we determine amounts earned using fixed percentage or fixed payment schedules, we record the net amounts as management fees earned. Through the second quarter of 2017, we had one contract accounted for as management fees with revenue of nil and \$88,997 for the three months ended September 30, 2017 and 2016, respectively, and revenue of \$78,145 and \$239,723 for the nine months ended September 30, 2017 and 2016, respectively. Our gross billings on this management fee contract were nil and \$1,523,282 for the three months ended September 30, 2017 and 2016, respectively, and \$2,173,022 and \$3,788,592 for the nine months ended September 30, 2017 and 2016, respectively. This management fee contract ended in the second quarter of 2017 and we no longer have any similar contracts.

We recognize licensing fees ratably over the term of the license. We derive some revenue from advertising contracts, which we recognize ratably over the term that the advertisement appears on our website.

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 2017 and 2016 would be anti-dilutive. These potentially dilutive securities include stock options and warrants and totaled 3,094,321 and 3,266,799 shares at September 30, 2017 and 2016, respectively.

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

| | September 30, | |
|---|------------------|------------------|
| | 2017 | 2016 |
| | (Unaudited) | (Unaudited) |
| Anti-dilutive securities excluded from diluted loss per share: | | |
| Stock options | 1,360,756 | 1,271,858 |
| Warrants | 1,733,565 | 1,994,941 |
| Total anti-dilutive securities excluded from diluted loss per share | <u>3,094,321</u> | <u>3,266,799</u> |

Inventories

We record inventories within “Prepaid expenses and other current assets” in our condensed consolidated balance sheets. As of September 30, 2017 and December 31, 2016, all inventories consisted of waste disposal equipment with cost balances of \$11,271 and \$12,996, respectively, with no reserve for inventory obsolescence at either date.

Recent Accounting Pronouncements

Adopted

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment*, which aims to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Previously, Step 2 measured a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Instead, under the new ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and a goodwill impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value. In no circumstances would the loss recognized exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for us on January 1, 2020, with early adoption permitted. We adopted this ASU in the second quarter of 2017 with our interim impairment test as further discussed in Note 4.

Pending Adoption

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard replaces existing revenue recognition guidance, which in many cases was tailored for specific industries, with a uniform

accounting standard applicable to all industries and transactions. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to correlate with the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. The standard also requires enhanced disclosures regarding revenue recognition. This new standard, as amended, will be effective for us on January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. While we are still evaluating the impact of adopting ASU 2014-09 on our consolidated financial statements, we currently do not expect it to have a material impact on the timing of revenue recognition. We anticipate adopting the standard on a full retrospective basis.

To assess the impact of the standard, we are using internal resources to lead the implementation efforts. Our internal resources reviewed the amended guidance, attended training classes and consulted with other accounting professionals to assist with interpretation of the amended guidance. We completed an impact assessment of the guidance changes affecting our company and developed an approach to address each change. We are in the process of reviewing our portfolio of service contracts and documenting key contract terms for areas impacted by the amended guidance. In addition, we are assessing the effect this guidance may have on the timing of the recognition of costs we incur to obtain and fulfill our contracts. Changes to processes and internal controls are being identified to meet the standard's reporting and disclosure requirements. We continue to work through an analysis of the increased disclosures required by the new guidance.

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, but given the material amount of our future minimum payments under non-cancellable operating leases, primarily office rent, at September 30, 2017, 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.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on the treatment of cash receipts and cash payments for certain types of cash transactions, to eliminate diversity in practice in the presentation of the cash flow statement. The adoption of ASU 2016-15 will be required on a retrospective basis beginning January 1, 2018, with early adoption permitted. We have not yet determined when we will adopt ASU 2016-15. 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 September 30, 2017 and December 31, 2016, property and equipment, net, and other assets consisted of the following:

| | September 30, 2017 <u>(Unaudited)</u> | December 31, 2016 <u></u> |
|---|---|---------------------------------|
| Property and equipment, net of accumulated depreciation of \$2,089,097 and \$2,442,549 as of September 30, 2017 and December 31, 2016, respectively | \$ 1,041,745 | \$ 1,340,850 |
| Security deposits and other assets | 540,261 | 1,074,071 |
| Property and equipment, net, and other assets | <u>\$ 1,582,006</u> | <u>\$ 2,414,921</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 September 30, 2017 was \$110,582, inclusive of \$43,462 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 \$339,272 for the nine months ended September 30, 2017, inclusive of \$126,761 of depreciation expense reflected within "Cost of revenue." Depreciation expense for the three months ended September 30, 2016 was \$123,283, inclusive of \$38,490 of depreciation expense reflected within "Cost of revenue," and was \$354,495 for the nine months ended September 30, 2016, inclusive of \$86,754 reflected within "Cost of revenue." At September 30, 2017, the carrying value of our capital lease assets was \$269,598, net of \$230,499 of accumulated depreciation. At December 31, 2016, the carrying value of our capital lease assets was \$347,135, net of \$152,962 of accumulated depreciation.

4. Goodwill and Other Intangible Assets

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

| September 30, 2017 (Unaudited) | Estimated Useful Life | Gross Carrying Amount | Accumulated Amortization | Net |
|--|-----------------------|-----------------------|--------------------------|---------------------|
| Finite lived intangible assets: | | | | |
| Customer relationships | 5 years | \$ 12,720,000 | \$ 10,706,000 | \$ 2,014,000 |
| Trademarks | 7 years | 6,242,055 | 3,746,893 | 2,495,162 |
| Patents | 7 years | 230,683 | 230,683 | — |
| Software | 7 years | 1,857,396 | 488,819 | 1,368,577 |
| Customer lists | 5 years | 307,153 | 274,653 | 32,500 |
| Total finite lived intangible assets | | <u>\$ 21,357,287</u> | <u>\$ 15,447,048</u> | <u>\$ 5,910,239</u> |

| December 31, 2016 | Estimated Useful Life | Gross Carrying Amount | Accumulated Amortization | Net |
|--|-----------------------|-----------------------|--------------------------|---------------------|
| Finite lived intangible assets: | | | | |
| Customer relationships | 5 years | \$ 12,720,000 | \$ 8,798,000 | \$ 3,922,000 |
| Trademarks | 7 years | 6,242,055 | 3,078,845 | 3,163,210 |
| Patents | 7 years | 230,683 | 230,683 | — |
| Software | 7 years | 1,649,507 | 307,989 | 1,341,518 |
| Customer lists | 5 years | 307,153 | 244,295 | 62,858 |
| Total finite lived intangible assets | | <u>\$ 21,149,398</u> | <u>\$ 12,659,812</u> | <u>\$ 8,489,586</u> |

| September 30, 2017 (Unaudited) and December 31, 2016 | Estimated Useful Life | Carrying Amount |
|--|-----------------------|----------------------|
| Indefinite lived intangible asset: | | |
| Goodwill | Indefinite | <u>\$ 58,337,290</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 \$935,567 and \$928,431 for the three months ended September 30, 2017 and 2016, respectively. Amortization expense related to finite lived intangible assets was \$2,787,236 and \$2,771,912 for the nine months ended September 30, 2017 and 2016, 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 second quarter of 2017 with no impairment recorded.

5. Accounts Payable and Accrued Liabilities

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

| | September 30, 2017 (Unaudited) | December 31, 2016 |
|-----------------------|-----------------------------------|----------------------|
| Accounts payable | \$ 16,220,566 | \$ 32,944,202 |
| Accrued taxes | 959,743 | 1,272,832 |
| Employee compensation | 405,326 | 529,945 |
| Other | 237,106 | 558,580 |
| | <u>\$ 17,822,741</u> | <u>\$ 35,305,559</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. The ABL Facility replaced our Revolving Credit Note and Loan Agreement with Regions Bank, which was paid off and terminated effective February 24, 2017.

Each loan under the ABL Facility bears interest, at our option, at either the Base Rate, as defined in the agreement, plus a margin ranging from 1.0% to 1.5% (5.75% as of September 30, 2017), or the LIBOR lending rate for the interest period in effect, plus a margin ranging from 2.0% to 2.5% (3.54% as of September 30, 2017). The maturity date of the revolving credit 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 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. The minimum fixed charge coverage ratio covenant will not apply until May 15, 2018, when the trailing 12-month period ending March 31, 2018 has been reported. 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 September 30, 2017 and 2016 was \$100,511 and \$57,331, respectively. The amount of interest expense related to borrowings for the nine months ended September 30, 2017 and 2016 was \$297,870 and \$161,642, respectively. Debt issuance cost of \$469,507 is being amortized to interest expense over the life of the new revolving credit facility beginning March 1, 2017. As of September 30, 2017, the unamortized portion of the debt issuance costs was \$414,732. The amount of interest expense related to the amortization of the discount on the revolving credit facility for the nine months ended September 30, 2017 was \$54,775. The ABL Facility liability was \$6,730,893, net of unamortized debt issuance cost of \$414,732, with approximately \$4,151,000 of additional availability as of September 30, 2017. There were no draws made on the equipment loan facility as of September 30, 2017.

7. Capital Lease Obligations

At September 30, 2017 and December 31, 2016, total capital lease obligations outstanding consisted of the following:

| | September 30, 2017 (Unaudited) | December 31, 2016 |
|---|--------------------------------------|----------------------|
| Capital lease obligations, imputed interest at 3.00% to 13.29%, with monthly payments of approximately \$6,000, expiring through November 2020, secured by computer and telephone equipment | \$ 54,438 | \$ 315,253 |
| Total | 54,438 | 315,253 |
| Less: current maturities | (48,775) | (106,184) |
| Long-term portion | \$ 5,663 | \$ 209,069 |

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 September 30, 2017 and 2016 was \$992 and \$3,464, respectively. The amount of interest expense related to our capital leases for the nine months ended September 30, 2017 and 2016 was \$5,090 and \$11,117, respectively.

8. 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 September 30, 2017 and December 31, 2016, and we have recorded a valuation allowance of \$17,400,000 and \$15,555,000, respectively, against deferred tax assets in excess of deferred tax liabilities in the accompanying condensed consolidated financial statements. As of September 30, 2017 and December 31, 2016, we had federal income tax net operating loss carryforwards of approximately \$19,300,000 and \$18,500,000, respectively, which expire at various dates beginning in 2031.

9. Fair Value of Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, deferred revenue, revolving credit 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 revolving credit facility, based on borrowing rates currently available to us for loans with similar terms and maturities.

10. Stockholders' Equity

Preferred Stock— Our authorized preferred stock includes 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 includes 200,000,000 shares of common stock with a par value of \$0.001, of which 15,281,324 and 15,272,575 shares were issued and outstanding as of September 30, 2017 and December 31, 2016, respectively.

Shares Issued for Employee Stock Purchase Plan Options— On May 23, 2017, we issued 8,749 shares to employees for \$11,972 under our 2014 Employee Stock Purchase Plan (“ESPP”) for options that vested and were exercised.

Shares Issued for Consulting Services— On September 28, 2016, we issued 418,750 fully vested restricted shares of our common stock to a third party for consulting services under a one-year contract. We recorded an expense of \$1,046,875 for the nine months ended September 30, 2017 within “Selling, general, and administrative” expenses in our condensed consolidated statement of operations. The prepaid asset associated with this consulting services contract was fully amortized as of September 30, 2017.

Warrants— During 2016, we issued warrants to purchase 521,060 shares, and no holders have exercised warrants. At September 30, 2017, 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 September 30, 2017:

| 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 |

Employee Stock Purchase Plan— On September 17, 2014, our stockholders approved our 2014 ESPP. We recorded expense of \$14,686 and \$28,200 related to the ESPP during the nine months ended September 30, 2017 and 2016, respectively.

Stock Options— We recorded stock option expense of \$479,256 and \$1,623,029 for the nine months ended September 30, 2017 and 2016, respectively. The following table summarizes the stock option activity for the nine month period ended September 30, 2017:

| | Stock Options | | |
|-----------------------------------|------------------|--------------------------|---|
| | Number of Shares | Exercise Price Per Share | Weighted-Average Exercise Price Per Share |
| Outstanding at December 31, 2016 | 1,317,402 | \$2.08 — \$26.00 | \$ 9.09 |
| Granted | 79,500 | \$2.13 — \$2.71 | \$ 2.50 |
| Canceled/Forfeited | (36,146) | \$6.40 — \$23.20 | \$ 12.35 |
| Outstanding at September 30, 2017 | 1,360,756 | \$2.08 — \$26.00 | \$ 8.62 |

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, 2016.

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, Earth911, 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 Earth911 so that Earth911 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, Quest, and Earth911.

Three and Nine Months Ended September 30, 2017 and 2016 Operating Results

The following table summarizes our operating results for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------------|----------------------------------|-----------------------|---------------------------------|-----------------------|
| | 2017 (Unaudited) | 2016 (Unaudited) | 2017 (Unaudited) | 2016 (Unaudited) |
| Revenue | \$ 31,930,550 | \$ 46,157,414 | \$ 115,840,966 | \$ 138,771,985 |
| Cost of revenue | 27,904,006 | 42,562,397 | 103,180,609 | 128,036,082 |
| Gross profit | 4,026,544 | 3,595,017 | 12,660,357 | 10,735,903 |
| Operating expenses: | | | | |
| Selling, general, and administrative | 3,977,662 | 4,923,283 | 13,539,654 | 14,215,944 |
| Depreciation and amortization | 1,002,687 | 1,013,225 | 2,999,747 | 3,039,653 |
| Total operating expenses | 4,980,349 | 5,936,508 | 16,539,401 | 17,255,597 |
| Operating loss | (953,805) | (2,341,491) | (3,879,044) | (6,519,694) |
| Interest expense | (126,507) | (62,345) | (361,273) | (176,207) |
| Income tax expense | — | — | — | — |
| Net loss | <u>\$ (1,080,312)</u> | <u>\$ (2,403,836)</u> | <u>\$ (4,240,317)</u> | <u>\$ (6,695,901)</u> |

Three and Nine Months Ended September 30, 2017 compared to Three and Nine Months Ended September 30, 2016

Revenue

For the quarter ended September 30, 2017, revenue was \$31.9 million, a decrease of \$14.2 million, or 30.8%, compared with \$46.1 million for the quarter ended September 30, 2016. For the nine months ended September 30, 2017, revenue was \$115.8 million, a decrease of \$22.9 million, or 16.5%, compared with \$138.7 million for the nine months ended September 30, 2016. The decrease was primarily due to reductions of services with certain customers. We anticipate that in 2018 revenue will be positively impacted by expansions with current customers and the addition of new customers.

Cost of Revenue/Gross Profit

Cost of revenue decreased \$14.7 million to \$27.9 million for the quarter ended September 30, 2017 from \$42.6 million for the quarter ended September 30, 2016. Cost of revenue decreased \$24.8 million to \$103.2 million for the nine months ended September 30, 2017 from \$128.0 million for the nine months ended September 30, 2016. The decrease was primarily due to decreased cost of sub-contracted services and reductions of services with certain customers.

Gross profit increased \$432,000 to \$4.0 million for the quarter ended September 30, 2017 from \$3.6 million for the quarter ended September 30, 2016. The gross profit margin was 12.6% of third quarter 2017 net sales compared with 7.8% of third quarter 2016 net sales. Gross profit increased \$2.0 million to \$12.7 million for the nine months ended September 30, 2017 from \$10.7 million for the nine months ended September 30, 2016. The gross profit margin was 10.9% of net sales for the nine months ended September 30, 2017 compared with 7.7% of net sales for the nine months ended September 30, 2016. The increase in gross profit dollars and margin percentage for the three and nine months ended September 30, 2017 was primarily due to decreased cost of sub-contracted services and exiting lower margin services with certain customers.

Margins are affected quarter to quarter 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 contracted services, advertising rates, and the sales mix among advertising, consulting, commodities, and services in any one reporting period.

Operating Expenses

Operating expenses were \$5.0 million and \$5.9 million for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$956,000. For the nine months ended September 30, 2017, operating expenses decreased \$716,000 to \$16.5 million from \$17.3 million for the nine months ended September 30, 2016.

Selling, general, and administrative expenses were \$4.0 million and \$4.9 million for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$946,000. The decrease for the three months ended September 30, 2017 was primarily related to a decrease in stock related compensation of \$437,000 and labor related expenses of approximately \$443,000. Selling, general, and administrative expenses were \$13.5 million and \$14.2 million for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$676,000. The decrease for the nine months ended September 30, 2017 was primarily related to a decrease in stock related compensation of \$342,000 and labor related expenses of approximately \$335,000.

Operating expenses also included depreciation and amortization of \$1.0 million for the three months ended September 30, 2017 and 2016. Depreciation and amortization expenses were \$3.0 million for the nine months ended September 30, 2017 and 2016.

Interest Expense

For the three months ended September 30, 2017, interest expense increased \$65,000 to \$127,000 from \$62,000 for the three months ended September 30, 2016. For the nine months ended September 30, 2017, interest expense increased \$185,000 to \$361,000 from \$176,000 for the nine months ended September 30, 2016 as a result of a higher interest rate, a higher average outstanding balance on our revolving credit facility, and the amortization of \$54,775 related to the debt issuance costs for the new Citizens revolving credit facility. Debt issuance cost of \$469,507 is being amortized to interest expense over the life of the new revolving credit facility beginning March 1, 2017 as discussed in Note 6 to our condensed consolidated financial statements.

Net Loss

Net loss for the quarter ended September 30, 2017 was \$(1.1) million compared with a net loss of \$(2.4) million for the quarter ended September 30, 2016. Net loss for the nine months ended September 30, 2017 was \$(4.2) million compared with a net loss of \$(6.7) million for the nine months ended September 30, 2016. The explanations above detail the majority of the changes related to the decrease in net loss.

Loss per Share

Net loss per basic and diluted share was \$(0.07) for the quarter ended September 30, 2017 compared with a net loss per basic and diluted share of \$(0.16) for the quarter ended September 30, 2016. The weighted average number of shares of common stock outstanding increased to 15.3 million for the three months ended September 30, 2017 from 14.9 million for the three months ended September 30, 2016.

Net loss per basic and diluted share was \$(0.28) for the nine months ended September 30, 2017 compared with a net loss per basic and diluted share of \$(0.46) for the nine months ended September 30, 2016. The weighted average number of shares of common stock outstanding increased to 15.3 million for the nine months ended September 30, 2017 from 14.6 million for the nine months ended September 30, 2016. The increase in the share count for the three and nine months ended September 30, 2017 was primarily from the issuance of shares for Employee Stock Purchase Plan options exercised during 2017 and 2016 and from the stock offering during the first quarter of 2016.

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

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. Other adjustments include severance costs and aggregated \$63,489 and \$307,860 in the three and nine months ended September 30, 2017, respectively. In the prior year, other adjustments included certain legal and other professional fees related to our reverse stock split, certain customer credits, and severance costs and aggregated \$223,357 and \$263,300 in the three and nine months ended September 30, 2016, respectively.

The following table reflects Adjusted EBITDA for the three and nine months ended September 30, 2017 and 2016:

RECONCILIATION OF NET LOSS TO ADJUSTED EBITDA (UNAUDITED)

| | As Reported | | As Reported | |
|----------------------------------|----------------------------------|---------------------|---------------------------------|-----------------------|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Net loss | \$ (1,080,312) | \$ (2,403,836) | \$ (4,240,317) | \$ (6,695,901) |
| Depreciation and amortization | 1,046,150 | 1,051,715 | 3,126,508 | 3,126,407 |
| Interest expense | 126,507 | 62,345 | 361,273 | 176,207 |
| Stock-based compensation expense | 357,097 | 793,761 | 1,540,817 | 1,882,572 |
| Other adjustments | 63,489 | 223,357 | 307,860 | 263,300 |
| Income tax expense | — | — | — | — |
| Adjusted EBITDA | <u>\$ 512,931</u> | <u>\$ (272,658)</u> | <u>\$ 1,096,141</u> | <u>\$ (1,247,415)</u> |

Liquidity and Capital Resources

As of September 30, 2017, we had \$1.1 million in cash and cash equivalents compared with \$1.3 million as of December 31, 2016. Working capital was \$4.5 million as of September 30, 2017 compared with \$3.1 million as of December 31, 2016.

We derive our primary sources of funds for conducting our business activities from sales of services, commodities, consulting, and advertising; 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 our goals and strategies.

We believe our existing cash and cash equivalents of \$1.1 million, available borrowing capacity under our credit facility, 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 nine months ended September 30, 2017 and 2016.

Cash Flows from Operating Activities

Cash used in operating activities was \$1.6 million for the nine months ended September 30, 2017 compared with \$2.5 million for the nine months ended September 30, 2016. Cash used in operating activities for the nine months ended September 30, 2017 included the net loss of \$4.2 million and cash used in the net change in operating assets and liabilities of \$2.7 million, offset by non-cash items of \$5.3 million. The cash used in operating activities for the nine months ended September 30, 2016 related to the net loss of \$6.7 million and cash used in the net change in operating assets and liabilities of \$1.1 million, offset by non-cash items of \$5.3 million. The non-cash items reflected depreciation, amortization of intangible assets, amortization of debt issuance costs, provision for doubtful accounts, and stock-based compensation. The net changes in operating assets and liabilities were primarily related to changes in accounts receivable, security deposits and other assets, and accounts payable and accrued liabilities. Our business, including revenue, operating expenses, and operating margins, may vary depending on commodity prices, the blend of services we provide to our customers, the terms of customer contracts, and our business 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 nine months ended September 30, 2017 and 2016 was \$0.2 and \$0.7 million, respectively, primarily from purchases of property and equipment and costs related to software development. The decrease in cash used during the

nine months ended September 30, 2017 was primarily due to a decrease in the purchase of property and equipment along with a decline in capitalized software development in 2017 compared with the same period in 2016.

Cash Flows from Financing Activities

Cash provided by financing activities was \$1.7 million for the nine months ended September 30, 2017, primarily from net draws on our revolving credit facilities of \$1.9 million. Cash provided by financing activities was \$2.1 million for the nine months ended September 30, 2016, primarily from the \$2.9 million net proceeds received from the sale of our stock and warrants. See Note 6 to our condensed consolidated financial statements for a discussion of our asset-based revolving credit facility entered into in February 2017.

Inflation

We do not believe that inflation had a material impact on us during the nine months ended September 30, 2017 and 2016.

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, accrued liabilities, 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.

We believe that of our significant accounting policies, the following may involve a higher degree of judgment and complexity.

Collectibility of Accounts Receivable

Our accounts receivable consists primarily of amounts due from customers for the performance of services, and we record the amount net of an allowance for doubtful accounts. To record our accounts receivable at their net realizable value, we assess their collectibility, which requires a considerable amount of judgment. We perform a detailed analysis of the aging of our receivables, the credit worthiness of our customers, our historical bad debts, and other adjustments. If economic, industry, or customer specific business trends worsen, we increase the allowance for uncollectible accounts by recording additional expense in the period in which we become aware of the new conditions.

Long-Lived Assets

We periodically evaluate whether events and circumstances have occurred that may warrant revision of the estimated useful life of property and equipment or whether the remaining balance of property and equipment, or other long-lived assets should be evaluated for possible impairment. Instances that may lead to an impairment include the following: (i) a significant decrease in the market price of a long-lived asset group; (ii) a significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition; (iii) a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset or asset group, including an adverse action or assessment by a regulator; (iv) an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset or asset group; (v) a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group; or (vi) a current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

Upon recognition of an event, as previously described, we use an estimate of the related undiscounted cash flows, excluding interest, over the remaining life of the property and equipment and long-lived assets in assessing their recoverability. We measure impairment loss as the amount by which the carrying amount of the asset exceeds the fair value of the asset. We primarily employ the two following methodologies for determining the fair value of a long-lived asset: (i) the amount at which the asset could be bought or sold in an arm's-length transaction between unrelated willing parties; or (ii) the present value of expected future cash flows grouped at the lowest level for which there are identifiable independent cash flows.

Impairment of Goodwill and Other Intangible Assets

In January 2017, the FASB issued ASU 2017-04, which simplifies the goodwill impairment test by eliminating Step 2 of the quantitative assessment and aims to reduce the complexity of evaluating goodwill for impairment. Under the amended guidance, when a quantitative assessment is required, an entity will perform a goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge will be measured as the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of recorded goodwill. This amended guidance is effective for us on

January 1, 2020, with early adoption permitted. Our early adoption of this guidance in the second quarter of 2017 did not have an impact on our consolidated financial statements.

In accordance with ASC Topic 350, *Intangibles – Goodwill and Other*, we perform goodwill impairment testing at least annually unless indicators of impairment exist in interim periods. As discussed below, we elected to perform our goodwill impairment analysis in the second quarter of 2017 due to the decline in revenue year over year in the first half of the year. Our test of goodwill impairment includes assessing qualitative factors and the use of judgment in evaluating economic conditions, industry and market conditions, cost factors, and entity-specific events, as well as overall financial performance. The impairment test for goodwill compares the estimated fair value of a reporting unit with goodwill to its carrying value. If the carrying amount of a reporting unit's goodwill exceeds the fair value of its goodwill, we recognize an impairment loss equal to the excess, not to exceed the total amount of recorded goodwill.

In addition to the required goodwill impairment analysis, we also review the recoverability of our net intangible assets with finite lives when an indicator of impairment exists. Based on our analysis of estimated undiscounted future cash flows expected to result from the use of these net intangibles with finite lives, we determine if we will recover their carrying values as of the test date. If not recoverable, we record an impairment charge.

We performed our goodwill impairment analysis as of June 30, 2017 utilizing an income approach with no impairment recorded. We believe that the discounted cash flow method best captures the significant value creating activities we are undertaking. The primary assumptions in our income approach included estimating cash flows and projections based on management's expectations. We determined that the fair value of our goodwill exceeded our carrying value, and consequently, no impairment was deemed to have occurred. However, a continued or prolonged period of declining gross margins could result in the write-off of a portion or all of our goodwill and other intangible assets in future periods.

Stock Options

We estimate the fair value of stock options using the Black-Scholes-Merton valuation model. Significant assumptions used in the calculation were determined as follows:

- We determine the expected term under the simplified method using an average of the contractual term and vesting period of the award as appropriate statistical data required to properly estimate the expected term was not available;
- We measure the expected volatility using the historical daily changes in the market price of our common stock and applicable comparison companies;
- We approximate the risk-free interest rate using the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards; and
- We base forfeitures on the history of cancellations of options granted by us and our analysis of potential future forfeitures.

Accounting for Income Taxes

We use the asset and liability method to account for income taxes. We use significant judgment in determining the provision for income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against net deferred tax assets. In preparing our condensed consolidated financial statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating the actual current tax liability together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, depreciation on property and equipment, intangible assets, goodwill, and benefits of net operating loss tax carryforwards. These differences result in deferred tax assets, which include tax loss carryforwards and liabilities, which are included within our condensed consolidated balance sheets. We then assess the likelihood that deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not likely or there is insufficient operating history, we establish a valuation allowance. To the extent we establish or increase a valuation allowance in a period, we include an adjustment within the tax provision of our condensed consolidated statements of operations. As of September 30, 2017 and December 31, 2016, we had established a full valuation allowance for all deferred tax assets.

As of September 30, 2017 and December 31, 2016, we did not recognize any assets or liabilities relative to uncertain tax positions, nor do we anticipate any significant unrecognized tax benefits will be recorded during the next 12 months. We recognize any interest or penalties related to unrecognized tax benefits in income tax expense. Since there are no unrecognized tax benefits as a result of tax positions taken, there are no accrued penalties or interest.

Financial Instruments

Our financial instruments as of September 30, 2017 and December 31, 2016 consisted of cash and cash equivalents, accounts receivable, revolving credit facility, accounts payable, accrued liabilities, 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 approximates their carrying values using Level 3 inputs, based on their short maturities or for long-term debt and long-term portions of capital lease obligations, based on borrowing rates currently available to us for loans with similar terms and maturities.

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 September 30, 2017.

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

| Exhibit No. | Exhibit |
|--------------------|---|
| 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 |

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: November 14, 2017

By: /s/ S. Ray Hatch

S. Ray Hatch

President and Chief Executive Officer

Date: November 14, 2017

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: November 14, 2017

/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: November 14, 2017

/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 September 30, 2017, 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: November 14, 2017

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 September 30, 2017, 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: November 14, 2017

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.