

QUEST RESOURCE HOLDING CORPORATION

To Challenge, Manage & InformSM

2018 Annual Report

Chairman's Letter to Quest Resource Holding Corporation Stockholders

Dear Fellow Stakeholders:

I am delighted to write my inaugural letter as the Chairman of the Board of Quest Resource Holding Corporation. I want to thank all our stakeholders; our employees, investors, and most importantly, our customers for your support and commitment. We believe we have a tremendous opportunity ahead of us and that we are well positioned to grow. *In an era of increasing commitment to sustainability, our business is and always has been to enhance sustainability on behalf of our customers and thereby generate financial returns.*

Quest has a unique history as a pioneer in the waste industry. Over many years, the company has built a network of vendors and forged relationships with national customers. We invested in systems, which could track and report information increasingly important to our customers for compliance, regulatory, and reporting purposes and that through an asset light model, we could handle multiple waste challenges, thereby providing solutions through a range of services. This network and solutions orientation remain the core strengths of our company.

Over the last few years, the company has had to change course, make difficult organizational and operating decisions, consciously renew its core beliefs, focus on its strengths, and dedicate itself to where it brings real value to customers. These changes have not been easy to execute, especially for a public company, but through a commitment by management and the entire organization, the company is the better for it, and all constituents will be better served. The culture has been transformed, our relationships with customers solidified, incentive systems changed to focus on long-term gross margin dollars, and the team has been strengthened, resulting in an organization unambiguously dedicated to serving its customers.

Over the last few months, the stockholder base and board have changed fundamentally. We are greatly appreciative to the stockholders and board members who brought us to where we are, but the changes are positive and position the company for the future. We have reduced ownership concentration and attracted a broader set of institutional investors dedicated to the long term and who believe in the team and the mission.

Hampstead Park Capital Management, my investment firm, is a committed long-term partner. After conducting detailed due diligence, we made a significant investment in the company, investing at what was then a price premium. Our investment approach is to develop deep conviction by conducting detailed analysis and by utilizing our experience, and then by working with all stakeholders to build a commitment to achieving a clearly articulated long-term execution plan. This approach was true for me as a management consultant, as an investor, and as board member, and this will remain the commitment from me and the Board going forward.

As a Board, we will support management and enable them to focus on operational execution by bringing to bear the skills and experience needed both through board composition and by utilizing our networks. And we will continually try to strengthen alignment among stakeholders. We are adjusting board compensation to become more equity oriented, requiring both board and senior management members to purchase and maintain stock ownership in the company and reducing potential conflicts through new claw back provisions, trading and derivative investment policies, and through an ongoing review of our governance practices.

We are excited for the future and about our prospects, but first and foremost, we need to execute on our profit growth plans. The Board and management are firmly aligned and our focus going forward will be on building profitable, strategic customer relationships. We have three areas of focus:


1. Continue to build existing customer relationships, by working with them to find more efficiencies, ways to reduce costs, and by providing additional services in both current and new waste stream to support their cost and sustainability objectives.

2. Add new strategic, profitable customers and working to grow them over time by consistently demonstrating the ability to provide value as a trusted partner. To support this, we will systematically build our go-to-market capabilities, further develop our processes, and grow our sales and client services team.
3. Invest in systems that directly support our customers, by helping them increase efficiencies, drive down costs to serve, and generate valuable information for them to utilize.

The waste and environmental services market is large and growing, driven by strong tailwinds. Our business naturally serves two dual objectives: generating economic returns and implementing solutions that enhance sustainability. These two objectives are increasingly valued and complementary. Our employees are passionate about sustainability and are driven by this mission, as are our investors and customers, and we are committed to executing against these dual goals. We have built an asset light model with a national footprint, providing service and solutions across a range of waste streams, focusing on building long term customer relationships - these are our core competencies.

As we execute on our plan, we will find opportunities to grow and strengthen our core business, expand across natural adjacencies, and broaden our ability to profitably drive sustainability, creating long-term value for all our stakeholders.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Friedberg". The signature is fluid and cursive, with a prominent initial "D" and "F".

Dan Friedberg
Chairman of the Board of Directors

CEO Annual Letter to Quest Resource Holding Corporation Stockholders

Dear Fellow Stockholders:

Reflecting on the past couple of years, I am proud of the progress that our team has made. We grew gross profit dollars by 17% in the last two years, which was driven by improving the revenue mix and improving operational efficiencies. We turned the corner from adjusted EBITDA losses to profitability, as adjusted EBITDA improved by nearly \$4 million over the past two years.

There are significant and disruptive choices in how companies think about handling their waste with increasing emphasis on finding environmentally and socially responsible methods to economically recycle, instead of sending waste to a landfill. Quest is well-positioned to benefit and take a leadership role in affecting this continuous growth trend.

Creating deeper and more mutually beneficial partnerships with our customers remains our perpetual goal. The primary areas of concentration are as follows:

- Identifying and securing new customers that can greatly benefit from our differentiated offering. The correct alignment of matching potential customers with our services allows us to maintain our profitable growth trend. We will continue to add to our sales resources to support this effort.
- Continue to earn opportunities to penetrate existing customers with additional services and locations. We have been very successful in this area, and we anticipate this trend will continue.
- Focus on the continuous pursuit to improve our offering to the market. We intend to address and to expand it to meet the customer's ever evolving needs. Improving and evolving our technology initiatives will further enable us to create improved value.

We operate in a great space. Business is realizing that times are rapidly changing, and it is no longer acceptable to ignore sustainable practices. They are having to evolve due to demand from customers and shareholders alike. The task for a company to design and implement a cost-effective program is extremely challenging. Quest is uniquely positioned to assume this role with our broad-based offerings and our national footprint. This is the key to our success.

Recently, we saw a transformation of the stockholder base and in our Board of Directors. Approximately 40% of our stock ownership changed hands through the combination of an underwritten offering and a private transaction. With this transaction, shares that were previously held by a few investors are now more widely dispersed.

Related to this transaction, there were several changes to our board. We welcome our new Board member, Stephen Nolan, and new Chairman, Daniel Friedberg. Dan is the founder and managing partner at Hampstead Park Capital Management, which is now our largest beneficial stockholder. I want to thank Dan and Hampstead Park for their substantial investment and belief in the company. In addition, I extend our thanks to our former Board members, both of which remain substantial stockholders, for their contributions to the company.

We are very excited about our prospects, outlook, and business opportunities going forward. We believe that our stronger foundation will allow for a sustainable business that can consistently grow both our revenue, profitability, and shareholder value.

Sincerely,



S. Ray Hatch President and Chief Executive Officer

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

FORM 10-K

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from _____ to _____

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)

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

(Title of Each Class)
Common Stock, par value \$0.001 per share

(Name of Each Exchange on Which Registered)
The Nasdaq Stock Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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"/>	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 Act). Yes No

The aggregate market value of common stock held by non-affiliates of the registrant (6,622,026 shares) based on the last reported sale price of the registrant's common stock on the Nasdaq Capital Market on June 30, 2018, which was the last business day of the registrant's most recently completed second fiscal quarter, was \$12,846,730. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

As of March 1, 2019, there were outstanding 15,328,870 shares of the registrant's common stock, par value \$0.001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

None

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this Annual Report on Form 10-K that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical facts contained or incorporated herein by reference in this Annual Report on Form 10-K, 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-K reflect our views as of the date of this Form 10-K 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.

Specific forward-looking statements in this Annual Report on Form 10-K include, but are not limited to, our belief that our recycling services are comprehensive, innovative, and cost effective; our belief that the 2018 improvements in gross profit reflect the execution of our strategy to transition our business to better leverage our value-added services offerings to achieve sustainable improvements to our procurement operations, and to utilize our disciplined approach to customer acquisition and renewal; our belief that a disciplined approach to customer acquisition is enabling us to renew and grow business that contributes to profitable growth; our belief that we are not exposed to significant interest, currency, or credit risks arising from our cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, deferred revenue, revolving credit facility, and capital lease obligations; our belief that by developing and aggregating strategic solutions, we are unique in our ability to offer comprehensive national solutions in the highly fractionalized waste, disposal, and recycling service business; our plan to expand to serve growing industries that we do not currently service, but that generate waste streams and recyclables that can benefit from our ability to manage a large variety of waste streams and recyclables, respond quickly to service requests, and provide what we consider industry-leading collection, processing, and data reporting; our plan to expand the types of waste streams and recyclables covered by our services; our plan to capitalize on the significant market, technology, and process opportunities available in the environmental and recycling services industry; our plan to identify, investigate, develop, and deliver new technologies and processes that we believe have the potential to contribute additional economic and financial value; our intention to continue to enhance the comprehensive, one-stop recycling services that we provide for the waste streams and recyclables produced by our business customers; our intention to emphasize the monetary advantages of recycling by demonstrating to businesses their ability to capture the commodity value of their waste streams and recyclables, reduce their disposal costs, enhance their management of environmental risks, enhance their legal and regulatory compliance, and achieve their sustainability goals; our intention to continue to expand the customer base for our services by focusing on the expertise we have gained and the value proposition that we offer to our business customers in terms of lower overall removal costs, recyclable commodity value, flexible programs, broad service offerings, and a national footprint that we believe provides us with competitive advantages in expanding our customer base; our intention to leverage the demands by governmental authorities and by the public to expand efforts to recycle materials because of concerns about sustainability, greenhouse gases, global warming, pollution, and other environmental concerns; our expectation that the recycling industry will continue to increase as landfill space decreases and businesses and consumers seek alternatives to delivering their recyclables and disposables to landfills; our expectation that the EPA and state and local governments will continue the present trend of restricting the amount of potentially recyclable material bound for landfills; our belief that governmental restrictions, along with the economic value of recyclables, may create additional opportunities as proper disposal of materials becomes more specialized; our goal to be a leading environmental services company; the key elements of our strategy to achieve our goal; our plans to continue to broaden the range of industries we serve and the nature and extent of the services we provide, which enables us to constantly target new customers and provide additional services to existing customers; our belief that there is a need among those interested in the environment for a convenient, efficient, and centralized gathering place to obtain and share news and information; our plan to increase our sales and marketing efforts; our strategic goal to continue to diversify our customer base; our intention to conduct our operations in compliance with applicable laws and regulations and to assist our customers in their compliance with applicable environmental laws and regulations; our plan to continue to pursue an “asset light” strategy that utilizes third-party vendors or subcontractors for the collection, sorting, and processing of recyclable and waste materials for businesses; our belief that this strategy results in a scalable business model; our expectations regarding capital expenditures; our plan to increase our recycling and waste services business; our expectations regarding our capital requirements and the uses of such capital; our plan to continue to expand our work force to continue to enhance our business and operating results; our belief that there is significant competition for qualified personnel with the skills and knowledge that we require; our expectation that we will enter into strategic alliances; our plan to review strategic opportunities to buy other businesses that would complement

our current service offerings, expand the scope of our service offerings, expand the breadth of our markets and sales channels, enhance our technical capabilities, or otherwise offer growth opportunities; our acquisition strategy; our belief that the compensation we have historically paid to our executive officers and certain of our employees is within the lower quartile of compensation paid by companies similar to us; our intention to issue additional securities pursuant to our equity incentive plan and our employee stock purchase plan may issue equity or convertible securities in the future; our plan to retain any future earnings to finance our operations and growth plans; our belief that the mix of our largest customers will continue to change over time; and our belief that our existing cash and cash equivalents, available borrowing under our credit facility, placements of our securities, and cash expected to be generated from operations will be sufficient to fund our operations for the next 12 months.

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 Annual Report on Form 10-K reflect our views as of the date of this Annual Report on Form 10-K 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, including the demand for our services; the state of the U.S. economy in general and the recycling and waste collection and disposal industry in particular; general economic conditions; the potential for increased regulation of waste, landfills, recyclable materials, and other environmental concerns; speculation concerning waste and recyclable materials and their impact on the environment; the commodity value of our customers' waste streams; our growth opportunities; our anticipated growth; our ability to increase demand for our services in various markets; the position of our services in the recycling and waste collection and disposal industry; our strategies; our ability to introduce new service offerings; the success of new service offerings; our ability to expand into other markets and industries; our ability to integrate acquired businesses in a successful manner; the general growth of our recycling services business; and other risks detailed from time to time in our reports to the SEC, including this Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

PART I

ITEM 1. BUSINESS

Overview

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. Our customers typically are multi-location businesses for which we create, implement, and manage customer-specific programs for the collection, processing, recycling, disposal, and tracking of waste streams and recyclables.

We believe our services are comprehensive, innovative, and cost effective. Our services are designed to enable our business customers to capture the commodity value of their waste streams and recyclables, reduce their disposal costs, enhance their management of environmental risks, enhance their legal and regulatory compliance, and achieve their sustainability goals while maximizing the efficiency of their assets. Our services currently focus on the waste streams and recyclables from big box, food chain, and other retailers; automotive repair, maintenance, and tire operations; truck and bus fleet operators; manufacturing plants; multi-family and commercial properties; and construction and demolition projects. We currently concentrate on programs for recycling motor oil and automotive lubricants, oil filters, scrap tires, food waste, meat renderings, cooking oil and grease, plastics, cardboard, metal, glass, paper, construction debris, as well as a large variety of hazardous and non-hazardous solid and liquid wastes. In addition, we offer products such as antifreeze and windshield washer fluid as well as other minor ancillary services.

We also provide information and data that tracks and reports the environmental results of our services and provides actionable data to improve business operations. The data we generate also enables our customers to achieve and satisfy their environmental and sustainability goals and responsibilities.

Industry Overview

The multi-billion dollar solid waste collection and disposal business drives the overall waste industry. The size of the recycling industry has increased in recent years and is expected to continue to increase as environmental concerns increase and as landfill space decreases and businesses and consumers seek alternatives to delivering their recyclables and disposables to landfills and to enhance their environmental concern reputations. Although society and industry have increased the awareness of environmental issues, such as recycling, reuse, and proper disposal, waste production also continues to increase. There is recognition by U.S. public agencies, consumers, and consumer products manufacturers that many items deposited in landfills have commodity value or usability as material for new products. Because of environmental concerns, local government regulations, and cost factors, it has become increasingly difficult to obtain the necessary permits to build any new landfills. Improvements in recycling and reuse technologies and efficient secondary markets for recycled commodities have made recycling a cost-attractive alternative.

Regulatory measures and more stringent control of material bound for disposal make the management of solid waste a difficult problem. The Environmental Protection Agency, or EPA, and state and local governments are generally expected to continue the present trend of restricting the amount of potentially recyclable material bound for landfills. Governmental authorities have passed, or are reported to be contemplating, measures that require industrial and commercial companies to recycle all or a portion of their disposable materials and restrict the percentage of recyclable materials in any commercial load of disposable material. We believe that these measures, along with the economic value of recyclable materials, may create additional opportunities as proper disposal of materials becomes more specialized. Some large industrial and commercial companies have in-house personnel that handle their solid waste management and recycling responsibilities, but many have found that in-house handling of these responsibilities may not be an effective solution without adequate knowledge, experience, resources, and staff support. We offer these companies and other establishments a solution to this increasing burden.

Our Strategy

Our goal is to be a leading environmental services company. Key elements of our strategy to achieve our goal include the following:

- *Recycling Services.* We intend to continue to enhance the comprehensive, one-stop recycling services that we provide for the waste streams and recyclables produced by our business customers.
- *Emphasize Monetary and other Benefits of Recycling.* We intend to emphasize the monetary advantages of recycling by demonstrating to businesses their ability to capture the commodity value of their waste streams and recyclables, reduce their disposal costs, enhance their management of environmental risks, enhance their legal and regulatory compliance, and achieve their sustainability goals.
- *Expand Our Customer Base.* We intend to continue to expand the customer base for our services by focusing on the expertise we have gained and the value proposition that we offer to our business customers in terms of lower overall removal costs, recyclable commodity value, flexible programs, broad service offerings, and a national footprint that we believe provides us with competitive advantages in expanding our customer base.

- *Expand into New Customer Verticals.* We plan to expand to serve growing industries that we do not currently service, but that generate waste streams and recyclables that can benefit from our ability to manage a large variety of waste streams and recyclables, respond quickly to service requests, and provide what we consider industry-leading collection, processing, and data reporting.
- *Expand the Types of Materials Covered by Our Services.* We plan to expand the types of waste streams and recyclables covered by our services. To date, our revenue has been generated primarily from our solutions for used oil, oil filters, scrap tires, grease and cooking oil, solid waste, expired food products, metals, cardboard, and hazardous materials. We believe that we can provide value to our business customers by servicing a larger portion of disposable and recyclable materials, including construction and debris waste.
- *Maintain Virtual Facilities and Equipment.* We plan to continue to pursue an “asset light” strategy that utilizes third-party vendors or subcontractors for the collection, sorting, and processing of recyclable and waste materials for businesses. This strategy results in a scalable business model that enables us to concentrate on our core competencies of developing service solutions that are attractive to customers and selling recyclable materials at volumes that provide favorable prices; enables us to render our services on a national basis without the need for an extensive workforce, multiple facilities, or numerous vehicles; allows us to negotiate with multiple subcontractors to optimize our pricing; and reduces our capital expenditures and working capital requirements.
- *Leverage Governmental and Social Factors Expanding Recycling.* We intend to leverage the demands by governmental authorities and by the public to expand efforts to recycle materials because of concerns about sustainability, greenhouse gases, global warming, pollution, and other environmental concerns.
- *Pursue Strategic Technologies and Processes.* We plan to identify, investigate, develop, and deliver new technologies and processes that we believe have the potential to contribute additional economic and financial value.
- *Pursue Strategic Acquisitions.* We plan to capitalize on the significant market, technology, and process opportunities available in the environmental and recycling services industry. As a result of our considerable industry experience and relationships, we believe we are well positioned to identify and evaluate acquisition candidates and assess their growth prospects, the quality of their management teams, their local reputation with customers, and the suitability of their locations. We believe we are regarded as an attractive acquiror because of (1) our historical performance of successfully developing and servicing new customers; (2) the experience and reputation of our management team within the industry; (3) our decentralized operating strategy, which generally enables the managers of an acquired company to continue their involvement in company operations; (4) the ability of management and employees of acquired companies to participate in our potential growth and expansion through stock ownership and career advancement opportunities; and (5) the ability to offer liquidity to the owners of acquired companies through the receipt of common stock or cash.

Services

Recycling and Waste Services

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. Our solutions provide a single point of contact for managing the wide variety of disposables and recyclables produced. Our services can help our customers lower their operational expenses, maximize the value of their recyclable commodities, and help them foster environmental stability and sustainability. We can provide disposal and recycling services for virtually all forms of solids and liquids, although our current services primarily relate to used motor oil, oil filters, scrap tires, solid waste, metals, grease, cooking oil, food waste, and expired food products. We are also capable of providing our recycling services for a variety of other materials, including glass, cardboard, and paper; industrial cleaning (separator cleaning and tank cleaning); plastics; construction debris; universal waste (batteries, mercury, lights); regulated waste; and electronic devices.

In addition, we help customers to safely transport, treat, and dispose of a full spectrum of non-recyclable hazardous waste.

Our value proposition to our business customers is simple. We seek to

- ensure our customers can focus on their core businesses instead of waste disposal and recycling;
- provide cost-effective choices that lower operational expenses and maximize the value of recyclable commodities;
- help our customers with flexible programs that work toward environmental sustainability by lowering the percentage of the waste streams that must be disposed of in landfills;
- assist our customers with liability protection and services to assist with environmental compliance;
- provide our customers with a centralized point of contact with the convenience of 24/7/365 support; and
- provide cloud-based, centralized data collection, environmental tracking, and reporting.

Many waste materials (such as scrap metal, cardboard, plastics, used cooking oil, and automotive fluids) have commodity value that can be recovered and converted into new products and resources. Recovering valuable materials is a key factor in zero-waste initiatives and presents a profitable opportunity for businesses. The recovery of valuable materials is a strong motivator to educate businesses and consumers about proper disposal.

We provide our services on a national basis as well as in certain international regions. We currently service tens of thousands of locations for various customers throughout the United States (including Puerto Rico) and Canada. Our customers generally have multiple locations. We continue to broaden the range of industries we serve and the nature and extent of the services we provide, which enables us to constantly target new customers and provide additional services to existing customers.

Our recycling services often reduce our customers' overall disposal costs by reducing the level of disposable material delivered to landfills and capturing the commodity value of their waste streams and recyclables. We are independent of any specific materials hauler or recycling facility operator, which allows us to seek the best services and optimize the cost of services.

We provide certain industries and businesses with specialized services, such as the following:

- *Automotive, Fleet and Industry Services.* We provide a selection of services or a turn-key option involving the handling of scrap tires, HDPE plastics, used oil, used oil filters, parts cleaners, paint wastes, industrial fluids, used antifreeze, hazardous waste, and chemicals.
- *Construction Services.* We help construction site managers across the United States recycle construction waste, including cardboard, plastics, metal, drywall, and concrete. In addition, we provide temporary containers, offices, toilets, eye washing stations, and water holding tanks.
- *Solid Waste.* We began offering solid waste collection as a way of becoming a one-stop shop for existing and prospective customers. The solid waste business provides incremental revenue streams, rounds out our offerings, and provides opportunities to expand into other specialized services.

Landfill Diversion of Food Waste

According to the EPA and the U.S. Department of Agriculture, approximately one-third of the nation's food, or about 133 billion pounds of food per year, goes to waste. The EPA has found that discarded food is one of the largest components (depending on classification) of the nation's solid waste. The issue of how to reduce such waste is critical. We are currently developing targeted programs, based on our Reduce-Reuse-Recycle-Manage platform, to address these issues.

Our food waste program seeks to reduce the amount of produce, bakery, and deli materials and expired dairy products in landfills and to find a better solution. A large portion of the nation's disposable material consists of organics, produce, bakery and deli items, dairy products, and vegetation trimmings, all of which can be recycled. Our program offers a variety of options, including the following:

- *Reduction.* We can study a customer's current organic material management situation and determine how best to alter current ordering and display options to reduce landfill use.
- *Animal Feed.* Through our network of vendors, we can channel a percentage of organic material into a process in which the product is dehydrated and put back into animal feed.
- *Waste-to-Energy.* We can offer a process that involves the creation of energy in the form of electricity through the use of anaerobic digestion. Anaerobic digestion is a series of processes in which microorganisms break down biodegradable material in the absence of oxygen. This process is widely used as a renewable energy source because it produces a methane and carbon dioxide rich bio-gas suitable for energy production helping replace fossil fuels. The nutrient-rich digestate also can be used as fertilizer. We currently employ a network of service providers that utilize this method as a form of organic disposal.
- *Compost/Land Application/Soil Treatment.* We can offer composting or land application/soil treatments for organic materials. In composting or land application/soil treatments, organic materials are placed either in a custom vessel or spread out and allowed to decompose naturally. Composting sites have several options for turning and rotating the product to maximize the nutrient content of the end product and speed the turn-around time. Land application/soil treatment facilities typically do not regularly turn the product or add any components and allow nature to return the nutrients to the host soil on its own timetable. Composting facilities also typically bag or sell the product by the truck/train load to individuals or municipalities, whereas land application/soil treatment facilities leave the product where it is initially placed. We have employed these methods with several customers across the country.

Sustainability Programs

We offer a full spectrum of sustainability programs to help our customers reduce operating costs and maximize eco-efficiencies. Our sustainability programs include strategic planning, writing policies and procedures, LEED certification, life cycle assessment, energy modeling, building commissioning, and carbon emission reduction reporting.

Sales and Marketing

We market our recycling services throughout the United States primarily through a direct sales force and selected strategic partnerships. Our sales and marketing efforts focus on emphasizing the benefits of our nationwide, one-stop, comprehensive service offerings and the ability to lower our customers' operational expenses, maximize the value of their recyclable commodities, and foster the benefits of environmental sustainability. We plan to continue to increase our sales and marketing efforts.

We have targeted various industries for marketing our environmental services and sustainability programs. Some of the industries that we target and the nature of the products and services that we market to those industries are as follows:

- ***Automotive***
 - Retail service providers (car dealerships, tire dealerships, quick lubes, aftermarket automotive parts and accessories retailers, automotive service franchises)
 - Trucking and fleet
 - Car and equipment rental companies
- ***Manufacturing***
 - Packaging
 - Food and beverages
 - Mining
 - Heavy and industrial
- ***Food Services and Retail***
 - Grocers
 - Discount
 - Specialty
 - Restaurants
- ***Construction and Demolition***
 - Commercial
 - Residential
 - Industrial
- ***Commercial Property Management***

Customers

We generally enter into multi-year contracts, typically from two to three years, with our customers that are designed to provide us with recurring monthly revenue. These contracts structure our revenue primarily in three ways: fixed fee, contracted pricing, or revenue from the sale of commodities.

Our business depends to a significant extent on revenue from our largest customers. Any material reduction in the business we do with those customers could have an adverse effect on our company. Three customers accounted for 51% of our revenue for the year ended December 31, 2018, and two customers accounted for 44% of our revenue for the year ended December 31, 2017. Our largest customers in fiscal 2018 were different from those in fiscal 2017, and we believe that the mix of our largest customers will continue to change over time.

By developing and aggregating strategic solutions, we believe that we are unique in our ability to offer comprehensive national solutions in the highly fractionalized waste, disposal, and recycling service business. Through consumer engagement and reward, national media presence, logistics management, compliance, and commodity brokerage, our solution delivers the critical knowhow and experience necessary to implement and execute multi-point reuse, recycling, proper disposal, and waste management programs.

Competitors

Recycling and Waste Disposal Services

The recycling and waste disposal industry as a whole is dominated by large multi-billion dollar companies, such as Waste Management and Republic Services. To date, these large companies have concentrated on their traditional business of collecting waste for disposal in their landfills rather than recycling, which reduces the need for landfills. The strategies of these large companies could change at any time, and we could begin to experience substantially increased competition from them. These companies have substantially greater market recognition, substantially larger customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than we possess and that afford them competitive advantages over us. As a result, they may be able to devote greater resources to the promotion and sale of services similar to those we offer, to provide comparable services at lower prices, and to introduce new solutions and respond to customer requirements more quickly than we can.

Scope of Competitors' Services

Our services address motor oil, scrap tires, grease, meat, organics, hazardous waste, regulated waste, construction debris, cardboard, pallets, plastics, metals, and solid waste. Most of our competitors specialize in only one or a few of these service areas. In delivering our services, we have subcontracted at times to our competitors, thereby utilizing them as our subcontractors.

While we have many competitors for certain aspects of our business, we are unaware of any provider that provides all of our services, recycling data services, environmental certification, and sustainability program offerings. The following chart illustrates the aspects of our offerings relative to certain of our competitors:

<i>Company</i>	<i>Recycling Services</i>	<i>Recycling Data</i>	<i>Environmental Certification</i>	<i>Sustainability Programs</i>
Quest Resource Holding Corporation	X	X	X	X
Waste Management	X		X	
Republic Services	X		X	
Clean Harbors	X		X	
Liberty Tire Recycling	X			
Darling International	X			

State and Federal Environmental Regulations

We use our best efforts to be in compliance with federal, state, and local environmental laws, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, the Hazardous Materials Transportation Act, as amended, the Resource Conservation and Recovery Act, as amended, the Clean Air Act, as amended, and the Clean Water Act. Such compliance has not historically constituted a material expense to us.

The collection and disposal of solid waste and rendering of related environmental services as well as recycling operations and issues are subject to federal, state, and local requirements, which regulate health, safety, the environment, zoning, and land-use. Federal, state, and local regulations vary, but generally govern hauling, disposal, and recycling activities and the location and use of facilities and also impose restrictions to prohibit or minimize air and water pollution. In addition, governmental authorities have the power to enforce compliance with these regulations and to obtain injunctions or impose fines in the case of violations, including criminal penalties. The EPA and various other federal, state, and local environmental, health, and safety agencies and authorities, including the Occupational Safety and Health Administration of the Department of Labor, administer those regulations.

We strive to conduct our operations in compliance with applicable laws and regulations and to assist our customers in their compliance with applicable environmental laws and regulations. While such amounts expended in environmental compliance in the past or that we anticipate spending in the future have not had and are not expected to have a material adverse effect on our financial condition or operations, the possibility remains that technological, regulatory, or enforcement developments, the results of environmental studies, or other factors could materially alter this expectation.

Each state in which we operate has its own laws and regulations governing solid waste disposal, water and air pollution and, in most cases, releases and cleanup of hazardous substances and liability for such matters. Several governmental authorities have enacted laws that will require counties to adopt comprehensive plans to reduce the volume of solid waste landfills through waste planning, composting, recycling, or other programs. Legislative and regulatory measures to mandate or encourage waste reduction at the source and materials recycling also are under consideration by Congress and the EPA.

Finally, various states have enacted, or are considering enacting, laws that restrict the disposal within the state of solid or hazardous wastes generated outside the state. While courts have declared unconstitutional laws that overtly discriminate against out of state waste, courts have upheld some laws that are less overtly discriminatory. Challenges to other such laws are pending.

Equipment and Installation

We currently pursue an “asset light” strategy that utilizes third-party subcontractors for the collection, sorting, and processing of recyclable and waste materials for businesses. We do not own significant recycling or waste management assets, such as trucks or landfills, or have a significant number of employees devoted to in-the-field recycling operations. As part of our operations, we maintain strong relationships with a multitude of subcontractors to ensure that proper equipment, including recycling containers, container shredders, and bulk oil containers, and installation services are provided to our customers. Our more than 3,500 third-party relationships currently provide us with an estimated 30,000 trained professionals, 25,000 trucks, and over 1,000 recycling facilities. This strategy results in a scalable business model that enables us to concentrate on our core competencies of developing service solutions that are attractive to customers and the sale of recyclable materials at the highest prices, enables us to render our services on a national basis without the need for multiple facilities or numerous vehicles, allows us to negotiate with multiple providers for the best cost of service, and reduces our capital expenditures and working capital requirements.

Employees

As of December 31, 2018, we employed a total of 95 persons, of whom four were executive employees, 54 were administrative and customer services employees, 31 were accounting and finance employees and six were sales and marketing employees. We consider our relationship with our employees to be good. None of our employees are represented by a union in collective bargaining with us.

Intellectual Property

Trademarks

We own or have filed applications for numerous federally registered trademarks and logos, including the following:

- QUEST RESOURCE MANAGEMENT GROUP (and “Circle” design);
- QUEST RESOURCE HOLDING CORPORATION (and “Q” design)
- YOUNCHANGE;
- SUSTAINABILITY DELIVERED;
- GENEX ANTI-FREEZE GROUP (and “X” design);
- GENEX WINDSHIELD WASHER FLUID (and “X” design); and
- TO CHALLENGE, MANAGE, AND INFORM.

Our trademarks are important to the success of our business.

Our History

We were incorporated in Nevada in July 2002 under the name BlueStar Financial Group, Inc. Prior to 2010, we were a “shell company” under the rules of the Securities and Exchange Commission, or the SEC. On March 30, 2010, we (i) closed a transaction to acquire Youchange, Inc., an Arizona corporation, or Youchange, as a wholly owned subsidiary, (ii) ceased being a shell company, and (iii) experienced a change in control in which the former stockholders of Youchange acquired control of our company. In May 2010, we changed our name to YouChange Holdings Corp.

On October 17, 2012, immediately prior to closing a merger transaction with Earth911, Inc., or Earth911, we filed Amended and Restated Articles of Incorporation to (i) change our name to Infinity Resources Holdings Corp., (ii) increase our shares of common stock authorized for issuance, (iii) authorize shares of preferred stock to be designated in series or classes as our board of directors may determine, (iv) effect a 1-for-5 reverse split of our common stock, and (v) divide our board of directors into three classes, as nearly equal in number as possible. On October 17, 2012, we closed the merger transaction, or the Earth911 Merger, to acquire Earth911 as a wholly owned subsidiary and experienced a change in control in which the former stockholders of Earth911 acquired control of our company.

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, increased our shares of common stock authorized for issuance, and changed our trading symbol to “QRHC.”

On February 20, 2018, we entered into an Asset Purchase Agreement with Earth Media Partners, LLC to sell certain assets of our wholly owned subsidiary, Earth 911, Inc., related to the Earth911.com website business in exchange for an aggregate earn-out amount of approximately \$350,000 and a 19% interest in Earth Media Partners, LLC. Earth911, Inc. was subsequently renamed Quest Sustainability Services, Inc.

Available Information

Our principal executive offices are located at 3481 Plano Parkway, The Colony, Texas 75056, and our telephone number is (972) 464-0004. Our website address is www.qrhc.com. The information on our website is not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC.

We file reports with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any other filings required by the SEC. Through our website, we make available free of charge our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

The public may read and copy any materials we file with, or furnish to, the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 1A. RISK FACTORS

An investment in our securities involves a high degree of risk. Certain factors may have a material adverse effect on our business, financial condition, and results of operations. You should carefully consider the risks and uncertainties described below, together with the other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occurs, our business, financial condition, results of operations, cash flow, and future prospects could be seriously harmed. This could cause the trading price of our common stock to decline and result in the loss of all or part of your investment.

Risks Related to Our Business and Industry

We have incurred recurring net losses and could have net losses in the future as we take steps to expand our business, which may negatively impact our ability to achieve our business objectives.

We have incurred recurring net losses, including net losses of \$2,438,981 in 2018 and \$5,820,276 in 2017. As a result of ongoing operating losses, we had an accumulated deficit of \$99,174,153 as of December 31, 2018. We expect to continue to make significant expenditures and incur substantial expenses as we continue to develop our business, expand our customer base, expand the recycling services we offer, increase the types of materials covered by our recycling services, enhance our technologies, implement internal systems and infrastructure, and hire additional personnel. As a result, we may continue to incur losses as we expand our business. There is no assurance that we will achieve or maintain profitability in the near future or at all. Our ability to achieve and maintain profitability depends on a number of factors, including the pricing of our services, market acceptance of our services, and other factors, some of which are set forth under "Risk Factors" or are included elsewhere in this Annual Report on Form 10-K. If we continue to incur substantial losses and are unable to secure additional financing, we could be forced to discontinue or curtail our business operations; sell assets at unfavorable prices; refinance existing debt obligations on terms unfavorable to us; or merge, consolidate, or combine with a company with greater financial resources in a transaction that may be unfavorable to us.

Our limited operating history may make it difficult for us to forecast accurately our operating results, and therefore we cannot assure the long-term successful operation of our business.

Our planned expense levels will be based in part on our expectations concerning future revenue, which is difficult to forecast accurately based on our aggressive growth plan. We may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in revenue. Further, business development and marketing expenses may increase significantly as we expand our operations. To the extent that these expenses precede or are not rapidly followed by a corresponding increase in revenue, our business, operating results, and financial condition may be materially and adversely affected.

Our business depends to a certain extent upon our largest customers, and any material reduction in our business with those customers could have an adverse effect on our company.

The success of our business depends to a certain extent on our relationship with our largest customers. Any material reduction in the business we do with those customers could have an adverse effect on our company. Three customers accounted for 51% of our revenue for the year ended December 31, 2018, and two customers accounted for 44% of our revenue for the year ended December 31, 2017. Our largest customers in fiscal 2018 were different from those in fiscal 2017, and we believe that the mix of our largest customers will continue to change over time. Our contractual arrangements with our major customers generally are on a multi-year basis and pertain to the management of only certain forms of materials. Our failure to maintain our business with our largest customers or any other large customer could have an adverse effect on our business.

Although we have long-term relationships with many of the customers to which we provide recycling services, their ability to cancel, reduce, or delay our service offerings to them could reduce our revenue and increase our costs.

Although customers for our services, including our largest customers, generally enter into multi-year contracts, typically from two to three years, they do not typically provide us with firm, long-term volume commitments. As a result, our customers are able to cancel, reduce, or delay our services to them at any time. If our service offerings are cancelled, delayed, or reduced, our revenue would decline.

We may lose a substantial portion of our recycling services business if certain materials are classified as “waste.”

Some of the municipalities in which we provide services for certain customers have entered into contractual arrangements with their waste haulage companies that require them to permit those waste haulage companies to remove and dispose of “waste” or “solid waste” within those municipalities. If materials, and in particular organic materials, that we typically obtain and dispose of are considered “waste” or “solid waste,” then our customers may be required to allow the waste haulage companies to remove those materials, and in general either our customers or the municipalities in which they are located must compensate those waste haulage companies based on the metric set forth in the relevant contracts or franchise agreements with those waste haulage companies. If, however, the materials are classified as “raw material,” as “commodities,” or as another designation other than “waste” or “solid waste,” our customers may allow us to obtain the recyclable materials. If it is ultimately found that certain materials constitute “waste” or “solid waste,” a significant portion of our anticipated revenue stream could be lost, which could have a material adverse effect on our business, the growth of our business, financial condition, and results of operations.

To expand our recycling and waste services business, we must attract additional customers and expand the services we offer.

Although we plan to increase our recycling and waste services business, the ability to expand our overall recycling and waste management services and reduce our dependence on our largest customers will require us to attract additional customers and expand the services we offer.

Our success depends on our ability to successfully expand, operate, and manage our operations. Our ability to expand successfully will depend upon a number of factors, including the following:

- the continued development of our business;
- the hiring, training, and retention of additional personnel;
- the ability to enhance our operational, financial, and management systems;
- the availability of adequate financing;
- competitive factors;
- general economic and business conditions;
- the ability to leverage on the factors expanding the growth of recycling;
- the ability to expand our customer base, the types of recyclable materials covered by our services, and our network of third-party service providers;
- the ability to implement new methods for revenue generation; and
- the ability to expand our relationships with third parties that are also engaged in activities relating to reducing, reusing, and recycling.

We may not be able to enhance our existing recycling, reuse, and proper disposal solutions and develop new solutions in a timely manner.

Our future operating results will depend to a significant extent on our ability to continue to provide efficient and innovative recycling, reuse, and disposal services that compare favorably with alternative services on the basis of cost, performance, and customer preferences. Our success in maintaining and growing with our existing customers and attracting new customers depends on various factors, including the following:

- innovative development of new services for customers;
- maintenance of quality standards;
- efficient and cost-effective services; and
- utilization of advances in technology.

Our inability to enhance our existing services and develop new services on a timely basis could harm our operating results and impede our growth.

We rely on independent third-party subcontractors to provide recycling services to our customers, and any interruptions of these arrangements could increase our costs, disrupt our services, and result in our inability to service our recycling customers, which would adversely affect our business.

We outsource the collection, processing, recycling, and disposal of waste streams and recyclables to independent third-party subcontractors. We rely on our subcontractors to maintain high levels of service. The loss of our relationships with our subcontractors, or their failure to conduct their services for us as anticipated in terms of cost, quality, and timeliness could adversely affect our ability to service our customers in accordance with required service, quality, and performance requirements. If this were to occur, the resulting decline in profitability could harm our business. Securing new high-quality and cost-effective subcontractors frequently is time-consuming and may not be successful, which could result in reduced revenue and various unforeseen operational problems.

Our subcontractors may maintain their own operations or serve other customers, a number of which may provide them with more business than we do. As a result, our subcontractors could determine to prioritize their capacity for their own operations or for other customers or reduce or eliminate services for us on short notice. If we have any such problems, we may be unable to service our customers in a cost-effective, high-quality, or timely manner, particularly in certain geographical areas, which may adversely affect our business and operating results. Our subcontractors also may seek to compete with us for customers they serve on our behalf or potential customers that we desire to serve.

We may face potential environmental liabilities that may not be covered by our insurance, and changes in insurance costs and availability may also impact our financial results.

We may incur liabilities for damage to the environment as a result of the operations of our third-party subcontractors. While we do not conduct physical haulage, recycling, or disposal operations, we retain third-party service providers to carry on those activities. These operations may expose us to liability for environmental damages, in some cases even if we did not directly cause the environmental damage. Further, under our agreements with our customers, we are often required to indemnify our customers from any liabilities or claims arising out of our actions or those of our subcontractors and from any release, threatened release, handling, or storage of hazardous and other materials from our customers' premises as a result of or connected with the performance of services by us or our subcontractors to our customers. If we were to incur substantial liability for environmental damage, our or our subcontractors' insurance coverage may not cover or may be inadequate to cover such liability. Also, because of the variable condition of the insurance market, we may experience future increases in self-insurance levels, increased retention levels, and increased premiums. This could have a material adverse impact on our financial condition, results of operations, and cash flows.

Fluctuations in prices for recycled commodities that we sell to third parties may adversely affect our revenue, operating income, and cash flows.

We process a variety of recyclable materials, such as metal, tires, motor oil and oil filters, food waste, meat rendering, cooking oil, grease, and cardboard, for sale to third parties, and we may directly or indirectly receive proceeds from the sale of such recyclable materials. Our results of operations may be affected by changing prices or market requirements for recyclable materials. The resale and purchase prices of, and market demand for, recyclable materials can be volatile because of changes in economic conditions and numerous other factors beyond our control. These fluctuations may affect the cost of and demand for our services and our future revenue, operating income, and cash flows. For example, a decline in oil prices would have an adverse effect on our revenue.

A significant disruption in our computer systems or a cybersecurity breach could adversely affect our operations.

We rely extensively on our computer systems to manage a variety of our business processes. Our systems are subject to damage or interruption from various sources, including power outages, computer and telecommunications failures, computer viruses, cybersecurity breaches, vandalism, severe weather conditions, catastrophic events, and human error. Our disaster recovery planning cannot account for all eventualities. If our systems are damaged, fail to function properly, or otherwise become unavailable, we may incur substantial costs to repair or replace them, and we may experience loss of critical data and interruptions or delays in our ability to perform critical functions, which could adversely affect our business and operating results. Any compromise of our data security could also result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to our reputation, loss or misuse of the information, and a loss of confidence in our data security measures, which could harm our business.

We rely on third-party technology, server, and hardware providers for our operations and for maintaining our data, and a failure of service by these providers could adversely affect our business and reputation.

We rely upon third-party data center providers to host our main servers. In the event that these providers experience any interruption in operations or cease operations for any reason or if we are unable to agree on satisfactory terms for continued hosting relationships, we would be forced to enter into relationships with other service providers or assume hosting responsibilities ourselves. If we are forced to switch hosting facilities, we may not be successful in finding alternative service providers on acceptable terms or in hosting the computer servers ourselves. We may also be limited in our remedies against these providers in the event of a failure of service. We also rely on third-party providers for components of our technology platform, such as hardware and software providers and domain name registrars. A failure or limitation of service or available capacity by any of these third-party providers could adversely affect our business.

Problems with our computer and communication systems may harm our business.

An element of our strategy is to generate and provide content, data, and reporting on our website portals to and from third parties. Accordingly, the satisfactory performance, reliability, and availability of our systems, transaction-processing systems, and communications infrastructure are critical to our reputation and our ability to attract and retain customers, as well as to maintain adequate customer service levels. We may experience periodic systems interruptions. Any substantial increase in the volume of traffic on our infrastructure may require us to expand and upgrade our technology, transaction-processing systems, and other features. We can provide no assurance that we will be able to project accurately the rate or timing of increases, if any, in the use of our infrastructure or timely expand and upgrade our systems and infrastructure to accommodate such increases.

We may be subject to intellectual property claims that create uncertainty about ownership of technology essential to our business and divert our managerial and other resources.

There has been a substantial amount of litigation regarding intellectual property rights. We can provide no assurance that third parties will not claim infringement by us with respect to our current or future services, trademarks, or other proprietary rights. Our success depends, in part, on our ability to protect our intellectual property and to operate without infringing the intellectual property rights of others in the process. There can be no assurance that any of our intellectual property will be adequately safeguarded or that it will not be challenged by third parties. We may be subject to intellectual property infringement claims that would be costly to defend, could limit our ability to use certain critical technologies, and may divert our technical and management personnel from their normal responsibilities. We may not prevail in any of these suits. An adverse determination of any litigation or defense proceedings could cause us to pay substantial damages, including treble damages, if we willfully infringe and also could increase the risk of our patent applications not being issued.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions, or other interim proceedings or developments in the litigation. If these results are perceived to be negative, it could have an adverse effect on our business.

The waste and recycling industries are subject to extensive government regulation, and existing or future regulations may adversely affect our current or future operations, increase our costs of operations, or require us to make additional capital expenditures.

Stringent government regulations at the federal, state, and local level may have substantial impact on our business, our third-party service providers, and our customers. A large number of complex laws, rules, orders, and interpretations govern environmental protection, health, safety, land use, zoning, transportation, and related matters. Among other things, these regulations may restrict the business of our third-party service providers' and our customers' operations and adversely affect our financial condition, results of operations, and cash flows by imposing conditions, such as the following:

- limitations on siting and constructing new recycling, waste disposal, transfer, or processing facilities or expanding existing facilities;
- limitations, regulations, or levies on collection and disposal prices, rates, and volumes;
- limitations or bans on disposal or transportation of out-of-state materials or certain categories of materials; or
- mandates regarding the disposal of solid waste, including requirements to recycle rather than landfill certain disposables.

Regulations affecting the siting, design, and closure of landfills could require our third-party service providers or customers to undertake investigatory or remedial activities, curtail operations, or close landfills temporarily or permanently. Future changes in these regulations may require our third-party service providers or our customers to modify, supplement, or replace equipment or facilities. The costs of complying with these regulations could be substantial, which may reduce the ability or willingness of our customers to use our services and adversely affect our results of operations.

Environmental advocacy groups and regulatory agencies have been focusing considerable attention on the emissions of greenhouse gases and their potential role in climate change. The adoption of laws and regulations to implement controls of greenhouse gases, including the imposition of fees or taxes, could adversely affect the operations of enterprises with which we do business. Additionally, certain states may adopt air pollution control regulations that are more stringent than existing and proposed federal regulations. Changing environmental regulations could require us or enterprises with which we do business to take any number of actions, including the purchase of emission allowances or installation of additional pollution control technology, and could make some operations less profitable, which could reduce the ability or willingness of our customers to use our services and adversely affect our results of operations.

Price increases may not be adequate to offset the impact of increased costs and may cause us to lose volume.

From time to time, our competitors may reduce the price of their services in an effort to expand their market share. General economic and market-specific conditions, as well as the concentration of our business with major companies, may also limit our ability to raise prices. As a result of these factors, we may be unable to offset increases in costs, improve our operating margins, and obtain returns through price increases.

We face intense competition from larger, more established companies, and we may not be able to compete effectively, which could reduce demand for our recycling services.

The waste materials industry as a whole is dominated by large national players, such as Waste Management and Republic Services. To date, these large companies have concentrated on their traditional business of collecting waste for disposal in their landfills rather than recycling. The strategies of these large companies could change at any time, and we could begin to experience substantially increased competition from them. These companies have substantially greater market recognition, substantially larger customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than we possess and that afford them competitive advantages over us. As a result, they are able to devote greater resources to the promotion and sale of services similar to those that we provide, to provide comparable services at lower prices, and to introduce new solutions and respond to customer requirements more quickly than we can.

Our ability to compete successfully in the recycling services market depends on a number of factors, both within and outside our control. These factors include the following:

- our success in designing and introducing new solutions;
- our ability to predict the evolving needs of our customers and to convince them to use our services;
- our ability to meet our customer's requirements in terms of cost, reliability, speed, and capacity;
- the quality of our customer services; and
- service introductions by our competitors or potential competitors.

Our customers impose substantial requirements relating to the recycling and waste management services we provide them.

Our customers impose substantial requirements relating to the recycling services we provide them. Our arrangements with our customers generally contain provisions including (a) relatively short contract terms with extensions at the discretion of the customer, (b) requirements that we assume full responsibility for all operational aspects of the services, (c) requirements that we comply with all applicable laws, regulations, and other governmental requirements, (d) requirements that we hold subcontractors to the same standards to which we are subject, (e) prohibitions on price increases without customer consent, (f) designation of service locations, service frequency, and equipment, (g) specifications on procedures for rendering services, (h) notification to customer of any spills, releases, or discharges of materials, (i) requirements that we supply a self-performance audit, (j) requirements that we render monthly or quarterly reports to the customer, (k) requirements that we render monthly invoicing in approved time frames and formats, and (l) requirements that we maintain specified records.

We may need additional capital in the future.

The development and expansion of our business may require additional funds. In the future, we may seek additional equity or debt financing to provide funds for our business and operations. Such financing may not be available or may not be available on satisfactory terms. If financing is not available on satisfactory terms, we may be unable to expand our operations. While debt financing will enable us to expand our business more rapidly than we otherwise would be able to do, debt financing increases expenses and we must repay the debt regardless of our operating results. Equity financings could result in dilution to our existing stockholders.

Our inability to obtain adequate capital resources, whether in the form of equity or debt, to fund our business and growth strategies, may require us to delay, scale back, or eliminate some or all of our operations, which may adversely affect our financial results and operations.

We depend on key personnel who would be difficult to replace, and our business will likely be harmed if we lose their services or cannot hire additional qualified personnel.

Our success depends to a significant extent upon the continued services of our current management team and key personnel. The loss of one or more of our other key executives or employees could have a material adverse effect on our business. We do not maintain "key person" insurance policies on the lives of any of our executives or any of our other employees. We employ all of our executives and key employees on an at-will basis, and their employment can be terminated by us or them at any time, for any reason, and without notice, subject, in certain cases, to severance payment rights. In order to retain valuable employees, in addition to salary and cash incentives, we regard our ability as a public company to grant stock-based compensation as an important component of our ability to attract and retain key personnel. The value to employees of stock-based compensation over time will be significantly affected by movements in our stock price that are beyond our control and may at any time be insufficient to counteract offers from other companies.

Our success also depends on our ability to attract, retain, and motivate additional skilled management personnel. We plan to continue to expand our work force to continue to enhance our business and operating results. We believe that there is significant competition for qualified personnel with the skills and knowledge that we require. Many of the other companies with which we compete for qualified personnel have substantially greater financial and other resources than we do. They also may provide more diverse opportunities and better chances for career advancement. Some of these characteristics may be more appealing to high-quality candidates than those which we have to offer. If we are not able to retain our current key personnel or attract the necessary qualified key personnel to accomplish our business objectives, we may experience constraints that will significantly impede the achievement of our business objectives and our ability to pursue our business strategy. New hires require significant training and, in most cases, take significant time before they achieve full productivity. New employees may not become as productive as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals. If our recruiting, training, and retention efforts are not successful or do not generate a corresponding increase in revenue, our business will be harmed.

Our operating results may experience significant fluctuations, which may make them difficult to predict.

In addition to the variability resulting from the short-term nature of our customers' commitments, other factors contribute to significant periodic and seasonal quarterly fluctuations in our results of operations. These factors include the following:

- the cyclical nature of the markets we serve;
- the timing and size of orders;
- the volume of business opportunities relative to our capacity;
- service introductions and market acceptance of new service offerings;
- timing of expenses in anticipation of future business;
- changes in the mix of the services we render;
- changes in cost and availability of labor and third-party vendors;
- changes in the value of commodities;
- changes in prices or market requirements for recyclable materials;
- timely delivery of services to customers;
- pricing and availability of competitive services;
- pressures on reducing selling prices;
- the success in serving new markets;
- introduction of new technologies into the markets we serve; and
- changes in economic conditions.

Potential strategic alliances may not achieve their objectives, and the failure to do so could impede our growth.

We anticipate that we will enter into strategic alliances. Among other matters, we explore strategic alliances designed to enhance our service offerings, enlarge our customer base, provide valuable knowhow, or take advantage of new methods or technologies. Any strategic alliances may not achieve their intended objectives, and parties to our strategic alliances may not perform as contemplated. The failure of these alliances may impede our ability to expand our existing markets or to enter new markets.

Any acquisitions that we undertake could be difficult to integrate, disrupt our business, dilute stockholder value, and harm our operating results.

We plan to review strategic opportunities to buy other businesses that would complement our current service offerings, expand the scope of our service offerings, expand the breadth of our markets and sales channels, enhance our technical capabilities, or otherwise offer growth opportunities. If we make any future acquisitions, we could issue securities that would dilute the percentage ownership of our stockholders, incur substantial debt, or assume contingent liabilities.

Our experience in acquiring other businesses is limited. Potential acquisitions also involve numerous risks, including the following:

- problems integrating the acquired operations, services, personnel, or technologies with our own;
- unanticipated costs associated with the acquisition;
- diversion of management's attention from our core businesses;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience;

- potential loss of key employees and customers of purchased organizations; and
- risk of impairment charges related to potential write-downs of acquired assets in acquisitions.

Our acquisition strategy entails reviewing and potentially reorganizing acquired business operations, corporate infrastructure, and systems, and financial controls. Unforeseen expenses, difficulties, and delays frequently encountered in connection with rapid expansion through acquisitions could inhibit our growth and negatively impact our profitability. We may be unable to identify suitable acquisition candidates or to complete the acquisitions of candidates that we identify. Increased competition for acquisition candidates may increase purchase prices for acquisitions to levels beyond our financial capability or to levels that would not result in the returns required by our acquisition criteria. In addition, we may encounter difficulties in integrating the operations of acquired businesses with our own operations or managing acquired businesses profitably without substantial costs, delays, or other operational or financial problems.

The effects of global economic conditions may impact our business, operating results, or financial condition.

Global economic conditions can cause disruptions and extreme volatility in global financial markets, increase rates of default and bankruptcy, and impact levels of consumer and commercial spending. These macroeconomic developments could negatively affect our business, operating results, and financial condition in a number of ways. For example, current or potential customers may delay or decrease spending with us or may not pay us or may delay paying us for previously performed services.

The members of our board of directors and our executive officers have broad rights.

Our business is operated under the control of our board of directors and officers. Stockholders have no right to take part in the control of our affairs or the day-to-day management or operation of the business. Stockholders are permitted to vote only in a limited number of circumstances. While the members of the board of directors are accountable as fiduciaries and are obligated to exercise duties of due care, loyalty, and full disclosure in handling our affairs, the board of directors is entitled to certain limitations of liability and to indemnity by us. Such indemnity and limitation of liability may limit rights that our stockholders would otherwise have to seek redress against the board of directors. Our executive officers are entitled to similar indemnification and limitation of liability. Our stockholders who have questions concerning the duties of the board of directors to our stockholders should consult their own legal counsel.

Certain conflicts of interest exist within our organization.

Certain members of our board of directors, as holders of our capital stock, may have conflicts of interest with respect to our company and the stockholders and with respect to the exercise of their voting rights for the shares that they own.

The compensation we pay to our executive officers and employees will likely increase.

We believe that the compensation we have historically paid to our executive officers and certain of our employees is within the lower quartile of compensation paid by companies similar to us. We may increase the compensation payable to our executive officers and employees, which could include both base compensation and cash or equity bonuses and payouts under severance or change in control arrangements. An increase in compensation and bonuses payable to our executive officers and employees could decrease our net income or increase our net loss.

If we are unable to maintain effective internal control over financial reporting in the future, the accuracy and timeliness of our financial reporting may be adversely affected.

Our reporting obligations as a public company will place a significant strain on our management and our operational and financial resources and systems for the foreseeable future. If we fail to maintain the adequacy of our internal control over financial reporting, we may not be able to produce reliable financial reports or help prevent fraud. Our failure to maintain effective internal control over financial reporting could prevent us from filing our periodic reports on a timely basis, which could result in the loss of investor confidence in the reliability of our consolidated financial statements, harm our business, and negatively impact the trading price of our common stock.

Risks Related to Ownership of Our Securities

Our stock price has been and will likely continue to be volatile, and the value of an investment in our common stock may decline.

The trading price of our common stock has been and is likely to continue to be volatile. In addition to the risk factors described in this section and elsewhere in this Annual Report on Form 10-K, factors that may cause the price of our common stock to fluctuate include the following:

- limited trading activity in our common stock;
- actual or anticipated fluctuations in our quarterly or annual financial results;
- the financial guidance we may provide to the public, any changes in such guidance, or our failure to meet such guidance;

- the failure of industry or securities analysts to maintain coverage of our company, changes in financial estimates by any industry or securities analysts that follow our company, or our failure to meet such estimates;
- various market factors or perceived market factors, including rumors, whether or not correct, involving us, our customers, our strategic partners, or our competitors;
- sales, or anticipated sales, of large blocks of our stock;
- short selling of our common stock by investors;
- additions or departures of key personnel;
- announcements of technological innovations by us or by our competitors;
- introductions of new services or new pricing policies by us or by our competitors;
- changing competitive factors;
- regulatory or political developments;
- fluctuating commodity prices, including oil;
- litigation and governmental or regulatory investigations;
- acquisitions or strategic alliances by us or by our competitors; and
- general economic, political, and financial market conditions or events.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These and other factors may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the price or liquidity of our common stock. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a lawsuit against us, we could incur substantial costs defending the lawsuit or paying for settlements or damages. Such a lawsuit could also divert the time and attention of our management from our business.

Future sales of our common stock in the public market by our existing stockholders, or the perception that such sales might occur, could depress the market price of our common stock.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market, and even the perception that these sales could occur may depress the market price. As of December 31, 2018, we had 15,328,870 shares of our common stock outstanding. Many of these shares may be sold in the public market, subject to prior registration or qualification for an exemption from registration, including, in the case of shares held by affiliates, compliance with the volume restrictions of Rule 144. Shares held by affiliates of our company, which generally include our directors, officers, and certain principal stockholders, are subject to the resale limitations of Rule 144 as described below. We also may register for resale shares that are deemed to be “restricted securities” or shares held by affiliates of our company.

In general, under Rule 144 as currently in effect, any person or persons whose shares are aggregated for purposes of Rule 144, who is deemed an affiliate of our company and beneficially owns restricted securities with respect to which at least six months has elapsed since the later of the date the shares were acquired from us, or from an affiliate of ours, is entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of our common stock and the average weekly trading volume in common stock during the four calendar weeks preceding such sale. Sales by affiliates under Rule 144 also are subject to certain manner-of-sale provisions and notice requirements and to the availability of current public information about us. Rule 701, as currently in effect, permits our employees, officers, directors, and consultants who purchase shares pursuant to a written compensatory plan or contract to resell these shares in reliance upon Rule 144, but without compliance with specific restrictions.

Rule 701 provides that affiliates may sell their Rule 701 shares under Rule 144 without complying with the holding period requirement and that non-affiliates may sell their shares in reliance on Rule 144 without complying with the holding period, public information, volume limitation, or notice provisions of Rule 144. A person who is not an affiliate, who has not been an affiliate within three months prior to sale, and who beneficially owns restricted securities with respect to which at least one year has elapsed since the later of the date the shares were acquired from us, or from an affiliate of ours, is entitled to sell such shares under Rule 144 without regard to any of the volume limitations or other requirements described above. Sales of substantial amounts of our common stock in the public market could adversely affect the market price for our common stock.

As of December 31, 2018, we had 3,506,631 shares of common stock issuable upon the exercise of outstanding stock options and warrants under our incentive compensation plan and other option and warrant agreements. Upon the exercise of stock options and warrants, such shares generally will be eligible for sale in the public market, except that affiliates will continue to be subject to volume limitations and other requirements of Rule 144. The issuance or sale of such shares could depress the market price of our common stock.

Future sales and issuances of our common stock or rights to purchase common stock by us, including pursuant to our equity incentive plan and employee stock purchase plan, could result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to fall.

We intend to issue additional securities pursuant to our equity incentive plan and our employee stock purchase plan may issue equity or convertible securities in the future. To the extent we do so, our stockholders may experience substantial dilution. We may sell common stock, convertible securities, or other equity securities in one or more transactions at prices and in a manner we determine from time to time. If we sell common stock, convertible securities, or other equity securities in more than one transaction, investors may be materially diluted by subsequent sales and new investors could gain rights superior to our existing stockholders.

Our directors, executive officers, and principal stockholders have substantial control over us and will be able to exert significant control over matters subject to stockholder approval.

Our directors, executive officers, and holders of more than 5% of our common stock, together with their affiliates, beneficially own or control a majority of our outstanding common stock. If these stockholders act together, including with respect to the election of specified directors as contemplated by a voting agreement among certain of them, they will be able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, such as a merger or other sale of our company or our assets. This concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

Anti-takeover provisions could impair a takeover attempt of our company even if the transaction would be beneficial to our stockholders and could make it difficult for you to change our management.

Certain provisions of our articles of incorporation and bylaws and applicable provisions of Nevada law may have the effect of rendering more difficult, delaying, or preventing an acquisition of our company, even when this would be in the best interest of our stockholders.

Our articles of incorporation and bylaws include provisions that provide for the following:

- authorize our board of directors to issue, without further action by the stockholders, up to 10,000,000 shares of undesignated preferred stock;
- specify that special meetings of our stockholders can be called only by our board of directors or the chairman of our board of directors;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, Class I, Class II, and Class III, with each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors; and
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum.

In addition, we are subject to Section 78.438 of the Nevada General Corporation Law, which generally prohibits a Nevada corporation from engaging in any of a broad range of business combinations with an interested stockholder for a period of two years following the date on which the stockholder became an interested stockholder, unless such transactions are approved by our board of directors. This provision could have the effect of delaying or preventing a change of control of our company, whether or not it is desired by or beneficial to our stockholders. In addition, other provisions of Nevada law may also discourage, delay, or prevent someone from acquiring us or merging with us.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management. Any provision of our articles of incorporation or bylaws or Nevada law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business, or our market, or if they adversely change their recommendations regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that securities or industry analysts may publish about us, our business, our market, or our competitors. If adequate research coverage is not established or maintained on our company or if any of the analysts who may cover us downgrade our stock or publish inaccurate or unfavorable research about our business or provide relatively more favorable recommendations about our competitors, our stock price would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Since we do not expect to pay any cash dividends for the foreseeable future, our stockholders may be forced to sell their stock in order to obtain a return on their investment.

We have never declared or paid any cash dividends on our capital stock, and we do not anticipate declaring or paying any cash dividends in the foreseeable future. We plan to retain any future earnings to finance our operations and growth plans. Our credit agreement also prohibits us from paying dividends on our common stock. Accordingly, investors must rely on sales of shares of their common stock after price appreciation, which may never occur, as the only way to realize any return on their investment.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Our executive offices are located in The Colony, Texas, where we lease approximately 36,000 square feet under a lease that expires in October 2022. We believe that our current facilities are adequate to meet our needs for the near future and that suitable additional or alternative space will be available on commercially reasonable terms to accommodate our foreseeable future operations.

ITEM 3. LEGAL PROCEEDINGS

We may be subject to legal proceedings in the ordinary course of business. As of the date of this Annual Report on Form 10-K, 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 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our common stock has traded on the Nasdaq Capital Market, or Nasdaq, under the symbol "QRHC" since May 19, 2014. Our common stock previously traded on the Over the Counter Bulletin Board, or OTCBB, under the symbol "QRHC" from October 28, 2013 to May 18, 2014 and under the symbol "IRHC" from November 13, 2012 to October 27, 2013.

As of March 1, 2019, there were 15,328,870 shares of common stock outstanding and approximately 155 holders of record of our common stock.

Dividend Policy

We have never declared or paid, and do not anticipate declaring or paying in the foreseeable future, any cash dividends on our capital stock. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then existing conditions, including our operating results, financial condition, contractual restrictions, capital requirements, business prospects, and other factors our board of directors may deem relevant.

Equity Compensation Plan Information

For equity compensation plan information, refer to Item 12 in Part III of this Annual Report on Form 10-K.

Recent Sales of Unregistered Securities

There were no sales of unregistered securities for the year ended December 31, 2018.

Issuer Purchases of Equity Securities

None

ITEM 6. SELECTED FINANCIAL DATA

Not applicable

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and accompanying notes appearing elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements, based upon our current expectations and related to future events and our future financial performance, that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors," "Forward-Looking Statements," and elsewhere in this Annual Report on Form 10-K.

Our Business

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. Our customers typically are multi-location businesses for which we create, implement, and manage customer-specific programs for the collection, processing, recycling, disposal, and tracking of waste streams and recyclables.

We believe our services are comprehensive, innovative, and cost effective. Our services are designed to enable our business customers to capture the commodity value of their waste streams and recyclables, reduce their disposal costs, enhance their management of environmental risks, enhance their legal and regulatory compliance, and achieve their sustainability goals while maximizing the efficiency of their assets. Our services currently focus on the waste streams and recyclables from big box, food chain, and other retailers; automotive repair, maintenance, and tire operations; truck and bus fleet operators; manufacturing plants; multi-family and commercial properties; and construction and demolition projects. We currently concentrate on programs for recycling motor oil and automotive lubricants, oil filters, scrap tires, food waste, meat renderings, cooking oil and grease, plastics, cardboard, metal, glass, paper, construction debris, as well as a large variety of hazardous and non-hazardous solid and liquid wastes.

We also provide information and data that tracks and reports the environmental results of our services and provides actionable data to improve business operations. The data we generate also enables our customers to achieve and satisfy their environmental and sustainability goals and responsibilities.

Years Ended December 31, 2018 and 2017 Operating Results

Our consolidated financial statements include the operating activities of our company and our subsidiaries for the years ended December 31, 2018 and 2017.

The following table summarizes our operating results for the years ended December 31, 2018 and 2017:

	Years Ended December 31,	
	2018	2017
Revenue	\$ 103,805,432	\$ 138,346,327
Cost of revenue	86,942,718	122,633,815
Gross profit	16,862,714	15,712,512
Operating expenses:		
Selling, general, and administrative	16,163,153	17,078,033
Depreciation and amortization	2,700,809	3,986,725
Total operating expenses	18,863,962	21,064,758
Operating loss	(2,001,248)	(5,352,246)
Interest expense	(437,733)	(468,030)
Income tax expense	—	—
Net loss	<u>\$ (2,438,981)</u>	<u>\$ (5,820,276)</u>

Year Ended December 31, 2018 compared with Year Ended December 31, 2017

Revenue

For the year ended December 31, 2018, revenue was \$103.8 million, a decrease of \$34.5 million, or 25.0%, compared with revenue of \$138.3 million for the year ended December 31, 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, including exiting less profitable services with certain customers in the latter half of 2017, we experienced an overall decrease in revenue for the year ended December 31, 2018 relative to 2017.

Cost of Revenue/Gross Profit

Cost of revenue decreased \$35.7 million, or 29.1%, to \$86.9 million for the year ended December 31, 2018 from \$122.6 million for the year ended December 31, 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 both our continuing and new customer base.

The year-over-year decrease in revenue was more than offset by a net decrease in cost of revenue, resulting in increased gross profit dollars and gross margin performance in 2018. Gross profit increased \$1.2 million, or 7.3%, to \$16.9 million for the year ended December 31, 2018 from \$15.7 million for the year ended December 31, 2017. Our gross margin was 16.2% of 2018 revenue compared with 11.4% in 2017. The increase in gross profit dollars and gross margin percentage for the year ended December 31, 2018 was primarily due to overall lower cost of subcontracted services, our exiting lower margin services with certain customers, and increased higher margin services from both continuing and new customers, partially offset by reductions of services with certain customers.

We believe that the 2018 improvements in gross profit reflect the execution of our strategy to transition our business to better leverage our value-added services offerings in order to achieve sustainable improvements to our procurement operations, and to utilize our disciplined approach to customer acquisition and renewal. We believe a disciplined approach to customer acquisition is enabling us to renew and grow business that contributes to profitable growth. While this approach negatively affected revenue in 2018, it resulted in year-over-year growth in gross profit for 2018 compared with 2017.

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

For the year ended December 31, 2018, operating expenses decreased \$2.2 million to \$18.9 million from \$21.1 million for fiscal 2017. Selling, general, and administrative expenses were \$16.2 million and \$17.1 million for the years ended December 31, 2018 and 2017, respectively, a year-over-year decrease of \$915,000. The decrease primarily related to decreases in labor and related expenses of approximately \$280,000; stock-based compensation for employees, board members, and consultants of \$915,000; professional fees of \$160,000; and travel expense of \$150,000, offset by a net increase in bad debt and collection expense of approximately \$425,000, which included \$610,000 expensed in 2018 to reflect our assessment of collectability of accounts receivable related to a customer's bankruptcy filing.

Operating expenses also included depreciation and amortization of \$2.7 million and \$4.0 million for the years ended December 31, 2018 and 2017, respectively. The decrease in depreciation and amortization expense in 2018 was primarily due to lower amortization related to certain intangible assets that were fully amortized as of July 2018.

Interest Expense

For the year ended December 31, 2018, interest expense decreased \$30,000 to \$438,000 from \$468,000 for 2017 as a result of lower average outstanding balances on our revolving credit facility, partially offset by higher interest rates. We are amortizing debt issuance costs of \$469,507 to interest expense over the life of the Citizens revolving credit facility beginning March 1, 2017 as discussed in Note 6 to our consolidated financial statements.

Net Loss

Net loss for the year ended December 31, 2018 was \$2.4 million compared with a net loss of \$5.8 million for the year ended December 31, 2017. The explanations above explain the primary 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 \$(0.16) for the year ended December 31, 2018 compared with a net loss per basic and diluted share of \$(0.38) for the year ended December 31, 2017. The weighted average number of shares of common stock outstanding increased from slightly under 15.3 million as of December 31, 2017 to 15.3 million as of December 31, 2018. The increase in the share count was primarily from the issuance of shares for Employee Stock Purchase Plan during 2017 and 2018.

Adjusted EBITDA

We use the non-GAAP measurement of earnings before interest, taxes, depreciation, amortization, stock-related compensation charges, and other adjustments, or “Adjusted EBITDA,” 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 accounting principles generally accepted in the United States, or GAAP. In 2018, other adjustments aggregated \$661,956 and included an adjustment to bad debt expense of \$610,272 to reflect our assessment of collectability of accounts receivable related to a customer’s bankruptcy filing. Other adjustments in 2018 also included legal fees related to our sale of certain assets of Earth911, Inc. (now named Quest Sustainability Services, Inc.) In 2017, other adjustments of \$307,860 included certain severance costs.

The following table reflects the reconciliation of net loss to Adjusted EBITDA for the years ended December 31, 2018 and 2017:

	As Reported	
	Years Ended December 31,	
	2018	2017
Net loss	\$ (2,438,981)	\$ (5,820,276)
Depreciation and amortization	2,885,212	4,157,261
Interest expense	437,733	468,030
Stock-based compensation expense	793,589	1,709,685
Other adjustments	661,956	307,860
Income tax expense	—	—
Adjusted EBITDA	<u>\$ 2,339,509</u>	<u>\$ 822,560</u>

Liquidity and Capital Resources

As of December 31, 2018, we had \$2.1 million of cash and cash equivalents and working capital of \$4.0 million, compared with cash and cash equivalents of \$1.1 million and working capital of \$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 \$2.1 million, our borrowing capacity under our \$20.0 million credit facility (which was \$11.3 million as of December 31, 2018), placements of our securities, and cash expected to be generated from operations will be sufficient to fund our operations for the next 12 months. In addition, we believe we can access the capital markets with placements of our securities.

Cash Flows

The following discussion relates to the major components of our cash flows.

Cash Flows from Operating Activities

Net cash provided by operating activities was \$3.0 million for the year ended December 31, 2018 compared with net cash used in operating activities of \$(1.7) million for the year ended December 31, 2017.

Cash provided by operating activities for the year ended December 31, 2018 related primarily to the net effect of the following:

- net loss of \$2.4 million;
- offset by non-cash items of \$4.9 million, which related primarily to depreciation, amortization of intangible assets, provision for doubtful accounts, and stock-based compensation; and
- cash provided by the net change in operating assets and liabilities of \$549,000, primarily associated with relative changes in accounts receivable, accounts payable, and accrued liabilities.

Cash used in operating activities for the year ended December 31, 2017 related primarily to the following:

- net loss of \$5.8 million;
- offset by non-cash items of \$6.6 million, which related primarily to depreciation, amortization of intangible assets, provision for doubtful accounts, and stock-based compensation; and
- cash used in the net change in operating assets and liabilities of \$2.4 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 years ended December 31, 2018 and 2017 was \$240,000 and \$315,000, respectively, primarily from costs related to software development and purchases of property and equipment. The decrease in cash used in 2018 was primarily due to a decline in capitalized software development in 2018 compared with 2017 along with a decrease in the purchase of property and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities was \$(1.7) million for the year ended December 31, 2018, primarily from net repayments of \$1.7 million on our revolving credit facility. Cash provided by financing activities was \$1.7 million for the year ended December 31, 2017, primarily from net borrowings of \$2.0 million on our revolving credit facility. See Note 6 to our consolidated financial statements for a discussion of our revolving credit facility.

Inflation

We do not believe that inflation had a material impact on us for the years ended December 31, 2018 or 2017.

Critical Accounting Estimates and Policies

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

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

Collectability of Accounts Receivable

Our accounts receivable consist 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 collectability, 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, such as the adjustment in 2018 to reflect our assessment of collectability of accounts receivable related to a customer's bankruptcy filing.

Impairment of Goodwill and Other Intangible Assets

In accordance with ASC Topic 350, *Intangibles – Goodwill and Other*, we perform goodwill impairment testing at least annually during the third quarter, unless indicators of impairment exist in interim periods. Our test of goodwill impairment included 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 most recent goodwill impairment analysis in the third quarter of 2018, 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. 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 or a significant decrease in our anticipated revenue growth 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; and
- 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.

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. 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 consolidated statements of operations. As of December 31, 2018 and 2017, we had established a full valuation allowance for all deferred tax assets.

As of December 31, 2018 and 2017, 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 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 the revolving credit facility, based on borrowing rates currently available to us for loans with similar terms and maturities.

Recently Issued Accounting Pronouncements

See Note 2 to our 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to our consolidated financial statements, the notes thereto, and the report thereon, commencing on page F-1 of this Annual Report on Form 10-K, which consolidated financial statements, notes, and report are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. 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 Annual Report on Form 10-K. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework (2013)*. Based on such evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Our management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified by management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the most recent fiscal quarter 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 controls 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. The design of any system of controls is based 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.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We have adopted a Code of Conduct that applies to all of our directors, officers, and employees, including our principal executive officer and principal financial officer. We have also adopted a Code of Ethics for the CEO and Senior Financial Officers. The Code of Conduct and the Code of Ethics for the CEO and Senior Financial Officers is posted on our website at www.qrhc.com.

We will post any amendments to, or waivers from, a provision of the Code of Conduct and Code of Ethics for the CEO and Senior Financial Officers by posting such information on our website, at the address and location specified above.

The remainder of the information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2019 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2018 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2018 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2018 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2018 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Financial Statement Schedules

1. Consolidated Financial Statements are listed in the Index to Consolidated Financial Statements on page F-1 of this Annual Report on Form 10-K.
2. Other schedules are omitted because they are not applicable, not required, or because required information is included in the Consolidated Financial Statements or notes thereto.

(b) Exhibits

Exhibit No.	Exhibit
1.1	<u>Underwriting Agreement, dated September 19, 2014, by and between Quest Resource Holding Corporation and Maxim Group LLC (1)</u>
1.2	<u>Underwriting Agreement, dated March 24, 2016, by and between Quest Resource Holding Corporation and Roth Capital Partners, LLC, as representative of the underwriters named therein (2)</u>
2.1	<u>Agreement and Plan of Merger, dated as of March 15, 2010, among Bluestar Financial Group, Inc., Bluestar Acquisition Corporation, and Youchange, Inc. (3)</u>
2.4	<u>Agreement and Plan of Merger, dated as of May 21, 2012, among YouChange Holdings Corp., YouChange Merger Subsidiary Corp., and Earth911, Inc., including all amendments thereto (4)</u>
2.7	<u>Securities Purchase Agreement, dated as of July 16, 2013, by and among Infinity Resources Holdings Corp., and Quest Resources Group, LLC, Brian Dick, and Jeff Forte (5)</u>
3.1(b)	<u>Third Amended and Restated Articles of Incorporation of Quest Resource Holding Corporation (6)</u>
3.2(a)	<u>Second Amended and Restated Bylaws of Quest Resource Holding Corporation (7)</u>
4.1	<u>Registration Rights Agreement, dated as of April 18, 2014, by and between Quest Resource Holding Corporation and the Purchasers named therein (8)</u>
4.2	<u>Form of Warrant (9)</u>
10.5(e)†	<u>2012 Incentive Compensation Plan, as amended and restated (10)</u>
10.5(f)†	<u>Form of Non-Qualified Stock Option Agreement (11)</u>
10.5(g)†	<u>Form of Incentive Stock Option Agreement (12)</u>
10.6†	<u>Form of Indemnity Agreement by and between Infinity Resources Holdings Corp. and each of its directors and executive officers (13)</u>
10.20†	<u>Severance and Change in Control Agreement, dated as of November 7, 2014, by and between Quest Resource Holding Corporation and Laurie L. Latham (14)</u>
10.21†	<u>2014 Employee Stock Purchase Plan (15)</u>
10.23†	<u>Severance and Change in Control Agreement, dated as of January 7, 2016, by and between Quest Resource Holding Corporation and S. Ray Hatch (16)</u>
10.24†	<u>Executive Agreement, dated as of February 15, 2017, by and between Quest Resource Holding Corporation and David P. Sweitzer (17)</u>
10.25	<u>Loan, Security and Guaranty Agreement, dated as of February 24, 2017, by and among Citizens Bank, National Association, Quest Resource Management Group, LLC, Landfill Diversion Innovations, LLC, Quest Resource Holding Corporation, and Earth911, Inc. (18)</u>
21.1	<u>List of Subsidiaries</u>
24.1	<u>Power of Attorney (included on the signature page of this Annual Report on Form 10-K)</u>

31.1	<u>Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
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

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- (1) Filed as Exhibit 1.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 19, 2014.
 - (2) Filed as Exhibit 1.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 25, 2016.
 - (3) Filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 22, 2010, and incorporated herein by reference.
 - (4) Filed as Annex A to the Registrant's Definitive Schedule 14C Information Statement filed with the Securities and Exchange Commission on August 27, 2012 and as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 28, 2012, and incorporated herein by reference.
 - (5) Filed as Exhibit 2.7 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 22, 2013.
 - (6) Filed as Exhibit 3.1(b) to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 11, 2016.
 - (7) Filed as Exhibit 3.2(a) to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 29, 2013.
 - (8) Filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 24, 2014.
 - (9) Filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 25, 2016.
 - (10) Filed as Exhibit 10 to the Registrant's Statement on Form S-8 filed with the Securities and Exchange Commission on July 13, 2018.
 - (11) Filed as Exhibit 10.5(f) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.
 - (12) Filed as Exhibit 10.5(g) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.
 - (13) Filed as Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 23, 2012.
 - (14) Filed as Exhibit 10.20 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 12, 2014.
 - (15) Filed as Exhibit 10.21 to the Registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on November 14, 2014.

- (16) Filed as Exhibit 10.23 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 8, 2016.
 - (17) Filed as Exhibit 10.24 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 17, 2017.
 - (18) Filed as Exhibit 10.25 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 27, 2017.
- † Indicates management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Dated: March 14, 2019

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

QUEST RESOURCE HOLDING CORPORATION

Dated: March 14, 2019

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

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints S. Ray Hatch and Laurie L. Latham, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing required and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ S. Ray Hatch</u> S. Ray Hatch	President and Chief Executive Officer (Principal Executive Officer) and Director	March 14, 2019
<u>/s/ Laurie L. Latham</u> Laurie L. Latham	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 14, 2019
<u>/s/ Jeffrey D. Forte</u> Jeffrey D. Forte	Director	March 14, 2019
<u>/s/ Michael F. Golden</u> Michael F. Golden	Director	March 14, 2019
<u>/s/ Russell J. Knittel</u> Russell J. Knittel	Director	March 14, 2019
<u>/s/ Ronald L. Miller, Jr.</u> Ronald L. Miller, Jr.	Director	March 14, 2019

Signature	Title	Date
<u>/s/ Barry M. Monheit</u> Barry M. Monheit	Director	March 14, 2019
<u>/s/ Mitchell A. Saltz</u> Mitchell A. Saltz	Director	March 14, 2019
<u>/s/ Sarah R. Tomolonius</u> Sarah R. Tomolonius	Director	March 14, 2019
<u>/s/ I. Marie Wadecki</u> I. Marie Wadecki	Director	March 14, 2019

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CONSOLIDATED FINANCIAL STATEMENTS
QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES**

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of
Quest Resource Holding Corporation and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Quest Resource Holding Corporation (the “Company”) and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of its operations, changes in stockholders’ equity, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Semple, Marchal & Cooper, LLP
Certified Public Accountants

We have served as the Company’s auditor since 2010.

Phoenix, Arizona
March 14, 2019

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,122,297	\$ 1,055,281
Accounts receivable, less allowance for doubtful accounts of \$929,339 and \$699,102 as of December 31, 2018 and 2017, respectively	16,711,809	16,263,276
Prepaid expenses and other current assets	965,755	1,508,014
Total current assets	19,799,861	18,826,571
Goodwill	58,208,490	58,337,290
Intangible assets, net	2,610,921	5,031,595
Property and equipment, net, and other assets	968,025	1,320,342
Total assets	<u>\$ 81,587,297</u>	<u>\$ 83,515,798</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 15,777,921	\$ 14,253,818
Deferred revenue and other current liabilities	71,717	328,763
Total current liabilities	15,849,638	14,582,581
Revolving credit facility, net	5,194,588	6,763,497
Other long-term liabilities	353	21,990
Total liabilities	<u>21,044,579</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 December 31, 2018 and 2017	—	—
Common stock, \$0.001 par value, 200,000,000 shares authorized, 15,328,870 and 15,302,455 shares issued and outstanding as of December 31, 2018 and 2017, respectively	15,329	15,302
Additional paid-in capital	159,701,542	158,867,600
Accumulated deficit	(99,174,153)	(96,735,172)
Total stockholders' equity	<u>60,542,718</u>	<u>62,147,730</u>
Total liabilities and stockholders' equity	<u>\$ 81,587,297</u>	<u>\$ 83,515,798</u>

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

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2018	2017
Revenue	\$ 103,805,432	\$ 138,346,327
Cost of revenue	86,942,718	122,633,815
Gross profit	16,862,714	15,712,512
Operating expenses:		
Selling, general, and administrative	16,163,153	17,078,033
Depreciation and amortization	2,700,809	3,986,725
Total operating expenses	18,863,962	21,064,758
Operating loss	(2,001,248)	(5,352,246)
Other expense:		
Interest expense	(437,733)	(468,030)
Total other expense, net	(437,733)	(468,030)
Loss before taxes	(2,438,981)	(5,820,276)
Income tax expense	—	—
Net loss	<u>\$ (2,438,981)</u>	<u>\$ (5,820,276)</u>
Net loss applicable to common stockholders	<u>\$ (2,438,981)</u>	<u>\$ (5,820,276)</u>
Net loss per share		
Basic and Diluted	<u>\$ (0.16)</u>	<u>\$ (0.38)</u>
Weighted average number of common shares outstanding		
Basic and Diluted	<u>15,311,220</u>	<u>15,280,617</u>

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

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<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	—	—	662,810	—	662,810
Shares issued for Employee Stock Purchase Plan options	29,880	29	32,959	—	32,988
Net loss	—	—	—	(5,820,276)	(5,820,276)
Balance, December 31, 2017	15,302,455	15,302	158,867,600	(96,735,172)	62,147,730
Stock-based compensation	—	—	793,589	—	793,589
Shares issued for Employee Stock Purchase Plan options	26,415	27	40,353	—	40,380
Net loss	—	—	—	(2,438,981)	(2,438,981)
Balance, December 31, 2018	15,328,870	\$ 15,329	\$159,701,542	\$(99,174,153)	\$ 60,542,718

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

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$ (2,438,981)	\$ (5,820,276)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	385,863	444,498
Amortization of intangibles	2,499,349	3,712,763
Amortization of debt issuance costs	93,902	78,251
Provision for doubtful accounts	1,085,622	652,273
Stock-based compensation	793,589	1,709,685
Changes in operating assets and liabilities:		
Accounts receivable	(1,534,155)	17,912,946
Prepaid expenses and other current assets	542,259	116,113
Security deposits and other assets	256,553	710,596
Accounts payable and accrued liabilities	1,524,103	(21,051,741)
Deferred revenue and other liabilities	(239,616)	(117,359)
Net cash provided by (used in) operating activities	<u>2,968,488</u>	<u>(1,652,251)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(43,514)	(60,514)
Purchase of capitalized software development	(196,460)	(254,772)
Net cash used in investing activities	<u>(239,974)</u>	<u>(315,286)</u>
Cash flows from financing activities:		
Proceeds from credit facilities	100,479,383	108,571,721
Repayments of credit facilities	(102,142,194)	(106,614,751)
Proceeds from shares issued for Employee Stock Purchase Plan	40,380	32,988
Debt issuance costs	—	(234,334)
Repayments of capital lease obligations	(39,067)	(60,980)
Net cash provided by (used in) financing activities	<u>(1,661,498)</u>	<u>1,694,644</u>
Net increase (decrease) in cash and cash equivalents	<u>1,067,016</u>	<u>(272,893)</u>
Cash and cash equivalents at beginning of period	<u>1,055,281</u>	<u>1,328,174</u>
Cash and cash equivalents at end of period	<u>\$ 2,122,297</u>	<u>\$ 1,055,281</u>

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

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1. The Company, Description of Business, and Liquidity

The accompanying 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,” 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. Our customers typically are multi-location businesses for which we create, implement, and manage customer-specific programs for the collection, processing, recycling, disposal, and tracking of waste streams and recyclables. In addition, we offer products such as antifreeze and windshield washer fluid as well as other minor ancillary services. We also provide information and data that tracks and reports the environmental results of our services and provides actionable data to improve business operations. Our principal offices are located in The Colony, Texas within the Dallas metroplex.

Liquidity

As of December 31, 2018 and 2017, our working capital balance was \$3,950,223 and \$4,243,990, respectively.

2. Summary of Significant Accounting Policies

Principles of Presentation and Consolidation

The consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The accompanying consolidated financial statements include the operating activity of QRHC and its subsidiaries for the years ended December 31, 2018 and 2017.

As QRHC, Quest, LDI, Youchange, QVC, QV One, and QSS each operate as environmental-based service companies, we did not deem segment reporting necessary.

Accounting Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could materially differ from those estimates.

We use significant estimates when accounting for the carrying amounts of accounts receivable, goodwill and other intangible assets, stock-based compensation expense, and deferred taxes, all of which are discussed in their respective notes to the consolidated financial statements.

Revenue Recognition

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

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

Cash and Cash Equivalents

We consider all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements – Continued

Accounts Receivable

We follow the allowance method of recognizing uncollectible accounts receivable, which recognizes bad debt expense based on a review of the individual accounts outstanding and our prior history of uncollectible accounts receivable. We extend credit based on an evaluation of each customer’s financial condition, and our receivables are generally unsecured. Accounts receivable are stated net of an allowance for doubtful accounts in the consolidated balance sheets. We consider accounts past due if outstanding longer than contractual payment terms. We record an allowance based on consideration of a number of factors, including the length of time trade accounts are past due, our previous loss history, the creditworthiness of individual customers, economic conditions affecting specific customer industries, and economic conditions in general. We charge-off accounts receivable after all reasonable collection efforts have been exhausted. We credit payments subsequently received on such receivables to bad debt expense in the period we receive the payment.

As of December 31, 2018 and 2017, we had established an allowance of \$929,339 and \$699,102, respectively, for potentially uncollectible accounts receivable. We record delinquent finance charges on outstanding accounts receivable only if they are collected.

The changes in our allowance for doubtful accounts for the years ended December 31, 2018 and 2017 were as follows:

	Years ended December 31,	
	2018	2017
Beginning balance	\$ 699,102	\$ 333,578
Bad debt expense, net of recoveries	1,085,622	652,273
Uncollectible accounts written off	(855,385)	(286,749)
Ending balance	\$ 929,339	\$ 699,102

Fair Value Measurements

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimate of assumptions that market participants would use in pricing the asset or liability.

Property and Equipment

We record property and equipment at cost. We provide for depreciation on the straight-line method, over the estimated useful lives of the assets. We amortize leasehold improvements over the shorter of the estimated useful life or the remaining term of the related leases. We charge expenditures for repairs and maintenance to operations as incurred; we capitalize renewals and betterments when they extend the useful life of the asset. We record gains and losses on the disposition of property and equipment in the period incurred. We report assets held for sale, if any, at the lower of the carrying amount or fair value less costs to sell.

The useful lives of property and equipment for purposes of computing depreciation are as follows:

Vehicles	5 to 7 years
Computer equipment	3 to 5 years
Office furniture and fixtures	5 to 7 years
Machinery and equipment	5 to 7 years
Leasehold improvements	5 to 7 years

Impairment of Long-Lived Assets

We analyze long-lived assets, including property and equipment and definite-lived intangible assets, which are held and used in our operations, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. We review the amortization method and estimated period of useful life at least at each balance sheet date. We record the effects of any

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements – Continued

revision to operations when the change arises. We recognize impairment when the estimated undiscounted cash flow generated by those assets is less than the carrying amounts of such assets. The amount of impairment is the excess of the carrying amount over the fair value of such assets. We did not recognize any impairment charges for long-lived assets during 2018 and 2017.

Goodwill

We record as goodwill the excess of (i) the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition date fair value of any previous equity interest in the acquired entity over the (ii) fair value of the net identifiable assets acquired. We do not amortize goodwill; however, annually, or whenever there is an indication that goodwill may be impaired, we evaluate qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. 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. We performed our most recent goodwill impairment analysis in the third quarter of 2018, 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. 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 or a significant decrease in our anticipated revenue growth could result in the write-off of a portion or all of our goodwill and other intangible assets in future periods.

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 represented a total of 3,506,631 and 3,123,381 common shares at December 31, 2018 and December 31, 2017, respectively.

Concentrations

Financial instruments that potentially subject us to credit risk consist principally of cash, cash equivalents, and trade accounts receivable. We deposit our cash with commercial banks. Cash deposits at commercial banks are at risk to the extent that the balances exceed the Federal Deposit Insurance Corporation insured level per institution. The bank cash balances on deposit may periodically exceed federally insured limits, such as \$1,850,550 at December 31, 2018; however, we have never experienced any losses related to these balances.

We sell our services and products primarily to customers without requiring collateral; however, we routinely assess the financial condition of our customers and maintain allowances for anticipated losses. From year to year, the customers that exceed 10% of our annual revenue, if any, may change. The following table discloses the number of customers that accounted for more than 10% of our annual revenue and their related receivable balances for the years ended December 31, 2018 and 2017:

Year	Customers Exceeding 10% of Revenue		
	Number of Customers	Revenue Combined Percent	Accounts Receivable Combined Percent
2018	3	51%	33%
2017	2	44%	21%

We believe we have no significant credit risk in excess of recorded reserves.

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements – Continued

Income Taxes

We recognize deferred tax assets and liabilities for the future tax consequences of temporary differences between the book and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. We establish valuation allowances to reduce a deferred tax asset to the amount expected to be realized. We assess our ability to realize deferred tax assets based on current earnings performance and on projections of future taxable income in the relevant tax jurisdictions. These projections do not include taxable income from the reversal of deferred tax liabilities and do not reflect a general growth assumption but do consider known or pending events, such as the passage of legislation. We review our estimates of future taxable income annually. We first analyze all tax positions to determine if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of any related appeals or litigation processes. After the initial analysis, we measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. Our income tax returns are subject to adjustment under audit for approximately the last three years.

If we are required to pay interest on the underpayment of income taxes, we recognize interest expense in the first period the interest becomes due according to the provisions of the relevant tax law.

If we are subject to payment of penalties, we recognize an expense for the amount of the statutory penalty in the period when the position is taken on the income tax return. If we did not recognize the penalty in the period when the position was initially taken, we recognize the expense in the period when we change our judgment about meeting minimum statutory thresholds related to the initial position taken.

Advertising

We charge our advertising costs to expense when incurred. During the years ended December 31, 2018 and 2017, advertising expense totaled \$38,570 and \$25,892, respectively.

Stock-Based Compensation

We expense all share-based grants to employees, including grants of employee stock options, based on their estimated fair values at grant date, in accordance with ASC Topic 718, *Stock Compensation*. We classify all share-based awards to employees as equity instruments and recognize the vesting of the awards ratably over their respective terms. Share-based payment transactions with non-employees are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable, in accordance with ASC Topic 505-50, *Equity-Based Payments to Non-Employees*. See Note 12 for a description of our share-based compensation plan and information related to awards granted under the plan.

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

- We determine the expected term in accordance with SEC Staff Accounting Bulletin No. 107 using the simplified method for plain vanilla options by the 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 changes in the market price of our common stock and applicable comparison companies;
- We use the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards to approximate the risk-free interest rate; and
- We recognize the effects of forfeitures in compensation cost when they occur.

Recently Issued 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 consolidated financial statements as a result of adopting ASU 2014-09 for the years ended December 31, 2018 and 2017. See Note 8 for additional information and disclosures related to this amended guidance.

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements – Continued

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. We will adopt ASU 2016-02 in the first quarter of 2019 and are in the process of aggregating and evaluating lease arrangements and implementing new processes. Although we are still in the process of evaluating the impact of adoption of the ASU on our consolidated financial statements, we currently believe that the most significant change will be related to the recognition of a right-of-use asset and lease liability on our balance sheet for our real estate operating lease. The impact on our results of operations and cash flows is not expected to be material.

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 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)*. The ASU allows companies to capitalize implementation costs incurred in a hosting arrangement that is a service contract over the term of the hosting arrangement, including periods covered by renewal options that are reasonably certain to be exercised. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, with early adoption permitted. 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 December 31, 2018 and 2017, Property and equipment, net, and other assets consisted of the following:

	As of December 31,	
	2018	2017
Vehicles	\$ 493,373	\$ 544,984
Computer equipment	700,218	700,893
Office furniture and fixtures	541,464	541,464
Machinery and equipment	845,128	804,722
Leasehold improvements	558,035	558,035
Property and equipment, gross	3,138,218	3,150,098
Accumulated depreciation	<u>(2,523,700)</u>	<u>(2,193,231)</u>
Property and equipment, net	614,518	956,867
Security deposits and other assets	353,507	363,475
Property and equipment, net, and other assets	<u>\$ 968,025</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 year ended December 31, 2018 was \$385,863, including \$184,404 of depreciation expense reflected within Cost of revenue in our consolidated statement of operations as it related to assets used directly in servicing customer contracts. Depreciation expense for the year ended December 31, 2017 was \$444,498, including \$170,536 depreciation expense recorded in Cost of revenue. At December 31, 2018, our capital lease assets were \$152,541, net of \$347,556 of accumulated depreciation. At December 31, 2017, our capital lease assets were \$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 \$59,030 related to the earn-out as of December 31, 2018. The carrying amount of our investment and the accrued earn-out receivable are included in other assets.

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements – Continued

4. Goodwill and Other Intangible Assets

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

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

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 December 31, 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. The amortization expense related to finite lived intangible assets was \$2,499,349 and \$3,712,763 for the years ended December 31, 2018 and 2017, respectively. We expect amortization expense to be approximately \$1.1 million for the year ending December 31, 2019, approximately \$660,000 for the year ending December 31, 2020, approximately \$175,000 for the year ending December 31, 2021, approximately \$175,000 for the year ending December 31, 2022, approximately \$175,000 for the year ending December 31, 2023, and approximately \$350,000 thereafter. We have no indefinite-lived intangible assets other than goodwill. The goodwill is not deductible for tax purposes. As required by FASB ASC Topic 350, *Intangibles – Goodwill and Other*, we performed our goodwill impairment analysis in the third quarter of 2018 and in the second quarter of 2017 with no impairment recorded in either period.

5. Accounts Payable and Accrued Liabilities

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

	As of December 31,	
	2018	2017
Accounts payable	\$ 14,025,221	\$ 12,739,117
Accrued taxes	548,126	807,037
Employee compensation	910,796	434,358
Other	293,778	273,306
	<u>\$ 15,777,921</u>	<u>\$ 14,253,818</u>

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements – Continued

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. Available borrowings on the ABL facility are based on formula-determined amounts of eligible trade receivables, as defined in the Citizens Loan Agreement, and are recalculated on a monthly basis. The ABL Facility replaced our Revolving Credit Note and Loan Agreement with Regions Bank, which was repaid 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 Citizens Loan Agreement, plus a margin ranging from 1.0% to 1.5% (6.75% as of December 31, 2018), or the LIBOR lending rate for the interest period in effect, plus a margin ranging from 2.0% to 2.5% (4.67% as of December 31, 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. As of December 31, 2018, we were in compliance with the financial covenants included in the Citizens Loan Agreement.

Quest and LDI are the borrowers under the Citizens Loan Agreement. QRHC and QSS are guarantors under the Citizens Loan Agreement. In addition, obligations under the ABL Facility are secured by certain first-priority security interests in substantially all of the tangible and intangible personal property of the borrowers, including a pledge of the capital stock and membership interests, as applicable, of certain of their direct and indirect subsidiaries. The guarantors under the Citizens Loan Agreement have granted a first priority lien on the capital stock and membership interests, as applicable, of certain of their direct and indirect subsidiaries.

The amount of interest expense related to borrowings for the years ended December 31, 2018 and 2017 was \$325,534 and \$378,826, 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 December 31, 2018, the unamortized portion of the debt issuance costs was \$297,355. The amount of interest expense related to the amortization of the discount on the ABL Facility for the years ended December 31, 2018 and 2017 was \$93,902 and \$78,251, respectively. As of December 31, 2018, the ABL Facility borrowing base availability was \$11,261,000 and the outstanding liability was \$5,194,588, net of unamortized debt issuance cost of \$297,355. There were no draws made on the equipment loan facility as of December 31, 2018.

7. Capital Lease Obligations

Our capital lease obligations are included within Deferred revenue and other current liabilities and Other long-term liabilities in our consolidated balance sheets.

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

	As of December 31,	
	2018	2017
Capital lease obligations, imputed interest of 4.99% to 13.29%, with current monthly payments of approximately \$500, expiring through September 2019, secured by computer and office equipment	\$ 2,597	\$ 41,664
Total	2,597	41,664
Less: current maturities	(2,597)	(39,067)
Long-term portion	\$ —	\$ 2,597

The amount of interest expense related to our capital leases for the years ended December 31, 2018 and 2017 was \$1,388 and \$5,897, respectively.

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements – Continued

8. Revenue

Operating Revenues

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

Revenue Recognition

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

We generally recognize revenue for the gross amount of consideration received as we are generally the primary obligor (or principal) in our contracts with customers as we hold complete responsibility to the customer for contract fulfillment. We record amounts collected from customers for sales tax on a net basis. We previously had a contract accounted for as a net basis management fee contract, with revenue of \$78,145 and gross billings of \$2,173,022 for the year ended December 31, 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 51% of revenue for the year ended December 31, 2018, and two customers accounted for 44% of revenue for the year ended December 31, 2017. We operate primarily in the United States, with minor services in Canada.

Revenue Type:	Year Ended December 31,	
	2018	2017
Services	\$ 93,524,370	\$ 126,998,825
Product sales and other	10,281,062	11,347,502
Total revenue	\$ 103,805,432	\$ 138,346,327

Contract Balances

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

As of December 31, 2018 and 2017, we had \$7,448 and \$136,139, respectively, of deferred contract costs. During the year ended December 31, 2018, we amortized \$211,250 and \$36,139 of deferred contract costs to selling, general, and administrative expense and as a reduction to income, respectively. During the year ended December 31, 2017, we amortized \$110,000 and \$72,777 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 December 31, 2018 and 2017, we had \$69,473 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 December 31, 2018 and 2017, and we have recorded a valuation allowance of \$12,202,000 and \$12,150,000, respectively, against deferred tax assets in excess of deferred tax liabilities in the accompanying consolidated financial statements.

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements – Continued

The Tax Cuts and Jobs Act (the “2017 Act”) was signed into law on December 22, 2017 and was generally effective for tax years beginning January 1, 2018. The most significant impact to us of the 2017 Act was a decrease in the federal corporate income tax rate from 35% to 21%. As a result of the decrease in the corporate income tax rate, we were required to recognize the effect of the corporate income tax rate change on our deferred tax assets and liabilities in the year ending December 31, 2017, the period in which the legislation was enacted.

The components of net deferred taxes are as follows:

	As of December 31,	
	2018	2017
Deferred tax assets (liabilities):		
Net operating loss	\$ 5,095,000	\$ 5,115,000
Depreciation and amortization	4,449,000	4,435,000
Stock-based compensation	2,840,000	2,627,000
Capitalized software costs	(522,000)	(244,000)
Accrued interest expense	36,000	52,000
Allowance for doubtful accounts	251,000	138,000
Deferred lease liability	53,000	27,000
Total deferred tax assets, net	12,202,000	12,150,000
Less: valuation allowance	(12,202,000)	(12,150,000)
Net deferred taxes	\$ —	\$ —

The reconciliation between the income tax expense (benefit) calculated by applying statutory rates to net loss and the income tax (benefit) reported in the accompanying consolidated financial statements is as follows:

	Years Ended December 31,	
	2018	2017
U.S. federal statutory rate applied to pretax loss	\$ (512,000)	\$ (2,037,097)
State taxes	(146,000)	—
Permanent differences	7,000	13,342
Benefit of operating loss carryforwards	(170,000)	—
Cumulative adjustment to deferred taxes	612,000	—
Change in state tax rates and other	157,000	(155,245)
Impact of 2017 Tax Act	—	5,584,000
Change in valuation allowance	52,000	(3,405,000)
	\$ —	\$ —

As of December 31, 2018 and 2017, we had federal income tax net operating loss carryforwards of approximately \$18,900,000 and \$19,700,000, respectively, which expire at various dates ranging from 2031 through 2037. We are subject to limitations existing under Internal Revenue Code Section 382 (Change of Control) relating to the availability of the operating loss. Such limitation of the net operating losses may have occurred, which we have not fully analyzed at this time as we have fully reserved the deferred tax asset.

As of December 31, 2018 and 2017, 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 2019. It is our policy to classify interest and penalties on income taxes as interest expense or penalties expense, should any be incurred.

Tax positions are positions taken in a previously filed tax return or positions expected to be taken in a future tax return that are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements. Tax positions include the following:

- an allocation or shift of income between taxing jurisdictions;
- the characterization of income or a decision to exclude reportable taxable income in a tax return; or
- a decision to classify a transaction, entity, or other position in a tax return as tax exempt.

We are potentially subject to tax audits for federal and state tax returns for tax years ended 2015 to 2018. Tax audits by their very nature are often complex and can require several years to complete.

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements – Continued

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 the ABL Facility, based on borrowing rates currently available to us for loans with similar terms and maturities.

11. Commitments and Contingencies

Operating Leases

We lease corporate office space in The Colony, Texas under an 84-month, non-cancelable operating lease. The lease expires in October 2022. Lease expense totaled \$609,295 and \$610,797 for the years ended December 31, 2018 and 2017, respectively.

The following is a schedule, by year, of future minimum rental payments required under non-cancelable operating lease agreements as of December 31, 2018:

Year Ending December 31,	Amount
2019	\$ 631,260
2020	664,200
2021	664,200
2022	498,150
Total	<u>\$ 2,457,810</u>

Indemnifications

During the normal course of business, we make certain indemnities and commitments under which we may be required to make payments in relation to certain transactions. These may include (i) intellectual property indemnities to customers in connection with the use, sales, and/or license of products and services; (ii) indemnities to customers in connection with losses incurred while performing services on their premises; (iii) indemnities to vendors and service providers pertaining to claims based on negligence or willful misconduct; and (iv) indemnities involving the representations and warranties in certain contracts. In addition, under our bylaws we are committed to our directors and officers for providing for payments upon the occurrence of certain prescribed events. The majority of these indemnities and commitments do not provide for any limitation on the maximum potential for future payments that we could be obligated to make. We have not incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, we believe the estimated fair value of these agreements is minimal. Accordingly, we had no liabilities recorded for these agreements as of December 31, 2018 and 2017.

Defined Contribution Plan

We maintain a defined contribution 401(k) plan covering substantially all full-time employees. Employees are permitted to make voluntary contributions, which we match at a certain percentage, to the plan. For the years ended December 31, 2018 and 2017, our plan contribution expense was \$150,791 and \$112,277, respectively.

12. 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 were outstanding as of December 31, 2018 and 2017. Preferred stock is to be designated in classes or series and the number of each class or series and the voting powers, designations, preferences, limitations, restrictions, relative rights, and distinguishing designation of each class or series of stock as the Board of Directors shall determine in its sole discretion.

Common Stock

Our authorized common stock consists of 200,000,000 shares of common stock with a par value of \$0.001, of which 15,328,870 and 15,302,455 shares were issued and outstanding as of December 31, 2018 and 2017, respectively.

Employee Stock Purchase Plan

On September 17, 2014, our stockholders approved our 2014 Employee Stock Purchase Plan ("ESPP"). We recorded expense of \$17,738 and \$25,930 related to the ESPP during the years ended December 31, 2018 and 2017, respectively.

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements – Continued

During the year ended December 31, 2018, we issued an aggregate 26,415 shares of common stock for \$40,380, all to employees under our ESPP, as follows:

- On May 16, 2018, we issued 10,928 shares for \$18,396 for options that vested and were exercised.
- On November 16, 2018, we issued 15,487 shares for \$21,984 for options that vested and were exercised.

During the year ended December 31, 2017 we issued an aggregate 29,880 shares of common stock for \$32,988, all to employees under our ESPP, as follows:

- On May 23, 2017, we issued 8,749 shares for \$11,972 for options that vested and were exercised.
- On November 14, 2017, we issued 21,131 shares for \$21,016 for options that vested and were exercised.

Warrants

During the year ended December 31, 2018, we did not issue any warrants and no holders exercised warrants. During the year ended December 31, 2017, we did not issue any warrants, no holders exercised warrants, and warrants to purchase 205,126 shares of common stock expired.

The following table summarizes the warrants issued and outstanding as of December 31, 2018:

Warrants Issued and Outstanding as of December 31, 2018

Description	Date of		Exercise Price	Shares of Common Stock
	Issuance	Expiration		
Exercisable warrants				
Warrants	9/24/2014	9/24/2019	\$ 20.00	1,125,005
Warrants	10/20/2014	10/20/2019	\$ 20.00	87,500
Warrants	3/30/2016	3/30/2021	\$ 3.88	521,060
Total warrants issued and outstanding				<u>1,733,565</u>

Incentive Compensation Plan

In October 2012, we adopted our 2012 Incentive Compensation Plan (the “2012 Plan”) as the sole plan for providing equity-based incentive compensation to our employees, non-employee directors, and other service providers. The plan allows for the grant of stock options, restricted stock, restricted stock units, stock appreciation rights, performance awards, and other incentive awards to our employees, non-employee directors, and other service providers who are in a position to make a significant contribution to our success and our affiliates. The purpose of the plan is to attract and retain individuals, further align employee and stockholder interests, and closely link compensation with our performance. The plan is administered by the compensation committee of our board of directors. Our policy is to fulfill any exercise of options from common stock that is authorized and unissued. The maximum number of shares of common stock available for grant under the plan is 1,837,500. Stock compensation expense prior to October 2012 related to options granted prior to the Earth911 Merger that was superseded by the 2012 Plan at the time of the Earth911 Merger. The number of shares available for award under the plan is subject to adjustment for certain corporate changes in accordance with the provisions of the plan.

Stock Options

The following table summarizes the stock option activity from January 1, 2017 through December 31, 2018:

	Stock Options		Weighted-Average Exercise Price Per Share
	Number of Shares	Exercise Price Per Share	
Outstanding at January 1, 2017	1,317,402	\$2.08 — \$26.00	\$ 9.09
Granted	117,500	\$1.17 — \$2.71	\$ 2.07
Canceled/Forfeited	(45,086)	\$4.80 — \$23.20	\$ 12.37
Outstanding at December 31, 2017	1,389,816	\$1.17 — \$26.00	\$ 8.39
Granted	420,500	\$1.65 — \$2.62	\$ 2.38
Canceled/Forfeited	(37,250)	\$2.39 — \$23.20	\$ 5.98
Outstanding at December 31, 2018	<u>1,773,066</u>	\$1.17 — \$26.00	\$ 7.02

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements – Continued

The weighted-average grant-date fair value of options granted was \$1.71 and \$1.49 for the years ended December 31, 2018 and 2017, respectively.

For the years ended December 31, 2018 and 2017, the intrinsic value of options outstanding was approximately \$7,220 and \$59,000, respectively, and the intrinsic value of options exercisable was approximately \$7,220 and \$47,000, respectively.

The following additional information applies to options outstanding at December 31, 2018:

Range of Exercise Prices	Outstanding at December 31, 2018	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Exercisable at December 31, 2018	Weighted-Average Exercise Price
\$1.17 - \$26.00	1,773,066	6.9	\$ 7.02	999,999	\$ 10.05

The following additional information applies to options outstanding at December 31, 2017:

Range of Exercise Prices	Outstanding at December 31, 2017	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Exercisable at December 31, 2017	Weighted-Average Exercise Price
\$1.17 - \$26.00	1,389,816	7.3	\$ 8.39	766,858	\$ 12.24

Stock-based compensation expense for stock-based incentive awards was \$793,589 and \$662,810 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018, the balance of unearned stock-based compensation to be expensed in future periods related to unvested share-based awards was approximately \$1.3 million. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is approximately 2 years.

Stock-Based Compensation

We account for all stock-based payment awards made to employees and directors, including stock options and employee stock purchases, based on estimated fair values. We estimate the fair value of share-based payment awards on the date of grant using an option-pricing model and the value of the portion of the award is recognized as expense over the requisite service period. We recognize the effects of forfeitures in compensation cost when they occur.

We use the Black-Scholes-Merton option-pricing model as our method of valuation. The fair value is amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The fair value of share-based payment awards on the date of grant as determined by the Black-Scholes-Merton model is affected by our stock price as well as other assumptions. These assumptions include the expected stock price volatility over the term of the awards, and the actual and projected employee stock option exercise behaviors.

The weighted-average estimated value of employee stock options granted during the years ended December 31, 2018 and 2017 were estimated using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

	Years Ended December 31,	
	2018	2017
Expected volatility	85%	91%
Risk-free interest rate	2.42%	1.81%
Expected dividends	0.00%	0.00%
Expected term in years	5.9	4.8

13. Net Loss per Share

We compute basic loss per share by dividing net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. We have potentially dilutive securities outstanding that are not shown in a diluted loss per share calculation because their effect in both 2018 and 2017 would be anti-dilutive. These potentially dilutive securities include options and warrants and totaled 3,506,631 and 3,123,381 shares at December 31, 2018 and 2017, respectively.

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements – Continued

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

	Years ended December 31,	
	2018	2017
Anti-dilutive securities excluded from diluted loss per share:		
Stock options	1,773,066	1,389,816
Warrants	1,733,565	1,733,565
Total anti-dilutive securities excluded from diluted loss per share	<u>3,506,631</u>	<u>3,123,381</u>

14. Supplemental Cash Flow Information

The following is provided as supplemental information to the consolidated statements of cash flows:

	Years Ended December 31,	
	2018	2017
Supplemental cash flow information:		
Cash paid for interest	\$ 364,372	\$ 346,658
Cash paid for income taxes	\$ —	\$ —
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

Safe Harbor Statement

This 2018 Annual Report consists of our Report on Form 10-K for the year ended December 31, 2018 and letters from our Chairman of the Board and from our Chief Executive Officer. The statements contained in this Annual Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical facts contained or incorporated herein by reference in this Annual Report, 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 Annual Report reflect our views as of the date of this Annual Report 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.

Specific forward-looking statements contained in the Report on Form 10-K are located in the section titled “Special Note Regarding Forward-Looking Statements” in such Report. Specific forward-looking statements in the two letters include statements regarding our belief that we have a tremendous opportunity ahead of us and that we are well positioned to grow; our continual attempt to strengthen alignment between stakeholders; our focus going forward will be on building profitable, strategic customer relationships; our systematic build of our go-to-market capabilities, further development of our processes, and growth of our sales and client services team to support adding new strategic, profitable customers, working to grow them over time by consistently demonstrating the ability to provide value as a trusted partner; our commitment to executing against the dual goals of generating economic returns and implementing solutions which enhance sustainability; our search for opportunities to grow and strengthen our core business, expand across natural adjacencies, and broaden our ability to profitably drive sustainability, creating long-term value for all our stakeholders; our well-positioning to benefit and take a leadership role in affecting the continuous growth trend of finding environmentally and socially responsible methods to economically recycle, instead of sending waste to a landfill; our continual addition to our sales resources to support the effort of the alignment of matching potential customers with our services allowing us to maintain our profitable growth trend; our anticipation that the trend of us being very successful in continuing to earn opportunities to penetrate existing customers with additional services and locations; our intention to address and expand our focus on the continuous pursuit to improve our offering to the market; our belief that improving and evolving our technology initiatives will further enable us to create improved value; and our belief that our stronger foundation will allow for a sustainable business that can consistently grow our revenue, profitability, and shareholder value. ng statements are presented as of the date made, and we disclaim any duty to update such statements unless required by law to do so.

BOARD OF DIRECTORS

Daniel M. Friedberg
Chairman of the Board

S. Ray Hatch
President, Chief Executive Officer, and Director

Michael F. Golden
Director

Russell J. Knittel
Director

Ronald L. Miller, Jr.
Director

Barry M. Monheit
Director

Stephen A. Nolan
Director

Sarah R. Tomolonius
Director

I. Marie Wadecki
Director

EXECUTIVE MANAGEMENT

S. Ray Hatch
President and Chief Executive Officer

Laurie L. Latham
Senior Vice President and Chief Financial Officer

David P. Sweitzer
Executive Vice President and Chief Operating Officer

Richard L. Hobby
Senior Vice President of Sales

TRANSFER AGENT

Continental Stock Transfer & Trust Company
1 State Street
New York, New York 10004

INDEPENDENT PUBLIC ACCOUNTANTS

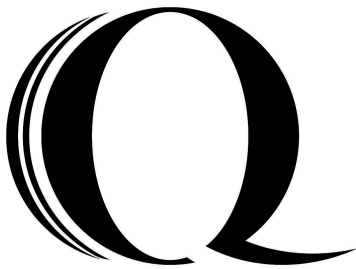
Semple, Marchal and Cooper, LLP
Phoenix, Arizona

LEGAL COUNSEL

Greenberg Traurig, LLP
Phoenix, Arizona

STOCK LISTING

NASDAQ: QRHC – Common Stock



QUEST RESOURCE HOLDING CORPORATION

To Challenge, Manage & InformSM