

**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, 2020

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 | Trading Symbol | Name of each exchange on which registered |
|--|-------------------|---|
| Common Stock, par value \$.001 per share | QRHC | NASDAQ |

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 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 checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| Emerging growth company | <input type="checkbox"/> | | |

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the Common Stock held by non-affiliates of the Registrant, based on the closing price of such shares as quoted on the NASDAQ Stock Market on June 30, 2020 was \$13,132,156. 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.

The number of shares of Registrant's Common Stock outstanding as of March 1, 2021, was 18,413,419.

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,” “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 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 intent to further acquire other businesses; our belief that we are well positioned to identify and evaluate acquisition candidates and assess their growth prospects; our belief that we are regarded as an attractive acquirer; 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, 2020.

PART I

ITEM 1. BUSINESS

Overview

Quest Resource Holding Corporation (“the Company”, “our company,” “we,” “us” and “our”) is a national provider of waste and recycling services to customers from across multiple industry sectors that are typically larger, multi-location businesses. We create customer-specific programs and perform the related services for the collection, processing, recycling, disposal, and tracking of waste streams and recyclables. In addition, our programs and services enable our customers to address their environmental and sustainability goals and responsibilities.

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, grocers, and other specialty retailers; automotive after-market operations such as automotive maintenance, quick lube, dealerships, and collision repair; transportation, logistics, and internal fleet operators; manufacturing plants; multi-family and commercial properties; restaurant chains and food operations; and construction and demolition projects. We currently concentrate on programs for recycling motor oil and automotive lubricants, oil filters, scrap tires, oily water, goods destruction, food waste, meat renderings, cooking oil and grease trap waste, plastics, cardboard, metal, glass, mixed paper, construction debris, as well as a large variety of regulated and non-regulated solid, liquid, and gas wastes. In addition, we offer products such as antifreeze and windshield washer fluid, dumpster and compacting equipment, and other minor ancillary services.

We also provide information and data that tracks and reports the detailed transactional and environmental results of our services and provides actionable data to improve business operations. The data we generate also enables our customers to address their environmental and sustainability goals and responsibilities and to report to internal and external parties such as employees, investors, business partners, and governmental agencies.

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, landfill space decreases, businesses and consumers seek alternatives to delivering their recyclables and disposables to landfills, and businesses are subject to increased expectations to exhibit and report on their environmental actions and impact. Although society and industry have increased the awareness of environmental issues, such as recycling, reuse, and proper disposal, waste production also continues to increase. 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. There is recognition by U.S. public agencies, businesses, and consumers that many items deposited in landfills have commodity value or usability as material for new products. 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 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.
- *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 acquirer because of (1) our historical performance of successfully developing, servicing and growing customer relationships; (2) the experience and reputation of our management team within the industry; (3) our ability to bring our vendor network to service accounts; (4) our ability to integrate customer service, invoicing, accounting and other financial functions into our company, which generally enables the management of an acquired company to continue their involvement in the combined company by focusing on existing and new customers; (5) the ability of management and employees of acquired companies to participate in our potential growth and expansion through a combination of stock ownership, performance linked incentives, and career advancement opportunities; and (6) the ability to offer liquidity to the owners of acquired companies through the receipt of common stock or cash.

- *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 national capacities 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 regulated 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.

Services

Recycling and Waste Services

We provide businesses across multiple industry sectors with a single source service solution for the reuse, recycling, and disposal of a wide variety of waste streams and recyclables generated by their operations. We 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, comply with federal, state and local regulations, 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 also provide 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 regulated 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, regulated waste, wastewater, and spent chemicals.
- *Construction Services.* We help construction site managers across the United States recycle construction waste, including cardboard, plastics, metal, pallets, wood, drywall, and concrete. In addition, we provide temporary containers, offices, storage, 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 develop targeted programs to address these issues.

Our food waste program seeks to reduce the amount of produce, bakery, deli materials, expired dairy, and other food and beverage 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, which is helping to 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 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, and building commissioning.

Sales and Marketing

We market our 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, car washes)
 - Trucking and fleet
 - Car and equipment rental companies
- ***Manufacturing***
 - Packaging
 - Food and beverages
 - Machinery and industrial
 - Chemicals and lubricants
- ***Hospitality and Retail***
 - Grocers
 - Big box
 - Specialty
 - Restaurants
 - Hotels and stadiums
- ***Construction and Demolition***
 - Commercial
 - Multi-family
 - Industrial
- ***Commercial and Multi-family 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, 2020, and three customers accounted for 53% of our revenue for the year ended December 31, 2019. We believe that the mix of our largest customers will change over time.

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 customer service driven culture, national presence, logistics management, compliance, and commodity brokerage, our solution delivers the critical knowhow and experience necessary to implement and execute multi-point reuse, recycling, disposal, and waste management services.

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 a broad and comprehensive scope of materials such as motor oil, scrap tires, grease, meat, organics, 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 | x | |
| Liberty Tire Recycling | x | x | | |
| Darling International | x | 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. While we own a limited amount of compacting and other service equipment, 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. 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, 2020, we employed a total of 96 persons, of whom three were executive employees, one was a corporate development employee, 51 were administrative and customer services employees, 33 were accounting and finance employees and eight 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

Our trademarks are important to the success of our business.

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 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, par value \$.001 per share, the “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 reverse split of our Common Stock, and (v) divide our board of directors into 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, 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 was subsequently renamed Quest Sustainability Services, Inc.

On October 19, 2020, we acquired substantially all of the assets used in the business of Green Remedies Waste and Recycling, Inc., a leading provider of independent environmental services, particularly in multi-family housing, located in Burlington, NC.

Recent Developments

On October 19, 2020, the Company entered into an asset purchase agreement, the “APA,” by and among the Company, Quest Resource Management Group, LLC, a wholly-owned subsidiary of the Company, “Buyer,” Green Remedies Waste and Resources, Inc., the “Seller” or “Green Remedies”, and Alan Allred, the “Shareholder,” and completed the acquisition by Buyer of substantially all of the assets used in the business of the Seller and assumed certain liabilities of the Seller, as set forth in the APA, the “Acquisition.” Green Remedies is a leading provider of independent environmental services, particularly in multi-family housing, located in Burlington, North Carolina.

As consideration for the Acquisition, under the APA, the Seller received a purchase price of (i) \$10,869,599 in cash subject to certain adjustments set forth in the APA at the closing of the Acquisition; (ii) a promissory note, or the “Note,” in the aggregate principal amount of \$2,684,250, payable commencing on January 1, 2021 in quarterly installments through October 1, 2025 and subject to an interest rate of 3.0% per annum; (iii) a payment of \$2,684,250 in additional consideration pursuant to a Consideration Agreement, the “Consideration Agreement,” to be paid in either cash or shares of the Company’s Common Stock or any combination thereof, at the Company’s option, with the amount of such shares to be determined based on a per share price equal to the volume weighted average price of the Common Stock on the Nasdaq Capital Market (or if the shares are not traded on the Nasdaq Capital Market, the OTC Bulletin Board or the principal trading market of the shares) during the thirty (30) consecutive trading days ending on the trading day prior to each payment date, rounded down to the nearest whole share, and to be paid or issued in two equal installments on each of the first and second anniversaries of the closing date; and (iv) earn-out payments in an aggregate amount not to exceed \$2,250,000 over an earn-out period ending on the earlier of (x) December 31, 2022 and (y) the last day of the fiscal quarter during which the Shareholder is terminated by the Buyer upon Disability, Death or Without Cause or the Shareholder terminates his employment for Good Reason (each as defined in the Employment Agreement, as hereinafter defined), or the “Earn-Out End Date,” upon the achievement of certain performance thresholds and subject to the satisfaction of certain conditions as further described in the APA.

In connection with the Acquisition, the Shareholder entered into an employment agreement, the “Employment Agreement,” with the Company with an initial term expiring on the Earn-Out End Date.

To finance such acquisition, the Company and certain of its domestic subsidiaries entered into a Credit Agreement, dated as of October 19, 2020, with Monroe Capital Management Advisors, LLC, as administrative agent for the lenders thereto, the “Credit Agreement.”

In addition, on October 19, 2020, the Company and certain of its domestic subsidiaries entered into a joinder and first amendment, the “Amendment,” to that certain Loan, Security and Guaranty Agreement, dated as of August 5, 2020, with BBVA USA, as a lender, and as administrative agent, collateral agent, and issuing bank, the “BBVA Loan Agreement” or the “ABL Facility,” to, among other things, make certain corresponding changes consistent with the Credit Agreement, add certain of the Company’s subsidiaries as additional guarantors, and adjust the maturity date under the Loan Agreement to April 19, 2025. The BBVA Loan Agreement is an asset based facility and replaced our previous asset based facility with Citizens Bank Loan, the “Prior ABL Facility.”

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 Securities and Exchange Commission, or 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 historical 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.

While we reported net income in 2020, such net income is attributed in part to approximately \$1.4 million of Other Income received from the proceeds and forgiveness of a Paycheck Protection Program Loan and we have incurred recurring net losses in the past. As a result of historical operating losses, we had an accumulated deficit of \$98,400,038 as of December 31, 2020. 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 incur losses as we expand our business. There is no assurance that we will 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 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, 2020, and three customers accounted for 53% of our revenue for the year ended December 31, 2019. We believe that the mix of our largest customers will 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 fully 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. In addition, the potential impacts of climate change on our operations are highly uncertain. Although the financial impact of these potential changes is not reasonably estimable at this time, our operations in certain locations and those of our customers and suppliers could potentially be adversely affected, which could adversely affect our sales, profitability and cash flows.

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. If we are unable to meet the requirements in a significant number of these contracts, such contracts could be cancelled, and the cancellation of such contracts could have a material adverse effect on our financial results and operations.

Our current indebtedness requires us to comply with certain restrictive loan covenants which may limit our ability to operate our business.

Under the terms of our BBVA Loan Agreement and our Credit Agreement, we are subject to certain financial covenants, including a minimum fixed charge coverage ratio and a senior net leverage ratio. In addition, the BBVA Loan Agreement and the Credit Agreement each contains negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matter customarily restricted in such agreements. The BBVA Loan Agreement and the Credit Agreement each also contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, change of control, and failure of any guaranty or security document supporting the BBVA Loan Agreement or the Credit Agreement, as applicable, to be in full force and effect. Upon the occurrence of an event of default, the outstanding obligations under the BBVA Loan Agreement and/or the Credit Agreement, as applicable, may be accelerated and become immediately due and payable. We can provide no assurance that, if we are unable to comply with these covenants in the future, we will be able to obtain the necessary waivers or amend our BBVA Loan Agreement and/or our Credit Agreement to prevent a default.

A breach of any of these covenants or requirements could result in a default under our BBVA Loan Agreement and/or our Credit Agreement. If we default under our BBVA Loan Agreement and/or our Credit Agreement and we are unable to cure the default or obtain a waiver, we will not be able to access the credit available under our BBVA Loan Agreement and/or our Credit Agreement, as applicable, and there can be no assurance that we would be able to obtain alternative financing. In addition, our level of indebtedness may limit our financial flexibility and could affect our operations. Even if new financing is available, it may not be on terms that are acceptable to us. No assurance can be given that our future operating results will be sufficient to achieve compliance with the covenants and requirements of our BBVA Loan Agreement and our Credit Agreement.

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. In addition, the terms of our BBVA Loan Agreement and the Credit Agreement could limit our ability to obtain additional debt financing. 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 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 periodic and seasonal quarterly fluctuations in our results of operations, which could be significant. 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;
- risk of impairment charges related to potential write-downs of acquired assets in acquisitions; and
- the impact on our internal controls of compliance with the regulatory requirements under Sarbanes-Oxley Act of 2002.

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.

Our strategy to increase our growth through acquisitions may be unsuccessful and could adversely affect our business and results.

As part of our growth strategy, we intend to further acquire other businesses; however, there is no assurance that we will be able to identify appropriate acquisition targets, successfully acquire identified targets or successfully integrate the business of acquired companies to realize the full benefits of the combined businesses.

While we recently acquired Green Remedies in connection with our growth strategy to acquire other businesses, we can provide no assurance that we will identify appropriate acquisition targets, successfully complete any future acquisitions or successfully integrate the business of companies we do acquire. Even if we successfully acquire a business entity, there is no assurance that our combined business will become profitable. The process of completing the integration of acquired businesses could cause an interruption of, or loss of momentum in, the activities of our company and the loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with the pursuit of business acquisitions and the integration of acquired businesses, and the incurrence of significant, acquisition related costs in connection with proposed and completed acquisitions, could have an adverse effect on our business, financial condition or results of operations.

If the benefits of any completed or proposed acquisition of do not meet the expectations of investors, stockholders or financial analysts, the market price of our Common Stock may decline.

If the benefits of any completed acquisition (including Green Remedies) or proposed acquisition do not meet the expectations of investors or securities analysts, the market price of our Common Stock prior to such acquisition may decline. The market values of our Common Stock at the time of an acquisition may vary significantly from their prices on the date the acquisition target was identified.

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

Global economic conditions and political events, domestic or international terrorist events and hostilities or complications due to natural, nuclear or other disasters and pandemics or other health crises (including the ongoing COVID-19 global pandemic, which may reduce demand for our services because of reduced global or national economic activity), can cause disruptions and extreme volatility in global financial markets, increase rates of default and bankruptcy, and impact levels of consumer and commercial spending.

The emergence of COVID-19 around the world presents significant risks to our company, not all of which we are able to fully evaluate or even to foresee at the current time. In the short-term, some of our customers have shut down their businesses, while other customers operating in the restaurant, grocery, automotive and certain specialty retail industries, which may be considered as essential

businesses in different jurisdictions, or customers that are more capable of working remotely than other industries, have been allowed to operate.

The COVID-19 pandemic may affect our operations in the future. All of these factors may have far reaching impacts on our business, operations, and financial results and conditions, directly and indirectly, including without limitation impacts on the health of our company's management and employees, marketing and sales operations, customer and consumer behaviors, and on the overall economy. The scope and nature of these impacts, most of which are beyond our company's control, continue to evolve and the outcomes are uncertain. Management cannot predict the full impact of the COVID-19 pandemic on our company's sales or on economic conditions generally. The ultimate extent of the effects of the COVID-19 pandemic on our company is highly uncertain and will depend on future developments, and such effects could exist for an extended period of time even after the pandemic.

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 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.

The interest rates for our obligations under our ABL Facility with BBVA USA might be subject to change based on recent regulatory changes.

In July 2017, the U.K. Financial Conduct Authority announced that, after the end of 2021, it would no longer persuade or compel contributing banks to make rate submissions to the ICE Benchmark Administration, together with any successor to the ICE Benchmark Administrator, the "IBA," for purposes of the IBA setting the London interbank offered rate. As a result, it is possible that commencing in 2022, the London interbank offered rate, or "LIBOR," may no longer be available or may no longer be deemed an appropriate reference rate upon which to determine the interest rate on our loans under the ABL Facility (as defined herein) with BBVA USA, and it is unclear whether new methods of calculating LIBOR will be established. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index, calculated based on repurchase agreements backed by treasury securities. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom, the United States or elsewhere. The ABL Facility provides procedures for determining a replacement or alternative rate in the event that LIBOR is unavailable. However, there can be no assurance as to whether such replacement or alternative rate will be more or less favorable than LIBOR. To the extent these interest rates increase, our interest expense will increase, which could adversely affect our financial condition, operating results and cash flows.

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, 2020, we had 18,413,419 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, 2020, we had 4,272,233 shares of Common Stock issuable upon the exercise of outstanding stock options, DSUs, 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. In addition, the terms of our BBVA Loan Agreement and the Credit Agreement restrict our ability to declare cash dividends. 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.

Our business could be negatively affected as a result of actions of activist stockholders, and such activism could impact the trading value of our securities.

Stockholders may, from time to time, engage in proxy solicitations or advance stockholder proposals, or otherwise attempt to effect changes and assert influence on our board of directors and management. Activist campaigns that contest or conflict with our strategic direction or seek changes in the composition of our board of directors could have an adverse effect on our operating results and financial condition. A proxy contest would require us to incur significant legal and advisory fees, proxy solicitation expenses and administrative and associated costs and require significant time and attention by our board of directors and management, diverting their attention from the pursuit of our business strategy. Any perceived uncertainties as to our future direction and control, our ability to execute on our strategy, or changes to the composition of our board of directors or senior management team arising from a proxy contest could lead to the perception of a change in the direction of our business or instability which may result in the loss of potential business opportunities, make it more difficult to pursue our strategic initiatives, or limit our ability to attract and retain qualified personnel and business partners, any of which could adversely affect our business and operating results. If individuals are ultimately elected to our board of directors with a specific agenda, it may adversely affect our ability to effectively implement our business strategy and create additional value for our stockholders. We may choose to initiate, or may become subject to, litigation as a result of the proxy contest or matters arising from the proxy contest, which would serve as a further distraction to our board of directors and management and would require us to incur significant additional costs. In addition, actions such as those described above could cause significant fluctuations in our stock price based upon temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

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.

In connection with our acquisition of the assets of Green Remedies, we lease approximately 3,200 square feet of office space in Burlington, NC under a lease that expires October 2023. This lease may be terminated under certain conditions as defined in the lease agreement. The lessor is a related party that is owned by the seller of Green Remedies and is employed by us.

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.

As of March 1, 2021, there were 18,413,419 shares of Common Stock outstanding and approximately 130 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. In addition, the terms of our BBVA Loan Agreement and the Credit Agreement restrict our ability to declare cash dividends. 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

Except as previously disclosed in the Company's filings with the SEC, there were no sales of unregistered securities for the year ended December 31, 2020.

Purchases of Equity Securities by the Issuer and Affiliate Purchasers

None

ITEM 6. REMOVED AND RESERVED

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 waste and recycling services to customers from across multiple industry sectors that are typically larger, multi-location businesses. We provide businesses with a single source solution for the reuse, recycling, and disposal of a wide variety of waste streams and recyclables generated by their operations. We create customer-specific programs and perform the related services for the collection, processing, recycling, disposal, and tracking of waste streams and recyclables. In addition, our programs and services enable our customers to address their environmental and sustainability goals and responsibilities.

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, grocers, and other specialty retailers; automotive after-market operations such as automotive maintenance, quick lube, dealerships, and collision repair; transportation, logistics, and internal fleet operators; manufacturing plants; multi-family and commercial properties; restaurant chains and food operations; and construction and demolition projects. We currently concentrate on programs for recycling motor oil and automotive lubricants, oil filters, scrap tires, oily water, goods destruction, food waste, meat renderings, cooking oil and grease trap waste, plastics, cardboard, metal, glass, mixed paper, construction debris, as well as a large variety of regulated and non-regulated solid, liquid, and gas wastes. In addition, we offer products such as antifreeze and windshield washer fluid, dumpster and compacting equipment, and other minor ancillary services.

We also provide information and data that tracks and reports the detailed transactional and environmental results of our services and provides actionable data to improve business operations. The data we generate also enables our customers to address their environmental and sustainability goals and responsibilities and report to internal and external parties such as employees, investors, business partners, and governmental agencies.

Our results of operations from October 19, 2020 to December 31, 2020 reflect the results of Green Remedies. See Note 3 to our Consolidated Financial Statements for a discussion of this transaction.

Years Ended December 31, 2020 and 2019 Operating Results

Our consolidated financial statements include the operating activities of our company and our subsidiaries for the years ended December 31, 2020 and 2019.

The following table summarizes our operating results for the years ended December 31, 2020 and 2019:

| | Years Ended December 31, | |
|--------------------------------------|--------------------------|--------------------|
| | 2020 | 2019 |
| Revenue | \$ 98,660,035 | \$ 98,979,140 |
| Cost of revenue | 79,604,958 | 80,253,172 |
| Gross profit | <u>19,055,077</u> | <u>18,725,968</u> |
| Operating expenses: | | |
| Selling, general, and administrative | 17,140,996 | 16,815,767 |
| Depreciation and amortization | 1,163,812 | 1,314,731 |
| Total operating expenses | <u>18,304,808</u> | <u>18,130,498</u> |
| Operating income | 750,269 | 595,470 |
| Other income | 1,408,000 | — |
| Interest expense | (701,932) | (431,628) |
| Loss on extinguishment of debt | (167,964) | — |
| Income before taxes | 1,288,373 | 163,842 |
| Income tax expense | 254,004 | 219,082 |
| Net income (loss) | <u>\$ 1,034,369</u> | <u>\$ (55,240)</u> |

Year Ended December 31, 2020 compared with Year Ended December 31, 2019

Impact of the COVID-19 Pandemic

In response to the global COVID-19 pandemic crisis, we have prioritized the health and safety of our employees, customers and subcontractors and continue to work to support their needs. While we continue to implement actions to mitigate the effects of this crisis on our business and operations, the uncertainty around the duration and economic impact of this crisis makes it difficult for management to predict the future impact on our business operations and financial performance.

To date, we have experienced some limitations in employee resources resulting from travel restrictions and “stay at home” orders. Despite these restrictions, we continue to efficiently manage supply chain requirements of our customers and subcontractors. The waste management and recycling services we provide are currently designated an essential critical infrastructure business under the President’s COVID-19 guidance, the continued operation of which is vital for national public health, safety, and national economic security. While some of our customers shut down or scaled back their businesses in the short term, other customers operating in the restaurant, grocery, automotive and certain specialty retail industries, which may be considered as essential businesses in different jurisdictions or who are more capable of working remotely than other industries, have continued to operate.

The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on future developments, including the severity and duration of the crisis and the impact of actions taken and that will be taken to contain COVID-19 or treat its impact. These future impacts are highly uncertain and cannot be predicted with confidence. The economic impact from COVID-19 may adversely impact our results of operations in the future and may affect the credit condition of some of our customers, which could increase delays in customer payments and credit losses.

Revenue

For the year ended December 31, 2020, revenue was \$98.7 million, a decrease of \$319,000, or 0.3%, compared with revenue of \$99.0 million for the year ended December 31, 2019.

The decrease was primarily due to lower levels of services due to COVID-19 related shutdowns or reduced operations at our customers. This impact was partially offset by increased services from both our continuing and new customer base and from the acquired customer base related to the Green Remedies asset acquisition in October 2020. See Note 3 to our consolidated financial statements for a discussion of the October 19, 2020 acquisition.

Cost of Revenue/Gross Profit

Cost of revenue decreased \$648,000 to \$79.6 million for the year ended December 31, 2020 from \$80.3 million for the year ended December 31, 2019. The decrease was primarily due to lower levels of services due to COVID-19 related shutdowns or reduced operations at our customers.

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 2020. The decrease in cost of revenue for the year ended December 31, 2020 was primarily due to lower levels of services due to COVID-19 related shutdowns or reduced operations at our customers plus lower costs related to certain contracted services. Gross profit increased \$329,000, or 1.8%, to \$19.1 million for the year ended December 31, 2020 from \$18.7 million for the year ended December 31, 2019. Our gross margin was 19.3% in 2020 compared with 18.9% in 2019. The increase in gross profit dollars and gross margin percentage for the year ended December 31, 2020 was primarily due to the net effect of increased services from the acquired customer base related to the Green Remedies acquisition in October 2020, lower levels of services due to COVID-19 related shutdowns or reduced operations at our customers, and lower costs related to certain contracted services.

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

Operating Expenses

For the year ended December 31, 2020, operating expenses increased \$174,000 to \$18.3 million from \$18.1 million for 2019. Selling, general, and administrative expenses were \$17.1 million and \$16.8 million for the years ended December 31, 2020 and 2019, respectively, a year-over-year increase of \$325,000. The increase primarily relates to increases in stock related compensation of \$402,000, severance and COVID recall expenses of \$178,000, corporate development expenses of \$347,000, and acquisition, integration, and related expenses of \$743,000 inclusive of professional fees of \$640,000, partially offset by decreases in labor related expenses of \$559,000, travel expenses of \$343,000, professional fees of \$322,000, tradeshow/advertising expenses of \$111,000, and other administrative expenses of \$11,000.

In the year ended December 31, 2019, three stockholders sold approximately 4.3 million shares of our Common Stock in a registered public offering. In a separate private transaction, a selling stockholder sold 1,750,000 shares of our Common Stock. The offering and private transaction, together the “Transactions”, closed on April 11, 2019. We did not receive any proceeds from sales by the selling stockholders in the Transactions. We incurred costs and expenses in connection with the Transactions, consisting of various

registration, due diligence, printing, and professional service fees and expenses, and such costs, less amounts reimbursed by the selling stockholders at the closing of the Transactions, were \$248,000, and are included in selling, general, and administrative expense for the year ended December 31, 2019.

Operating expenses also included depreciation and amortization of \$1.2 million and \$1.3 million for the years ended December 31, 2020 and 2019, respectively.

Other Income

Other income was \$1.4 million for the year ended December 31, 2020 and represented the use of proceeds received under the Paycheck Protection Program, or “PPP,” under a promissory note from BMO Harris Bank National Association, the “PPP Loan,” to fund eligible payroll, rent and utility expenses. Such proceeds were subsequently forgiven in accordance with the PPP program. See Note 7 to our consolidated financial statements for a discussion of the PPP Loan.

Interest Expense

For the year ended December 31, 2020, interest expense increased to \$702,000 from \$432,000 for 2019 as a result of an increase in debt, primarily related to the Green Remedies asset acquisition. We are amortizing debt issuance costs of \$1.8 million to interest expense over the life of the related debt arrangements as discussed in Note 7 to our consolidated financial statements.

Loss on Extinguishment of Debt

We recorded \$168,000 in loss on extinguishment of debt in connection with the loan termination of our Citizens Bank Loan Agreement, including the write-off of the unamortized portion of debt issuance costs and fees directly associated with the loan payoff.

Income Taxes

We recorded a provision for income taxes of \$254,000 and \$219,000 for the years ended December 31, 2020 and 2019, respectively, primarily attributable to state tax obligations based on current estimated state tax apportionments for states with no net operating loss carryforwards.

We recorded a full valuation allowance against all of our deferred tax assets, or “DTAs”, as of both December 31, 2020 and 2019. We intend on maintaining a full valuation allowance on our DTAs until there is sufficient evidence to support the reversal of all or some portion of these allowances. However, given our current earnings and anticipated future earnings, we believe that there is a reasonable possibility that within the next 12 months, sufficient positive evidence may become available to allow us to reach a conclusion that a significant portion of the valuation allowance will no longer be needed. Release of the valuation allowance would result in the recognition of certain DTAs and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change based on the level of profitability that we are able to actually achieve.

Net Income (Loss)

Net income for the year ended December 31, 2020 was \$1.0 million compared with a net loss of \$55,000 for the year ended December 31, 2019. The explanations above explain the primary changes related to the improvement in net results.

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

Income (Loss) per Share

Net income per basic and diluted share was \$0.05 for the year ended December 31, 2020 compared with a net loss per basic and diluted share of \$(0.00) for the year ended December 31, 2019. Net income attributable to common stockholders in the year ended December 31, 2020 includes a deemed dividend of \$205,014 as a result of the triggering of a down round provision in certain outstanding warrants. The basic and diluted weighted average number of shares of Common Stock outstanding was approximately 16.7 million and 16.8 million, respectively, for the year ended December 31, 2020 compared to 15.3 million basic and diluted outstanding for the year ended December 31, 2019.

Adjusted EBITDA

We use the non-GAAP measurement of earnings before interest, taxes, depreciation, amortization, stock-related compensation charges, acquisition-related costs, and other adjustments, or “Adjusted EBITDA,” to evaluate our performance. Adjusted EBITDA is a non-GAAP measure that is also frequently used by analysts, investors and other interested parties to evaluate the market value of companies considered to be in similar businesses. 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 2020, other adjustments included \$(1,408,000) use of PPP Loan proceeds, partially offset by certain severance and COVID-recall labor costs of \$178,000, and loss on extinguishment of debt of \$168,000. In 2019, other adjustments of \$247,589 included costs related to the Transactions as further discussed above.

The following table reflects the reconciliation of net income (loss) to Adjusted EBITDA for the years ended December 31, 2020 and 2019:

| | As Reported | |
|--|--------------------------|---------------------|
| | Years Ended December 31, | |
| | 2020 | 2019 |
| Net income (loss) | \$ 1,034,369 | \$ (55,240) |
| Depreciation and amortization | 1,276,431 | 1,401,783 |
| Interest expense | 701,932 | 431,628 |
| Stock-based compensation expense | 1,488,177 | 1,085,906 |
| Acquisition, integration and related costs | 743,426 | — |
| Other adjustments | (1,048,026) | 247,589 |
| Income tax expense | 254,004 | 219,082 |
| Adjusted EBITDA | \$ 4,450,313 | \$ 3,330,748 |

Liquidity and Capital Resources

As of December 31, 2020, we had \$7.5 million of cash and cash equivalents and working capital of \$8.7 million, compared with cash and cash equivalents of \$3.4 million and working capital of \$5.1 million as of December 31, 2019.

We derive our primary sources of funds for conducting our business activities from operating revenues; borrowings under our credit facilities; and the placement of our equity securities 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 \$7.5 million, our borrowing capacity under our \$15.0 million ABL Facility (which such capacity was \$12.8 million as of December 31, 2020), and cash expected to be generated from operations will be sufficient to fund our operations for the next 12 months. As discussed in Note 7 to our consolidated financial statements, as a result of the uncertainty surrounding the COVID-19 pandemic and its impact on our operating results, in May 2020 we received loan proceeds of \$1.4 million under the PPP, which were subsequently fully forgiven in accordance with the PPP program. As discussed in Notes 7 and 13 to our consolidated financial statements, we entered into the BBVA Loan Agreement which provides for an asset-based revolving credit facility of up to \$15.0 million and an equipment loan facility in the maximum principal amount of \$2.0 million, and we closed on a registered direct offering of our Common Stock, which provided gross proceeds to us of approximately \$3.4 million. The BBVA Loan Agreement replaced our prior credit facility under the Citizens Bank Loan Agreement, which was paid off and terminated effective August 5, 2020. On October 19, 2020, we and certain of our domestic subsidiaries entered into the Credit Agreement which provided financing for the acquisition of Green Remedies. Among other things, the Credit Agreement provides for the following:

- A senior secured term loan facility in the principal amount of \$11.5 million. The senior secured term loan at the LIBOR Rate for LIBOR Loans plus the Applicable Margin; provided, that if the provision of LIBOR Loans becomes unlawful or unavailable, then interest will be payable at a rate per annum equal to the Base Rate from time to time in effect plus the Applicable Margin for Base Rate Loans. The maturity date of the term loan facility is October 19, 2025, the “Maturity Date.” The senior secured term loan will amortize in aggregate annual amounts equal to 1.00% of the original principal amount of the senior secured term loan facility with the balance payable on the Maturity Date. Proceeds of the senior secured term loan were permitted to be used in connection with the Acquisition.
- A delayed draw term loan facility in the maximum principal amount of \$12.5 million. Loans under the delayed draw term loan facility may be requested at any time until October 19, 2021. Pricing and maturity for the outstanding principal amount of the delayed draw term loan shall be the same as for the senior secured term loan. Proceeds of the delayed draw term loan are to be used for Permitted Acquisitions.
- An accordion term loan facility in the maximum principal amount of \$40.0 million. Loans under the accordion loan facility may be requested at any time until the Maturity Date. Each accordion term loan shall be on the same terms as

those applicable to the senior secured term loan. Proceeds of accordion term loans are permitted to be used for Permitted Acquisitions.

Certain of the Company's domestic subsidiaries are the borrowers under the Credit Agreement. The Company is the guarantor under the Credit Agreement. As security for the obligations of the borrowers under the Credit Agreement, (i) the borrowers under the Credit Agreement have granted a first priority lien on substantially all of their tangible and intangible personal property, including a pledge of the capital stock and membership interests, as applicable, of certain of the Company's direct and indirect subsidiaries, and (ii) the guarantors under the Credit Agreement have granted a first priority lien on the capital stock and membership interests, as applicable, of the Company's direct and indirect domestic subsidiaries.

The Credit Agreement contains certain financial covenants, including a minimum fixed charge coverage ratio and a senior net leverage ratio. In addition, the Credit Agreement contains negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matter customarily restricted in such agreements. The Credit Agreement also contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, change of control, and failure of any guaranty or security document supporting the Credit Agreement to be in full force and effect. Upon the occurrence of an event of default, the outstanding obligations under the Credit Agreement may be accelerated and become immediately due and payable. The foregoing is a summary only and does not purport to be a complete description of all the terms, provisions, covenants and agreements contained in the Loan Agreement and is subject to and qualified in its entirety by reference to the full text of the Credit Agreement.

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 \$3.1 million for the year ended December 31, 2020 compared with \$2.3 million for the year ended December 31, 2019.

Net cash provided by operating activities for the year ended December 31, 2020 related primarily to the net effect of the following:

- net income of \$1,034,000, which includes other income of \$1,408,000 for the use of PPP Loan proceeds as discussed further above;
- offset by non-cash items of \$3.3 million, which related primarily to depreciation, amortization of intangible assets and debt issuance costs, provision for doubtful accounts, loss on extinguishment of debt and stock-based compensation; and
- cash used in the net change in operating assets and liabilities of \$1.2 million, primarily associated with relative changes in accounts receivable, accounts payable, and accrued liabilities.

Net cash provided by operating activities for the year ended December 31, 2019 related primarily to the net effect of the following:

- net loss of \$55,000;
- offset by non-cash items of \$2.6 million, which related primarily to depreciation, amortization of intangible assets and debt issuance costs, provision for doubtful accounts, and stock-based compensation; and
- cash used in the net change in operating assets and liabilities of \$310,000, 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, 2020 and 2019 was \$506,000 and \$301,000, respectively, primarily from costs related to software development and purchases of property and equipment. The increase in cash used in 2020 was primarily due to an increase in purchases of property and equipment, which was partially offset by a decline in capitalized software development in 2020 compared with 2019.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$1.5 million for the year ended December 31, 2020, primarily from \$3.0 million net proceeds from the sale of Common Stock in a registered direct offering that closed on August 7, 2020, partially offset by net repayments of \$540,000 on our ABL Facilities and \$1.1 million debt issuance costs related to the ABL Facility and the Credit Agreement with Monroe Capital. See Note 13 to our consolidated financial statements for further discussion regarding the registered direct offering. Net cash used in financing activities was \$0.7 million for the year ended December 31, 2019, primarily from net

repayments of \$754,000 on our prior credit facility under the Citizens Bank Loan Agreement. See Note 7 to our consolidated financial statements for a discussion of the ABL Facility, the repayment of the Citizens Bank Loan Agreement, and the Credit Agreement with Monroe Capital.

Inflation

We do not believe that inflation had a material impact on us for the years ended December 31, 2020 or 2019.

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, deferred taxes and the fair value of assets and liabilities acquired in asset acquisitions. 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 consists primarily of amounts due from customers for the performance of services, and we record the amount net of an allowance for doubtful accounts. To record our accounts receivable at their net realizable value, we assess their 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.

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 2020, 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 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
- 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, 2020 and 2019, we had established a full valuation allowance for all deferred tax assets.

As of December 31, 2020 and 2019, 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.

Business Combinations

We account for acquisitions in accordance with ASC Topic 805, *Business Combinations*. In purchase accounting, identifiable assets acquired and liabilities assumed are recognized at their estimated fair values at the acquisition date, and any remaining purchase price is recorded as goodwill. In determining the fair values of assets acquired and liabilities assumed, we make significant estimates and assumptions, particularly with respect to long-lived tangible and intangible assets. Critical estimates used in valuing tangible and intangible assets include, but are not limited to, future expected cash flows, discount rates, market prices and asset lives.

Our consolidated financial statements include the results of operations from the date of the acquisition.

We expense all acquisition-related costs as incurred in selling, general and administrative expenses in the consolidated statements of operations.

Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, deferred revenue, and notes payable. 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 notes payable, 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, 2020.

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

The following table sets forth certain information regarding our directors as of March 11, 2021:

| Name | Age | Position |
|-----------------------|-----|--|
| Daniel M. Friedberg | 59 | Chairman of the Board (2)(4) |
| S. Ray Hatch | 60 | President, Chief Executive Officer, and Director |
| Michael F. Golden | 66 | Director (3)(4) |
| Ronald L. Miller, Jr. | 56 | Director (1)(3) |
| Stephen A. Nolan | 60 | Director (1)(3) |
| Sarah R. Tomoloni | 40 | Director (1)(2) |

- (1) Member of the Audit Committee
- (2) Member of the Nominations and Corporate Governance Committee
- (3) Member of the Compensation Committee
- (4) Member of the Strategic Planning Committee

Daniel M. Friedberg has served as Chairman of the Board of our company since April 2019. Mr. Friedberg has served as the Chief Executive Officer of Hampstead Park Capital Management LLC, a private equity investment firm, since its founding in May 2016. Mr. Friedberg was Chief Executive Officer and Managing Partner of Sagard Capital Partners L.P., a private equity investment firm, from its founding in January 2005 until May 2016. In addition, from January 2005 to May 2016, he was also a Vice President of Power Corporation of Canada, a diversified international management holding company. Mr. Friedberg was with global strategy management consultants Bain & Company, as a consultant from 1987 to 1991 and then again as a Partner from 1997 to 2005. Mr. Friedberg started with Bain & Company in the London office in 1987, was a founder of the Toronto office in 1991, and a founder of the New York office in 2000, leading the Canadian and New York private equity businesses. From 1991 to 1997, Mr. Friedberg worked as Vice President of Strategy and Development for a U.S.-based global conglomerate and as an investment professional in a Connecticut-based boutique private equity firm. Mr. Friedberg has a Master's in Business Administration degree from the Johnson School at Cornell University's College of Business, and a Bachelor of Science (Hons.) degree from the University of Manchester Institute of Science & Technology. Mr. Friedberg currently serves on the Board at Roth CH Acquisition I Company (ROCHU), at Buttonwood Networks and USA Field Hockey. Mr. Friedberg has previously served on the Board of Directors at GP Strategies Corp. (GPX), InnerWorkings, Inc. (INWK), Performance Sports Group Ltd. (PSG), X-Rite, Inc. (XRIT), and Hudson Global Inc. (HSON) as a board observer, and as Chairman of the Board of two private companies: Integramed America Inc.; and Vein Centers of America Inc. We believe that Mr. Friedberg's experience as the Chief Executive Officer of two investment firms, his experience as an executive with a leading global management consulting firm, his extensive experience in investing in private and public companies, and his service on multiple boards of directors provide him with knowledge and experience with respect to organizational, financial, operational, M&A, and strategic planning matters and provide the requisite qualifications, skills, perspectives, and experiences that make him well qualified to serve on our Board of Directors.

S. Ray Hatch has served as President, Chief Executive Officer, and a director of our company since February 2016. Mr. Hatch served as President of Merchants Market Group, LLC, an international foodservice distribution company, from February 2014 to January 2016. From June 2008 to January 2014, Mr. Hatch served in various roles with Oakleaf Waste Management, a provider of waste outsourcing that was acquired by Waste Management, including as Executive Vice President and Chief Operating Officer of Greenleaf Equipment from May 2010 to January 2014 and Senior Vice President Regional Sales from June 2008 to May 2010. From July 2003 to October 2007, Mr. Hatch served in various positions with Food Services of America, a wholesale food distributor, including as Senior Vice President of Sales and Marketing and Chief Marketing Officer from August 2005 to October 2007 and Executive Vice President – Western Washington Group from July 2003 to August 2005. Mr. Hatch served as Division President of U.S. Foodservice (formerly, Alliant Foodservice), a foodservice distributor, from January 1999 to July 2003. We believe Mr. Hatch's position as President and Chief Executive Officer of our company, his intimate experience with all aspects of the operations, opportunities, and challenges of our company, and his prior service in the environmental services industry provide the requisite qualifications, skills, perspectives, and experience that make him well qualified to serve on our Board of Directors.

Michael F. Golden has served as a director of our company since October 2012 and served as Interim Chief Executive Officer from October 2015 to February 2016. Mr. Golden has served as a director of American Outdoor Brands Corporation (formerly Smith & Wesson Holding Corporation), a leading provider of firearms and quality products for the shooting, hunting, and rugged outdoor enthusiast, whose stock is listed on the Nasdaq Global Select Market, since December 2004. Mr. Golden served as the President and Chief Executive Officer of American Outdoor Brands Corporation from December 2004 until his retirement in September 2011. Mr. Golden was employed in various executive positions with the Kohler Company from February 2002 until joining American Outdoor Brands Corporation, with his most recent position being the President of its Cabinetry Division. Mr. Golden was the President of Sales for the Industrial/Construction Group of the Stanley Works Company from 1999 until 2002; Vice President of Sales

for Kohler’s North American Plumbing Group from 1996 until 1998; and Vice President – Sales and Marketing for a division of The Black & Decker Corporation where he was employed from 1981 until 1996. Since February 2013, Mr. Golden has served as a member of the board of directors, a member of the Audit Committee, and a member of the Governance Committee of Trex Company, Inc., a New York Stock Exchange-listed manufacturer of high-performance wood-alternative decking and railing. We believe Mr. Golden’s service as the former President and Chief Executive Officer of a publicly held company and his long business career at major companies provide the requisite qualifications, skills, perspectives, and experience that make him well qualified to serve on our Board of Directors.

Ronald L. Miller, Jr. has served as a director of our company since October 2012. Mr. Miller served as a director of one of our predecessors from July 2010 to October 2012. Mr. Miller has served as Executive Vice President, Chief Financial Officer, and Secretary of That’s Eatertainment Corp. since December 2015 and was a principal of its predecessor, Modern Round LLC, from February 2014 until December 2015. Mr. Miller is Chairman of the Audit Committee and the Nominations and Governance Committee of Item 9 Labs Corp., a developer of technology and products that administer high-quality cannabis health solutions. Mr. Miller served as a Managing Director of CKS Securities LLC, an investment banking firm, from February 2010 to December 2011. He served as Vice Chairman of Miller Capital Markets, LLC, a Scottsdale, Arizona headquartered boutique investment banking firm from May 2009 to August 2009. Mr. Miller served as Chief Executive Officer of Alare Capital Partners, LLC, a Scottsdale-based investment banking and strategic advisory firm, from September 2007 to May 2009. From 2001 to 2005, Mr. Miller served as a Managing Director of The Seidler Companies Incorporated, an investment banking firm and member of the NYSE. Mr. Miller served from 1998 to 2001 as a Senior Vice President and was instrumental in the opening of the Phoenix, Arizona office of Wells Fargo Van Kasper. From 1994 to 1998, Mr. Miller served as Senior Vice President of Imperial Capital, and from 1993 to 1994, was associated with the Corporate Finance Department of Ernst & Young. Mr. Miller began his career in the M&A department of PaineWebber, Inc. We believe Mr. Miller’s prior leadership roles and his investment banking experience provide the requisite qualifications, skills, perspectives, and experience that make him well qualified to serve on our Board of Directors.

Stephen A. Nolan has served as a director of our company since April 2019. Mr. Nolan has served as President and Chief Operating Officer of SGS North America, the world’s largest testing, inspection and certification company, since August 2019. From June 2013 to April 2018, Mr. Nolan served as Chief Financial Officer and, subsequently, Chief Executive Officer and a member of the Board of Directors of Hudson Global (HSON), a global provider of professional recruitment, talent management, and recruitment process outsourcing services. From September 2004 to December 2012, Mr. Nolan served as Chief Financial Officer of Adecco North America, a staffing and human capital solutions company. From November 2001 to September 2004, Mr. Nolan served as Chief Financial Officer for DHL Global Forwarding NA, a freight forwarding business. From April 2000 to November 2001, Mr. Nolan served as Corporate Controller for Newpower, a residential energy marketing start-up. From December 1985 to March 2000, Mr. Nolan served in Finance roles at Reckitt Benckiser, a global consumer products company. From October 1981 to December 1985, Mr. Nolan served as Audit Senior for PwC. We believe Mr. Nolan’s experience as the Chief Financial Officer and Chief Operating Officer of a number of companies and his executive and board experience at other companies provide the requisite qualifications, skills, perspectives, and experiences that make him well qualified to serve on our Board of Directors.

Sarah R. Tomolonius has served as a director of our company since September 2016. Ms. Tomolonius is the Vice President of Investor Relations at M13, a consumer tech-focused full-service venture capital engine. Ms. Tomolonius is the co-founder and serves as the Vice Chairman of the Sustainability Investment Leadership Council. Ms. Tomolonius served as Vice President, Marketing and Investor Relations for Arlon Group, a food and agriculture investment firm, from December 2012 to June 2018, and served as Senior Professional, Management Reporting & Analytics from December 2010 to December 2012. From October 2008 to December 2010, Ms. Tomolonius served as Associate, Investor Relations for Citi Private Equity, a private equity group that was acquired by StepStone Group in October 2010. From October 2005 to September 2007, Ms. Tomolonius served as Research Analyst, Corporate & Public Affairs Group of Edelman, a global public relations firm. Ms. Tomolonius served as Program Assistant, Water & Coastal Program of Natural Resources Defense Council, a non-profit international environmental advocacy group, from October 2002 to September 2005. Ms. Tomolonius also serves as Chair of the Sustainability Committee for the New York Alternative Investment Roundtable. Ms. Tomolonius served as President of the Board of HeARTs Speak, a nonprofit organization, from February 2014 to February 2017. We believe that Ms. Tomolonius’s experience in the environmental and financial industries and her focus on sustainability provide the requisite qualifications, skills, perspectives, and experiences that make her well qualified to serve on our Board of Directors.

There are no family relationships among any of our directors and executive officers.

Management

The following table sets forth certain information regarding our executive officers as of March 11, 2021:

| Name | Age | Position |
|-------------------|------------|--|
| S. Ray Hatch | 60 | President and Chief Executive Officer |
| Laurie L. Latham | 64 | Senior Vice President and Chief Financial Officer |
| David P. Sweitzer | 58 | Executive Vice President and Chief Operating Officer |

S. Ray Hatch's biography is set forth under the heading "Directors" above.

Laurie L. Latham has served as Senior Vice President and Chief Financial Officer of our company since January 2013. Ms. Latham served as Chief Financial Officer and Senior Vice President of Finance and Administration of ViewCast Corporation, a publicly held digital media hardware and software development and manufacturing company, from December 1999 to August 2012. From 1997 to 1999, Ms. Latham served as Senior Vice President and Chief Financial Officer of Perivox Corporation, an interactive communications and direct marketing company. From 1994 through 1997, Ms. Latham served as Vice President of Finance and Administration of Axis Media Corporation, a graphics, photography, and marketing agency. Prior to joining Axis Media Corporation, Ms. Latham had been in public practice with national and regional accounting firms, including KPMG Peat Marwick, and served as Vice President of Finance and Administration for Medialink International Corporation, a food industry technology company. In addition, Ms. Latham's earlier career experience included roles within the oil and gas, real estate, and agricultural industries. Ms. Latham is a certified public accountant.

David P. Sweitzer has served as Chief Operating Officer of our company since October 2016. Mr. Sweitzer served as Chief Sales Officer, Executive Vice President, and Senior Vice President of Sales of SMS Assist, L.L.C., a multisite property management technology company, from March 2013 to September 2016. Mr. Sweitzer served in various roles with Oakleaf Waste Management, a provider of waste outsourcing that was acquired by Waste Management, including Director of Business Development from July 2011 to March 2013, Client Solutions Vice President from February 2009 to July 2011, and Vice President of Industrial Programs and Account Management from July 2003 to January 2010. From April 1992 to June 2003, Mr. Sweitzer served as Market Manager/Specialist of Integrated Process Technologies, L.L.C., a facility maintenance service company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, officers, and persons that own more than 10 percent of a registered class of our company's equity securities to file reports of ownership and changes in ownership with the SEC. Directors, officers, and greater than 10 percent stockholders are required by SEC regulations to furnish our company with copies of all Section 16(a) forms they file.

Based solely upon our review of the copies of such forms filed electronically with the SEC during the fiscal year ended December 31, 2020, and written representations that no other reports were required, we believe that each person who, at any time during such fiscal year, was a director, officer, or beneficial owner of more than 10 percent of our Common Stock complied with all Section 16(a) filing requirements during such fiscal year ended December 31, 2020.

Corporate Governance

Classification of our Board of Directors

Our Board of Directors is divided into three classes, with one class standing for election each year for a three-year term. At each annual meeting of stockholders, directors of a particular class are elected for three-year terms to succeed the directors of that class whose terms are expiring. Mr. Golden is a Class I director whose term will expire at the 2022 Annual Meeting of Stockholders. Mr. Nolan and Ms. Tomolonius are Class II directors whose terms will expire in 2023. Messrs. Friedberg, Hatch, and Miller are Class III directors whose terms will expire in 2021.

Committee Charters, Corporate Governance Guidelines, and Codes of Conduct and Ethics

Our Board of Directors has adopted charters for the Audit, Compensation, and Nominations and Corporate Governance Committees describing the authority and responsibilities delegated to each committee by our Board of Directors. Our Board of Directors has also adopted Corporate Governance Guidelines, Code of Conduct that applies to all of our directors, officers, and employees, including our principal executive officer and principal financial and accounting officer, and a Code of Ethics for the CEO and Senior Financial Officers. We post on our website, at www.qrhc.com, the charters of our Audit, Compensation, and Nominations and Corporate Governance Committees; our Corporate Governance Guidelines, Code of Conduct, and Code of Ethics for the CEO and Senior Financial Officers, and any amendments or waivers thereto; and any other corporate governance materials specified by SEC regulations. These documents are also available in print, free of charge, to any stockholder requesting a copy in writing from our Secretary at the address of our executive offices.

Executive Sessions

We regularly schedule executive sessions in which independent directors meet without the presence or participation of management. The Chairman of our Board of Directors serves as the presiding director of such executive sessions.

Board Committees

Our bylaws authorize our Board of Directors to appoint from among its members one or more committees consisting of one or more directors. Our Board of Directors has established standing Audit, Compensation, and Nominations and Corporate Governance Committees, each consisting entirely of independent directors as "independence" is defined by the listing standards of Nasdaq and by the SEC. The Board of Directors also established a Strategic Planning Committee in July 2019.

The Audit Committee

The purpose of the Audit Committee includes overseeing the accounting and financial reporting processes of our company and audits of the financial statements of our company and providing assistance to our Board of Directors with respect to its oversight of the integrity of our company's financial statements, our company's compliance with legal and regulatory requirements, the independent registered public accountant's qualifications and independence, and the performance of our company's independent registered public accountant. The primary responsibilities of the Audit Committee are set forth in its charter and include various matters with respect to the oversight of our company's accounting and financial reporting process and audits of the financial statements of our company on behalf of our Board of Directors. The Audit Committee also selects the independent registered public accountant to conduct the annual audit of the financial statements of our company; reviews the proposed scope of such audit; reviews accounting and financial controls of our company with the independent registered public accountant and our financial accounting staff; and reviews and approves any transactions between us and our directors, officers, and their affiliates.

The Audit Committee currently consists of Messrs. Miller and Nolan and Ms. Tomolonius. Our Board of Directors has determined that each of Messrs. Miller and Nolan and Ms. Tomolonius, whose backgrounds are detailed above, qualifies as an "audit committee financial expert" in accordance with applicable rules and regulations of the SEC. Mr. Miller chairs the Audit Committee.

The Compensation Committee

The purpose of the Compensation Committee includes determining, or, when appropriate, recommending to our Board of Directors for determination, the compensation of the Chief Executive Officer and other executive officers of our company and discharging the responsibilities of our Board of Directors relating to compensation programs of our company in light of the goals and objectives of our compensation program for that year. As part of its responsibilities, the Compensation Committee evaluates the performance of our Chief Executive Officer and, together with our Chief Executive Officer, assesses the performance of our other executive officers. The Compensation Committee is entitled to delegate its responsibilities to a subcommittee of the Compensation Committee, which complies with the applicable rules and regulations of the Nasdaq Stock Market, the SEC, and other regulatory bodies. From time to time the Compensation Committee retains the services of independent compensation consultants to review a wide variety of factors relevant to executive compensation, trends in executive compensation, and the identification of relevant peer companies. The Compensation Committee makes all determinations regarding the engagement, fees, and services of its compensation consultants, and its compensation consultants report directly to the Compensation Committee.

The Compensation Committee currently consists of Messrs. Golden, Miller, and Nolan. Mr. Golden chairs the Compensation Committee.

The Strategic Planning Committee

The Strategic Planning Committee provides assistance to our Board of Directors in assessing whether our management has the resources necessary to implement our company's strategy; assessing external developments and factors, including changes in the economy, competition and technology, on our company's strategy and execution of its strategy; and advising on strategic development activities, including those not in the ordinary course of business, under consideration from time to time by our company. The Strategic Planning Committee currently consists of Messrs. Friedberg, Golden, and Hatch. Mr. Friedberg chairs the Strategic Planning Committee.

The Nominations and Corporate Governance Committee

The purpose of the Nominations and Corporate Governance Committee includes the selection or recommendation to our Board of Directors of nominees to stand for election as directors at each election of directors, the oversight of the selection and composition of committees of our Board of Directors, the oversight of the evaluations of our Board of Directors and management, and the development and recommendation to our Board of Directors of a set of corporate governance principles applicable to our company.

The Nominations and Corporate Governance Committee currently consists of Mr. Friedberg and Ms. Tomolonius. Mr. Friedberg chairs the Nominations and Corporate Governance Committee.

The Nominations and Corporate Governance Committee will consider persons recommended by stockholders for inclusion as nominees for election to our Board of Directors if the information required by our bylaws is submitted in writing in a timely manner addressed and delivered to our Secretary at the address of our executive offices. The Nominations and Corporate Governance Committee identifies and evaluates nominees for our Board of Directors, including nominees recommended by stockholders, based on numerous factors it considers appropriate, some of which may include strength of character, mature judgment, career specialization, relevant technical skills, diversity, and the extent to which the nominee would fill a present need on our Board of Directors.

Risk Assessment of Compensation Policies and Practices

We have assessed the compensation policies and practices with respect to our employees, including our executive officers, and have concluded that they do not create risks that are reasonably likely to have a material adverse effect on our company.

Board's Role in Risk Oversight

Risk is inherent in every business. As is the case in virtually all businesses, we face a number of risks, including operational, economic, financial, legal, regulatory, and competitive risks. Our management is responsible for the day-to-day management of the risks we face. Our Board of Directors, as a whole and through its committees, has responsibility for the oversight of risk management.

In its oversight role, our Board of Directors' involvement in our business strategy and strategic plans plays a key role in its oversight of risk management, its assessment of management's risk appetite, and its determination of the appropriate level of enterprise risk. Our Board of Directors receives updates at least quarterly from senior management and periodically from outside advisors regarding the various risks we face, including operational, economic, financial, legal, regulatory, and competitive risks. Our Board of Directors also reviews the various risks we identify in our filings with the SEC as well as risks relating to various specific developments, such as acquisitions, debt and equity placements, and new service offerings.

Our board committees assist our Board of Directors in fulfilling its oversight role in certain areas of risk. Pursuant to its charter, the Audit Committee oversees the financial and reporting processes of our company and the audit of the financial statements of our company and provides assistance to our Board of Directors with respect to the oversight and integrity of the financial statements of our company, our company's compliance with legal and regulatory requirements, the independent registered public accountant's qualification and independence, and the performance of our independent registered public accountant. The Compensation Committee considers the risk of our compensation policies and practices and endeavors to assure that it is not reasonably likely that our compensation plans and policies would have a material adverse effect on our company. Our Nominations and Corporate Governance Committee oversees governance related risk, such as board independence, conflicts of interests, and management and succession planning.

Board Diversity

We seek diversity in experience, viewpoint, education, skill, and other individual qualities and attributes to be represented on our Board of Directors. We believe directors should have various qualifications, including individual character and integrity; business experience; leadership ability; strategic planning skills, ability, and experience; requisite knowledge of our industry and finance, accounting, and legal matters; communications and interpersonal skills; and the ability and willingness to devote time to our company. We also believe the skill sets, backgrounds, and qualifications of our directors, taken as a whole, should provide a significant mix of diversity in personal and professional experience, background, viewpoints, perspectives, knowledge, and abilities. Nominees are not to be discriminated against on the basis of race, religion, national origin, sex, sexual orientation, disability, or any other basis proscribed by law. The assessment of prospective directors is made in the context of the perceived needs of our Board of Directors from time to time.

All of our directors have held high-level positions in business or professional service firms and have experience in dealing with complex issues. We believe that all of our directors are individuals of high character and integrity, are able to work well with others, and have committed to devote sufficient time to the business and affairs of our company. In addition to these attributes, the description of each director's background set forth above indicates the specific qualifications, skills, perspectives, and experience necessary to conclude that each individual should continue to serve as a director of our company.

Board Leadership Structure

We believe that effective board leadership structure can depend on the experience, skills, and personal interaction between persons in leadership roles as well as the needs of our company at any point in time. Our Corporate Governance Guidelines support flexibility in the structure of our Board of Directors by not requiring the separation of the roles of Chief Executive Officer and Chairman of the Board.

We currently maintain separate roles between the Chief Executive Officer and Chairman of the Board in recognition of the differences between the two responsibilities. Our Chief Executive Officer is responsible for setting our strategic direction and day-to-day leadership and performance of our company. The Chairman of the Board provides input to the Chief Executive Officer, sets the agenda for board meetings, and presides over meetings of the full Board of Directors as well as executive sessions of the Board of Directors.

Clawback Policy

We adopted a clawback policy in May 2019. In the event we are required to prepare an accounting restatement of our financial results as a result of a material noncompliance by us with any financial reporting requirement under the federal securities laws, we will have the right to use reasonable efforts to recover from any current or former executive officers who received incentive compensation (whether cash or equity) from us during the three-year period preceding the date on which we were required to prepare the accounting restatement, any excess incentive compensation awarded as a result of the misstatement. In addition, we will also have the right to recover incentive compensation (whether cash or equity), if a participant, without our consent, while employed by or providing services to our company or any related entity or after termination of such employment or services, violates a non-competition, non-solicitation, or non-disclosure covenant or agreement or otherwise engages in activity that is in conflict with our Corporate Governance Guidelines, Code of Conduct, Code of Ethics for the CEO and Senior Financial Officers, or any other corporate governance materials specified by the SEC or exchange on which our Common Stock is listed. This policy is administered by the

Compensation Committee of our Board of Directors. The policy is effective for financial statements for periods beginning on or after January 1, 2019. Once final rules are adopted by the SEC regarding the clawback requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act, we will review this policy and make any amendments necessary to comply with the new rules.

Director and Officer Derivative Trading and Hedging Policy

We adopted a director and officer derivative trading and hedging policy in May 2019. Directors and executive officers of our company (including any family members residing in the household of a director or executive officer) may not engage in derivative trading or hedging involving our company's securities or pledging or margining any Common Stock of our company.

Stock Ownership Guidelines

We adopted stock ownership guidelines for our non-employee directors and for our Chief Executive Officer, our Chief Financial Officer, and our Chief Operating Officer. Our non-employee directors and Chief Executive Officer are required to have stock ownership of our Common Stock with an acquisition price equal to at least \$100,000 and our Chief Financial Officer and our Chief Operating Officer are each required to have stock ownership of our Common Stock with an acquisition price equal to at least \$75,000.

Each individual has five years from the later of the date of adoption of these guidelines (April 3, 2019) or the date of appointment of the individual as a director or a designated executive officer to achieve the required ownership levels. We believe that these guidelines promote the alignment of the long-term interests of our designated executive officers and members of our Board of Directors with our stockholders.

Stock ownership generally includes shares directly owned by the individual (including any shares over which the individual has sole ownership, voting, or investment power); shares owned by the individual's minor children and spouse and by other related individuals and entities over whose shares the individual has custody, voting control, or power of disposition; shares underlying restricted stock units, or "RSUs", and deferred stock units, or "DSUs", that have vested or will be vested within 60 days; shares held in trust for the benefit of the individual or the individual's immediate family members; and shares owned through savings plans, such as our 401-K Plan and our deferred compensation plan or acquired through our employee Stock Purchase Plan.

The acquisition price for purposes of the stock ownership guidelines is the actual purchase price paid for shares of our Common Stock through open market purchases, private placements, the exercise of stock options, and similar purchases; the amount of cash compensation for executive base salaries or bonuses or director cash compensation exchanged for RSUs or DSUs; and the grant date price of shares underlying vested RSUs or DSUs issued other than in lieu of or in exchange for executive base salaries or bonus or director cash compensation.

The failure to satisfy the required ownership level may result in the ineligibility of the individual to receive stock-based compensation in the case of a designated executive officer or director or the inability to be a nominee for election to the Board of Directors in the case of a director.

Board and Committee Meetings

Our Board of Directors held a total of nine meetings during the fiscal year ended December 31, 2020. During the fiscal year ended December 31, 2020, the Audit Committee held eight meetings; the Compensation Committee held six meetings; the Nominations and Corporate Governance Committee held four meetings; and the Strategic Planning Committee held four meetings. No director attended fewer than 75% of the aggregate of (i) the total number of meetings of our Board of Directors and (ii) the total number of meetings held by all committees of our Board of Directors on which he or she was a member.

Annual Meeting Attendance

We encourage each of our directors to attend each annual meeting of stockholders. To that end, and to the extent reasonably practicable, we regularly schedule a meeting of our Board of Directors on the same day as our annual meeting of stockholders. All of our directors attended our 2020 Annual Meeting of Stockholders.

Communications with Directors

Stockholders and other interested parties may communicate with our Board of Directors or specific members of our Board of Directors, including our independent directors and the members of our various board committees, by submitting a letter addressed to the Board of Directors of Quest Resource Holding Corporation c/o any specified individual director or directors at the address of our executive offices. Any such letters are sent to the indicated directors.

ITEM 11. EXECUTIVE COMPENSATION

Fiscal 2020 Summary Compensation Table

The following table sets forth, for the fiscal years ended December 31, 2020 and 2019, information with respect to compensation for services in all capacities to us and our subsidiaries earned by our principal executive officer, and our two most highly compensated executive officers other than our principal executive officer who were serving as an executive officer on December 31, 2020. We refer to these executive officers as our “named executive officers.”

| Name and Principal Position | Year | Salary (1) | Bonus (1) | Stock and Option | All Other | Total |
|--|------|------------|------------|------------------|------------------|------------|
| | | | | Awards (2) | Compensation (3) | |
| S. Ray Hatch President, Chief Executive Officer, and Director | 2020 | \$ 339,375 | \$ 309,669 | \$ 183,315 | \$ 29,683 | \$ 862,042 |
| | 2019 | \$ 330,629 | \$ 256,811 | \$ 150,960 | \$ 37,096 | \$ 775,496 |
| Laurie L. Latham Senior Vice President and Chief Financial Officer | 2020 | \$ 237,491 | \$ 117,309 | \$ 122,175 | \$ 20,014 | \$ 496,989 |
| | 2019 | \$ 231,440 | \$ 107,861 | \$ 100,640 | \$ 19,860 | \$ 459,801 |
| David P. Sweitzer Executive Vice President and Chief Operating Officer | 2020 | \$ 282,728 | \$ 192,449 | \$ 122,175 | \$ 23,857 | \$ 621,209 |
| | 2019 | \$ 275,524 | \$ 128,405 | \$ 117,967 | \$ 23,828 | \$ 545,724 |

- (1) The amounts in this column reflect the amounts earned during the fiscal year, whether or not actually paid during such year.
- (2) The amounts in this column reflect the aggregate probable grant date fair value of stock and option awards granted to our named executive officers during the fiscal year calculated in accordance with FASB ASC Topic 718, *Stock Compensation*. The valuation assumptions used in determining such amounts are described in the footnotes to our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. The amounts reported in this column do not correspond to the actual economic value that may be received by our named executive officers from their option awards.
- (3) The named executive officers participate in certain group life, health, disability insurance, and medical reimbursement plans not disclosed in the Summary Compensation Table that are generally available to salaried employees and do not discriminate in scope, terms, and operation. However, we pay all health insurance premiums for Messrs. Hatch and Sweitzer and for Ms. Latham, which amounts are included in this column. The figure shown for each named executive officer also includes employer contributions to a qualified deferred compensation plan (401(k) plan) and auto allowance. Our 401(k) plan provides employees with an opportunity to defer compensation for retirement. Employees may contribute up to 87% of compensation, subject to IRS limits. We match 100% of the first 3% and 50% of the next 2% of employee contributions each pay period. Our 2014 Employee Stock Purchase Plan, or the 2014 ESPP, permits our employees and employees of our designated subsidiaries, which we refer to each as a “Participating Company,” to purchase our Common Stock at a discount equal to 85% of the lesser of (i) the market value of the shares on the offering date of such offering and (ii) the market value of the shares on the purchase date of such offering, subject to limits set by the Internal Revenue Code of 1986, as amended, or the Code, and the 2014 ESPP.

Outstanding Equity Awards at Fiscal Year-End 2020

The following table sets forth information with respect to outstanding equity awards held by our named executive officers as of December 31, 2020.

| Name | Grant Date | Number of Securities Underlying Unexercised Options (1) | | Option Awards | | Option Exercise Price | Option Expiration Date |
|-------------------|------------|---|---------------|---|--------------|-----------------------|------------------------|
| | | Exercisable | Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options | Option Price | | |
| | | | | | | | |
| S. Ray Hatch | 01/07/2016 | 200,000(2) | 50,000 | — | \$ | 5.44 | 01/07/2026 |
| | 01/16/2018 | 66,667(3) | 33,333 | — | \$ | 2.39 | 01/16/2028 |
| | 02/12/2019 | 50,000(3) | 100,000 | — | \$ | 1.51 | 02/12/2029 |
| | 03/16/2020 | — | 160,000(3) | — | \$ | 1.51 | 03/16/2030 |
| David P. Sweitzer | 10/03/2016 | 50,000(2) | 12,500 | — | \$ | 2.08 | 10/03/2026 |
| | 10/02/2017 | 6,300(4) | 4,200 | — | \$ | 1.17 | 10/02/2027 |
| | 01/16/2018 | 66,667(3) | 33,333 | — | \$ | 2.39 | 01/16/2028 |
| | 10/15/2018 | 4,200(5) | 6,300 | — | \$ | 2.62 | 10/15/2028 |
| | 02/12/2019 | 33,333(3) | 66,667 | — | \$ | 1.51 | 02/12/2029 |
| | 10/03/2019 | 2,100(6) | 8,400 | — | \$ | 2.45 | 10/03/2029 |
| | 03/16/2020 | — | 105,000(3) | — | \$ | 1.51 | 03/16/2030 |
| Laurie L. Latham | 01/02/2013 | 12,500 | — | — | \$ | 21.20 | 01/02/2023 |
| | 10/18/2013 | 9,375 | — | — | \$ | 16.40 | 10/18/2023 |
| | 12/17/2014 | 3,125 | — | — | \$ | 11.60 | 12/17/2024 |
| | 12/16/2015 | 6,250 | — | — | \$ | 6.40 | 12/16/2025 |
| | 12/16/2015 | 6,250 | — | — | \$ | 6.40 | 12/16/2025 |
| | 01/12/2017 | 25,000 | — | — | \$ | 2.50 | 01/12/2027 |
| | 01/12/2017 | 25,000 | — | — | \$ | 2.50 | 01/12/2027 |
| | 01/16/2018 | 50,000(3) | 25,000 | — | \$ | 2.39 | 01/16/2028 |
| | 02/12/2019 | 33,333(3) | 66,667 | — | \$ | 1.51 | 02/12/2029 |
| | 03/16/2020 | — | 105,000(3) | — | \$ | 1.51 | 03/16/2030 |

- (1) Unless otherwise noted, all of the options granted to our named executive officers were granted under and are subject to the terms of our 2012 Incentive Compensation Plan, as further, described below under “2012 Incentive Compensation Plan.”
- (2) One-fifth of the total number of shares underlying this option vest on the anniversary of the date of grant until 2021. This option was not granted under the 2012 Incentive Compensation Plan.
- (3) One-third of the total number of shares underlying this option vest on each of the first, second, and third anniversary of the date of grant.
- (4) One-fifth of the total number of shares underlying this option vest on the anniversary of the date of grant until 2022. This option was not granted under the 2012 Incentive Compensation Plan.
- (5) One-fifth of the total number of shares underlying this option vest on the anniversary of the date of grant until 2023. This option was not granted under the 2012 Incentive Compensation Plan.
- (6) One-fifth of the total number of shares underlying this option vest on the anniversary of the date of grant until 2024. This option was not granted under the 2012 Incentive Compensation Plan.

Employment and Other Agreements with Our Named Executive Officers

S. Ray Hatch

We entered into a severance and change in control agreement with Mr. Hatch, our President and Chief Executive Officer, on January 7, 2016. If we terminate Mr. Hatch's employment for any reason other than for good cause (as defined in the agreement) or if Mr. Hatch voluntarily terminates his employment with us for good reason (as defined in the agreement), the agreement provides that (a) we will pay Mr. Hatch his salary for a period of 18 months following the effective date of such termination and (b) we will pay Mr. Hatch, at the same time as cash incentive bonuses are paid to other executives, a portion of the cash incentive bonus deemed by our Compensation Committee in the exercise of its sole discretion, to be earned by Mr. Hatch pro rata for the period commencing on the first day of our fiscal year for which the cash incentive bonus is calculated and ending on the effective date of such termination.

The agreement further provides that, in the event of a change in control of our company (as defined in the agreement), Mr. Hatch has the option to terminate his employment with us, unless (i) the provisions of the agreement remain in full force and effect as to Mr. Hatch and (ii) he suffers no reduction in his status, authority, or base salary following the change in control, provided that Mr. Hatch will be considered to suffer a reduction in his status, authority, or base salary, only if, after the change in control, (A) he is not the President and Chief Executive Officer of the company that succeeds to our business, (B) such company's Common Stock is not listed on a national stock exchange (such as the New York Stock Exchange, the Nasdaq Stock Market, or the NYSE MKT), (C) such company in any material respect reduces Mr. Hatch's status, authority, or base salary, or (D) as a result of the change in control, Mr. Hatch is required to relocate his principal place of business more than 50 miles from The Colony, Texas (or surrounding areas). If Mr. Hatch terminates his employment with us following a change in control or if we terminate his employment without good cause, in each case during the period commencing three months before and one year following the change in control, (A) we will pay Mr. Hatch's base salary for a period of 18 months following the effective date of such termination, (B) we will pay Mr. Hatch an amount equal to the average of his cash bonus paid for each of the two fiscal years immediately preceding his termination, (C) all unvested stock options held by Mr. Hatch in his capacity as an employee on the effective date of termination shall vest as of the effective date of the termination, and (D) all unvested RSUs, granted after the date hereof held by Mr. Hatch in his capacity as an employee on the effective date of termination shall vest as of the effective date of the termination.

The agreement also contains a provision that prohibits Mr. Hatch from competing with our company for a period of 18 months following the termination of his employment with our company for any reason. The agreement further contains a provision that prohibits Mr. Hatch from soliciting or hiring any of our employees for a period of 24 months following the termination of his employment with our company for any reason.

Laurie L. Latham

On November 7, 2014, we entered into a severance and change in control agreement with Ms. Latham, our Senior Vice President and Chief Financial Officer, effective as of the same date. If we terminate Ms. Latham's employment for any reason other than for good cause (as defined in the agreement) or if Ms. Latham voluntarily terminates her employment with us for good reason (as defined in the agreement), the agreement provides that (a) we will pay Ms. Latham her salary for a period of 12 months following the effective date of such termination and (b) we will pay Ms. Latham, at the same time as cash incentive bonuses are paid to other executives, a portion of the cash incentive bonus deemed by our Compensation Committee in the exercise of its sole discretion, to be earned by Ms. Latham pro rata for the period commencing on the first day of our fiscal year for which the cash incentive bonus is calculated and ending on the effective date of such termination.

The agreement further provides that, in the event of a change in control of our company (as defined in the agreement), Ms. Latham has the option to terminate her employment with us, unless (i) the provisions of the agreement remain in full force and effect as to Ms. Latham and (ii) she suffers no reduction in her status, authority, or base salary following the change in control, provided that Ms. Latham will be considered to suffer a reduction in her status, authority, or base salary, only if, after the change in control, (A) she is not the Senior Vice President and Chief Financial Officer of the company that succeeds to our business, (B) such company's Common Stock is not listed on a national stock exchange (such as the New York Stock Exchange, the Nasdaq Stock Market, or the NYSE MKT), (C) such company in any material respect reduces Ms. Latham's status, authority, or base salary, or (D) as a result of the change in control, Ms. Latham is required to relocate her principal place of business more than 50 miles from Frisco, Texas (or surrounding areas). If Ms. Latham terminates her employment with us following a change in control or if we terminate her employment without good cause, in each case during the period commencing three months before and one year following the change in control, (A) we will pay Ms. Latham's base salary for a period of 12 months following the effective date of such termination, (B) we will pay Ms. Latham an amount equal to the average of her cash bonus paid for each of the two fiscal years immediately preceding her termination, (C) all unvested stock options held by Ms. Latham in her capacity as an employee on the effective date of termination shall vest as of the effective date of the termination, and (D) all unvested RSUs granted after the date of the agreement held by Ms. Latham in her capacity as an employee on the effective date of termination shall vest as of the effective date of the termination.

The agreement also contains a provision that prohibits Ms. Latham from competing with our company for a period of 12 months following the termination of her employment with our company for any reason. The agreement further contains a provision that prohibits Ms. Latham from soliciting or hiring any of our employees for a period of 24 months following the termination of her employment with our company for any reason.

David P. Sweitzer

On February 15, 2017, we entered into an executive agreement with David P. Sweitzer, our Executive Vice President and Chief Operating Officer, effective as of the same date. If we terminate Mr. Sweitzer's employment for any reason other than for good cause (as defined in the agreement) or if Mr. Sweitzer voluntarily terminates his employment with us for good reason (as defined in the agreement), the agreement provides that (a) we will pay Mr. Sweitzer his salary for a period of 12 months following the effective date of such termination and (b) we will pay Mr. Sweitzer, at the same time as cash incentive bonuses are paid to other executives, a portion of the cash incentive bonus deemed by our Compensation Committee in the exercise of its sole discretion, to be earned by Mr. Sweitzer pro rata for the period commencing on the first day of our fiscal year for which the cash incentive bonus is calculated and ending on the effective date of such termination.

The agreement further provides that, in the event of a change in control of our company (as defined in the agreement), Mr. Sweitzer has the option to terminate his employment with us, unless (i) the provisions of the agreement remain in full force and effect as to Mr. Sweitzer and (ii) he suffers no reduction in his status, authority, or base salary following the change in control, provided that Mr. Sweitzer will be considered to suffer a reduction in his status, authority, or base salary, only if, after the change in control, (A) he is not the Executive Vice President and Chief Operating Officer of the company that succeeds to our business, (B) such company's Common Stock is not listed on a national stock exchange (such as the New York Stock Exchange, the Nasdaq Stock Market, or the NYSE MKT), (C) such company in any material respect reduces Mr. Sweitzer's status, authority, or base salary, or (D) as a result of the change in control, Mr. Sweitzer is required to relocate his principal place of business more than 50 miles from The Colony, Texas (or surrounding areas). If Mr. Sweitzer terminates his employment with us following a change in control or if we terminate his employment without good cause, in each case during the period commencing three months before and one year following the change in control, (A) we will pay Mr. Sweitzer's base salary for a period of 12 months following the effective date of such termination, (B) we will pay Mr. Sweitzer an amount equal to the average of his cash bonus paid for each of the two fiscal years immediately preceding his termination, (C) all unvested stock options held by Mr. Sweitzer in his capacity as an employee on the effective date of termination shall vest as of the effective date of the termination, and (D) all unvested RSUs granted after the date hereof held by Mr. Sweitzer in his capacity as an employee on the effective date of termination shall vest as of the effective date of the termination.

The agreement also contains a provision that prohibits Mr. Sweitzer from competing with our company for a period of 12 months following the termination of his employment with our company for any reason. The agreement further contains a provision that prohibits Mr. Sweitzer from soliciting or hiring any of our employees for a period of 24 months following the termination of his employment with our company for any reason.

The employment of all of our other officers is "at will" and may be terminated by us or the officer at any time, for any reason or no reason.

2012 Incentive Compensation Plan

Our 2012 Incentive Compensation Plan, or the 2012 Plan, was adopted by our Board of Directors on October 18, 2012, and subsequently amended and restated by our Board of Directors on July 10, 2019, retroactive to October 18, 2012. Our stockholders approved the 2012 Plan on October 18, 2013. The purpose of the 2012 Plan is to assist us and our subsidiaries and other designated affiliates, which we refer to as "Related Entities," in attracting, motivating, retaining, and rewarding high-quality executives and other employees, officers, directors, and individual consultants who provide services to us or our Related Entities, by enabling such persons to acquire or increase a proprietary interest in our company in order to strengthen the mutuality of interests between such persons and our stockholders, and providing such persons with performance incentives to expend their maximum efforts in the creation of stockholder value. The 2012 Plan allows for the grant of stock options, restricted stock, RSUs, 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 2012 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. As of December 31, 2020, there were outstanding issued but unexercised options under the 2012 Plan to acquire 2,833,942 shares of our Common Stock at a weighted average exercise price of \$2.57 per share. As of December 31, 2020, 1,895,148 shares remained available for future grant under the 2012 Plan. As of March 11, 2021, there were outstanding issued but unexercised options under the 2012 Plan to acquire 2,827,692 shares of our Common Stock at a weighted average exercise price of \$2.57 per share. As of March 11, 2021, 1,896,293 shares remained available for future grant under the 2012 Plan. The material features of the 2012 Plan are outlined below.

Director Compensation

During fiscal 2020, we paid each non-employee director a monthly retainer equivalent to an amount of \$34,650 annually. Currently, the non-employee Chairman of the Board receives an additional \$160,000 per year annually; the non-employee Chair of the Audit Committee receives an additional \$7,875 per year; the non-employee Chair of the Compensation Committee receives an additional \$5,250 per year; the non-employee Chair of the Nominations and Corporate Governance Committee receives an additional \$2,625 per year; the non-employee Chair of the Strategic Planning Committee receives an additional \$5,250 per year; the non-Chair members of the Audit Committee each receive an additional \$2,100 per year; the non-chair members of the Compensation Committee each receive an additional \$1,575 per year; the non-Chair members of the Nominations and Corporate Governance Committee each receive an

additional \$1,050 per year; and the non-Chair members of the Strategic Planning Committee each receive an additional \$1,575 per year. We also reimburse each non-employee director for travel and related expenses incurred in connection with attendance at Board of Director and committee meetings. Employees who also serve as directors receive no additional compensation for their services as a director.

In April 2019, in lieu of receiving cash for Chairman and committee retainers and fees for the period of May 2019 through April 2020, Mr. Friedberg received a 10-year option to purchase 94,787 shares of our common stock at an exercise price of \$2.11 per share, with 1/12th to vest and become exercisable starting May 29, 2019 and on the last day of each month thereafter through April 2020. This grant reflects his annual cash-based compensation through April 2020. Effective April 2020, the Chairman of the Board annual fee increased to an additional \$160,000, payable in stock options.

Effective September 1, 2019, non-employee directors can elect to receive all or a portion of their annual retainers in the form of DSUs. The DSUs are recognized at their fair value on the date of grant. Director fees deferred into stock units are calculated and expensed each month by taking fees earned during the month and dividing by the closing price of our common stock on the last trading day of the month, rounded down to the nearest whole share. Each DSU represents the right to receive one share of our common stock following the completion of a director's service.

We also compensate our non-employee directors in the form of stock-based compensation. In May 2020, Mr. Friedberg received a 10 year option to purchase 223,295 shares of our Common Stock at an exercise price of \$1.48 per share, with 1/12th to vest and become exercisable on the last day of each month, commencing on the last day of the month in which the options were granted. In May 2020, each non-employee member (excluding Messrs. Friedberg and Nolan) of our Board of Directors at that time received 10 year options to purchase 37,915 shares of our Common Stock at an exercise price of \$1.48 per share, with 1/12th to vest and become exercisable on the last day of each month, commencing on the last day of the month in which the options were granted. This grant reflects the annual stock-based compensation for those directors through May 2021.

The following table sets forth the compensation earned or paid by us to each non-employee director for the fiscal year ended December 31, 2020. Mr. Hatch did not receive any compensation for his service on our Board of Directors. Mr. Knittel and Ms. Wadecki no longer serve as directors of our company.

| Name | Fees Earned or Paid in Cash | Stock Awards (1) | Option Awards (2) | Total |
|-----------------------|--------------------------------|---------------------|----------------------|------------|
| Daniel M. Friedberg | \$ — | \$ — | \$ 217,909 | \$ 217,909 |
| Michael F. Golden | \$ 31,080 | \$ 10,395 | \$ 34,389 | \$ 75,864 |
| Russell J. Knittel | \$ 1,838 | \$ 17,325 | \$ 34,389 | \$ 53,552 |
| Ronald L. Miller, Jr. | \$ 44,100 | \$ — | \$ 34,389 | \$ 78,489 |
| Stephen A. Nolan | \$ 3,675 | \$ 34,649 | \$ — | \$ 38,324 |
| Sarah R. Tomolonius | \$ 36,750 | \$ — | \$ 34,389 | \$ 71,139 |
| I. Marie Wadecki | \$ 6,772 | \$ 12,127 | \$ 34,389 | \$ 53,288 |

- (1) The amounts in this column reflect the aggregate grant date fair value of stock awards (if any) granted to our non-employee directors during the fiscal year ended December 31, 2020, calculated in accordance with FASB ASC Topic 718, *Stock Compensation* in the form of DSUs or other stock awards. The DSUs valuation on the date of grant is calculated based on the Director fees elected by each Director to be deferred into stock units.
- (2) The amounts in this column reflect the aggregate grant date fair value of option awards (if any) granted to our non-employee directors during the fiscal year ended December 31, 2020, calculated in accordance with FASB ASC Topic 718, *Stock Compensation*. The valuation assumptions used in determining such amounts are described in the footnotes to our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. The amounts reported in this column do not correspond to the actual economic value that may be received by our non-employee directors from their option awards.

The following table lists all outstanding equity awards held by our non-employee directors as of December 31, 2020:

| Name | Option Awards |
|-----------------------|------------------|
| Daniel M. Friedberg | 488,819 |
| Michael F. Golden | 136,150 |
| Ronald L. Miller, Jr. | 139,275 |
| Stephen A. Nolan | 151,659 |
| Sarah R. Tomolonius | 113,650 |

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

The following table sets forth certain information regarding the beneficial ownership of shares as of March 11, 2021 by (1) each director, nominee for director, and named executive officer of our company, (2) all directors and executive officers of our company as a group, and (3) each person known by us to own more than 5% of our Common Stock.

| Named Executive Officers and Directors (1): | Shares Beneficially Owned | |
|--|---------------------------|----------------|
| | Number (2) | Percentage (2) |
| S. Ray Hatch (3) | 538,115 | 2.84 % |
| Laurie L. Latham (4) | 290,602 | 1.55 % |
| David P. Sweitzer (5) | 284,683 | 1.52 % |
| Daniel M. Friedberg (6) | 3,188,479 | 16.94 % |
| Michael F. Golden (7) | 147,217 | * |
| Ronald L. Miller, Jr. (8) | 140,250 | * |
| Stephen A. Nolan (9) | 170,740 | * |
| Sarah R. Tomolonius (10) | 117,400 | * |
| All directors and executive officers as a group (8 persons) (11) | 4,877,486 | 23.91 % |
| 5% Stockholders: | | |
| Federated Global Investment Management (12) | 2,525,000 | 13.71 % |
| Wynnefield Partners Small Cap Value, L.P., et al (13) | 1,901,595 | 10.33 % |
| Jeffrey D. Forte (14) | 1,152,518 | 6.24 % |
| Pinnacle Family Office Investments, L.P. (15) | 2,000,000 | 10.86 % |

* Less than 1% of the outstanding shares of Common Stock.

- (1) Except as otherwise indicated, each person named in the table has the sole voting and investment power with respect to all Common Stock beneficially owned, subject to applicable community property law. Except as otherwise indicated, each person may be reached as follows: c/o Quest Resource Holding Corporation, 3481 Plano Parkway, The Colony, Texas 75056.
- (2) The number of shares beneficially owned by each person or entity is determined under the rules promulgated by the SEC. Under such rules, beneficial ownership includes any shares as to which the person or entity has sole or shared voting power or investment power. The number of shares shown includes, when applicable, shares owned of record by the identified person's minor children and spouse and by other related individuals and entities over whose shares such person has custody, voting control, or power of disposition. The percentages shown are calculated based on 18,413,419 shares outstanding on March 11, 2021. The numbers and percentages shown include shares actually owned on March 11, 2021 and shares that the identified person or group had the right to acquire within 60 days of such date. In calculating the percentage of ownership, all shares that the identified person or group had the right to acquire within 60 days of March 11, 2021 upon the exercise of options are deemed to be outstanding for the purpose of computing the percentage of shares owned by that person or group, but are not deemed to be outstanding for the purpose of computing the percentage of shares of stock owned by any other person or group.
- (3) Includes 503,333 shares issuable upon exercise of vested stock options and 15,874 deferred stock units.
- (4) Includes 264,167 shares issuable upon exercise of vested stock options and 11,905 deferred stock units.
- (5) Includes 264,267 shares issuable upon exercise of vested stock options and 11,905 deferred stock units.
- (6) Consists of (a) 2,775,489 shares held by Hampstead Park Environmental Services Investment Fund LLC, and (b) 412,990 shares issuable upon exercise of vested stock options.
- (7) Includes 136,150 shares issuable upon exercise of vested stock options and 7,742 deferred stock units.
- (8) Includes 139,275 shares issuable upon exercise of vested stock options.
- (9) Includes 75,830 shares issuable upon exercise of vested stock options and 27,910 deferred stock units.
- (10) Includes 113,650 shares issuable upon exercise of vested stock options.
- (11) Consists of (a) 2,892,488 shares held by the directors and executive officers as a group, (b) 1,909,662 shares issuable upon exercise of vested stock options, and (c) 75,336 deferred stock units.
- (12) Based on the statement on Amendment No. 2 to Schedule 13G filed with the SEC on February 12, 2021, by Federated Hermes, Inc. The address for Federated Hermes, Inc. is 1001 Liberty Avenue, Pittsburgh, PA 15222.
- (13) Based on the statement on Amendment No. 3 to Schedule 13G filed with the SEC on February 16, 2021, by Wynnefield Partners Small Cap Value, L.P. and affiliates. The address for Wynnefield Partners Small Cap Value, L.P. and affiliates is 450 Seventh Avenue, Suite 509, New York, NY 10123.
- (14) Consists of (a) 1,097,518 shares held and (b) 55,000 shares issuable upon exercise of vested stock options.
- (15) Based on the statement on Amendment No. 3 on Schedule 13G filed with the SEC on February 3, 2021, by Pinnacle Family Office Investments, L.P. The address for Pinnacle Family Office Investments, L.P. is 5910 North Central Expressway, Suite 1475, Dallas, TX 75206.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2020 with respect to our Common Stock that may be issued under our incentive compensation plans and under other option grants.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants, and rights | Weighted-average exercise price of outstanding options, warrants, and rights | Number of securities remaining available for future issuance under equity compensation plans |
|--|--|--|--|
| Equity compensation plans approved by security holders (1) | 2,907,173 | \$ 2.57 | 1,947,141 |
| Equity compensation plans not approved by security holders | 344,000 | \$ 4.52 | — |
| Total | 3,251,173 | \$ 2.78 | 1,947,141 |

- (1) Under our 2012 Plan, an aggregate of 4,837,500 shares of our Common Stock was authorized for issuance pursuant to awards granted under such plan. The number of available shares will be decreased by the number of shares with respect to which awards previously granted under such plan are terminated without being exercised prior to expiration or are surrendered in payment of any awards or any tax withholding with respect thereto. As of December 31, 2020, the number of securities to be issued upon exercise of outstanding options was 2,833,942 and the number of Common Stock shares to be issued under DSUs was 73,231. As of December 31, 2020, the aggregate number of shares of Common Stock available for future issuance pursuant to awards under our 2012 Plan was 1,895,148 and 51,993 shares of Common Stock reserved for issuance under our 2014 ESPP. Our 2014 ESPP authorizes the sale of up to 250,000 shares of our Common Stock to employees.

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

Unless delegated to the Compensation Committee by our Board of Directors, the Audit Committee charter requires the Audit Committee to review and approve all related party transactions and to review and make recommendations to the full Board of Directors, or approve, any contracts or other transactions with current or former executive officers of our company, including consulting arrangements, employment agreements, change-in-control agreements, termination arrangements, and loans to employees made or guaranteed by our company. We have a policy that we will not enter into any such transaction unless the transaction is determined by our disinterested directors to be fair to us or is approved by our disinterested directors or by our stockholders. Any determination by our disinterested directors is based on a review of the particular transaction, applicable laws and regulations, and policies of our company (including those set forth above under “Corporate Governance” or published on our website). As appropriate, the disinterested directors of the applicable committees of the Board of Directors shall consult with our legal counsel.

Our company has entered into indemnification agreements with each of our directors and executive officers. These agreements require us to indemnify such individuals, to the fullest extent permitted by Nevada law, for certain liabilities to which they may become subject as a result of their affiliation with our company.

On August 5, 2020, Hampstead Park Environmental which is controlled by Daniel Friedberg our Chairman of the Board entered into a securities purchase agreement, the “Securities Purchase Agreement,” with the Company pursuant to which the Company issued and sold to Hampstead Park Environmental, 655,000 shares Common Stock at a purchase price of \$1.15 per Share in a registered direct offering, the “Offering.” The shares were offered by the Company pursuant to its shelf registration statement on Form S-3 (File No. 333-227800) originally filed with the SEC on October 11, 2018 and declared effective on April 8, 2019. The Offering closed on August 7, 2020.

Director Independence

Our Board of Directors has determined, after considering all of the relevant facts and circumstances, that Messrs. Friedberg, Golden, Miller and Nolan and Ms. Tomolonius are independent directors, as “independence” is defined by the listing standards of the Nasdaq Stock Market, or Nasdaq, and by the SEC, because they have no relationship with us that would interfere with their exercise of independent judgment in carrying out their responsibilities as a director. Mr. Hatch is an employee director.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees and Audit-Related Fees

The aggregate fees billed to our company by Semple, Marchal and Cooper, LLP for the fiscal years ended December 31, 2020 and 2019 are as follows:

| | <u>2020</u> | <u>2019</u> |
|------------------------|-------------------|-------------------|
| Audit Fees (1) | \$ 185,384 | \$ 184,496 |
| Audit-Related Fees (2) | 19,205 | 32,926 |
| Tax Fees (3) | 140 | 67,621 |
| All Other Fees (4) | 109,583 | 11,457 |
| Total | <u>\$ 314,312</u> | <u>\$ 296,500</u> |

- (1) Audit fees consist of billings for professional services normally provided in connection with statutory and regulatory filings including (i) fees associated with the audits of our consolidated financial statements and (ii) fees associated with our quarterly reviews.
- (2) Audit-related fees consist of billings for professional services for the review of SEC filings or other reports containing the audited financial statements including registration statements.
- (3) Tax fees consist primarily of tax related advisory services.
- (4) All other fees include general advisory professional services primarily related to research on accounting or other regulatory matters, and acquisition audits.

Audit Committee Pre-Approval Policies

The charter of our Audit Committee provides that the duties and responsibilities of our Audit Committee include the pre-approval of all audit, audit-related, tax, and other services permitted by law or applicable SEC regulations (including fee and cost ranges) to be performed by our independent registered public accountant. Any pre-approved services that will involve fees or costs exceeding pre-approved levels will also require specific pre-approval by the Audit Committee. Unless otherwise specified by the Audit Committee in pre-approving a service, the pre-approval will be effective for the 12-month period following pre-approval. The Audit Committee will not approve any non-audit services prohibited by applicable SEC regulations or any services in connection with a transaction initially recommended by the independent registered public accountant, the purpose of which may be tax avoidance and the tax treatment of which may not be supported by the Code and related regulations.

To the extent deemed appropriate, the Audit Committee may delegate pre-approval authority to the Chairman of the Audit Committee or any one or more other members of the Audit Committee provided that any member of the Audit Committee who has exercised any such delegation must report any such pre-approval decision to the Audit Committee at its next scheduled meeting. The Audit Committee will not delegate the pre-approval of services to be performed by the independent registered public accountant to management.

Our Audit Committee requires that the independent registered public accountant, in conjunction with our Chief Financial Officer, be responsible for seeking pre-approval for providing services to us and that any request for pre-approval must inform the Audit Committee about each service to be provided and must provide detail as to the particular service to be provided.

All of the services provided by Semple, Marchal and Cooper, LLP described above under the caption "Audit-Related Fees" were approved by our Board of Directors or by our Audit Committee pursuant to our Audit Committee's pre-approval policies.

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 | Underwriting Agreement, dated April 9, 2019, by and between Quest Resource Holding Corporation, Roth Capital Partners, LLC, and the Selling Stockholders named therein (1) |
| 2.1 | Asset Purchase Agreement, dated as of October 19, 2020, by and among Quest Resource Holding Corporation, Quest Resource Management Group, LLC, Green Remedies Waste and Recycling, Inc. and Alan Allred (2) |
| 3.1(b) | Third Amended and Restated Articles of Incorporation of Quest Resource Holding Corporation (3) |
| 3.2(a) | Second Amended and Restated Bylaws of Quest Resource Holding Corporation, as amended (4) |
| 3.2(b) | Amendment to Second Amended and Restated Bylaws of Quest Resource Holdings Corporation, as amended (5) |
| 4.1 | Registration Rights Agreement, dated as of April 18, 2014, by and between Quest Resource Holding Corporation and the Purchasers named therein (6) |
| 4.2 | Form of Warrant (7) |
| 4.3 | Description of Registered Securities (8) |
| 4.4 | Promissory Note, dated as of October 19, 2020, by Quest Resource Holding Corporation in favor of Green Remedies Waste and Recycling, Inc. (9) |
| 4.5 | Form of Warrant to Purchase an Aggregate of 500,000 Shares (10) |
| 4.6 | Form of Warrant to Purchase an Aggregate of 350,000 Shares (11) |
| 10.5(e)† | 2012 Incentive Compensation Plan, as amended and restated (12) |
| 10.5(f)† | Form of Non-Qualified Stock Option Agreement (13) |
| 10.5(g)† | Form of Incentive Stock Option Agreement (14) |
| 10.6† | Form of Indemnity Agreement by and between Infinity Resources Holdings Corp. and each of its directors and executive officers (15) |
| 10.20† | Severance and Change in Control Agreement, dated as of November 7, 2014, by and between Quest Resource Holding Corporation and Laurie L. Latham (16) |
| 10.21† | 2014 Employee Stock Purchase Plan (17) |
| 10.23† | Severance and Change in Control Agreement, dated as of January 7, 2016, by and between Quest Resource Holding Corporation and S. Ray Hatch (18) |
| 10.24† | Executive Agreement, dated as of February 15, 2017, by and between Quest Resource Holding Corporation and David P. Sweitzer (19) |
| 10.25 | 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. (20) |

| | |
|---------|--|
| 10.26 | Voting Agreement, dated April 11, 2019, by and among Mitchell A. Saltz, Jeffrey D. Forte, Brian Dick, Hampstead Park Capital Management, LLC, and Quest Resource Holding Corporation (21) |
| 10.27† | Amendment to 2012 Incentive Compensation Plan (22) |
| 10.28† | Form of Quest Resource Holding Corporation Deferred Stock Unit Agreement (23) |
| 10.29 | Note, dated April 30, 2020, issued by Quest Resource Management Group LLC to BMO Harris Bank National Association (24) |
| 10.30 | Form of Securities Purchase Agreement (25) |
| 10.31 | Placement Agency Agreement, dated August 5, 2020, between the Company and Roth Capital Partners, LLC (26) |
| 10.32 | Form of Lock-Up Agreement (27) |
| 10.33 | Loan, Security and Guaranty Agreement, dated August 5, 2020, by and among BBVA USA, Quest Resource Management Group, LLC, Landfill Diversion Innovations, L.L.C., Quest Resource Holding Corporation and Quest Sustainability Services, Inc. (28) |
| 10.34 | Credit Agreement, dated as of October 19, 2020, by and among Quest Resource Holding Corporation, Quest Resource Management Group, LLC and each of its Affiliates that are or many from time to time become parties thereto, the financial institutions that are or may from time to time become parties thereto, and Monroe Capital Management Advisors, LLC, as administrative agent for the lenders (29) |
| 10.35 | Joinder and First Amendment to Loan, Security and Guaranty Agreement, dated as of October 19, 2020, by and among BBVA USA, Quest Resource Management Group, LLC, Landfill Diversion Innovations, L.L.C., Quest Resource Holding Corporation, Quest Sustainability Services, Inc., Youchange, Inc., Quest Vertigent Corporation, Quest Vertigent One, LLC, and Global Alerts, LLC (30) |
| 10.36 | Consideration Agreement, dated as of October 19, 2020, by and between Quest Resource Holding Corporation, Green Remedies Waste and Recycling, Inc. and Alan Allred (31) |
| 10.37† | Employment Agreement, dated as of October 19, 2020, by and between Quest Resource Management Group, LLC and Alan Allred (32) |
| 10.38 | Intercreditor Agreement, dated as of October 19, 2020, by and between BBVA, USA and Monroe Capital Management Advisors, LLC (33) |
| 10.39 | Letter Agreement, dated as of October 19, 2020, between Quest Resource Holding Corporation and the holders of the Warrants (34) |
| 21.1 | List of Subsidiaries |
| 24.1 | Power of Attorney (included on the signature page of this Annual Report on Form 10-K) |
| 31.1 | 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 |
| 31.2 | 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 |
| 32.1 | 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 |
| 32.2 | 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 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Filed as Exhibit 1.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 9, 2019.
- (2) Filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2020.
- (3) 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.
- (4) Filed as Exhibit 3.2(a) to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 12, 2019.
- (5) Filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2020.
- (6) 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.
- (7) 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.
- (8) Filed as Exhibit 4.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2019.
- (9) Filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2020.
- (10) Filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2020.
- (11) Filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2020.
- (12) Filed as Exhibit 10 to the Registrant's Statement on Form S-8 filed with the Securities and Exchange Commission on July 13, 2018.
- (13) Filed as Exhibit 10.5(f) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.
- (14) Filed as Exhibit 10.5(g) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.
- (15) 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.
- (16) 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.
- (17) 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.
- (18) 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.
- (19) 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.
- (20) 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.
- (21) Filed as Exhibit 10.26 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 12, 2019.
- (22) Filed as Exhibit 10.27 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2019.
- (23) Filed as Exhibit 99 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 6, 2019.
- (24) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2020.

- (25) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 5, 2020.
- (26) Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 5, 2020.
- (27) Filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 5, 2020.
- (28) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 6, 2020.
- (29) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2020.
- (30) Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2020.
- (31) Filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2020.
- (32) Filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2020.
- (33) Filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2020.
- (34) Filed as Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2020.

† Indicates management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None

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 11, 2021

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

QUEST RESOURCE HOLDING CORPORATION

Dated: March 11, 2021

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.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|--|----------------|
| <u>/s/ S. Ray Hatch</u> S. Ray Hatch | President and Chief Executive Officer (Principal Executive Officer) and Director | March 11, 2021 |
| <u>/s/ Laurie L. Latham</u> Laurie L. Latham | Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | March 11, 2021 |
| <u>/s/ Daniel M. Friedberg</u> Daniel M. Friedberg | Chairman of the Board of Directors | March 11, 2021 |
| <u>/s/ Michael F. Golden</u> Michael F. Golden | Director | March 11, 2021 |
| <u>/s/ Ronald L. Miller, Jr.</u> Ronald L. Miller, Jr. | Director | March 11, 2021 |
| <u>/s/ Stephen A. Nolan</u> Stephen A. Nolan | Director | March 11, 2021 |
| <u>/s/ Sarah R. Tomolonius</u> Sarah R. Tomolonius | Director | March 11, 2021 |

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matters do not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Assessment of the Company’s Annual Impairment Testing Related to the Carrying Value of Goodwill

Description of the Matter The Company’s goodwill balance at December 31, 2020, excluding the Green Remedies goodwill discussed below, was \$58.2 million, which is discussed in Notes 2 and 5 to the consolidated financial statements. On the annual goodwill impairment assessment date, the Company tested the carrying value of goodwill for impairment based upon an income approach; specifically, a discounted cash flow model, to estimate the fair value of the reporting unit.

We identified the assessment of the Company’s annual impairment testing related to the carrying value of goodwill as a critical audit matter because subjective auditor judgment was required in performing procedures over certain assumptions used to estimate the fair value of the reporting unit. Those assumptions included, among others, projected revenues, gross profit, and EBITDA, the long-term growth rate, and the discount rate. The evaluation of these assumptions was challenging due to the subjective nature of the assumptions. Additionally, differences in judgment used to determine these assumptions could have a significant effect on the reporting unit’s estimated fair value. These assumptions are forward-looking and could be affected by future economic and market conditions.

How We Addressed the Matter in Our Audit The primary procedures we performed to address this critical audit matter included the following. We performed sensitivity analyses over the significant assumptions to assess the impact on the Company's estimate of the fair value of the reporting unit. We compared the Company's projections to the Company's historic trends and industry outlook. We assessed the Company's ability to accurately project revenues, gross profit, and EBITDA by comparing the Company's historical projections to actual results. We reviewed the work of management's specialist who is a valuation professional with specialized skill and knowledge, and whose work included determining the discounted cash flow model as the most appropriate valuation method and determining the Company's long-term growth rate and the weighted average cost of capital used for the discount rate.

Acquisition of Green Remedies Waste & Recycling, Inc. – Valuation of Intangible Assets

Description of the Matter As described in Note 3 to the consolidated financial statements, during the year ended December 31, 2020, the Company acquired substantially all of the assets of Green Remedies Waste and Recycling, LLC ("Green Remedies") for net consideration of \$16.1 million. The Company's purchase price allocation for the acquisition resulted in a customer lists intangible asset valued at \$5.5 million and goodwill of \$8.1 million. The valuation of the customer lists intangible asset was based upon an income approach; specifically, the multi-period excess earnings model.

We identified the Company's accounting for its acquisition of the Green Remedies customer lists as a critical audit matter because subjective auditor judgment was required in performing procedures over certain assumptions used to estimate the fair value of the customer lists. Those assumptions included, among others, the attrition rate, projected EBITDA margin, and the discount rate. The evaluation of these assumptions was challenging due to the subjective nature of the assumptions. Additionally, differences in judgment used to determine these assumptions could have a significant effect on the estimated fair value of the customer lists and purchase price allocation for the acquisition. These assumptions are forward-looking and could be affected by future economic and market conditions.

How We Addressed the Matter in Our Audit The primary procedures we performed to address this critical audit matter included the following. We performed sensitivity analyses over the significant assumptions to assess the impact on the Company's estimate of the fair value of the customer lists. We compared the Company's assumptions to Green Remedies' historic trends and industry outlook. We reviewed the work of management's specialist who is a valuation professional with specialized skill and knowledge, and whose work included determining the multi-period excess earnings model as the most appropriate valuation method and determining the weighted average cost of capital used for the discount rate.

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

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

Phoenix, Arizona
March 11, 2021

QUEST RESOURCE HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | December 31, | |
|--|-----------------------|----------------------|
| | 2020 | 2019 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,516,260 | \$ 3,411,108 |
| Accounts receivable, less allowance for doubtful accounts of \$935,261 and \$767,464 as of December 31, 2020 and 2019, respectively | 17,420,889 | 13,899,451 |
| Prepaid expenses and other current assets | 1,069,238 | 1,110,266 |
| Total current assets | 26,006,387 | 18,420,825 |
| Goodwill | 66,310,385 | 58,208,490 |
| Intangible assets, net | 6,528,330 | 1,590,524 |
| Property and equipment, net, and other assets | 3,384,055 | 2,436,094 |
| Total assets | <u>\$ 102,229,157</u> | <u>\$ 80,655,933</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 15,246,839 | \$ 13,316,805 |
| Other current liabilities | 1,392,579 | 19,644 |
| Current portion of notes payable | 624,383 | — |
| Total current liabilities | 17,263,801 | 13,336,449 |
| Notes payable, net | 14,948,625 | 4,534,683 |
| Other long-term liabilities, net | 1,973,759 | 1,140,749 |
| Total liabilities | 34,186,185 | 19,011,881 |
| 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, 2020 and 2019 | — | — |
| Common stock, \$0.001 par value, 200,000,000 shares authorized, 18,413,419 and 15,372,905 shares issued and outstanding as of December 31, 2020 and 2019, respectively | 18,413 | 15,373 |
| Additional paid-in capital | 166,424,597 | 160,858,072 |
| Accumulated deficit | (98,400,038) | (99,229,393) |
| Total stockholders' equity | 68,042,972 | 61,644,052 |
| Total liabilities and stockholders' equity | <u>\$ 102,229,157</u> | <u>\$ 80,655,933</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, | |
|--|--------------------------|--------------------|
| | 2020 | 2019 |
| Revenue | \$ 98,660,035 | \$ 98,979,140 |
| Cost of revenue | 79,604,958 | 80,253,172 |
| Gross profit | <u>19,055,077</u> | <u>18,725,968</u> |
| Operating expenses: | | |
| Selling, general, and administrative | 17,140,996 | 16,815,767 |
| Depreciation and amortization | 1,163,812 | 1,314,731 |
| Total operating expenses | <u>18,304,808</u> | <u>18,130,498</u> |
| Operating income | 750,269 | 595,470 |
| Other income | 1,408,000 | — |
| Interest expense | (701,932) | (431,628) |
| Loss on extinguishment of debt | <u>(167,964)</u> | <u>—</u> |
| Income before taxes | 1,288,373 | 163,842 |
| Income tax expense | <u>254,004</u> | <u>219,082</u> |
| Net income (loss) | 1,034,369 | (55,240) |
| Deemed dividend for warrant down round feature | (205,014) | — |
| Net income (loss) applicable to common stockholders | <u>\$ 829,355</u> | <u>\$ (55,240)</u> |
| Net income (loss) per share applicable to common stockholders | | |
| Basic | <u>\$ 0.05</u> | <u>\$ (0.00)</u> |
| Diluted | <u>\$ 0.05</u> | <u>\$ (0.00)</u> |
| Weighted average number of common shares outstanding | | |
| Basic | 16,661,472 | 15,347,039 |
| Diluted | 16,755,560 | 15,347,039 |

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, 2020 AND 2019

| | <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, 2018 | 15,328,870 | \$ 15,329 | \$ 159,701,542 | \$ (99,174,153) | \$ 60,542,718 |
| Stock-based compensation | — | — | 1,085,906 | — | 1,085,906 |
| Shares issued for Employee Stock Purchase Plan options | 44,035 | 44 | 70,624 | — | 70,668 |
| Net loss | — | — | — | (55,240) | (55,240) |
| Balance, December 31, 2019 | 15,372,905 | 15,373 | 160,858,072 | (99,229,393) | 61,644,052 |
| Stock-based compensation | — | — | 1,488,177 | — | 1,488,177 |
| Release of deferred stock units | 28,116 | 28 | (28) | — | — |
| Shares issued for Employee Stock Purchase Plan options | 62,398 | 62 | 63,087 | — | 63,149 |
| Sale of common stock, net of issuance costs | 2,950,000 | 2,950 | 3,044,597 | — | 3,047,547 |
| Warrant issued with note payable | — | — | 765,678 | — | 765,678 |
| Deemed dividend | — | — | 205,014 | (205,014) | — |
| Net income | — | — | — | 1,034,369 | 1,034,369 |
| Balance, December 31, 2020 | 18,413,419 | \$ 18,413 | \$ 166,424,597 | \$ (98,400,038) | \$ 68,042,972 |

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, | |
|--|--------------------------|---------------------|
| | 2020 | 2019 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 1,034,369 | \$ (55,240) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 261,809 | 225,061 |
| Amortization of intangibles | 1,014,622 | 1,176,722 |
| Amortization of debt issuance costs and discounts | 201,424 | 93,901 |
| Provision for doubtful accounts | 120,936 | 60,000 |
| Stock-based compensation | 1,488,177 | 1,085,906 |
| Loss on extinguishment of debt | 167,964 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (2,311,184) | 2,752,358 |
| Prepaid expenses and other current assets | 82,332 | (144,511) |
| Security deposits and other assets | (66,312) | 46,922 |
| Accounts payable and accrued liabilities | 1,280,418 | (2,919,577) |
| Deferred revenue and other liabilities | (176,898) | (45,663) |
| Net cash provided by operating activities | <u>3,097,657</u> | <u>2,275,879</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (443,644) | (145,008) |
| Purchase of capitalized software development | (62,428) | (156,325) |
| Net cash used in investing activities | <u>(506,072)</u> | <u>(301,333)</u> |
| Cash flows from financing activities: | | |
| Proceeds from credit facilities | 71,126,110 | 99,403,848 |
| Repayments of credit facilities | (71,666,261) | (100,157,654) |
| Debt issuance costs | (1,056,978) | — |
| Proceeds from shares issued for Employee Stock Purchase Plan | 63,149 | 70,668 |
| Proceeds from the sale of common stock, net of issuance costs | 3,047,547 | — |
| Repayments of capital lease obligations | — | (2,597) |
| Net cash provided by (used in) financing activities | <u>1,513,567</u> | <u>(685,735)</u> |
| Net increase in cash and cash equivalents | <u>4,105,152</u> | <u>1,288,811</u> |
| Cash and cash equivalents at beginning of period | <u>3,411,108</u> | <u>2,122,297</u> |
| Cash and cash equivalents at end of period | <u>\$ 7,516,260</u> | <u>\$ 3,411,108</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 and Description of Business

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 waste and recycling services to customers from across multiple industry sectors that are typically larger, multi-location businesses. We create customer-specific programs and perform the related services 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 and other minor ancillary services. We also provide information and data that tracks and reports the detailed transactional and environmental results of our services and provides actionable data to improve business operations. The data we generate also enables our customers to address their environmental and sustainability goals and responsibilities. Our principal office is located in The Colony, Texas within the Dallas metroplex.

In March 2020, the World Health Organization categorized Coronavirus Disease 2019 (“COVID-19”) as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The waste management and recycling services we provide are currently designated an essential critical infrastructure business under the President’s COVID-19 guidance, the continued operation of which is vital for national public health, safety and national economic security. The extent of the impact of the COVID-19 outbreak on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, its impact on our customers and subcontractors, and the range of governmental and community reactions to the pandemic, which are uncertain and cannot be fully predicted at this time.

On October 19, 2020, Quest acquired substantially all of the assets used in the business of Green Remedies Waste and Recycling, Inc. (“Green Remedies”), a leading provider of independent environmental services, particularly in multi-family housing, located in Burlington, NC. See Note 3 for more information regarding the acquisition.

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, 2020 and 2019.

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, deferred taxes, and the fair value of assets and liabilities acquired in asset acquisitions, 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, 2020 and 2019, we had established an allowance of \$935,261 and \$767,464, respectively, for potentially uncollectible accounts receivable. We record delinquent finance charges on outstanding accounts receivable only if they are collected.

In the year ended December 31, 2020 we recorded a \$47,940 increase in our allowance for doubtful accounts related to certain receivables acquired in the Green Remedies acquisition as further described in Note 3.

The changes in our allowance for doubtful accounts for the years ended December 31, 2020 and 2019 were as follows:

| | <u>Years ended December 31,</u> | |
|---|---------------------------------|-------------------|
| | <u>2020</u> | <u>2019</u> |
| Beginning balance | \$ 767,464 | \$ 929,339 |
| Bad debt expense | 120,936 | 60,000 |
| Uncollectible accounts written off, net | (1,079) | (221,875) |
| Addition related to acquisition | 47,940 | — |
| Ending balance | <u>\$ 935,261</u> | <u>\$ 767,464</u> |

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 |

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

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 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 2020 and 2019.

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 2020, 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 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 Income (Loss) per Share

We compute basic net income (loss) per share using the weighted average number of shares of common stock outstanding plus the number of common stock equivalents for Deferred Stock Units, or “DSUs”, during the period. We compute diluted net income (loss) per share using the weighted average number of shares of common stock outstanding during the period, adjusted for the dilutive effect of common stock equivalents. Dilutive potential common shares consist of the incremental common shares issuable upon the exercise of outstanding stock options. Dilutive potential securities are excluded from the computation of earnings per share if their effect is antidilutive. The dilutive effect of outstanding stock options and warrants is reflected in diluted earnings per share by application of the treasury stock method.

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 \$6,875,321 at December 31, 2020; 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, 2020 and 2019:

| Year | Number of Customers | Customers Exceeding 10% of Revenue | |
|------|---------------------|------------------------------------|--------------------------------------|
| | | Revenue Combined Percent | Accounts Receivable Combined Percent |
| 2020 | 3 | 51% | 27% |
| 2019 | 3 | 53% | 36% |

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

Leases

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets and current and long-term operating lease liabilities on our consolidated balance sheets. We currently do not have any material finance lease arrangements.

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

Operating lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate in effect at the commencement date of the lease in determining the present value of future payments.

When we have the option to extend the lease term, terminate the lease before the contractual expiration date, or purchase the leased asset, and if it is reasonably certain that we will exercise the option, we consider these options in determining the classification and measurement of the lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

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, 2020 and 2019, advertising expense totaled \$51,247 and \$20,364, respectively.

Stock-Based Compensation

We measure all share-based payments, including grants of options to purchase common stock and the issuance of deferred stock units to employees, third parties and board members, using a fair value-based method, in accordance with ASC Topic 718, *Stock Compensation*. We classify all share-based awards as equity instruments and recognize the vesting of the awards ratably over their respective terms. See Note 13 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;
- 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.

Deferred Stock Units

Effective September 1, 2019, nonemployee directors can elect to receive all or a portion of their annual retainers in the form of DSUs. The DSUs are recognized at their fair value on the date of grant. Director fees deferred into stock units are calculated and expensed each month by taking fees earned during the month and dividing by the closing price of our common stock on the last trading day of the month, rounded down to the nearest whole share. Each DSU represents the right to receive one share of our common stock following the completion of a director's service.

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

Business Combinations

Our acquisition of the assets of Green Remedies was accounted for in accordance with ASC Topic 805, Business Combinations. In purchase accounting, identifiable assets acquired and liabilities assumed are recognized at their estimated fair values at the acquisition date, and any remaining purchase price is recorded as goodwill. In determining the fair values of assets acquired and liabilities assumed, we make significant estimates and assumptions, particularly with respect to long-lived tangible and intangible assets. Critical estimates used in valuing tangible and intangible assets include, but are not limited to, future expected cash flows, discount rates, market prices and asset lives. See Note 3 for more information related to our acquisition.

Our consolidated financial statements include the results of operations from the date of the acquisition.

We expense all acquisition-related costs as incurred in selling, general and administrative expenses in the consolidated statements of operations.

Recently Issued Accounting Pronouncements

Adopted

In July 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-11 *Earnings per Share (Topic 260)*. The amendments in Part I of this ASU changed the classification analysis of certain equity-linked financial instruments with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity-classified financial instruments, the amendments require entities that present earnings per share in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. A deemed dividend of \$205,014 was recorded in the year ended December 31, 2020 as a result of the down round provision in certain outstanding warrants. See Notes 13 and 14.

On January 1, 2020, we adopted 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. This guidance also requires entities to present the expense in the same line item in the statement of operations as the fees associated with the hosting arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The adoption of the standard did not have a material effect on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This standard provides operational guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting due to the cessation of the London Interbank Offered Rate (“LIBOR”). The amendments are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued. The expedients and exceptions provided by the amendments generally do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. As further discussed in Note 7, our ABL Facility provides procedures for determining a replacement or alternative rate in the event that LIBOR is unavailable. As such, we do not expect the transition away from LIBOR to have a material impact on our consolidated financial statements.

Pending Adoption

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which provides guidance on measuring credit losses on financial instruments. The amended guidance replaces current incurred loss impairment methodology of recognizing credit losses when a loss is probable with a methodology that reflects expected credit losses and requires a broader range of reasonable and supportable information to assess credit loss estimates. ASU 2016-13 is effective for us on January 1, 2023. 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 December 2019, the FASB issued ASU 2019-12, *Income Taxes – (Topic 740)*, which simplifies the accounting for income taxes by removing certain exceptions and amending guidance to improve consistent application of accounting over income taxes. This guidance is effective January 1, 2021 with early adoption permitted. The adoption of the standard is not expected to have a material effect on our consolidated financial statements.

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

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. Acquisition

On October 19, 2020, we acquired substantially all of the assets of Green Remedies (the “Green Remedies Assets”) pursuant to the Asset Purchase Agreement (the “Asset Purchase Agreement”), dated as of October 19, 2020, among the Company, Green Remedies and Alan Allred (the “Acquisition”). Green Remedies is a leading provider of independent environmental services, particularly in the multi-family housing market, and is located in Burlington, NC. The acquisition strengthens our presence across key markets, particularly in multi-family housing. The total purchase price for the Green Remedies Assets was approximately \$16.1 million at close, which includes an earn out estimate tied to future performance over the next three years. As of December 31, 2020, we paid \$10.9 million in cash and recorded \$5.2 million in accrued liabilities for deferred payments due to the previous owner. We funded the acquisition primarily with a term note to Monroe Capital, as further discussed in Note 7, which is secured by a first priority lien on substantially all of QRHC’s tangible and intangible assets.

The following table sets forth the purchase consideration paid and the amount of assets acquired and liabilities assumed as of the acquisition date:

| | |
|---------------------------------------|----------------------|
| Sources of consideration paid: | |
| Cash (1) | \$ 10,869,599 |
| Payable to seller (2) | 296,284 |
| Seller's Note, net (3) | 2,170,000 |
| Deferred seller consideration (4) | 2,290,000 |
| Deferred consideration - earn out | 440,000 |
| | <u>\$ 16,065,883</u> |
| Purchase price allocation: | |
| Accounts receivable, net | 1,331,190 |
| Machinery and equipment | 1,270,705 |
| Intangible assets | 5,890,000 |
| Goodwill | 8,101,895 |
| Current liabilities | (527,907) |
| | <u>\$ 16,065,883</u> |

(1) Financed with Monroe Loan

(2) Working capital adjustment

(3) Gross principal is \$2,684,250, recorded net of OID calculated using discounted cash flow method

(4) Gross consideration is \$2,684,250, recorded at fair value using discounted cash flow method

The purchase price has been allocated based on an estimate of the fair value of assets acquired and liabilities assumed as of the acquisition date.

The intangible assets acquired were valued using an income approach; specifically, the multi-period excess earnings method for valuing the customer list and the relief from royalty method for valuing the trademark. The key assumptions used to value the customer list at \$5,480,000 included, among others, attrition rates, average customer life, and discount rate. The key assumptions used to value the trademark at \$410,000 included, among others, revenue projection, pretax royalty rate, and discount rate.

Goodwill represents the amount by which the purchase price exceeds the estimated fair value of the net assets acquired and primarily reflects future synergies. The goodwill related to the Green Remedies assets is deductible for income tax purposes.

Deferred consideration payable to the seller includes \$2,290,000 net payable in either cash or shares of our common stock, and an earn-out not to exceed \$2,250,000 over an earn-out period, as defined in the Asset Purchase Agreement. We valued the earn-out liability at \$440,000 using a Monte Carlo simulation. As the earn-out liability is a contingent consideration arrangement, it is subject to periodic revaluation in accordance with ASC 820 *Fair Value Measurement*.

We incurred acquisition and integration costs of approximately \$550,000, which is included in Selling, General and Administrative expense in the year ended December 31, 2020.

The following table presents unaudited pro forma information for the years ended December 31, 2020 and 2019 as if the Acquisition had occurred at the beginning of our 2019 fiscal year. The unaudited pro forma information includes adjustments for amortization expense on definite lived intangible assets acquired, interest expense on debt incurred related to the acquisition, and the related income tax effects.

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

The unaudited pro forma financial information is presented for informational purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the Acquisition had been effected on the dates previously set forth, nor is it indicative of the future operating results or financial position in combination.

| | Year Ended December 31, | |
|---|-------------------------|----------------|
| | 2020 | 2019 |
| | (unaudited) | |
| Revenue | \$ 108,350,773 | \$ 109,796,405 |
| Net income (loss) | \$ 942,746 | \$ (578,226) |
| Income (loss) per share - basic and diluted | \$ 0.06 | \$ (0.04) |

Included in our Consolidated Statement of Operations as of December 31, 2020 related to Green Remedies, is revenue of approximately \$2.6 million and net income of approximately \$550,000 since the acquisition date of October 19, 2020.

4. Property and Equipment, net, and Other Assets

At December 31, 2020 and 2019, Property and equipment, net, and other assets consisted of the following:

| | As of December 31, | |
|---|--------------------|--------------|
| | 2020 | 2019 |
| Vehicles | \$ 493,373 | \$ 493,373 |
| Computer equipment | 306,122 | 247,776 |
| Office furniture and fixtures | 545,897 | 541,464 |
| Machinery and equipment | 2,278,777 | 688,137 |
| Leasehold improvements | 558,035 | 558,035 |
| Property and equipment, gross | 4,182,204 | 2,528,785 |
| Accumulated depreciation | (2,195,198) | (1,994,320) |
| Property and equipment, net | 1,987,006 | 534,465 |
| Right-of-use operating lease assets | 1,103,761 | 1,595,044 |
| Security deposits and other assets | 293,288 | 306,585 |
| Property and equipment, net, and other assets | \$ 3,384,055 | \$ 2,436,094 |

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, 2020 was \$261,809, including \$112,619 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, 2019 was \$225,061, including \$87,053 depreciation expense recorded in “Cost of revenue.”

We recorded right-of-use operating lease assets related to our corporate office lease and the office lease space in Burlington, NC in accordance with ASC 842. Refer to Note 8, *Leases* for additional information.

On February 20, 2018 (the “Closing Date”), we entered into an Asset Purchase Agreement with Earth Media Partners, LLC to sell certain assets of our wholly owned subsidiary, Earth911, Inc., in exchange for a 19% interest in Earth Media Partners, LLC, which was recorded as an investment in the amount of \$246,585 as of the Closing Date, and a potential future earn-out amount of approximately \$350,000. The net assets sold related to the Earth911.com website business and consisted primarily of the website and its content and customers, deferred revenues, and accounts receivable as of the Closing Date. Earth911, Inc. was subsequently renamed Quest Sustainability Services, Inc. The carrying amount of our investment in Earth Media Partners, LLC is included in “Security deposits and other assets” and we have an accrued receivable in the amount of \$259,017 and \$163,781 related to the earn-out included in “Accounts receivable” as of December 31, 2020 and December 31, 2019, respectively.

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

5. Goodwill and Other Intangible Assets

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

| December 31, 2020 | Estimated Useful Life | Gross Carrying Amount | Accumulated Amortization | Net |
|--|-----------------------|-----------------------|--------------------------|---------------------|
| Finite lived intangible assets: | | | | |
| Customer lists | 5 years | \$ 5,480,000 | \$ 218,022 | \$ 5,261,978 |
| Software | 7 years | 2,153,061 | 1,285,058 | 868,003 |
| Trademarks | 7 years | 410,000 | 11,651 | 398,349 |
| Patents | 7 years | 230,683 | 230,683 | — |
| Total finite lived intangible assets | | <u>\$ 8,273,744</u> | <u>\$ 1,745,414</u> | <u>\$ 6,528,330</u> |

| December 31, 2019 | 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 | 6,235,069 | 5,751,037 | 484,032 |
| Patents | 7 years | 230,683 | 230,683 | — |
| Software | 7 years | 2,090,633 | 984,141 | 1,106,492 |
| Customer lists | 5 years | 307,153 | 307,153 | — |
| Total finite lived intangible assets | | <u>\$ 21,583,538</u> | <u>\$ 19,993,014</u> | <u>\$ 1,590,524</u> |

| | Carrying Amount |
|--|----------------------|
| Changes in goodwill: | |
| Goodwill balance at December 31, 2019 | \$ 58,208,490 |
| Additional goodwill related to Green Remedies asset purchase | 8,101,895 |
| Goodwill balance at December 31, 2020 | <u>\$ 66,310,385</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 \$1,014,622 and \$1,176,722 for the years ended December 31, 2020 and 2019, respectively. We expect amortization expense to be approximately \$1.45 million for the year ending December 31, 2021, approximately \$1.4 million for the year ending December 31, 2022, approximately \$1.3 million for the year ending December 31, 2023, approximately \$1.25 million for the year ending December 31, 2024, approximately \$1.0 million for the year ending December 31, 2025, and approximately \$130,000 thereafter. We have no indefinite-lived intangible assets other than goodwill. \$58.2 million of the goodwill is not deductible for tax purposes, while \$8.1 million of goodwill added in the Green Remedies asset acquisition is deductible over its tax-basis life. As required by FASB ASC Topic 350, *Intangibles – Goodwill and Other*, we performed our goodwill impairment analysis in the third quarter of 2020 and 2019 with no impairment recorded in either period.

In October 2020, we recorded \$8.1 million in goodwill and \$5.9 million of intangible assets as part of the Green Remedies asset acquisition. See Note 3 for more information on the acquisition.

6. Current liabilities

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

| | As of December 31, | |
|---|----------------------|----------------------|
| | 2020 | 2019 |
| Accounts payable | \$ 12,511,678 | \$ 10,436,715 |
| Accrued taxes | 837,443 | 716,545 |
| Employee compensation | 1,003,365 | 1,384,360 |
| Operating lease liability - current portion | 668,019 | 627,896 |
| Other | 226,334 | 151,289 |
| | <u>\$ 15,246,839</u> | <u>\$ 13,316,805</u> |

Refer to Note 8 for additional disclosure related to the operating lease liability recorded in accordance with ASC 842.

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

The components of Other current liabilities is as follows:

| | As of December 31, | |
|--|---------------------|------------------|
| | 2020 | 2019 |
| Deferred seller consideration, current | \$ 1,342,125 | \$ — |
| Deferred revenue | 50,454 | 19,644 |
| | <u>\$ 1,392,579</u> | <u>\$ 19,644</u> |

Refer to Note 3 for additional disclosure related to the deferred seller consideration related to the Green Remedies asset acquisition.

7. Notes payable and Other long-term liabilities, net

Our debt obligations are as follows:

| | Interest Rate (1) | Years ended December 31, | |
|---|-------------------|--------------------------|---------------------|
| | | 2020 | 2019 |
| Monroe Term Loan (2) | 9.75% | \$ 11,500,000 | \$ — |
| Green Remedies Promissory Note (3) | 3.0% | 2,684,250 | — |
| BBVA ABL Facility (4) | 3.0% | 4,299,333 | — |
| Citizens Bank ABL Facility | — | — | 4,738,136 |
| Total notes payable | | 18,483,583 | 4,738,136 |
| Less: Current portion of long-term debt | | (624,383) | — |
| Less: Unamortized debt issuance costs | | (1,670,529) | (203,453) |
| Less: Unamortized OID | | (494,343) | — |
| Less: Unamortized OID warrant | | (745,703) | — |
| Notes payable, net | | <u>\$ 14,948,625</u> | <u>\$ 4,534,683</u> |

(1) Interest rates as of December 31, 2020

(2) Bears interest at LIBOR rate plus Applicable Margin ranging from 7.5%-10.5%

(3) Stated interest rate of 3.0%, discounted cash flow rate of 13%

(4) Bears interest at a Base rate, as defined, plus a margin of 0.75% to 1.25%

The future minimum principal payments as of December 31, 2020 are as follows:

| Year Ending December 31, | Amount |
|--------------------------|----------------------|
| 2021 | \$ 624,383 |
| 2022 | 651,897 |
| 2023 | 651,850 |
| 2024 | 651,850 |
| 2025 | 15,903,603 |
| Total | <u>\$ 18,483,583</u> |

We capitalize financing costs we incur related to implementing our debt arrangements. We record these debt issuance costs associated with our revolving credit facility and our term loan as a reduction of long-term debt, net and amortize them over the contractual life of the related debt arrangements. The table below summarizes changes in debt issuance costs.

| | December 31, | |
|--|---------------------|-------------------|
| | 2020 | 2019 |
| Debt issuance costs | | |
| Beginning balance | \$ 203,453 | \$ 297,354 |
| Financing costs deferred | 1,757,856 | — |
| Less: Amortization expense | (143,365) | (93,901) |
| Less: Write-offs | (147,415) | — |
| Debt issuance costs, net of accumulated amortization | <u>\$ 1,670,529</u> | <u>\$ 203,453</u> |

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

Revolving Credit Facility

On August 5, 2020 and then as amended on October 19, 2020, QRHC and certain of its domestic subsidiaries entered into a Loan, Security and Guaranty Agreement (the “BBVA Loan Agreement”) with BBVA USA, as a lender, and as administrative agent, collateral agent, and issuing bank, which provides for a credit facility (the “ABL Facility”) comprising the following:

- An asset-based revolving credit facility in the maximum principal amount of \$15.0 million with a sublimit for issuance of letters of credit of up to 10% of the maximum principal amount of the revolving credit facility. Each loan under the revolving credit facility bears interest, at the borrowers’ option, at either the Base Rate, plus the Applicable Margin, or the LIBOR Lending Rate for the Interest Period in effect, plus the Applicable Margin, in each case as defined in the BBVA Loan Agreement. The maturity date of the revolving credit facility is April 19, 2025. The revolving credit facility contains an accordion feature permitting the revolving credit facility to be increased by up to \$10 million.
- An equipment loan facility in the maximum principal amount of \$2.0 million. Loans under the equipment loan facility may be requested at any time until August 5, 2023. Each loan under the equipment loan facility bears interest, at the borrowers’ option, at either the Base Rate, plus 1.75%, or the LIBOR Lending Rate for the Interest Period in effect, plus 2.75%. The maturity date of the equipment loan facility is April 19, 2025.

Certain of QRHC’s domestic subsidiaries are the borrowers under the BBVA Loan Agreement. QRHC and one of its domestic subsidiaries are guarantors under the BBVA Loan Agreement. As security for the obligations of the borrowers under the BBVA Loan Agreement, (i) the borrowers under the BBVA Loan Agreement have granted a first priority lien on substantially all of their tangible and intangible personal property, including a pledge of the capital stock and membership interests, as applicable, of certain of QRHC’s direct and indirect subsidiaries, and (ii) the guarantors under the BBVA Loan Agreement have granted a first priority lien on the capital stock and membership interests, as applicable, of certain of QRHC’s direct and indirect domestic subsidiaries.

The BBVA Loan Agreement contains certain financial covenants, including a minimum fixed charge coverage ratio. In addition, the BBVA Loan Agreement contains negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matter customarily restricted in such agreements. The BBVA Loan Agreement also contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, change of control, and failure of any guaranty or security document supporting the BBVA Loan Agreement to be in full force and effect. Upon the occurrence of an event of default, the outstanding obligations under the BBVA Loan Agreement may be accelerated and become immediately due and payable.

The ABL Facility bears interest, at our option, at either the Base Rate, as defined in the BBVA Loan Agreement, plus a margin ranging from 0.75% to 1.25% (3.0% as of December 31, 2020), or the LIBOR Lending Rate for the interest period in effect, plus a margin ranging from 1.75% to 2.25% (no borrowings as of December 31, 2020).

The BBVA Loan Agreement replaced our Loan, Security and Guaranty Agreement, dated as of February 24, 2017, with Citizens Bank, National Association (the “Citizens Bank Loan Agreement”), which was paid off and terminated effective August 5, 2020. We recorded \$167,964 in loss on extinguishment of debt in connection with this loan termination, including the write-off of the unamortized portion of debt issuance costs and fees directly associated with the loan payoff.

As of December 31, 2020, the ABL Facility borrowing base availability was \$12,816,237, of which \$4,299,333 principal was outstanding.

LIBOR is expected to be discontinued after 2021. The ABL Facility provides procedures for determining a replacement or alternative rate in the event that LIBOR is unavailable. However, there can be no assurances as to whether such replacement or alternative rate will be more or less favorable than LIBOR. We intend to monitor the developments with respect to the potential phasing out of LIBOR after 2021 and will work with BBVA USA to ensure any transition away from LIBOR will have minimal impact on our financial condition. We, however, can provide no assurances regarding the impact of the discontinuation of LIBOR on the interest rate that we would be required to pay or on our financial condition.

PPP Loan

As a result of the uncertainty surrounding the COVID-19 pandemic and its impact on our operating results, we applied for and, on May 5, 2020, we received loan proceeds of \$1.4 million under the Paycheck Protection Program (“PPP”) under a promissory note from BMO Harris Bank National Association (the “PPP Loan”). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”) and is administered by the U.S. Small Business Administration (“SBA”). The PPP Loan has a two-year term and bears interest at an annual interest rate of 1%. Monthly principal and interest payments are deferred for six months, and the maturity date is April 30, 2022.

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

We used the \$1.4 million of loan proceeds to fund eligible payroll, rent and utility expenses under the terms of the PPP Loan. As a result, we met the PPP eligibility criteria for forgiveness and have concluded that the PPP Loan represents, in substance, funds provided under a government grant. We received confirmation from BMO Harris Bank of the full loan forgiveness and repayment by the SBA effective December 28, 2020. As such, in accordance with IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance,” we have recognized the use of \$1.4 million of the loan proceeds as of December 31, 2020 as Other Income.

Monroe Term Loan

On October 19, 2020, QRHC and certain of its domestic subsidiaries entered into a Credit Agreement (the “Credit Agreement”), dated as of October 19, 2020, with Monroe Capital, as administrative agent for the lenders thereto. Among other things, the Credit Agreement provides for the following:

- A senior secured term loan facility in the principal amount of \$11.5 million. The senior secured term loan at the LIBOR Rate for LIBOR Loans plus the Applicable Margin; provided, that if the provision of LIBOR Loans becomes unlawful or unavailable, then interest will be payable at a rate per annum equal to the Base Rate from time to time in effect plus the Applicable Margin for Base Rate Loans. The maturity date of the term loan facility is October 19, 2025 (the “Maturity Date”). The senior secured term loan will amortize in aggregate annual amounts equal to 1.00% of the original principal amount of the senior secured term loan facility with the balance payable on the Maturity Date. Proceeds of the senior secured term loan were permitted to be used in connection with the acquisition.
- A delayed draw term loan facility in the maximum principal amount of \$12.5 million. Loans under the delayed draw term loan facility may be requested at any time until October 19, 2021. Pricing and maturity for the outstanding principal amount of the delayed draw term loan shall be the same as for the senior secured term loan. Proceeds of the delayed draw term loan are to be used for Permitted Acquisitions (as defined in the Credit Agreement).
- An accordion term loan facility in the maximum principal amount of \$40.0 million. Loans under the accordion loan facility may be requested at any time until the Maturity Date. Each accordion term loan shall be on the same terms as those applicable to the senior secured term loan. Proceeds of accordion term loans are permitted to be used for Permitted Acquisitions.

Certain of QRHC’s domestic subsidiaries are the borrowers under the Credit Agreement. QRHC is the guarantor under the Credit Agreement. As security for the obligations of the borrowers under the Credit Agreement, (i) the borrowers under the Credit Agreement have granted a first priority lien on substantially all of their tangible and intangible personal property, including a pledge of the capital stock and membership interests, as applicable, of certain of QRHC’s direct and indirect subsidiaries, and (ii) the guarantors under the Credit Agreement have granted a first priority lien on the capital stock and membership interests, as applicable, of QRHC’s direct and indirect domestic subsidiaries.

The Credit Agreement contains certain financial covenants, including a minimum fixed charge coverage ratio and a senior net leverage ratio. In addition, the Credit Agreement contains negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matters customarily restricted in such agreements. The Credit Agreement also contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, change of control, and failure of any guaranty or security document supporting the Credit Agreement to be in full force and effect. Upon the occurrence of an event of default, the outstanding obligations under the Credit Agreement may be accelerated and become immediately due and payable.

At the same time as the borrowing of the \$11.5 million under the Credit Agreement, in a separate agreement, we issued Monroe Capital a warrant to purchase 500,000 shares of QRHC’s common stock exercisable immediately. For the \$12.5 million delayed draw term loan facility, we will issue a separate warrant to purchase 350,000 shares upon drawing on this facility or on October 19, 2021, whichever occurs first, or upon certain other events. Both warrants have an exercise price of \$1.50 per share and an expiration date of March 19, 2028. We estimated the value of the 500,000-share warrant issued using the Black Scholes option pricing model and recorded a debt discount of approximately \$766,000 which will be amortized over the term of the Credit Agreement. We also executed a letter agreement that provides that the warrant holder will receive minimum net proceeds of \$1 million less any net proceeds received from the sale of the warrant shares, which is conditional on the full exercise and sale of all the warrant shares at the same time and upon a date two years after the closing date of the agreement.

Green Remedies Promissory Note

On October 19, 2020, we issued an unsecured subordinated promissory note to the seller of Green Remedies in the aggregate principal amount of \$2,684,250, payable commencing on January 1, 2021 in quarterly installments through October 1, 2025 and subject to an interest rate of 3.0% per annum.

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

Interest Expense

The amount of interest expense related to borrowings for the years ended December 31, 2020 and 2019 was \$475,071 and \$326,212, respectively. Debt issuance cost of \$1,757,856 is being amortized to interest expense over the lives of the related debt arrangements. As of December 31, 2020, the unamortized portion of the debt issuance costs was \$1,670,529. The amount of interest expense related to the amortization of debt issuance costs for the years ended December 31, 2020 and 2019 was \$143,365 and \$93,901, respectively. Debt discount (“OID”) of \$1,674,178 is being amortized to interest expense over the lives of the related debt and consideration arrangements. As of December 31, 2020, the unamortized portion of OIDs was \$1,596,144. The amount of interest expense related to the amortization of OID costs for the years ended December 31, 2020 and 2019 is \$78,034 and nil, respectively.

Other long-term liabilities, net

| | December 31, | |
|--|--------------|--------------|
| | 2020 | 2019 |
| Deferred seller consideration, net of discount | \$ 986,028 | \$ — |
| Deferred consideration - earn-out | 440,000 | — |
| Other | 547,731 | 1,140,749 |
| | \$ 1,973,759 | \$ 1,140,749 |

We recorded deferred consideration in connection with the Green Remedies asset purchase as further described in Note 3. The non-current portion of deferred consideration payable to the seller is payable in either cash or shares of our common stock. The earn-out is not to exceed \$2,250,000 over an earn-out period, as defined in the Asset Purchase Agreement. We valued the earn-out liability at \$440,000 using a Monte Carlo simulation.

8. Leases

We lease corporate office space in The Colony, Texas under an 84-month, non-cancelable operating lease. Upon the adoption of ASC 842 on January 1, 2019, we recorded approximately \$2.0 million and \$2.2 million to record the operating lease right-of-use asset and the related liabilities, respectively. The lease expires in October 2022. Our office lease has a remaining term of 1.75 years as of December 31, 2020, and we used an effective interest rate of 2.456%, which was our incremental borrowing rate in effect at the inception of the lease as our lease does not provide a readily determinable implicit rate.

In connection with our acquisition of the assets of Green Remedies, we entered into a lease for office space in Burlington, NC. We recorded a right of use asset associated with this lease of approximately \$80,000. The lease expires in October 2023. This office lease had a remaining term of 2.8 years as of December 31, 2020, and we used an effective interest rate of 9.50%, which was our incremental borrowing rate in effect at the inception of the lease as our lease does not provide a readily determinable implicit rate. This lease may be terminated under certain conditions as defined in the lease agreement. The lessor is a related party that is owned by the seller of Green Remedies and is employed by us.

The future minimum lease payments required under our office leases as of December 31, 2020 are as follows:

| Year Ending December 31, | Amount |
|---------------------------------|------------|
| 2021 | \$ 694,800 |
| 2022 | 528,750 |
| 2023 | 24,513 |
| Total lease payments | 1,248,063 |
| Less: Interest | (36,480) |
| Present value of lease payments | 1,211,583 |

We leased certain equipment to a customer under a lease arrangement that expired in 2020. The capital lease receivable amounts are approximately \$5,000 at December 31, 2019, which was included in Prepaid expenses and other current assets.

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

Balance Sheet Classification

The table below presents the lease related assets and liabilities recorded on the balance sheet. Right-of-use assets and related liabilities related to finance leases at December 31, 2020 are de minimis.

| | As of December 31, | |
|--|--------------------|--------------|
| | 2020 | 2019 |
| Operating Leases | | |
| Right-of-use operating lease assets: | | |
| Property and equipment, net and other assets | \$ 1,103,761 | \$ 1,595,044 |
| Lease Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 668,019 | \$ 627,896 |
| Other long-term liabilities | 543,564 | 1,136,583 |
| Total operating lease liabilities | \$ 1,211,583 | \$ 1,764,479 |

Lease Costs

For the years ended December 31, 2020 and 2019, we recorded \$608,674 and \$602,587, respectively, of fixed cost operating lease expense. Our operating lease expense is offset by a minimum annual incentive received from a local Economic Development Council, which is accrued monthly and will continue over the term of the lease through August 2022. This minimum annual incentive is \$63,000, which increased to \$93,600 for the annual incentive period starting September 2020 through the remainder of the lease term.

Effective December 1, 2019, we subleased a portion of our corporate office space to a single tenant. The sublease agreement is accounted for as an operating lease and we recognize sublease income as an offset to operating lease expense on a straight-line basis over the term of the sublease agreement through August 2022. Sublease income, net of amortized leasing costs, for the year ended December 31, 2020 and 2019 was approximately \$49,000 and \$4,000, respectively.

Cash paid for operating leases approximated operating lease expense and non-cash right of use asset amortization for the years ended December 31, 2020 and 2019.

9. 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. Service revenues are primarily generated from fees charged for our collection, transfer, disposal and recycling services and from sales of commodities by our recycling operations. In addition, we have product sales and other revenue primarily from sales of products such as antifreeze and windshield washer fluid, as well as minor ancillary services.

Revenue Recognition

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

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

Disaggregation of Revenue

The following table presents our revenue disaggregated by source. Three customers accounted for 51% of revenue for the year ended December 31, 2020, and three customers accounted for 53% of revenue for the year ended December 31, 2019. We operate primarily in the United States, with minor services in Canada.

| Revenue Type: | Year Ended December 31, | |
|-------------------------|-------------------------|---------------|
| | 2020 | 2019 |
| Services | \$ 90,088,862 | \$ 88,841,868 |
| Product sales and other | 8,571,173 | 10,137,272 |
| Total revenue | \$ 98,660,035 | \$ 98,979,140 |

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

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, 2020 and 2019 we had \$100,000 and \$113,750, respectively, of deferred contract costs. During the year ended December 31, 2020, we amortized \$203,750 deferred contract costs to selling, general, and administrative expense. During the year ended December 31, 2019, we amortized \$215,000 deferred contract costs to selling, general, and administrative expense.

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, 2020 and 2019, we had \$50,454 and \$19,644, respectively, of deferred revenue, which was classified in “Other current liabilities.”

10. 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, 2020 and 2019, and we have recorded a valuation allowance of \$12,533,000 and \$12,452,000, respectively, against deferred tax assets in excess of deferred tax liabilities in the accompanying consolidated financial statements.

The components of net deferred taxes are as follows:

| | <u>As of December 31,</u> | |
|------------------------------------|---------------------------|-------------------|
| | <u>2020</u> | <u>2019</u> |
| Deferred tax assets (liabilities): | | |
| Net operating loss | \$ 3,961,000 | \$ 4,616,000 |
| Depreciation and amortization | 4,829,000 | 5,002,000 |
| Stock-based compensation | 3,442,000 | 3,113,000 |
| Capitalized software costs | (237,000) | (561,000) |
| Bonus accrual | 221,000 | — |
| Allowance for doubtful accounts | 255,000 | 206,000 |
| Other | 62,000 | 76,000 |
| Total deferred tax assets, net | <u>12,533,000</u> | <u>12,452,000</u> |
| Less: valuation allowance | (12,533,000) | (12,452,000) |
| Net deferred taxes | <u>\$ —</u> | <u>\$ —</u> |

Our statutory income tax rate is expected to be approximately 27%. We had state income tax expense of \$254,004 and \$219,082 for the years ended December 31, 2020 and 2019, respectively, which is attributable to state obligations for states with no net operating loss carryforwards, and the continued reserve against the benefit of the net operating losses at the federal level. The provision for income taxes consisted of the following:

| | <u>Years Ended December 31,</u> | |
|----------|---------------------------------|-------------------|
| | <u>2020</u> | <u>2019</u> |
| Current | \$ 254,004 | \$ 219,082 |
| Deferred | — | — |
| Total | <u>\$ 254,004</u> | <u>\$ 219,082</u> |

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

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

| | Years Ended December 31, | |
|--|---------------------------------|-------------------|
| | 2020 | 2019 |
| U.S. federal statutory rate applied to pretax income | \$ 271,000 | \$ 34,000 |
| State taxes, net of federal benefit | 237,004 | 165,082 |
| Permanent differences | (378,000) | 11,000 |
| Benefit of federal operating loss carryforwards | (411,000) | (381,000) |
| Change in state tax rates and other | 454,000 | 140,000 |
| Change in valuation allowance | 81,000 | 250,000 |
| | <u>\$ 254,004</u> | <u>\$ 219,082</u> |

As of December 31, 2020 and 2019, we had federal income tax net operating loss carryforwards of approximately \$14,500,000 and \$17,200,000, respectively, which expire at various dates ranging from 2032 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, 2020 and 2019, 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 2021. 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 2017 to 2020. Tax audits by their very nature are often complex and can require several years to complete.

11. Fair Value of Financial Instruments

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

12. Commitments and Contingencies

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, 2020 and 2019.

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, 2020 and 2019, our plan contribution expense was \$184,148 and \$182,702, respectively.

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

13. 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, 2020 and 2019. 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 18,413,419 and 15,372,905 shares were issued and outstanding as of December 31, 2020 and 2019, respectively.

- Equity Offering - On August 5, 2020, QRHC sold 2,950,000 shares of common stock, par value \$0.001 per share, at a price of \$1.15 per share, pursuant to a registered direct offering (the "Offering"). The gross proceeds of the Offering were \$3,392,500, before deducting fees and other estimated offering expenses, and closed on August 7, 2020. The use of the net proceeds from this Offering is intended to finance potential future acquisitions and for general corporate purposes. QRHC's largest stockholder, which is controlled by the Chairman of the Board, purchased 655,000 shares of our common stock in the Offering at a price of \$1.15, subject to the same placement agent discounts and commissions with respect to such shares as purchased by other stockholders in the Offering.

Employee Stock Purchase Plan

On September 17, 2014, our stockholders approved our 2014 Employee Stock Purchase Plan ("ESPP"). We recorded expense of \$36,480 and \$31,848 related to the ESPP during the years ended December 31, 2020 and 2019, respectively.

During the year ended December 31, 2020, we issued an aggregate 62,398 shares of common stock for \$63,149, all to employees under our ESPP, as follows:

- On May 14, 2020, we issued 30,206 shares for \$30,040 for options that vested and were exercised.
- On November 14, 2020, we issued 32,192 shares for \$33,109 for options that vested and were exercised.

During the year ended December 31, 2019 we issued an aggregate 44,035 shares of common stock for \$70,668, all to employees under our ESPP, as follows:

- On May 14, 2019, we issued 21,283 shares for \$29,669 for options that vested and were exercised.
- On November 14, 2019, we issued 22,752 shares for \$40,999 for options that vested and were exercised.

Warrants

The following table summarizes the warrants issued and outstanding as of December 31, 2020:

| Description | Warrants Issued and Outstanding as of December 31, 2020 | | Exercise Price | Shares of Common Stock |
|---------------------------------------|---|------------|----------------|------------------------|
| | Date of | | | |
| | Issuance | Expiration | | |
| Exercisable warrants | 3/30/2016 | 3/30/2021 | \$ 3.88 | 90,431 |
| Exercisable warrants | 3/30/2016 | 3/30/2021 | \$ 1.15 | 430,629 |
| Exercisable warrants | 10/19/2020 | 3/19/2028 | \$ 1.50 | 500,000 |
| Total warrants issued and outstanding | | | | <u>1,021,060</u> |

During the year ended December 31, 2020, we had the following warrant activity:

- Certain warrants previously issued on March 30, 2016 to purchase 430,629 shares of our common stock at a price per warrant of \$3.88 contain certain anti-dilution provisions, including a down round provision, set forth in the warrants, and therefore, upon the closing of the Offering further described above, the warrant exercise price relating to such warrants was adjusted downward to equal the Offering price of \$1.15. The down round provision in these warrants created a deemed dividend to common stockholders of \$205,014 for the change in the fair value of the warrants using the Black Scholes pricing model.
- As discussed in Note 7, we issued a warrant in connection with a credit agreement to purchase 500,000 shares of QRHC's common stock exercisable immediately at an exercise price of \$1.50 per share and an expiration date of March 19, 2028.
- No holders exercised warrants during the year.

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

During the year ended December 31, 2019, we did not issue any warrants and no holders exercised warrants.

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 4,837,500. 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, 2019 through December 31, 2020:

| | Stock Options | | |
|----------------------------------|---------------------|--------------------------------|---|
| | Number of Shares | Exercise Price Per Share | Weighted- Average Exercise Price Per Share |
| Outstanding at January 1, 2019 | 1,773,066 | \$1.17 — \$26.00 | \$ 7.02 |
| Granted | 1,074,515 | \$1.51 — \$3.12 | \$ 1.93 |
| Canceled/Forfeited | (402,128) | \$1.51 — \$26.00 | \$ 15.64 |
| Outstanding at December 31, 2019 | 2,445,453 | \$1.17 — \$23.20 | \$ 3.37 |
| Granted | 998,713 | \$1.35 — \$2.32 | \$ 1.56 |
| Canceled/Forfeited | (266,224) | \$1.48 — \$16.80 | \$ 3.55 |
| Outstanding at December 31, 2020 | 3,177,942 | \$1.17 — \$23.20 | \$ 2.78 |

The weighted-average grant-date fair value of options granted was \$1.01 and \$1.23 for the years ended December 31, 2020 and 2019, respectively.

For the years ended December 31, 2020 and 2019, the intrinsic value of options outstanding was approximately \$1,149,021 and \$360,573, respectively, and the intrinsic value of options exercisable was approximately \$432,248 and \$53,259, respectively.

The following additional information applies to options outstanding at December 31, 2020:

| Range of Exercise Prices | Outstanding at December 31, 2020 | Weighted- Average Remaining Contractual Life | Weighted- Average Exercise Price | Exercisable at December 31, 2020 | Weighted- Average Exercise Price |
|--------------------------------|-------------------------------------|--|---|-------------------------------------|---|
| \$1.17 - \$23.20 | 3,177,942 | 7.4 | \$ 2.78 | 1,877,392 | \$ 3.40 |

The following additional information applies to options outstanding at December 31, 2019:

| Range of Exercise Prices | Outstanding at December 31, 2019 | Weighted- Average Remaining Contractual Life | Weighted- Average Exercise Price | Exercisable at December 31, 2019 | Weighted- Average Exercise Price |
|--------------------------------|-------------------------------------|--|---|-------------------------------------|---|
| \$1.17 - \$23.20 | 2,445,453 | 7.6 | \$ 3.37 | 1,209,087 | \$ 4.47 |

Stock-based compensation expense for stock-based incentive awards was \$1,171,885 and \$1,019,409 for the years ended December 31, 2020 and 2019, respectively. At December 31, 2020, the balance of unearned stock-based compensation to be expensed in future periods related to unvested share-based awards was approximately \$1.0 million. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is approximately 2 years.

Stock-Based Compensation

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

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, 2020 and 2019 were estimated using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

| | Years Ended December 31, | |
|-------------------------|---------------------------------|-------------|
| | 2020 | 2019 |
| Expected volatility | 75% | 76% |
| Risk-free interest rate | 0.49% | 2.37% |
| Expected dividends | 0.00% | 0.00% |
| Expected term in years | 5.7 | 5.8 |

Deferred Stock Units – During the year ended December 31, 2020, we granted 47,212 DSUs and recorded director compensation expense of \$74,496 related to the grants. In addition, during the year ended December 31, 2020 we granted 39,684 DSUs to executive employees and recorded compensation expense of \$205,316, which includes an accrual of anticipated bonus expense to be paid in DSUs for certain executive employees. During the year ended December 31, 2019, we granted 14,451 DSUs and recorded director compensation expense of \$34,649 related to the grants. We had 73,231 and 14,451 DSUs outstanding at December 31, 2020 and 2019, respectively.

14. Net Income (Loss) per Share

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

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

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

| | Years Ended December 31, | |
|---|--------------------------|-------------|
| | 2020 | 2019 |
| Numerator: | | |
| Net income (loss) | \$ 1,034,369 | \$ (55,240) |
| Deemed dividend for warrant down round provision | (205,014) | — |
| Net income (loss) applicable to common stockholders | 829,355 | (55,240) |
| Denominator: | | |
| Weighted average common shares outstanding, basic | 16,661,472 | 15,347,039 |
| Effect of dilutive common shares | 94,088 | — |
| Weighted average common shares outstanding, diluted | 16,755,560 | 15,347,039 |
| Net income (loss) per share: | | |
| Basic | \$ 0.05 | \$ (0.00) |
| Diluted | \$ 0.05 | \$ (0.00) |
| Anti-dilutive securities excluded from diluted net income (loss) per share: | | |
| Stock options | 1,939,525 | 2,445,453 |
| Warrants | 90,431 | 521,060 |
| Total anti-dilutive securities excluded from net income (loss) per share | 2,029,956 | 2,966,513 |

15. Supplemental Cash Flow Information

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

| | Years Ended December 31, | |
|--|--------------------------|------------|
| | 2020 | 2019 |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$ 371,930 | \$ 351,741 |
| Cash paid for income taxes | \$ 272,308 | \$ 76,030 |
| Supplemental non-cash activities: | | |
| Repayment of Citizens ABL | \$ 3,385,560 | \$ — |
| Debt issuance costs | \$ 700,878 | \$ — |
| Original issue discount - Seller's Note, Monroe Loan, Deferred consideration | \$ 1,674,178 | \$ — |
| Deemed dividend for warrant down round feature | \$ 205,014 | \$ — |
| Acquisition of Green Remedies | \$ 16,065,883 | \$ — |

16. Related Party Transactions

During the year ended December 31, 2019, three stockholders sold approximately 4.3 million shares of our common stock in a registered public offering. In a separate private transaction, a certain selling stockholder sold 1,750,000 shares of our common stock. The offering and private transaction, together the “Transactions”, closed on April 11, 2019. We did not receive any proceeds from sales by the selling stockholders in the Transactions. We incurred costs and expenses in connection with the Transactions, consisting of various registration, due diligence, printing, and professional service fees and expenses, and such costs, less amounts reimbursed by the selling stockholders at the closing of the Transactions, were approximately \$248,000, and are included in selling, general, and administrative expense for the year ended December 31, 2019.

See Note 7 for further information regarding a promissory note issued to the seller of Green Remedies in connection with the asset purchase. The seller of Green Remedies is currently an employee of ours.

See Note 8 for further information regarding an operating lease held by a current employee and seller of Green Remedies.

See Note 13 for further information regarding additional purchases of QRHC’s common stock by our Chairman of the Board and our largest stockholder in the Offering that closed on August 5, 2020.

SUBSIDIARIES OF QUEST RESOURCE HOLDING CORPORATION

| <u>Name</u> | <u>State of Organization</u> | <u>Parent</u> |
|--|------------------------------|--------------------------------------|
| Youchange, Inc. | Arizona | Quest Resource Holding Corporation |
| Quest Resource Management Group, LLC | Delaware | Quest Sustainability Services, Inc. |
| Global Alerts, LLC | Delaware | Quest Sustainability Services, Inc. |
| Landfill Diversion Innovations, LLC | Delaware | Quest Resource Management Group, LLC |
| Quest Vertigent Corporation | Nevada | Quest Resource Holding Corporation |
| Quest Vertigent One, LLC | Delaware | Quest Vertigent Corporation |
| Quest Sustainability Services, Inc. (formerly known as Earth911, Inc.) | Delaware | Quest Resource Holding Corporation |

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, S. Ray Hatch, certify that:

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

Date: March 11, 2021

/s/ S. Ray Hatch

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

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Laurie L. Latham, certify that:

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

Date: March 11, 2021

/s/ Laurie L. Latham

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

**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**

In connection with the Annual Report on Form 10-K of Quest Resource Holding Corporation (the "Company") for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, S. Ray Hatch, President and Chief Executive Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ S. Ray Hatch

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

Date: March 11, 2021

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

**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**

In connection with the Annual Report on Form 10-K of Quest Resource Holding Corporation (the "Company") for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laurie L. Latham, Senior Vice President and Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Laurie L. Latham

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

Date: March 11, 2021

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