UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2019

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 **001-11476**

VERTEX ENERGY, INC.
(Exact name of registrant as specified in its charter)

NEVADA	**94-3439569**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
1331 GEMINI STREET, SUITE 250 HOUSTON, TEXAS	**77058**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: **866-660-8156**

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

Title of each class	Trading Symbols(s)	Name of each exchange on which registered
Common Stock, $0.001 Par Value Per Share	VTNR	The NASDAQ Stock Market LLC (Nasdaq Capital Market)

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

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

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 x

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 x 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 and post such files). Yes x No ¨

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

Large accelerated filer o	**Accelerated filer** o
Non-accelerated filer x	**Smaller reporting company** x
Emerging growth ¨	

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $48,536,718.

State the number of shares of the issuer's common stock outstanding, as of the latest practicable date: 45,554,841 shares of common stock issued and outstanding as of March 3, 2020.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2020 annual meeting of shareholders (the "2020 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2020 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by the following words: "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "ongoing," "plan," "potential," "predict," "project," "should," or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. Forward-looking statements are not a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time the statements are made and involve known and unknown risks, uncertainties and other factors that may cause our results, levels of activity, performance or achievements to be materially different from the information expressed or implied by the forward-looking statements in this Report. These factors include:

- risks associated with our outstanding credit facilities, including amounts owed, restrictive covenants, security interests thereon and our ability to repay such facilities and amounts due thereon when due;
- risks associated with our outstanding preferred stock, including redemption obligations in connection therewith, restrictive covenants and our ability to redeem such securities when required pursuant to the terms of such securities and applicable law;
- the level of competition in our industry and our ability to compete;
- our ability to respond to changes in our industry;
- the loss of key personnel or failure to attract, integrate and retain additional personnel;
- our ability to protect our intellectual property and not infringe on others' intellectual property;
- our ability to scale our business;
- our ability to maintain supplier relationships and obtain adequate supplies of feedstocks;
- our ability to obtain and retain customers;
- our ability to produce our products at competitive rates;
- our ability to execute our business strategy in a very competitive environment;
- trends in, and the market for, the price of oil and gas and alternative energy sources;
- our ability to maintain our relationship with KMTEX;
- the impact of competitive services and products;
- our ability to integrate acquisitions;
- our ability to complete future acquisitions;
- our ability to maintain insurance;
- potential future litigation, judgments and settlements;
- rules and regulations making our operations more costly or restrictive, including IMO 2020 (defined below);
- changes in environmental and other laws and regulations and risks associated with such laws and regulations;

- economic downturns both in the United States and globally;
- risk of increased regulation of our operations and products;
- negative publicity and public opposition to our operations;
- disruptions in the infrastructure that we and our partners rely on;
- an inability to identify attractive acquisition opportunities and successfully negotiate acquisition terms;
- our ability to effectively integrate acquired assets, companies, employees or businesses;
- liabilities associated with acquired companies, assets or businesses;
- interruptions at our facilities;
- unexpected changes in our anticipated capital expenditures resulting from unforeseen required maintenance, repairs, or upgrades;
- our ability to acquire and construct new facilities;
- certain events of default which have occurred under our debt facilities and previously been waived;
- prohibitions on borrowing and other covenants of our debt facilities;
- our ability to effectively manage our growth;
- repayment of and covenants in our debt facilities;
- the lack of capital available on acceptable terms to finance our continued growth; and
- other risk factors included under "Risk Factors" in this Report.

You should read the matters described in "Risk Factors" and the other cautionary statements made in this Report as being applicable to all related forward-looking statements wherever they appear in this Report. We cannot assure you that the forward-looking statements in this Report will prove to be accurate and therefore prospective investors are encouraged not to place undue reliance on forward-looking statements. Other than as required by law, we undertake no obligation to update or revise these forward-looking statements, even though our situation may change in the future.

Please see the "Glossary of Selected Terms" incorporated by reference as Exhibit 99.1 hereto, for a list of abbreviations and definitions used throughout this report.

In this Annual Report on Form 10-K, we may rely on and refer to information regarding the refining, re-refining, used oil and oil and gas industries in general from market research reports, analyst reports and other publicly available information. Although we believe that this information is reliable, we cannot guarantee the accuracy and completeness of this information, and we have not independently verified any of it.

Unless the context requires otherwise, references to the "Company," "we," "us," "our," "Vertex," "Vertex Energy" and "Vertex Energy, Inc." refer specifically to Vertex Energy, Inc. and its consolidated subsidiaries.

In addition, unless the context otherwise requires and for the purposes of this report only:

"Base Oil" means the lubrication grade oils initially produced from refining crude oil (mineral base oil) or through chemical synthesis (synthetic base oil). In general, only 1% to 2% of a barrel of crude oil is suitable for refining into base oil. The majority of the barrel is used to produce gasoline and other hydrocarbons;

"Cutterstock" means fuel oil used as a blending agent added to other fuels. For example, to lower viscosity;

"Crack" means breaking apart crude oil into its component products, including gases like propane, heating fuel, gasoline, light distillates like jet fuel, intermediate distillates like diesel fuel and heavy distillates like grease;

"Exchange Act" refers to the Securities Exchange Act of 1934, as amended;

"Feedstock" means a product or a combination of products derived from crude oil and destined for further processing in the refining or re-refining industries. It is transformed into one or more components and/or finished products;

"Gasoline Blendstock" means naphthas and various distillate products used for blending or compounding into finished motor gasoline. These components can include reformulated gasoline blendstock for oxygenate blending (RBOB) but exclude oxygenates (alcohols and ethers), butane, and pentanes (an organic compound with properties similar to a butane);

"Hydrotreating" means the process of reacting oil fractions with hydrogen in the presence of a catalyst to produce high-value clean products;

"MDO" means marine diesel oil, which is a type of fuel oil and is a blend of gasoil and heavy fuel oil, with less gasoil than intermediate fuel oil used in the maritime field;

"Naphthas" means any of various volatile, highly flammable liquid hydrocarbon mixtures used chiefly as solvents and diluents and as raw materials for conversion to gasoline;

"Pygas" means pyrolysis gasoline, an aromatics-rich gasoline stream produced in sizeable quantities by an ethylene plant. These plants are designed to crack a number of feedstocks, including ethane, propane, naphtha, and gasoil. Pygas can serve as a high-octane blendstock for motor gasoline or as a feedstock for an aromatics extraction unit;

"SEC" or the "Commission" refers to the United States Securities and Exchange Commission;

"Securities Act" refers to the Securities Act of 1933, as amended; and

"VGO" refers to Vacuum Gas Oil (also known as cat feed) - a feedstock for a fluid catalytic cracker typically found in a crude oil refinery and used to make gasoline No. 2 oil and other byproducts.

Where You Can Find Other Information

We file annual, quarterly, and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). Our SEC filings are available to the public over the Internet at the SEC's website at www.sec.gov and are available for download, free of charge, soon after such reports are filed with or furnished to the SEC, on the "Investor Relations," "SEC Filings" page of our website at www.vertexenergy.com. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC like us at http://www.sec.gov. Our internet address is www.vertexnergy.com. Information on our website is not part of this Report, and we do not desire to incorporate by reference such information herein. Copies of documents filed by us with the SEC are also available from us without charge, upon oral or written request to our Secretary, who can be contacted at the address and telephone number set forth on the cover page of this Report.

Item 1. Business

Corporate History:

We were formed as a Nevada corporation on May 14, 2008. Pursuant to an Amended and Restated Agreement and Plan of Merger dated May 19, 2008, by and between Vertex Holdings, L.P. (formerly Vertex Energy, L.P.), a Texas limited partnership ("Holdings"), us, World Waste Technologies, Inc., a California corporation ("WWT" or "World Waste"), Vertex Merger Sub, LLC, a California limited liability company and our wholly-owned subsidiary ("Merger Subsidiary"), and Benjamin P. Cowart, our Chief Executive Officer, as agent for our shareholders (as amended from time to time, the "Merger Agreement"). Effective on April 16, 2009, World Waste merged with and into Merger Subsidiary, with Merger Subsidiary continuing as the surviving corporation and becoming our wholly-owned subsidiary (the "Merger"). In connection with the Merger, (i) each outstanding share of World Waste common stock was cancelled and exchanged for 0.10 shares of our common stock; (ii) each outstanding share of World Waste Series A preferred stock was cancelled and exchanged for 0.4062 shares of our Series A preferred stock; and (iii) each outstanding share of World Waste Series B preferred stock was cancelled and exchanged for 11.651 shares of our Series A preferred stock.

Additionally, as a result of the Merger, as the successor entity of World Waste, we assumed World Waste's filing obligations with the Securities and Exchange Commission and our common stock began trading on the Over-The-Counter Bulletin Board under the symbol "VTNR.OB" effective May 4, 2009. Subsequently, effective February 13, 2013, our common stock began trading on the NASDAQ Capital Market under the symbol "VTNR", where it has continued to trade.

Prior Material Acquisitions and Transactions

Effective as of August 31, 2012, we acquired 100% of the outstanding equity interests of Vertex Acquisition Sub, LLC ("Acquisition Sub"), a special purpose entity consisting of substantially all of the assets of Holdings and real-estate properties of B & S Cowart Family L.P. ("B&S LP" and the "Acquisition"). Prior to closing the Acquisition, Holdings contributed to Acquisition Sub substantially all of its assets and liabilities relating to the business of transporting, storing, processing and re-refining petroleum products, crudes and used lubricants, including all of the outstanding equity interests in Holdings' wholly-owned operating subsidiaries, Cedar Marine Terminals, L.P. ("CMT" or "Cedar Marine Terminals"), which operates a 19-acre bulk liquid storage facility and terminal on the Houston Ship Channel, which serves as a truck-in, barge-out facility and provides throughput terminal operations and which terminal is also the site of our proprietary, patented, Thermal Chemical Extraction Process ("TCEP") (described below); Crossroad Carriers, L.P. ("Crossroad") is a common carrier that provides transportation and logistical services for liquid petroleum products, as well as other hazardous materials and product streams; Vertex Recovery, L.P. ("Vertex Recovery"), is a generator solutions company for the recycling and collection of used oil and oil-related residual materials from large regional and national customers throughout the U.S. and Canada, which it facilitates through a network of independent recyclers and franchise collectors; and H&H Oil, L.P. ("H&H Oil"), which collects and recycles used oil and residual materials from customers based in Austin, Baytown, Dallas, San Antonio and Corpus Christi, Texas and B&S LP contributed real estate associated with the operations of H&H Oil.

Benjamin P. Cowart, our Chief Executive Officer, President, Chairman and largest shareholder directly or indirectly owned a 77% interest in Holdings and a 100% interest in B&S LP at the time of the acquisition. Additionally, Chris Carlson, our Chief Financial Officer, owned a 10% interest in Holdings at the time of the acquisition.

In October, 2013, January 2014 and September 2014, we completed various transactions whereby we acquired 100% of E-Source Holdings, LLC ("E-Source"), a company that leased and operated a facility located in Houston, Texas, and provides dismantling, demolition, decommission and marine salvage services at industrial facilities throughout the Gulf Coast. E-Source also owns and operates a fleet of trucks and other vehicles used for shipping and handling equipment and scrap materials. E-Source falls under our Recovery segment. As of December 31, 2019 and 2018, E-Source is no longer in operations and we no longer undertake dismantling, demolition, decommission and marine salvage services.

In May, 2014, we acquired certain of the assets of Omega Refining, LLC ("Omega Refining"), Bango Refining NV, LLC ("Bango Refining") and Omega Holdings Company LLC ("Omega Holdings" and collectively with Omega Refining and Bango Refining, "Omega" or the "sellers") related to (1) the operation of oil re-refineries and, in connection therewith, purchasing used lubricating oils and re-refining such oils into processed oils and other products for the distribution, supply and sale to end-customers and (2) the provision of related products and support services. The assets included Omega's Marrero, Louisiana plant which produces vacuum gas oil (VGO) and a Bango, Nevada plant which produces base lubricating oils. We acquired the assets in the name of our indirect wholly-owned subsidiary, Vertex Refining LA, LLC. The assets and operations acquired from Omega fall under our Black Oil segment. Bango Refining operations were sold in January 2016.

In December, 2014, we acquired substantially all of the assets of Warren Ohio Holdings Co., LLC, f/k/a Heartland Group Holdings, LLC ("Heartland") related to and used in an oil re-refinery and, in connection with the collecting, aggregating and purchasing of used lubricating oils and the re-refining of such oils into processed oils and other products for the distribution, supply and sale to end-customers, including raw materials, finished products and work-in-process, equipment and other fixed assets, customer lists and marketing information, the name 'Heartland' and other related trade names, Heartland's real property relating to its used oil refining facility located in Columbus, Ohio, the ownership of 65% of which was transferred to Tensile in connection with the Heartland SPV (discussed below under "Recent Material Transactions"), effective January 1, 2020, used oil storage and transfer facilities located in Columbus, Zanesville and Norwalk, Ohio, and leases related to storage and transfer facilities located in Zanesville, Ohio, Mount Sterling, Kentucky, and Ravenswood, West Virginia (collectively, the "Heartland Assets"). The Heartland Assets were acquired by our indirect wholly-owned subsidiary, Vertex Refining OH, LLC ("Vertex OH"). The assets and operations acquired from Heartland fall under our Black Oil segment.

Recent Material Transactions:

Myrtle Grove Share Purchase and Subscription Agreement

On July 26, 2019 (the "MG Closing Date"), Vertex Refining Myrtle Grove LLC, a Delaware limited liability company, which entity was formed as a special purpose vehicle in connection with the transactions, described in greater detail below ("MG SPV"), Vertex Operating, Tensile-Myrtle Grove Acquisition Corporation ("Tensile-MG"), an affiliate of Tensile Capital Partners Master Fund LP, an investment fund based in San Francisco, California ("Tensile"), and solely for the purposes of the MG Guaranty (defined below), the Company, entered into and closed the transactions contemplated by a Share Purchase and Subscription Agreement (the "MG Share Purchase").

Prior to entering into the MG Share Purchase, Vertex Operating's wholly-owned subsidiary, Vertex Refining LA, LLC, ("Vertex LA"), transferred all of the operating assets owned by it and related to the planned development of the MG Refinery (as defined below), which the parties agreed had a fair market value of $22,666,667, to MG SPV in consideration for 21,667 Class A Units and 1,000 Class B Units of MG SPV, which units were distributed to Vertex Operating. At the closing of the MG Share Purchase (on the MG Closing Date), Vertex Operating sold 1,000 of the Class B Units to Tensile-MG in consideration of the payment to it of $1 million by Tensile-MG, and Tensile-MG purchased an additional 3,000 Class B Units directly from MG SPV for $3 million (less Tensile's fees and expenses incurred in connection with the transaction, not to exceed $850,000).

As a result of the transaction, Tensile, through Tensile-MG, acquired an approximate 15.58% ownership interest in MG SPV, which in turn now owns the Company's former Belle Chasse, Louisiana, re-refining complex (the "MG Refinery").

We were required to use all proceeds we received from the sale of the Class B Units to pay down an equal amount of indebtedness then owing under our EBC Credit Agreement and Revolving Credit Agreement, defined and described below under "Part II" - "Item 8. Financial Statements and Supplementary Data" - "Note 9. Line of Credit and Long-Term Debt" (collectively, the "Credit Agreements"), which amount we have paid to date.

MG SPV Limited Liability Company Agreement

As discussed above, after the consummation of the transactions set forth in the MG Share Purchase, MG SPV is owned 84.42% by Vertex Operating and 15.58% by Tensile-MG. The Class B Units held by Tensile-MG are convertible into Class A Units at the option of Tensile-MG, as provided in the Limited Liability Company Agreement of MG SPV dated July 25, 2019 (the "MG Company Agreement"), based on a conversion price (initially one-for-one) which may be reduced from time to time if new Units of MG SPV are issued, and automatically convert into Series A Units upon certain events described in the MG Company Agreement.

Additionally, the Class B Unit holders may force MG SPV to redeem the outstanding Class B Units at any time on or after the earlier of (a) July 26, 2024 and (ii) the occurrence of an MG Triggering Event (defined below)(an "MG Redemption"). The cash purchase price for such redeemed Class B Units is the greater of (y) the fair market value of such units (without discount for illiquidity, minority status or otherwise) as determined by a qualified third party agreed to in writing by a majority of the holders seeking an MG Redemption and Vertex Operating (provided that Vertex Operating still owns Class A Units on such date) and (z) the original per-unit price for such Class B Units plus fifty percent (50%) of the aggregate capital invested by the Class B Unit holders through such MG Redemption date. "MG Triggering Events" mean (a) any dissolution, winding up or liquidation of the Company, Vertex Operating or any significant subsidiary of Vertex Operating, (b) any sale, lease, license or disposition of any material assets of the Company, Vertex Operating or any significant subsidiary of Vertex Operating, (c) any transaction or series of related transactions (whether by merger, exchange, contribution, recapitalization, consolidation, reorganization, combination or otherwise) involving the Company, Vertex Operating or any significant subsidiary of Vertex Operating, the result of which is that the holders of the voting securities of the relevant entity as of the MG Closing Date are no longer the beneficial owners, in the aggregate, after giving effect to such transaction or series of transactions, directly or indirectly, of more than fifty percent (50%) of the voting power of the outstanding voting securities of the entity, subject to certain other requirements set forth in the MG Company Agreement, (d) the failure of Vertex Operating to operate MG SPV in good faith with appropriate resources, or (e) the material failure of the Company and its affiliates to comply with the terms of the contribution agreement, whereby the Company contributed assets and operations to MG SPV.

Distributions of available cash of MG SPV pursuant to the MG Company Agreement (including pursuant to liquidations of MG SPV), subject to certain exemptions and exemptions set forth therein, are to be made (a) first, to the holders of the Class B Units, in an amount equal to the greater of (A) the aggregate unpaid "Class B Yield" (equal to an annual return of 22.5% per annum) and (B) an amount equal to fifty percent (50%) of the aggregate capital invested by the Class B Unit holders (initially Tensile-MG)(such aggregate capital invested by the Class B Unit holders, the "MG Invested Capital", which totals $3 million as of the Closing Date), less prior distributions (the greater amount of (A) and (B), the "Class B Priority Distributions"); (b) second, the Class B Unitholders, together as a separate and distinct class, are entitled to receive an amount equal to the aggregate MG Invested Capital; (c) third, the Class A Unitholders (other than Class A Unitholders which received Class A Units upon conversion of Class B Units), together as a separate and distinct class, are entitled to receive all or a portion of any distribution equal to the sum of all distributions made under sections (a) and (b) above; and (d) fourth, to the holders of Units who are eligible to receive such distributions in proportion to the number of Units held by such holders

On or after July 26, 2022, the Company or any of its subsidiaries, may elect to purchase all of the outstanding units of MG SPV held by Tensile-MG (or any assignee of Tensile-MG) as discussed in the MG Company Agreement.

Right of First Offer Letter Agreement

On the MG Closing Date, Tensile-MG, Vertex Operating and the Company entered into a right of first offer letter agreement (the "ROFO Agreement"), whereby we agreed that if we, at any time, propose to issue, sell, transfer, assign, pledge, encumber or otherwise directly or indirectly dispose of any equity or debt securities of (x) MG SPV and/or (y) Cedar Marine Terminals, L.P., or any other entity formed or designated to operate the Cedar Marine Terminal in Baytown, Texas, we would provide Tensile-MG written notice of such, and Tensile-MG would have thirty days to purchase the amount of securities offered on terms at least as favorable as those in the original proposal. The rights under the ROFO Agreement continue to apply until such time, if ever, as Tensile-MG has acquired $50 million of securities pursuant to the terms thereof.

Subscription Agreement; Common Stock Purchase Warrant and Registration Rights and Lock-Up Agreement

On the MG Closing Date, and as a required term of the closing of the MG Share Purchase, Tensile entered into a Subscription Agreement dated July 25, 2019, in favor of the Company (the "Subscription Agreement"), pursuant to which, on the MG Closing Date, it subscribed to purchase (a) 1,500,000 shares of our common stock (the "Tensile Shares"), and (b) warrants to purchase 1,500,000 shares of our common stock with an exercise price of $2.25 per share and a term of ten years, which were documented by a Common Stock Purchase Warrant (the "Warrants" and the shares of common stock issuable upon exercise thereof, the "Warrant Shares") in consideration for $2.22 million or $1.48 per share and warrant.

Letter Agreement and Heartland Option

On the MG Closing Date, Tensile-Heartland Acquisition Corporation ("Tensile-Heartland"), an affiliate of Tensile, Vertex Operating and the Company entered into a letter agreement, whereby the Company and Vertex Operating provided Tensile an option (the "Heartland Option"), exercisable at any time prior to June 30, 2020, to the extent certain pilot studies to be conducted by MG SPV meet the standards of Tensile-Heartland, in its sole discretion, or the outcome of such studies are waived by Tensile-Heartland, to execute and close the transactions contemplated by a Share Purchase and Subscription Agreement between the parties and HPRM LLC, which are described below. Tensile-Heartland subsequently exercised the Heartland Option as discussed below.

Heads of Agreement

On January 10, 2020, Vertex Operating entered into a Heads of Agreement (the "Heads of Agreement") with Bunker One (USA) Inc., which is owned by Bunker Holding, a Danish holding company ("Bunker One"). Pursuant to the Heads of Agreement, the Company and Bunker One agreed to form a joint decision-making body (the "JDMB") to focus on strategic matters related to the overall cooperation of the parties and to establish rules and procedures for identifying and undertaking joint projects. The JDMB has six members, three each from the Company and Bunker One.

The goal of the parties, pursuant to the Heads of Agreement and the JDMB, is to jointly develop and acquire direct or indirect equity or equity-related interests in projects and companies in the marine fuel sector in North America, with Bunker One focusing on opportunities related to the supply and optimization of marine fuels or components and the Company focusing on business opportunities relating to refining of bunker fuels.

For each project that the parties agree to pursue, the parties will enter into a form of Co-Operation and Joint Supply and Marketing Agreement (each a "Co-Operation JSMA"). The principal objective of each such Co-Operation JSMA will be the expansion of the business of each party by cooperating in the sourcing, storing, transportation, marketing and selling of products, where: (a) Vertex is primarily responsible for the sourcing and storing of the product (bunker fuels); (b) Bunker One is primarily responsible for the transporting, blending, marketing, selling and delivering of the product (bunker fuels); (c) Bunker One is responsible for the risk management/exposure (e.g. hedging) of the bunker fuels; and (d) Bunker One is the exclusive seller of the product to third parties.

The Heads of Agreement also allows for certain projects outside of the scope of Co-Operation JSMA's which will be subject to separate Authorization for Expenditures agreed to by the JDMB.

The Heads of Agreement has a term of ten years, beginning effective on January 1, 2020, and continuing through April 30, 2029, provided that the agreement extends for additional five year periods thereafter unless either party provides the other at least 120 days' notice of non-renewal before any such automatic renewal date. The agreement can also be terminated by either party upon an event of default (as described in the Heads of Agreement), subject to required thirty days' notice of such event of default and the opportunity for the breaching party to cure. The Heads of Agreement contains standard and customary events of default, including failure to pay amounts when due, failure to comply with the terms of the agreement, insolvency and the occurrence of a Change of Control, each subject to the terms of the agreement. A Change of Control is defined in the agreement as any party (a) engaged in the bunkering business (i.e., the supplying of fuel used by ships), as to Bunker One, or (b) engaged in the refining business, as to Vertex, obtaining control of such applicable party by way of any transaction or series of transactions.

The Heads of Agreement also contains a right of first refusal provision, whereby if at any time Bunker One, or any of its U.S. affiliates (each a "Bunker One Party"), proposes to issue, sell, transfer, assign, or otherwise directly or indirectly dispose of (x) all or any substantial portion of its bunkering business in the United States, or, if mutually agreed, outside of the United States and/or (y) the controlling equity interests in any corporation, limited liability company or partnership that owns all or any substantial portion of the bunkering business, held by such Bunker One Party for value, the Bunker One Party is required to provide the Company written notice of such event and the Company is provided the right to make an offer to purchase such entity/assets, from such Bunker One Party, subject to the terms of the Heads of Agreement.

Additionally, under the Heads of Agreement, at any time Bunker One determines to extend its existing bunkering business to any port in North America that is not served by Bunker One as of August 1, 2019, Bunker One is required to extend to the Company the right to elect to expand the terms and conditions of the Heads of Agreement to include any such new port.

Finally, under the Heads of Agreement, if at any time the Company acquires a supply of material that the Company intends to sell in Texas, Louisiana or Alabama and that is suitable for use in Bunker One's bunkering business in such area from a third party, or produces additional material for sale in such area, the Company is required to provide Bunker One the right to purchase such supply/material pursuant to the terms and conditions of the Heads of Agreement.

JSMA

Also on January 10, 2020, Vertex Operating entered into a Joint Supply and Marketing Agreement (the "JSMA"), with Bunker One. The JSMA is effective as of May 1, 2020, and provides for Bunker One to acquire 100% of the production from the Company's Marrero, Louisiana re-refining facility (which produces approximately 100,000 barrels per month of a bunker suitable fuel for offshore use and use as a marine vessel's propulsion system ("Bunker Fuel")) at the arithmetic mean of Platts #2 USGC Pipe and Platt's ULSD USGC Waterborne on agreed pricing days less an agreed upon discount, adjusted every three months.

Pursuant to the JSMA, the parties agreed to the percentages pursuant to which net profit will be split between the parties, relating to the sale of such Bunker Fuel by Bunker One, which is to be sold in Texas, Louisiana, Alabama and areas immediately adjacent thereto if mutually agreed (collectively, the "Area").

Pursuant to the JSMA, (i) the Company is primarily responsible for the sourcing and storing of the feedstock which is used to produce the Bunker Fuel, (ii) Bunker One is primarily responsible for the transporting, blending, marketing, selling and delivering of the Bunker Fuel, (iii) Bunker One is responsible for the risk management/exposure (e.g. hedging) of the Bunker Fuel, and (iv) Bunker One is the exclusive seller of the Bunker Fuel to third parties.

The Bunker Fuel is meant for blending by Bunker One into other products for the purpose of being transformed into bunker suitable fuel for a marine vessel's propulsion system and/or marketable wholesale products in various other markets for sale by Bunker One to customers in the Area.

Pursuant to the JSMA, the Company agreed that during the term of the agreement, neither the Company, nor any affiliate of the Company, would sell any Bunker Fuel to any customers for their use as bunker fuel other than pursuant to the terms of the Agreement.

Payment for the Bunker Fuel is required to be made by Bunker One within three days after invoiced by the Company, and at the end of each three months during the term of the agreement, Bunker One is required to provide a detailed accounting to the Company setting forth the consideration due to the Company and the calculation of such amounts. The agreement also provides for a yearly accounting by Bunker One and true up of amounts paid and due throughout such year.

The JSMA has a term from May 1, 2020 to April 30, 2029, provided that the term is automatically renewable for additional five year periods thereafter unless either party provides the other at least 120 days prior written notice of non-renewal, prior to any automatic renewal date. The agreement can also be terminated by either party upon an event of default (as described in the JSMA), subject to required ten days' notice of such event of default and the opportunity for the breaching party to cure. The Heads of Agreement contains standard and customary events of default, including failure to pay amounts when due, failure to comply with the terms of the agreement and insolvency, each subject to the terms of the agreement. In the event that the individual or group of individuals who ultimately own or control each party or such party's parent as of May 1, 2020 no longer has the right or ability to control or cause the direction of the management and policies of such entity, the agreement can be terminated immediately by the party not subject to such change of control.

The JSMA prohibits either party from promoting activities which compete against the other party's business in the Area for the term of the agreement and for two years thereafter.

The JSMA also provides, during the term of such agreement, for Bunker One to be allowed to have a representative attend meetings of the Board of Directors of the Company and the committees of the Board (in a non-voting observer capacity)(the "Board Observer Right"). The Board Observer Right was provided partially in connection with Bunker One's agreement to acquire up to $5 million of the Company's securities which it did through the purchase of shares of Series B1 Preferred Stock (which shares have since been converted into common stock) and common stock, in privately negotiated purchases, with holders of the Company's Series B1 Preferred Stock.

Heartland Share Purchase and Subscription Agreement

On January 17, 2020 (the "Heartland Closing Date"), the parties entered into a Share Purchase and Subscription Agreement (the "Heartland Share Purchase") by and among HPRM LLC, a Delaware limited liability company, which entity was formed as a special purpose vehicle in connection with the transactions, described in greater detail below ("Heartland SPV"), Vertex Operating, Tensile-Heartland, and solely for the purposes of the Heartland Guaranty (defined below), the Company.

Prior to entering into the Heartland Share Purchase, the Company transferred 100% of the ownership of Vertex Refining OH, LLC, its indirect wholly-owned subsidiary ("Vertex OH") to Heartland SPV in consideration for 13,500 Class A Units, 13,500 Class A-1 Preferred Units and 11,300 Class B Units of Heartland SPV and immediately thereafter contributed 248 Class B Units to Vertex Splitter, as a contribution to capital.

Vertex OH owns the Company's Columbus, Ohio, Heartland facility, which produces a base oil product that is sold to lubricant packagers and distributors.

Pursuant to the Heartland Share Purchase, Vertex Operating sold Tensile-Heartland the 13,500 Class A Units and 13,500 Class A-1 Preferred Units of Heartland SPV in consideration for $13.5 million. Also, on the Heartland Closing Date, Tensile-Heartland purchased 7,500 Class A Units and 7,500 Class A-1 Units in consideration for $7.5 million (less the expenses of Tensile-Heartland in connection with the transaction) directly from Heartland SPV.

We agreed to use $7 million of the amount received in connection with the sale of the Class A-1 Preferred Units to paydown amounts owed under the Credit Agreements, and to maintain at least $350,000 of cash on our balance sheet for working capital (less amounts required to be applied to Tensile-Heartland's expenses associated with the transaction).

The approximate $7.5 million purchase amount and future free cash flows from the operation of Heartland SPV are planned to be available for investments at the Heartland facility to increase self-collections, maximize the throughput of the refinery, enhance the quality of the output and complete other projects.

Concurrently with the closing of the transactions described above, and pursuant to the terms of the Heartland Share Purchase, the Company, through Vertex Operating, purchased 1,000 newly issued Class A Units from MG SPV at a cost of $1,000 per unit ($1 million in aggregate).

The Heartland Share Purchase provides Tensile-Heartland an option, exercisable at its election, any time after the Heartland Closing Date, subject to the terms of the Heartland Share Purchase, to purchase up to an additional 7,000 Class A-2 Preferred Units at a cost of $1,000 per Class A-2 Preferred Unit from Heartland SPV.

The Heartland Share Purchase also provided for a guarantee by the Company to Tensile-Heartland of the payment obligations of Vertex Operating as set forth in the Heartland Share Purchase (the "Heartland Guaranty").

The Heartland Share Purchase had an effective date of January 1, 2020.

Administrative Services Agreement

Pursuant to an Administrative Services Agreement, entered into on the Heartland Closing Date, Heartland SPV engaged Vertex Operating and the Company to provide administrative/management services and day-to-day operational management services of Heartland SPV in connection with the collection, storage, transportation, transfer, refining, re-refining, distilling, aggregating, processing, blending, sale of used motor oil, used lubricants, wholesale lubricants, recycled fuel oil, or related products and services such as vacuum gas oil, base oil, and asphalt flux, in consideration for a monthly fee. The Administrative Services Agreement has a term continuing until the earlier of (a) the date terminated with the mutual consent of the parties; (b) a liquidation of Heartland SPV; (c) a Heartland Redemption (defined below); (d) the determination of Heartland SPV to terminate following a change of control (as described in the Administrative Services Agreement) of Heartland SPV or the Company; or (e) written notice from the non-breaching party upon the occurrence of a breach which is not cured within the cure period set forth in the Administrative Services Agreement.

The Administrative Services Agreement also provides that in the event that Heartland SPV is unable to procure used motor-oil ("UMO") through its ordinary course operations, subject to certain conditions, Vertex Operating and the Company are required to use their best efforts to sell (or cause an affiliate to sell) UMO to Heartland SPV, at the lesser of the (i) then-current market price for UMO sold in the same geography area and (ii) price paid by such entity for such UMO. Finally, the Administrative Services Agreement provides that in the event that the Heartland SPV is unable to procure vacuum gas oil ("VGO") feedstock through its ordinary course operations, subject to certain conditions, Vertex Operating and the Company are required to use their best efforts to sell (or cause an affiliate to sell) VGO to Heartland SPV, at the lesser of the (i) then-current market price for VGO sold in the same geographic area and (ii) price paid for such VGO.

Advisory Agreement

On the Heartland Closing Date, Heartland SPV entered into an Advisory Agreement with Tensile, pursuant to which Tensile agreed to provide advisory and consulting services to Heartland SPV and Heartland SPV agreed to reimburse and indemnify Tensile and its representatives, in connection therewith.

Heartland Limited Liability Company Agreement

The Heartland SPV is currently owned 35% by Vertex Operating and 65% by Tensile-Heartland. The Class A Units held by Tensile-Heartland are convertible into Class B Units as provided in the Limited Liability Company Agreement of Heartland SPV (the "Heartland Company Agreement"), based on a conversion price (initially one-for-one) which may be reduced from time to time if new Units of Heartland SPV are issued and will automatically convert into Series A Units upon certain events described in the Heartland Company Agreement.

The Class A-1 and A-2 Preferred Units ("Class A Preferred Units"), which are 100% owned by Tensile-Heartland, accrue a 22.5% per annum preferred return subject to terms of the Heartland Company Agreement (the "Class A Yield").

Additionally, the Class A Unit holders (common and preferred) may force Heartland SPV to redeem the outstanding Class A Units at any time on or after the earlier of (a) January 17, 2025 and (ii) the occurrence of a Heartland Triggering Event (defined below)(a "Heartland Redemption"). The cash purchase price for such redeemed Class A Unit will be the greater of (y) the fair market value of such units (without discount for illiquidity, minority status or otherwise) as determined by a qualified third party agreed to in writing by a majority of the holders seeking Heartland Redemption and Vertex Operating (provided that Vertex Operating still owns Class B Units on such date) and (z) the original per-unit price for such Class A Units plus fifty percent (50%) of the aggregate capital invested by the Class A Unit holders through such Heartland Redemption date. "Heartland Triggering Events" include (a) any termination of the Administrative Services Agreement pursuant to its terms and/or any material breach by us of the environmental remediation and indemnity agreement, (b) any dissolution, winding up or liquidation of the Company, Vertex Operating or any significant subsidiary of Vertex Operating, (c) any sale, lease, license or disposition of any material assets of the Company, Vertex Operating or any significant subsidiary of Vertex Operating, or (d) any transaction or series of related transactions (whether by merger, exchange, contribution, recapitalization, consolidation, reorganization, combination or otherwise) involving the Company, Vertex Operating or any significant subsidiary of Vertex Operating, the result of which is that the holders of the voting securities of the relevant entity as of the Heartland Closing Date are no longer the beneficial owners, in the aggregate, after giving effect to such transaction or series of transactions, directly or indirectly, of more than fifty percent (50%) of the voting power of the outstanding voting securities of the entity, subject to certain other requirements set forth in the Heartland Company Agreement.

In the event that Heartland SPV fails to redeem such Class A Units within 180 days after a redemption is triggered, the Class A Yield is increased to 25% until such time as such redemption is completed (with such increase being effective back to the original date of a notice of redemption). In addition, in such event, the Class A Unit holders may cause Heartland SPV to initiate a process intended to result in a sale of Heartland SPV.

Distributions of available cash of Heartland SPV pursuant to the Heartland Company Agreement (including pursuant to liquidations of Heartland SPV), subject to certain exceptions set forth therein, are to be made (a) first, to the holders of the Class A Preferred Units, in amount equal to the greater of (A) the aggregate unpaid Class A Yield and (B) an amount equal to fifty percent (50%) of the aggregate capital invested by the Class A Preferred Unit holders (initially Tensile-Heartland)(such aggregate capital invested by the Class A Preferred Unit holders, the "Heartland Invested Capital", which totaled approximately $21 million as of the Heartland Closing Date, subject to adjustment as provided in the Heartland Share Purchase), less prior distributions (such greater amount of (A) and (B), the "Class A Preferred Priority Distributions"); (b) second, the Class A Preferred Unitholders, together as a separate and distinct class, are entitled to receive an amount equal to the aggregate Heartland Invested Capital; (c) third, the Class B Unitholders (other than Class B Unitholders which received Class B Units upon conversion of Class A Preferred Units), together as a separate and distinct class, are entitled to receive all or a portion of any distribution equal to the sum of all distributions made under sections (a) and (b) above; and (d) fourth, to the holders of Units who are eligible to receive such distributions in proportion to the number of Units held by such holders.

On or after January 17, 2023, the Company (through Vertex Operating) may elect to purchase all of the outstanding units of Heartland SPV held by Tensile-Heartland at the greatest of (i) the amount of the Class A Priority Distributions and the amount of the Heartland Invested Capital, had the Class A Yield accrued at 30% per annum (instead of the original stated 22.5% per annum), (ii) two hundred and seventy-five percent (275%) of the total Heartland Invested Capital, and (iii) a calculation based on the greater of six (6) times the trailing twelve (12) months' adjusted EBITDA and (B) six (6) times the next twelve (12) months' projected adjusted EBITDA, each as described in further detail in the Heartland Company Agreement.

Upon the occurrence of a Heartland Triggering Event (described above), the Class A Unitholders (initially Tensile-Heartland) may elect, by a majority vote, to (a) terminate the Administrative Services Agreement and appoint new management of Heartland SPV, (b) trigger a Heartland Redemption, and/or (c) purchase the Class B Units from the Class B Unitholders (initially Vertex Operating) at the fair market value of such units as determined by a qualified third party agreed to in writing by the parties.

Description of Business Activities:

We are an environmental services company that recycles industrial waste streams and off-specification commercial chemical products. Our primary focus is recycling used motor oil and other petroleum by-products. We are engaged in operations across the entire petroleum recycling value chain including collection, aggregation, transportation, storage, re-refinement, and sales of aggregated feedstock and re-refined products to end users. We operate in three segments:

(1) Black Oil,

(2) Refining and Marketing, and

(3) Recovery.

We currently provide our services in 15 states, primarily in the Gulf Coast, Midwest and Mid-Atlantic regions of the United States. For the rolling twelve month period ending December 31, 2019, we aggregated approximately 94.1 million gallons of used motor oil and other petroleum by-product feedstocks and managed the re-refining of approximately 77.6 million gallons of used motor oil with our proprietary TCEP, VGO and Base Oil processes.

Our Black Oil segment collects and purchases used motor oil directly from third-party generators, aggregates used motor oil from an established network of local and regional collectors, and sells used motor oil to our customers for use as a feedstock or replacement fuel for industrial burners. We operate a refining facility that uses our proprietary TCEP and we also utilize third-party processing facilities. TCEP's original purpose was to re-fine used oil into marine cutterstock; however, in the third quarter of fiscal 2015, that use ceased to be economically accretive, and instead, we operated TCEP for the purposes of pre-treating our used motor oil feedstock prior to shipping to our facility in Marrero, Louisiana from the third quarter of fiscal 2015 to the third quarter of 2019. During the fourth quarter of 2019, the original purpose of TCEP once again became economically viable and at that time we switched to using TCEP to re-fine used oil into marine cutterstock. We also operate a facility in Marrero, Louisiana, which facility re-refines used motor oil and also produces VGO and owns 84.42% of an entity which owns a re-refining complex in Belle Chasse, Louisiana, which we call our Myrtle Grove facility.

Our Refining and Marketing segment aggregates and manages the re-refinement of used motor oil and other petroleum by-products and sells the re-refined products to end customers.

Our Recovery segment includes a generator solutions company for the proper recovery and management of hydrocarbon streams as well as metals.

Black Oil Segment

Our Black Oil segment is engaged in operations across the entire used motor oil recycling value chain including collection, aggregation, transportation, storage, refinement, and sales of aggregated feedstock and re-refined products to end users. We collect and purchase used oil directly from generators such as oil change service stations, automotive repair shops, manufacturing facilities, petroleum refineries, and petrochemical manufacturing operations. We own a fleet of 41 collection vehicles, which routinely visit generators to collect and purchase used motor oil. We also aggregate used oil from a diverse network of approximately 50 suppliers who operate similar collection businesses to ours.

We manage the logistics of transport, storage and delivery of used oil to our customers. We own a fleet of 30 transportation trucks and more than 80 aboveground storage tanks with over 8.6 million gallons of storage capacity. These assets are used by both the Black Oil segment and the Refining and Marketing segment. In addition, we also utilize third parties for the transportation and storage of used oil feedstocks. Typically, we sell used oil to our customers in bulk to ensure efficient delivery by truck, rail, or barge. In many cases, we have contractual purchase and sale agreements with our suppliers and customers, respectively. We believe these contracts are beneficial to all parties involved because it ensures that a minimum volume is purchased from collectors and generators, a minimum volume is sold to our customers, and we are able to minimize our inventory risk by a spread between the costs to acquire used oil and the revenues received from the sale and delivery of used oil. We also have historically used our proprietary TCEP technology to re-refine used oil into marine fuel cutterstock and a higher-value feedstock for further processing (as discussed above, between the third quarter of fiscal 2015 and the fourth quarter of 2019, we utilized TCEP to pre-treat our used motor oil feedstock prior to shipping to our facility in Marrero, Louisiana; but did not operate our TCEP for the purpose of producing finished cutterstock, due to market conditions). During the fourth quarter of 2019, we once again began using TCEP to re-refine used oil into marine fuel cutterstock. In addition, at our Marrero, Louisiana facility we produce a Vacuum Gas Oil (VGO) product that is sold to refineries as well as to the marine fuels market. At our Columbus, Ohio facility (Heartland Petroleum), the ownership of 65% of which was transferred to Tensile in connection with the Heartland SPV (discussed above), effective January 1, 2020, we produce a base oil product that is sold to lubricant packagers and distributors.

Refining and Marketing Segment

Our Refining and Marketing segment is engaged in the aggregation of feedstock, re-refining it into higher value end products, and selling these products to our customers, as well as related transportation and storage activities. We aggregate a diverse mix of feedstocks including used motor oil, petroleum distillates, transmix and other off-specification chemical products. These feedstock streams are purchased from pipeline operators, refineries, chemical processing facilities and third-party providers, and are also transferred from our Black Oil segment. We have a toll-based processing agreement in place with KMTEX to re-refine feedstock streams, under our direction, into various end products that we specify. KMTEX uses industry standard processing technologies to re-refine our feedstocks into pygas, gasoline blendstock and marine fuel cutterstock. We sell all of our re-refined products directly to end-customers or to processing facilities for further refinement.

Recovery Segment

The Recovery segment is a generator solutions company for the proper recovery and management of hydrocarbon streams. The Company (through this segment) owns and operates a fleet of trucks and heavy equipment used for processing, shipping and handling of reusable process equipment and other scrap commodities.

Thermal Chemical Extraction Process

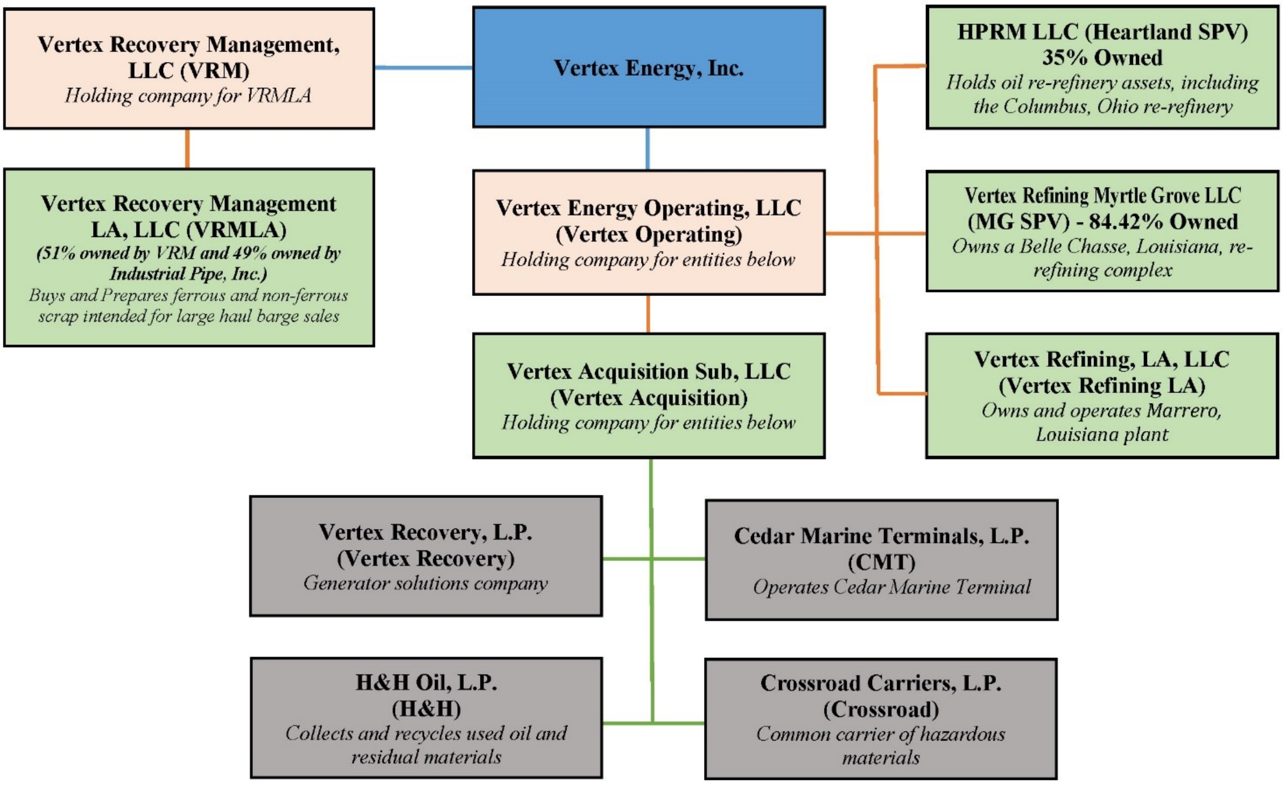
We own the intellectual property for our patented TCEP. TCEP is a technology which utilizes thermal and chemical dynamics to extract impurities from used oil which increases the value of the feedstock. We intend to continue to develop our TCEP technology and design with the goal of producing additional re-refined products, including lubricating base oil.

TCEP differs from conventional re-refining technologies, such as vacuum distillation and hydrotreatment, by relying more heavily on chemical processes to remove impurities rather than temperature and pressure. Therefore, the capital requirements to build a TCEP plant are typically much less than a traditional re-refinery because large feed heaters, vacuum distillation columns, and a hydrotreating unit are not required. The end product currently produced by TCEP is used as fuel oil cutterstock. Conventional re-refineries produce lubricating base oils or product grades slightly lower than base oil that can be used as industrial fuels or transportation fuel blendstocks.

We currently estimate the cost to construct a new, fully-functional, commercial facility using our TCEP technology, with annual processing capacity of between 25 and 50 million gallons at another location would be approximately $10 - $15 million, which could fluctuate based on throughput capacity. The facility infrastructure would require additional capitalized expenditures which would depend on the location and site specifics of the facility. From the third quarter of 2015 to the fourth quarter of 2019, we utilized TCEP to pre-treat our used motor oil feedstocks prior to shipping to our facility in Marrero, Louisiana; however, beginning in the fourth quarter of 2019, we once again began using TCEP for the purpose of producing finished cutterstock. We have no current plans to construct any other TCEP facilities at this time. Our TCEP technology converts feedstock into a low sulfur marine fuel that can be sold into the new 0.5% low sulfur marine fuel specification mandated under International Maritime Organization (IMO) rules which went into effect on January 1, 2020.

Organizational Structure

The following chart reflects our current organization structure, including significant subsidiaries (all of which are wholly-owned, except as discussed below):



Our Industry

The used oil recycling industry is comprised of multiple participants including generators, collectors, aggregators, processors, and end users. Generators are entities that generate used oil through their daily operations such as automotive businesses conducting oil changes on consumer and commercial vehicles and industrial users changing lubricants on machinery and heavy equipment. Collectors are typically local businesses that purchase used oil from generators and provide on-site collection services. The collection market is highly fragmented and we believe there are more than 400 used oil collectors in the United States. Aggregators are specialized businesses that purchase used oil and petroleum by-products from multiple collectors and sell and deliver it as feedstock to processors. Processors, or re-refineries, utilize a processing technology to convert the used oil or petroleum by-product into a higher-value feedstock or end-product. Used oil is any oil that has been refined from crude oil or any synthetic oil that has been used and, as a result of such use, is contaminated by physical or chemical impurities. Physical impurities could include contamination by metal shavings, sawdust, or dirt. Chemical impurities could include contamination by water or benzene, or degradation of lubricating additives.

Conventional re-refineries typically employ vacuum distillation and hydrotreating processes to transform used oil into various grades of base oil. Vacuum distillation is a process that removes emulsified contaminated water and separates used oil into vacuum gas oil and light fuels. The vacuum gas oil is then hydrotreated to produce lubricating base oil. Hydrotreating is a process which combines chemical catalysts, heat, and pressure to remove impurities such as sulfur, chlorine, and oxygen and to stabilize the end product. A re-refined lubricating base oil is of equal quality and will last as long as a virgin base oil. In addition, other re-refining processes transform used oil into product grades slightly lower than base oil. These products, along with vacuum gas oil and the end product produced by TCEP, are commonly referred to as intermediate products and are used as industrial fuels or transportation fuel blendstocks.

The petroleum by-products industry is driven by the financial and environmental benefits of recycling, as well as by the amount of petroleum by-product generated each year. Used oil is typically used: (a) as an industrial burner oil, where the used oil is dewatered, filtered and demineralized for use in industrial burners; (b) as hydraulic oil; (c) as bitumen based products (for road surfacing and roofing); (d) as an additive in manufactured products; or (e) as a re-refined base oil for use as a lubricant, hydraulic or transformer oil - which is how the Company uses such used oil. The market value of recycled oil is based, in large part, on its end use. In general, the market price for used motor oil that is burned as an industrial fuel is driven by the cost of competing fuels, including natural gas, while the market value of re-refined used motor oil is driven by competing petroleum products. The extent to which the financial benefits of recycling used oil are realized is driven by operating efficiency in aggregating, storing and transporting used oil supply; the extent to which the used oil is re-refined; and the price spread between natural gas and crude oil.

In the U.S., we believe that of the approximately 1.3 billion gallons of used oil generated annually approximately 200 million gallons are improperly disposed (per the EPA), 200 - 250 million gallons are re-refined into lubricating base oils, 150 - 200 million gallons are re-refined into intermediate products with grades slightly lower than base oil, and 650 - 750 million gallons are burned as an industrial fuel source. We also believe that each year the U.S. generates 425 million used automotive oil filters containing 160,000 tons of iron units and 18 million gallons of oil (per data provided by the Steel Recycling Institute). We believe that the amount of used oil being re-refined into base oils and intermediate products in the U.S. will stay basically unchanged in 2018 as no additional re-refining capacity is scheduled to come on-line. As of the date of this Report, the approximate market price for used oil at the generator level is approximately $0.00 to $0.20 per gallon (which is required to be paid to acquire such used oil), the approximate market price of intermediate re-refined products ranges from $0.75 to $1.35 per gallon, and the approximate price for lubricating base oil ranges from $2.00 to $2.50 per gallon, representing a U.S. market size of approximately $1.0 - $1.75 billion for recycled oil.

As with the financial benefits of recycling used oil, the environmental benefits are also driven by its end use. Environmental regulations prohibit the disposal of used oil in sewers or landfills because used motor oil is insoluble and contains heavy metals and other contaminants that make it detrimental to the environment if improperly disposed; one gallon of used oil can contaminate up to 1 million gallons of fresh drinking water. Additionally, according to the Environmental Protection Agency, it takes 42 gallons of crude oil, but only 1 gallon of used oil, to produce 2.5 quarts of new, high-quality lubricating oil. Compared to burning used oil as an industrial fuel, re-refined oil significantly reduces the amount of toxic heavy metals and greenhouse gases and other pollutants introduced into the environment. In addition, the use of re-refined motor oil conserves petroleum that would have otherwise been refined into virgin base stock oil.

We believe that the used oil recycling market has significant growth potential through increasing the percentage of recycled oil that is re-refined rather than burned as a low cost industrial fuel. We believe that the financial and environmental benefits of re-refining used oil combined with consumer and commercial demand for high-quality, environmentally responsible products will drive growth in demand for re-refined oil and re-refining capacity in the United States. Furthermore, we believe that increasing consumer and industrial awareness of the environmental impact of improperly disposing used oil may drive additional market growth as approximately 200 million gallons of used oil generated each year are improperly disposed rather than recycled.

Used motor oil is burned by various users such as asphalt companies, paper mills and industrial facilities as an alternative to their base fuels, to offset operational costs. Therefore, the commercial price of used oil is typically slightly less than the base fuels for the burners. Similarly, re-refined oil is used as a substitute for various virgin petroleum-based products with pricing driven by the market price of crude oil. Since there is not an active marketplace for used and re-refined oil prices, we use the prices of natural gas and crude as benchmarks in our industry. Typically, the spread between crude and natural gas prices is an accurate proxy for the potential incremental value of re-refining used oil.

Our Competitive Strengths

Large, Diversified Feedstock Supply Network.

We obtain our feedstock supply through a combination of direct collection activities and purchases from third-party suppliers. We believe our balanced direct and indirect approach to obtaining feedstock is highly advantageous because it enables us to maximize total supply and reduce our reliance on any single supplier and the risk of not fulfilling our minimum feedstock sale quotas. We collect feedstock directly from over 4,500 generators including oil change service stations, automotive repair shops, manufacturing facilities, petroleum refineries and petrochemical manufacturing operations, as well as brokers. We aggregate used oil from a diverse network of approximately 50 suppliers who operate similar collection businesses to ours.

Strategic Relationships.

We have established relationships with key feedstock suppliers, storage and transportation providers, oil re-refineries, and end-user customers. We believe our relationships with these parties are strong, in part due to our high level of customer service, competitive prices, and our ability to contract (for purchase or sale) long-term, minimum monthly feedstock commitments. We believe that our strategic relationships could lead to contract extensions and expanded feedstock supply or purchase agreements.

Proprietary Technology.

Our proprietary TCEP technology produces a fuel oil cutterstock for the fuel oil market or a refining feedstock. We believe we are able to build TCEP re-refining facilities at a significantly lower cost than conventional re-refineries. We estimate the cost to build a TCEP plant with capacity of up to 50 million gallons at approximately $10 - $15 million, whereas a similar sized base oil plant with vacuum distillation towers and a hydrotreater can cost in excess of $50 million. Notwithstanding the lower cost of TCEP plants, with oil at its current prices, we do not believe that it makes economic sense to expand our TCEP technology at this time due to the fixed operating costs involved.

Logistics Capabilities.

We have extensive expertise and experience managing and operating feedstock supply chain logistics and multimodal transportation services for customers who purchase our feedstock or higher-value, re-refined products. We believe that our scale, infrastructure, expertise, and contracts enable us to cost effectively transport product and consistently meet our customers' volume, quality and delivery schedule requirements.

Scale of Operations.

We believe that the size and scale of our operations is a significant competitive advantage when competing for new business and maintaining existing customer relationships. Price is one of the main competitive factors in the feedstock collection industry and because we are able to effectively leverage our fixed operating costs and economies of scale, we believe that our prices are competitive. Through our network of suppliers and customers, we aggregate a large amount of feedstock, which enables us to enter into minimum purchase and sale contracts as well as accept large volume orders year-round. We believe this is a competitive advantage because it minimizes our suppliers' inventory risk and ensures our customers' minimum order volumes are satisfied. In addition, we believe our end customers prefer to work with an exclusive supplier rather than manage multiple customer relationships.

Diversified End Product Sales.

We believe that the diversity of the products we sell reduces our overall risk and exposure to price fluctuations. Prices for petroleum-based products can be impacted significantly by supply and demand fluctuations which are not correlated with general commodity price changes. For instance, in a rising commodity price environment with a significant over-supply of base oil, the price of base oil may fall precipitously while the price of gasoline increases. We offer a diversified product mix consisting of used motor oil, fuel oil, pygas, and gasoline blendstock. We can also control our mix of end products by choosing to either resell collected feedstock or re-refine it into a higher-value product.

Management Team.

We are led by a management team with expertise in petroleum recycling, finance, operations, and re-refinement technology. Each member of our senior management team has more than 20 years of industry experience. We believe the strength of our management team will help our success in the marketplace.

Our Business Strategy

The principal elements of our strategy include:

Pursue Strategic Acquisitions and Partnerships

We plan to grow market share by consolidating feedstock supply through partnering with or acquiring collection and aggregation assets. Our executive team has a proven ability to evaluate resource potential and identify acquisition targets. The acquisitions and/or partnerships could increase our revenue and provide better control over the quality and quantity of feedstock available for resale and/or upgrading as well as providing additional locations for the potential future implementation of TCEP (assuming favorable market conditions). We also intend to diversify our revenue by acquiring complementary recycling service businesses, refining assets and technologies, and other vertically integrated businesses or assets. We believe we can realize synergies on acquisitions by leveraging our customer and vendor relationships, infrastructure, and personnel, and by eliminating duplicative overhead costs.

Expand Feedstock Supply Volume

We intend to expand our feedstock supply volume by growing our collection and aggregation operations. We plan to increase the volume of feedstock we collect directly by developing new relationships with generators and working to displace incumbent collectors; increasing the number of collection personnel, vehicles, equipment, and geographical areas we serve; and acquiring collectors in new or existing territories. We intend to increase the volume of feedstock we aggregate from third-party collectors by expanding our existing relationships and developing new vendor relationships. We believe that our ability to acquire large feedstock volumes will help to cultivate new vendor relationships because collectors often prefer to work with a single, reliable customer rather than manage multiple relationships and the uncertainty of excess inventory.

Broaden Existing Customer Relationships and Secure New Large Accounts

We intend to broaden our existing customer relationships by increasing sales of used motor oil and re-refined products to these accounts. In some cases, we may also seek to serve as our customers' primary or exclusive supplier. We also believe that as we increase our supply of feedstock and re-refined products, we will have the opportunity to secure larger customer accounts that require a partner who can consistently deliver high volumes.

Re-Refine Higher Value End Products

We intend to develop, lease, or acquire technologies to re-refine our feedstock supply into higher value end products, including assets or technologies which complement TCEP. From the third quarter of 2015 to the fourth quarter of 2019, we utilized TCEP to pre-treat our used motor oil feedstocks prior to shipping to our facility in Marrero, Louisiana; however, beginning in the fourth quarter of 2019, we once again began using TCEP for the purpose of producing finished cutterstock. We hope that continued improvements in our technologies and investments in additional technologies will enable us to upgrade feedstock into higher value end products, such as fuels and lubricating base oil that command higher market prices.

Products and Services

We generate substantially all of our revenue from the sale of six product categories. All of these products are commodities that are subject to various degrees of product quality and performance specifications.

Used Motor Oil

Used motor oil is a petroleum-based or synthetic lubricant that contains impurities such as dirt, sand, water, and chemicals.

Fuel Oil

Fuel Oil is a distillate fuel which is typically blended with lower quality fuel oils. The distillation of used oil and other petroleum by-products creates a fuel with low viscosity, as well as low sulfur, ash, and heavy metal content, making it an ideal blending agent.

Pygas

Pygas, or pyrolysis gasoline, is a product that can be blended with gasoline as an octane booster or that can be distilled and separated into its components, including benzene and other hydrocarbons.

Gasoline Blendstock

Naphthas and various distillate products used for blending or compounding into finished motor gasoline. These components can include reformulated gasoline blendstock for oxygenate blending (RBOB) but exclude oxygenates (alcohols and ethers), butane, and pentanes plus.

Base Oil

An oil to which other oils or substances are added to produce a lubricant. Typically the main substance in lubricants, base oils, are refined from crude oil.

Scrap Metal(s)

Consists of recoverable ferrous and non-ferrous recyclable metals from manufacturing and consumption. Scrap metal can be recovered from pipes, barges, boats, building supplies, surplus equipment, tanks, and other items consisting of metal composition. These materials are segregated, processed, cut-up and sent back to a steel mill for re-purposing.

Suppliers

We conduct business with a number of used oil generators, as well as a large network of suppliers that collect used oil from used oil generators. In our capacity as a collector of used oil, we purchase feedstock from approximately 4,500 businesses, such as oil change service stations, automotive repair shops, manufacturing facilities, petroleum refineries, and petrochemical manufacturing operations, which generate used oil through their operations.

In our capacity as a broker of used oil, we work with approximately 50 suppliers that collect used oil from businesses such as those mentioned above.

Customers

The Black Oil segment sells used oil, VGO, base oil and other petroleum feedstocks to numerous customers in the Gulf Coast and Midwest regions of the United States. The primary customers of its products are packagers, distributers, blenders and industrial burners, as described above as well as re-refiners of the feedstock. The Black Oil segment is party to various feedstock sale agreements whereby we sell used oil feedstock to third parties. The agreements provide for us to sell certain minimum gallons of used oil feedstock per month at a price per barrel equal to our direct costs, plus certain commissions, based on the quality and quantity of the used oil we supply.

The Recovery segment does not rely solely on contracts, but mainly on the spot market as well as a strategic network of customers and vendors to support the purchase and sale of its products which are commodities. It also relies on project-based work which it bids on from time to time of which there is no guarantee or assurance of repeat business.

KMTEX Tolling Agreement

On or around April 17, 2013, and effective June 1, 2012, we entered into a new Tolling Agreement with KMTEX, Ltd. ("KMTEX" and the agreement as amended to date, the "Tolling Agreement"). The Company was previously party to a tolling agreement with KMTEX which expired pursuant to its terms on June 30, 2010, provided that the parties had continued to operate under the terms of the expired agreement until their entry into the April 2013 Tolling Agreement.

Pursuant to the Tolling Agreement, KMTEX agreed to process feedstock of certain petroleum distillates, which we provide to KMTEX, into more valuable feedstocks, including pygas, gasoline blend stock and MDO/cutter stock. The Tolling Agreement had an expiration date of June 30, 2014 (the "Initial Term"), provided that if not terminated by either party by written notice to the other, received within ninety (90) days prior to the expiration of the Initial Term (or any extension term), the agreement automatically renewed for a successive one (1) year period and could be automatically extended for up to five (5) more extension terms.

In November 2013 and effective November 1, 2013, we entered into a First Amendment to Processing Agreement with KMTEX LLC (previously KMTEX Ltd., hereafter "KMTEX"), which amended the Tolling Agreement. The amendment formally extended the date of the initial term of the Tolling Agreement to December 31, 2015, provided that if not terminated by either party by written notice to the other, received within ninety (90) days prior to the expiration of the initial term, as amended (or any Extension Term, defined below), the agreement would automatically renew for a successive one (1) year period. The Tolling Agreement could be automatically extended for up to six (6) extension terms from the end of the extended initial term. The amendment also updated the pricing terms of the original agreement and required us to make certain capital expenditures at the KMTEX facility which have been made to date.

On December 3, 2015, and effective January 1, 2016, we entered into a Second Amendment to Processing Agreement with KMTEX. The amendment formally extended the date of the initial term of the Tolling Agreement to December 31, 2016, provided that if not terminated by either party by written notice to the other, received within ninety (90) days prior to the expiration of the initial term, as amended (or any extension term), the agreement automatically renews for a successive one (1) year period The amendment also updated the pricing terms of the agreement.

On December 14, 2016, and effective January 1, 2017, we entered into a Third Amendment to Processing Agreement with KMTEX. The amendment formally extended the date of the initial term of the Tolling Agreement to December 31, 2018, provided that if not terminated by either party by written notice to the other, received within ninety (90) days prior to the the expiration of the initial term, as amended (or any Extension Term, defined below), the agreement automatically renews for a successive one (1) year period (an "Extension Term"). The Tolling Agreement can be automatically extended for up to six (6) Extension Terms from the end of the extended initial term. The amendment also updated the pricing terms of the agreement. As the Tolling Agreement, as amended, was not terminated by either party within 90 days of December 31, 2019, the term of the Tolling Agreement automatically extended for an additional one (1) year period through December 31, 2020, and such agreement can be extended for up to four (4) additional one (1) year extensions. Notwithstanding such automatic extension, as of the date of this filing, we are negotiating the terms of a further extension/renewal.

Notwithstanding the above, either party can terminate the Tolling Agreement at any time with ninety (90) days prior written notice for any reason and with thirty (30) days written notice upon the occurrence of certain material termination events as described in greater detail in the agreement. In connection with and pursuant to the Tolling Agreement, we pay KMTEX certain monthly tank rental fees, truck and rail car fees, and processing fees based on the weight of the material processed by KMTEX, as well as certain disposal fees and other fees. Each year of the agreement, beginning on the 12 month anniversary of the effective date, the parties agreed to review and increase the fees provided for in the agreement in accordance with among other things, various consumer price index benchmarks, as mutually agreed.

The Tolling Agreement also provides that, for materials delivered to KMTEX by rail, barge, drum, or truck, KMTEX is required to obtain the Bill of Lading and Material Safety Data Sheet that accompany such materials and not accept any materials not accompanied by a Uniform Hazardous Waste Manifest (promulgated by the Environmental Protection Agency or other Federal or State Government). The Company is also required to indemnify KMTEX against the acceptance of any material later classified as a hazardous waste. The agreement requires KMTEX to be responsible for all leaks, spills, discharges and releases which occur in connection with the performance of the agreement, except due to the Company's gross negligence. Finally, the agreement requires each party to indemnify the other against any liability as a result of death or bodily injury to any person, destruction or damage to property, contamination of, adverse effects on, or imminent or substantial endangerment of, or release or threat of release into the environment, or any threatened or actual release of hazardous substance, or any violation or alleged violation of or liability under any governmental laws, regulations, rules or orders to the extent caused by, arising out of or in any manner connected with such indemnifying party's negligent acts, omissions, breaches of the agreement or failure to comply with applicable laws in the performance thereof, subject to certain exclusions described in the agreement.

Swap Agreement and Base Oil Agreement

On January 29, 2016, we (through Vertex Operating) and Safety-Kleen Systems, Inc. ("Safety-Kleen") entered into a Swap Agreement (the "Swap Agreement"). The Swap Agreement has a term of five years, beginning January 29, 2016, and automatically renews for additional one year terms thereafter unless either party provides the other 90 days prior written notice of their intention not to renew prior to any automatic extension. Pursuant to the Swap Agreement, we and Safety-Kleen agreed to swap certain quantities of used oil feedstock (the agreement includes monthly maximums, quarterly minimums and maximums, and annual maximums of used oil feedstock volume required to be 'swapped') between Safety-Kleen's plant in Nevada and our Marrero, Louisiana plant and/or the Cedar Marine Terminal in Baytown, Texas, on a monthly, quarterly and annual basis, with any shortfall in the amount of used oil feedstock 'swapped' on a quarterly basis, being paid for in cash based on a discount to U.S. Platts mid-range per gallon rate for Gulf Coast No. 6, 3% oil (the "Platts"). The Swap Agreement can be terminated with 30 days prior written notice in the event either party fails to meet the specifications for oil feedstock set forth in the agreement, a party fails to deliver the required minimum quarterly volumes of oil feedstock during any three consecutive quarters, or a party materially breaches a term of the agreement.

Additionally, we (through Vertex Operating) and Safety-Kleen also entered into a Base Oil Agreement on January 29, 2016 (the "Base Oil Agreement"). The Base Oil Agreement provides for us to purchase from Safety-Kleen, and Safety-Kleen to sell to us, certain required quantities of base oils and other finished lubricants described in greater detail in the Base Oil Agreement (the "Base Oil")(the agreement contains quarterly and annual maximum volumes of Base Oil to be acquired by us). The agreement has a term of five years and automatically renews for additional one year terms thereafter unless either party provides the other 90 days prior written notice of their intention not to renew prior to any automatic extension.

Competition

The industrial waste and brokerage of petroleum products industries are highly competitive. There are numerous small to mid-size firms that are engaged in the collection, transportation, treatment and brokerage of virgin and used petroleum products. Competitors include, but are not limited to: Safety-Kleen, Inc. (a wholly-owned subsidiary of Clean Harbors, Inc.), Rio Energy, Inc., Heritage-Crystal Clean, Inc., and Origin (formerly Flex Oil Service, LLC). These competitors actively seek to purchase feedstock from local, regional and industrial collectors, refineries, pipelines and other sources. Competition for these feedstocks may result in increasing prices to obtain used motor oil and transmix feedstocks critical to the success of our business. In order to remain competitive, we must control costs and maintain strong relationships with our feedstock suppliers. Our network of generators and collectors minimizes our reliance on any single supplier. A portion of the sales of the collected and aggregated used motor oil product are based on supply contracts which include a range of prices which change based on feedstock quality specifications and volumes. This pricing structure helps to insulate us from inventory risk by ensuring a spread between costs to acquire used motor oil feedstock and the revenues received for delivery of the feedstock. We believe that price and service are the main competitive factors in the used motor oil collection industry. We believe that our ability to accept and transport large volumes of oil year round gives us an advantage over many of our competitors. In addition, we believe that our storage capacity and ability to process the streams of products we receive as well as our ability to transport the end product by barge, rail and truck provide further advantages over many of our competitors.

Employees

We and our wholly and majority-owned subsidiaries have 225 full-time employees. We believe that our relations with our employees are good.

Seasonality

The industrial hydrocarbon recovery business is seasonal to the extent that it is dependent on streams from seasonal industries. For example, asphalt plants burn recycled waste oil in their process, placing pricing and supply availability constraints on the industry during the good weather construction and road building seasons. In our current markets, road paving typically occurs from late spring to early fall. Therefore, it is somewhat easier to procure certain waste streams during winter months when competition for used motor oil feedstock is historically not as strong. Currently we are seeing increased demand for used motor oil feedstocks throughout the year due to the addition of re-refining technologies in the marketplace.

Governmental Regulation, Including Environmental Regulation and Climate Change

Our operations are subject to stringent United States federal, state and local laws and regulations concerning the discharge of materials into the environment or otherwise relating to health and safety or the protection of the environment. Additional laws and regulations, or changes in the interpretations of existing laws and regulations, that affect our business and operations may be adopted, which may in turn impact our financial condition.

Additionally, the U.S. Departments of Transportation, Coast Guard and Homeland Security as well as various federal, state, local and foreign agencies exercise broad powers over our transportation operations, generally governing such activities as authorization to engage in motor carrier operations, safety and permits to conduct transportation business. We may also become subject to new or more restrictive regulations that the Departments of Transportation and Homeland Security, the Occupational Safety and Health Administration, the Environmental Protection Agency or other authorities impose, including regulations relating to engine exhaust emissions, the hours of service that our drivers may provide in any one time period, security and other matters.

Our compliance challenges arise from various legislative and regulatory bodies influenced by political, environmental, health and safety concerns.

For example, changes in federal regulations relating to the use of methyl tertiary butyl ether and new sulfur limitations for product shipped in domestic pipelines resulted in tightened specifications of gasoline blendstock that we were refining, causing a corresponding decrease in revenue and gross margin growth during 2016, as compared to prior years. This change in regulation, as well as other emission-related regulations, had a material impact on the entire petroleum industry, and we adapted and managed our operations by finding materials better suited to comply with these regulations. As such, it is possible that future changes in federal regulations could have a material adverse effect on our results from operations.

We must also obtain and maintain a range of federal, state and local permits for our various logistical needs as well as our planned industrial processes.

The following is a summary of the more significant existing health, safety and environmental laws and regulations to which our operations are subject.

Hazardous Substances and Waste

The United States Comprehensive Environmental Response, Compensation, and Liability Act, as amended, referred to as "CERCLA" or the "Superfund" law, and comparable state laws impose liability without regard to fault or the legality of the original conduct on certain defined persons, including current and prior owners or operators of a site where a release of hazardous substances occurred and entities that disposed or arranged for the disposal of the hazardous substances found at the site. Under CERCLA, these "responsible persons" may be liable for the costs of cleaning up the hazardous substances, for damages to natural resources and for the costs of certain health studies.

In the course of our operations, we occasionally generate materials that are considered "hazardous substances" and, as a result, may incur CERCLA liability for cleanup costs. Also, claims may be filed for personal injury and property damage allegedly caused by the release of hazardous substances or other pollutants. We also generate solid wastes that are subject to the requirements of the United States Resource Conservation and Recovery Act, as amended, or "RCRA," and comparable state statutes.

Although we use operating and disposal practices that are standard in the industry, hydrocarbons or other wastes may have been released at properties owned or leased by us now or in the past, or at other locations where these hydrocarbons and wastes were taken for treatment or disposal. Under CERCLA, RCRA and analogous state laws, we could be required to clean up contaminated property (including contaminated groundwater), or to perform remedial activities to prevent future contamination.

Air Emissions

The Clean Air Act, as amended, or "CAA," and similar state laws and regulations restrict the emission of air pollutants and also impose various monitoring and reporting requirements. These laws and regulations may require us to obtain approvals or permits for construction, modification or operation of certain projects or facilities and may require use of emission controls.

Global Warming and Climate Change

While we do not believe our operations raise climate change issues different from those generally raised by the commercial use of fossil fuels, legislation or regulatory programs that restrict greenhouse gas emissions in areas where we conduct business or that would require reducing emissions from our truck fleet could increase our costs.

Water Discharges

We operate facilities that are subject to requirements of the United States Clean Water Act, as amended, or "CWA," and analogous state laws for regulating discharges of pollutants into the waters of the United States and regulating quality standards for surface waters. Among other things, these laws impose restrictions and controls on the discharge of pollutants, including into navigable waters as well as the protection of drinking water sources. Spill prevention, control and counter-measure requirements under the CWA require implementation of measures to help prevent the contamination of navigable waters in the event of a hydrocarbon spill. Other requirements for the prevention of spills are established under the United States Oil Pollution Act of 1990, as amended, or "OPA", which amended the CWA and applies to owners and operators of vessels, including barges, offshore platforms and certain onshore facilities. Under OPA, regulated parties are strictly liable for oil spills and must establish and maintain evidence of financial responsibility sufficient to cover liabilities related to an oil spill for which such parties could be statutorily responsible.

State Environmental Regulations

Our operations involve the storage, handling, transport and disposal of bulk waste materials, some of which contain oil, contaminants and other regulated substances. Various environmental laws and regulations require prevention, and where necessary, cleanup of spills and leaks of such materials and some of our operations must obtain permits that limit the discharge of materials. Failure to comply with such environmental requirements or permits may result in fines and penalties, remediation orders and revocation of permits. Specifically in Texas, we are subject to rules and regulations promulgated by the Texas Railroad Commission and the Texas Commission on Environmental Quality, including those designed to protect the environment and monitor compliance with water quality. In Louisiana, we are subject to rules and regulations promulgated by the Louisiana Department of Environmental Quality and the Louisiana Department of Natural Resources as to environmental and water quality issues, and the Louisiana Public Service Commission as to allocation of intrastate routes and territories for waste water transportation. We believe that we are in compliance with regulations in the states where we conduct business.

Occupational Safety and Health Act

We are subject to the requirements of the United States Occupational Safety and Health Act, as amended, or "OSHA," and comparable state laws that regulate the protection of employee health and safety. OSHA's hazard communication standard requires that information about hazardous materials used or produced in our operations be maintained and provided to employees, state and local government authorities and citizens.

Transportation Regulations

We may conduct interstate motor carrier (trucking) operations that are subject to federal regulation by the Federal Motor Carrier Safety Administration, or "FMCSA," a unit within the United States Department of Transportation, or "USDOT." The FMCSA publishes and enforces comprehensive trucking safety regulations, including rules on commercial driver licensing, controlled substance testing, medical and other qualifications for drivers, equipment maintenance, and drivers' hours of service, referred to as "HOS." The agency also performs certain functions relating to such matters as motor carrier registration (licensing), insurance, and extension of credit to motor carriers' customers. Another unit within USDOT publishes and enforces regulations regarding the transportation of hazardous materials, or "hazmat."

In December 2010, the FMCSA launched a program called Compliance, Safety, Accountability, or "CSA," in an effort to improve commercial truck and bus safety. A component of CSA is the Safety Measurement System, or "SMS," which analyzes all safety violations recorded by federal and state law enforcement personnel to determine a carrier's safety performance. The SMS is intended to allow the FMCSA to identify carriers with safety issues and intervene to address those problems. Although our trucking operations currently hold a "Satisfactory" safety rating from FMCSA (the best rating available), the agency has announced a future intention to revise its safety rating system by making greater use of SMS data in lieu of on-site compliance audits of carriers. We cannot predict the effect such a revision may have on our safety rating.

Our intrastate trucking operations are also subject to various state environmental transportation regulations discussed under "Environmental Regulations" above. Federal law also allows states to impose insurance and safety requirements on motor carriers conducting intrastate business within their borders, and to collect a variety of taxes and fees on an apportioned basis reflecting miles actually operated within each state.

HOS regulations establish the maximum number of hours that a commercial truck driver may work. A FMCSA rule reducing the number of hours a commercial truck driver may work each day became effective in February 2012 and the compliance date of selected provisions was July 1, 2013. The rule, which is intended to reduce the risk of fatigue and fatigue-related crashes and harm to driver health, prohibits a driver from driving if more than eight hours have passed since the driver's last off-duty or sleeper berth break of at least 30 minutes and limits the use of the restart to once a week, which, on average, will cut the maximum work week from 82 to 70 hours.

A new regulation primarily impacting our marine bunker fuel production is known as "IMO 2020". On January 1, 2020, the International Maritime Organization (the "IMO") implemented a new regulation for a 0.50% global sulphur cap for marine fuels. Under the new global cap, ships that traverse the oceans will be required to use marine fuels with a sulphur content of no more than 0.50%, versus the prior limit of 3.50%, in an effort to reduce the amount of sulphur oxide and decrease pollution and greenhouse gas emissions from the global shipping fleet.

There are several variables around this regulatory change that are not yet clear, including anticipated levels of compliance and enforcement. However, it is expected that the implementation of IMO 2020 will result in a significant increase in near-term demand for a broad range of low sulfur distillates including diesel, marine gas oil, marine diesel oil and VGO among others. There is uncertainty about the global refinery industry's ability to meet that spike in demand, which could have substantial consequences for the pricing of those products, particularly VGO. The price of VGO typically has a direct impact on the pricing and/or levels of production of base oil. Changes in the marine fuel market as a result of IMO 2020 are also expected to affect the availability of used motor oil, which today is frequently used in the marine market and some of which may be displaced as a result of this new rule.

Our Marrero facility is already producing and selling IMO 2020 compliant bunker fuel.

Inflation and Commodity Price Risk

To date, our business has not been significantly affected by inflation. We purchase petroleum and petroleum by-products for consolidation and delivery, as well as for our own refining operations. By virtue of constant changes in the market value of petroleum products, we are exposed to fluctuations in both revenues and expenses. We are exposed to market risks related to the volatility in the price of crude oil, No. 6 Fuel Oil and refined petroleum products. To reduce the impact of price volatility on our results of operations and cash flows, we use commodity derivative instruments, such as futures and options. Our positions in commodity derivative instruments are monitored and managed on a daily basis to ensure compliance with our stated risk management policy that has been approved by our board of directors.

We primarily use commodity derivative instruments as economic hedges, which are not designated as hedging instruments, and we use fair value and cash flow hedges from time to time.

Our objectives for holding economic hedges are to (i) manage price volatility in certain feedstock and refined petroleum product inventories and fixed-price purchasing, and (ii) lock in the price of forecasted feedstock, refined petroleum product, and refined petroleum product sales at existing market prices.

The purchase of our used motor oil feedstock tends to track with natural gas pricing due to the market's typical practice of substituting used motor oil for natural gas as a fuel source for various industrial processes. On the other hand, the prices of the products that may in the future be generated through the re-refining processes that we hope to develop are expected to track with market pricing for marine diesel and vacuum-gas oil. The recent drop in oil prices has decreased the spread between the price of used motor oil, feedstock and re-refining end-products.

Intellectual Property

We rely on a combination of patent, trademark, copyright and trade secret laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our proprietary technology, trade secrets, technical know-how and other proprietary information. We also enter into confidentiality and invention assignment agreements with our employees.

We have four patents registered with the U.S. Patent and Trademark Office:

- "System For Making A Usable Hydrocarbon Product From Used Oil" (#8,613,838), which was granted on December 24, 2013.
- "Method for Making a Usable Hydrocarbon Product From Used Oil" (#8,398,847), which was granted on March 19, 2013.
- "System for producing an American Petroleum Institute Standards Group III Base Stock from vacuum gas oil" (#10,421,916), which was granted on September 24, 2019.
- "Method for producing an American petroleum institute standards group III base stock from vacuum gas oil" (#10,287,515), which was granted on May 14, 2019.

In addition, we have developed a website and have registered www.vertexenergy.com as our domain name, which contains information we do not desire to incorporate by reference herein.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider each of the following risk factors and all of the other information set forth in this filing, including our consolidated financial statements and related notes, before investing in our common stock. The following risks and the risks described elsewhere in this filing, including in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," could materially harm our business, financial condition, future results and cash flow. If that occurs, the trading price of our common stock could decline, and you could lose all or part of your investment.

**RISKS RELATING TO OUR OUTSTANDING CREDIT FACILITIES,
DEBT AND RECEIVABLES, AND FINANCIAL STATEMENTS**

We will need to raise additional capital to meet the requirements of the terms and conditions of our Credit Agreements and to fund future acquisitions and our ability to obtain the necessary funding is uncertain.

We will need to raise additional funding or refinance our existing debt to meet the requirements of the terms and conditions of our Credit Agreements, which amounts totaling approximately $16.6 million as of December 31, 2019, come due on February 1, 2021. We may also need to raise additional funds in the future to fund acquisitions. If we raise additional funds in the future, by issuing equity securities, dilution to existing stockholders will result, and such securities may have rights, preferences and privileges senior to those of our common stock and preferred stock. If funding is insufficient at any time in the future and we are unable to generate sufficient revenue from new business arrangements, to repay our outstanding debts, complete planned acquisitions or operations, our results of operations and the value of our securities could be adversely affected. Future funding may not be available on favorable terms, if at all.

We may not be able to generate sufficient cash flow to meet our debt service and other obligations due to events beyond our control.

Our ability to generate cash flows from operations, to make scheduled payments on or refinance our indebtedness and to fund working capital needs and planned capital expenditures will depend on our future financial performance and our ability to generate cash in the future. Our future financial performance will be affected by a range of economic, financial, competitive, business and other factors that we cannot control, such as general economic, legislative, regulatory and financial conditions in our industry, the economy generally, the price of oil and other risks described below. A significant reduction in operating cash flows resulting from changes in economic, legislative or regulatory conditions, increased competition or other events beyond our control could increase the need for additional or alternative sources of liquidity and could have a material adverse effect on our business, financial condition, results of operations, prospects and our ability to service our debt and other obligations. If we are unable to service our indebtedness or to fund our other liquidity needs, we may be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness, seeking additional capital, or any combination of the foregoing. If we raise additional debt, it would increase our interest expense, leverage and our operating and financial costs. We cannot assure you that any of these alternative strategies could be affected on satisfactory terms, if at all, or that they would yield sufficient funds to make required payments on our indebtedness or to fund our other liquidity needs. Reducing or delaying capital expenditures or selling assets could delay future cash flows. In addition, the terms of existing or future debt agreements may restrict us from adopting any of these alternatives. We cannot assure you that our business will generate sufficient cash flows from operations or that future borrowings will be available in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs.

If for any reason we are unable to meet our debt service and repayment obligations, we would be in default under the terms of the agreements governing our indebtedness, which would allow our creditors at that time to declare all of our outstanding indebtedness to be due and payable. This would likely in turn trigger cross-acceleration or cross-default rights between our applicable debt agreements. Under these circumstances, our lenders could compel us to apply all of our available cash to repay our borrowings. In addition, the lenders under our credit facilities or other secured indebtedness could seek to foreclose on our assets that are their collateral. If the amounts outstanding under our indebtedness were to be accelerated, or were the subject of foreclosure actions, our assets may not be sufficient to repay in full the money owed to the lenders or to our other debt holders.

Uncertainty and illiquidity in credit and capital markets can impair our ability to obtain credit and financing on acceptable terms and can adversely affect the financial strength of our business partners.

Our ability to obtain credit and capital depends in large measure on the state of the credit and capital markets, which is beyond our control. Our ability to access credit and capital markets may be restricted at a time when we would like, or need, access to those markets, which could constrain our flexibility to react to changing economic and business conditions. In addition, the cost and availability of debt and equity financing may be adversely impacted by unstable or illiquid market conditions. Protracted uncertainty and illiquidity in these markets also could have an adverse impact on our lenders, commodity hedging counterparties, or our customers, preventing them from meeting their obligations to us.

From time to time, our cash needs may exceed our internally generated cash flow, and our business could be materially and adversely affected if we are unable to obtain necessary funds from financing activities. From time to time, we may need to supplement cash generated from operations with proceeds from financing activities. Uncertainty and illiquidity in financial markets may materially impact the ability of the participating financial institutions to fund their commitments to us under our liquidity facilities. Accordingly, we may not be able to obtain the full amount of the funds available under our liquidity facilities to satisfy our cash requirements, and our failure to do so could have a material adverse effect on our operations and financial position.

We have substantial indebtedness which could adversely affect our financial flexibility and our competitive position. Our debt agreements have previously been declared in default, and our future failure to comply with financial covenants in our debt agreements could result in such debt agreements again being declared in default.

We have a significant amount of outstanding indebtedness. As of December 31, 2019, we owed approximately $12.6 million in accounts payable and accrued expenses. As of December 31, 2019, we owed $13.3 million under the EBC Credit Agreement and $3.3 million under the Revolving Credit Agreement (each defined and described below under "Part II. - Item 7.

Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Credit and Guaranty Agreement and Revolving Credit Facility with Encina Business Credit, LLC”).

Our substantial indebtedness could have important consequences and significant effects on our business. For example, it could:

- increase our vulnerability to adverse changes in general economic, industry and competitive conditions;
- require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- restrict us from taking advantage of business opportunities;
- make it more difficult to satisfy our financial obligations;
- place us at a competitive disadvantage compared to our competitors that have less debt obligations; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other general corporate purposes on satisfactory terms or at all.

We may need to raise additional funding in the future to repay or refinance the Credit Agreements and our accounts payable, and as such may need to seek additional debt or equity financing. Such additional financing may not be available on favorable terms, if at all. If debt financing is available and obtained, our interest expense may increase and we may be subject to the risk of default, depending on the terms of such financing. If equity financing is available and obtained it may result in our shareholders experiencing significant dilution. If such financing is unavailable, we may be forced to curtail our operations, which may cause the value of our securities to decline in value and/or become worthless. Furthermore, the fact that our prior credit agreements have previously been declared in default may negatively affect the perception of the Company and our ability to pay our debts as they become due in the future and could result in the price of our securities declining in value or being valued at lower levels than companies with similar histories of defaults.

The covenants in our credit and loan agreements restrict our ability to operate our business and might lead to a default under our credit agreements.

Our debt agreements limit, among other things, our ability to:

- incur or guarantee additional indebtedness;
- create liens;
- make payments to junior creditors;
- make investments;
- sell material assets;
- affect fundamental changes in our structure;
- make certain acquisitions;
- sell interests in our subsidiaries;
- consolidate or merge with or into other companies or transfer all or substantially all of our assets;
- redeem or repurchase shares of our stock, including our outstanding Series B and B1 Preferred Stock; and
- engage in transactions with affiliates.

The Credit Agreements contain customary representations, warranties and requirements for the Company to indemnify the lenders and their affiliates. The Credit Agreements also include various covenants (positive and negative) binding upon the Company, including, prohibiting us from undertaking acquisitions or dispositions unless they meet the criteria set forth in the Credit Agreements, not incurring any capital expenditures in amount exceeding $3 million in any fiscal year that the Credit Agreements are in place, and requiring us to maintain at least $2.0 million of borrowing availability under the Revolving Credit Agreement at any time.

As a result of these covenants and limitations, we may not be able to respond to changes in business and economic conditions and to obtain additional financing, if needed, and we may be prevented from engaging in transactions that might otherwise be beneficial to us. Our credit and loan agreements require, and our future credit facilities and loan agreements may require, us to maintain certain financial ratios and satisfy certain other financial condition tests. Our ability to meet these financial ratios and tests can be affected by events beyond our control, and we may not be able to meet those tests. The breach of any of these covenants could result in a default under our credit agreements or future credit facilities. Upon the occurrence of an event of default, the lenders could elect to declare all amounts outstanding under such credit agreements, including accrued interest or other obligations, to be immediately due and payable. If amounts outstanding under such credit agreements were to be accelerated, our assets might not be sufficient to repay in full that indebtedness and our other indebtedness.

Our credit agreements and loan agreements also contain cross-default and cross-acceleration provisions. Under these provisions, a default or acceleration under one instrument governing our debt may constitute a default under our other debt instruments that contain cross-default and cross-acceleration provisions, which could result in the related debt and the debt issued under such other instruments becoming immediately due and payable. In such event, we would need to raise funds from alternative sources, which funds might not be available to us on favorable terms, on a timely basis or at all. Alternatively, such a default could require us to sell assets and otherwise curtail operations to pay our creditors. The proceeds of such a sale of assets, or curtailment of operations, might not enable us to pay all of our liabilities.

Our ability to service our indebtedness will depend on our ability to generate cash in the future.

Our ability to make payments on our indebtedness will depend on our ability to generate cash in the future. Our ability to generate cash is subject to general economic and market conditions and financial, competitive, legislative, regulatory and other factors that are beyond our control. Our business may not generate sufficient cash to fund our working capital requirements, capital expenditure, debt service and other liquidity needs, which could result in our inability to comply with financial and other covenants contained in our debt agreements, our being unable to repay or pay interest on our indebtedness, and our inability to fund our other liquidity needs. If we are unable to service our debt obligations, fund our other liquidity needs and maintain compliance with our financial and other covenants, we could be forced to curtail our operations, our creditors could accelerate our indebtedness and exercise other remedies and we could be required to pursue one or more alternative strategies, such as selling assets or refinancing or restructuring our indebtedness. However, such alternatives may not be feasible or adequate.

Our failure to comply with the covenants in the documents governing our existing and future indebtedness could materially adversely affect our financial condition and liquidity.

In connection with the Credit Agreements, we agreed to comply with certain affirmative and negative covenants and agreed to meet certain financial covenants (described in greater detail above under "*The covenants in our credit and loan agreements restrict our ability to operate our business and might lead to a default under our credit agreements*").

The Credit Agreements include customary events of default for facilities of a similar nature and size as the Credit Agreements, including if an event of default occurs under any agreement evidencing $500,000 or more of indebtedness of the Company; we fail to make any payment when due under any material agreement; subject to certain exceptions, any judgment is entered against the Company in an amount exceeding $500,000; and also provides that an event of default occurs if a change in control of the Company occurs, which includes if (a) Benjamin P. Cowart, the Company's Chief Executive Officer, Chairman of the Board and largest shareholder and Chris Carlson, the Chief Financial Officer of the Company, cease to own and control legally and beneficially, collectively, either directly or indirectly, equity securities in Vertex Energy, Inc., representing more than 15% of the combined voting power of all securities entitled to vote for members of the board of directors or equivalent on a fully-diluted basis, (b) the acquisition of ownership, directly or indirectly, beneficially or of record, by any person or group of securities representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding securities of Vertex Energy, Inc., or (c) during any period of 12 consecutive months, a majority of the members of the board of directors of the Company cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body.

A breach of any of the covenants of the Credit Agreements or any future agreements, if uncured, could lead to an event of default under any such document, which in some circumstances could give our creditors the right to demand that we accelerate repayment of amounts due and/or enforce their security interests over substantially all of our assets. This would likely in turn trigger cross-acceleration or cross-default rights in other documents governing our indebtedness. Therefore, in the event of any such breach, we may need to seek covenant waivers or amendments from our creditors or seek alternative or additional sources of financing, and we may not be able to obtain any such waivers or amendments or alternative or additional financing on acceptable terms, if at all. In addition, any covenant breach or event of default could harm our credit rating and our ability to obtain additional financing on acceptable terms. The occurrence of any of these events could have a material adverse effect on our financial condition and liquidity and/or cause our lenders to enforce their security interests which could ultimately result in the foreclosure of our assets, which would have a material adverse effect on our operations and the value of our securities.

Our obligations under the Credit Agreements are secured by a first priority security interest in substantially all of our assets.

Our obligations under the Credit Agreements are secured by a first priority security interest in substantially all of our assets. Additionally, substantially all of our subsidiaries agreed to guarantee our obligations under the Credit Agreements. As such, our creditors may enforce their security interests over our assets and/or our subsidiaries which secure the repayment of such obligations, take control of our assets and operations, force us to seek bankruptcy protection, or force us to curtail or abandon our current business plans and operations. If that were to happen, any investment in the Company could become worthless.

If we are unable to maintain a credit facility, it could have an adverse effect on our business.

We have historically been able to maintain lines of credit and other credit facilities similar to the Credit Agreements. We rely heavily on the availability and utilization of these lines of credit and credit facilities for our operations and for the purchase of inventory. If we are unable to renew or replace our facility or are unable to borrow funds under such facility or any future facility, we may be forced to curtail or abandon our current and/or future planned business operations.

A decline in expected profitability of the Company or any of our business segments could result in the impairment of assets and other long-lived assets, including goodwill.

We hold material amounts of long-lived assets on our balance sheet. A decline in expected profitability of one of our operating segments or a decline in the global economy, could call into question the recoverability of our related goodwill, other long-lived tangible and intangible assets, and require us to write down or write off these assets. Such an occurrence could have a material adverse effect on our annual results of operations and financial position.

Changes in interest rates could adversely affect our earnings and/or cash flows.

Changes in interest rates could have a material adverse impact on our earnings and cash flows. Because the majority of our notes payable have variable interest rates, our business results are subject to fluctuations in interest rates. Additionally, our Credit Agreements bear interest at variable rates that use LIBOR as a benchmark for establishing the interest rate. LIBOR is the subject of recent proposals for reform. On July 27, 2017, the United Kingdom's Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. These reforms may cause LIBOR to cease to exist, new methods of calculating LIBOR to be established or the establishment of an alternative reference rate(s). These consequences cannot be entirely predicted and could have an adverse impact on the market value for or value of LIBOR-linked securities, loans, and other financial obligations or extensions of credit held by or due to us. Changes in market interest rates may influence our financing costs, returns on financial investments and the valuation of derivative contracts and could reduce our earnings and cash flows.

RISKS RELATING TO OUR OPERATIONS, BUSINESS AND INDUSTRY

<u>General Risks</u>

The price of oil and fluctuations in oil prices may have a negative effect on our results of operations.

The majority of our operations are associated with collecting used oil, re-refining or otherwise processing a portion of such used oil and then selling both such re-refined/processed oil and the excess feedstock oil which we do not currently have the capacity to re-refine, to other customers. The prices at which we sell our re-refined/processed oil and extra feedstock are affected by changes in the reported spot market prices of oil. If applicable rates increase or decrease, we typically will charge a higher or lower corresponding price for our re-refined/processed oil and excess feedstock. The price at which we sell our re-refined/processed oil and excess feedstock is affected by changes in certain indices measuring changes in the price of heavy fuel oil, with increases and decreases in the indices typically translating into a higher or lower price for our re-refined/processed oil and excess feedstock. The cost to collect used oil, including the amounts we pay to obtain a portion of our used oil and therefore ability to collect necessary volumes as well as the fuel costs of our oil collection fleet, typically also increases or decreases when the relevant indices increase or decrease. However, even though the prices we can charge for our re-refined/processed oil and excess feedstock and the costs to collect and re-refine/processed used oil typically increase and decrease together, there is no assurance that when our costs to collect and re-refine/process used oil increase we will be able to increase the prices we charge for our re-refined/processed oil excess feedstock to cover such increased costs, or that our costs to collect and re-refine/process used oil will decline when the prices we can charge for re-refined/processed oil declines. These risks are exacerbated when there are rapid fluctuations in these oil indices.

In addition to the above, the value of re-refined and processed used oil is usually greater the more expensive oil is. As the price of oil decreases so does the spread between re-refined/processed used oil and refined oil and extremely low oil prices, such as the global markets experienced during fiscal 2015 and 2016, customers will often be willing to pay the slightly higher cost of refined oil rather than paying for re-refined/processed oil. Furthermore, as the price of oil decreases, the price we can charge for re-refined/processed oil decreases, and while in general the cost of our feedstocks decrease, the fixed prices required to process such feedstock and operate our plans remain fixed. As such, in the event the price of oil remains low and we are not able to increase the prices we charge for re-refined/processed oil, our margins will likely decrease and it may not become economically feasible to continue to operate our facilities. In the event that were to occur, we may be forced to shut down our facilities.

The occurrence of any of the events described above could have a material adverse effect on our results of operations and could in turn cause the value of our securities to decline in value.

The prices of many of our products are subject to significant volatility.

Our principal products include marine fuel cutterstock and a higher-value feedstock for further processing, vacuum oil gas, base oil that is sold to lubricant packagers and distributors, pygas, gasoline blendstock and marine fuel cutterstock. The prices of these products are tied to the value of oil. Accordingly, our results of operations will be affected by fluctuations in the prevailing market price for oil. Historically, market prices for oil have fluctuated in response to a number of factors, including global changes in supply and demand resulting from changes in local and global economic conditions, changes in energy policies of U.S. and foreign governments, changes in international trading policies, OPEC, and other factors. While we seek to mitigate the risks associated with price declines, including in some situations, by using hedging, a significant decrease in the market price of any of our products or of oil would have a material adverse effect on our results of operations and cash flow. Furthermore, rapid and material changes in feedstock prices generally have an immediate and, often times, material impact on the Company's gross margin and profitability resulting from the lag effect or lapse of time from the procurement of the feedstock until they are re-refined/processed and the finished products are sold. Our results of operations could be materially and adversely affected in the future by this volatility.

Our TCEP only makes commercial sense when the market price for oil is high.

From the third quarter of 2015 to the fourth quarter of 2019, we utilized TCEP to pre-treat our used motor oil feedstocks prior to shipping to our facility in Marrero, Louisiana; however, beginning in the fourth quarter of 2019, we once again began using TCEP for the purpose of producing finished cutterstock. When oil prices are low we anticipate using TCEP only to pre-treat our used motor oil feedstocks prior to shipping them to our facility in Marrero, Louisiana, versus for its original intended purpose, producing finished cutterstock. This is because when oil prices are low, the fixed costs of TCEP are greater than the price we can charge for re-refined oil we can create using such technology. If oil prices decline in the future it may be inefficient to operate TCEP to re-refine oil, which may have a negative effect on our cash flows and results of operations.

Downturns and volatility in global economies and commodity and credit markets could materially adversely affect our business, results of operations and financial condition.

Our results of operations are materially affected by the conditions of the global economies and the credit, commodities and stock markets. Among other things, we may be adversely impacted if our customers and suppliers are not able to access sufficient capital to continue to operate their businesses or to operate them at prior levels. A decline in consumer confidence or changing patterns in the availability and use of disposable income by consumers can negatively affect both our suppliers and customers. Declining discretionary consumer spending or the loss or impairment of a meaningful number of our suppliers or customers could lead to a dislocation in either feedstock availability or customer demand. Any tightening in credit supply could negatively affect our customers' ability to pay for our products on a timely basis or at all and could result in a requirement for additional bad debt reserves. Although many of our customer contracts are formula-based, continued volatility in the oil market could negatively impact our revenues and overall profits. Counterparty risk on finished product sales can also impact revenue and operating profits when customers either are unable to obtain credit or refuse to take delivery of finished products due to market price declines.

If we are unable to retain current, and obtain new customers, our revenue and cash flows could be reduced to levels that could adversely affect our results of operations.

Any of the following factors could result in our inability to maintain current customers or attain new customers. If that were to happen our results of operations could be materially adversely affected and the value of our securities could decline in value:

- a material decrease in the supply or price of crude oil or petroleum related products in which we deal;
- a material decrease in demand for the finished products in the markets we serve;
- scheduled refinery turnarounds or unscheduled maintenance; and
- operational problems or catastrophic events at any of our facilities,

We are dependent on third parties for the disposal of our waste streams.

We do not own any waste disposal sites. As a result, we are dependent on third parties for the disposal of waste streams. To date, disposal vendors have met their requirements, but they may not continue to do so. If for some reason our current disposal vendors cannot perform up to standards, we may be required to replace them. Although we believe there are a number of potential replacement disposal vendors that could provide such services, we may incur additional costs and delays in identifying and qualifying such replacements. In addition, any mishandling of our waste streams by disposal vendors could expose us to liability. Any failure by disposal vendors to properly collect, transport, handle or dispose of our waste streams could expose us to liability, damage our reputation and generally have a material adverse effect on our business, financial condition or results of operations.

We are subject to risks associated with our relationship with Bunker One.

On January 10, 2020, we entered into a Heads of Agreement and a Joint Supply and Marketing Agreement, with Bunker One (USA) Inc. Pursuant to the Heads of Agreement, the Company and Bunker One agreed to form a joint decision-making body to focus on strategic matters related to the overall cooperation of the parties and to establish rules and procedures for identifying and undertaking joint projects. For each project that the parties agree to pursue, the parties will enter into a form of Co-Operation and Joint Supply and Marketing Agreement. The principal objective of each such Co-Operation JSMA will be the expansion of the business of each party by cooperating in the sourcing, storing, transportation, marketing and selling of products, where: (a) Vertex is primarily responsible for the sourcing and storing of the product (bunker fuels); (b) Bunker One is primarily responsible for the transporting, blending, marketing, selling and delivering of the product (bunker fuels); (c) Bunker One is responsible for the risk management/exposure (e.g. hedging) of the bunker fuels; and (d) Bunker One is the exclusive seller of the product to third parties. The Heads of Agreement has a term of ten years, beginning effective on January 1, 2020, and continuing through April 30, 2029, provided that the agreement extends for additional five year periods thereafter unless either party provides the other at least 120 days' notice of non-renewal before any such automatic renewal date. Finally, under the agreement, if at any time the Company acquires a supply of material that the Company intends to sell in Texas, Louisiana or Alabama and that is suitable for use in Bunker One's bunkering business in such area from a third party, or produces additional material for sale in such area, the

Company is required to provide Bunker One the right to purchase such supply/material pursuant to the terms and conditions of the Heads of Agreement.

The JSMA is effective as of May 1, 2020, and provides for Bunker One to acquire 100% of the production from the Company's Marrero, Louisiana re-refining facility (which produces approximately 100,000 barrels per month of Bunker Fuel). Pursuant to the JSMA, the parties agreed to the percentages pursuant to which net profit will be split between the parties, relating to the sale of such Bunker Fuel by Bunker One, which is to be sold in Texas, Louisiana, Alabama and areas immediately adjacent thereto if mutually agreed. The JSMA has a term from May 1, 2020 to April 30, 2029, provided that the term is automatically renewable for additional five year periods thereafter unless either party provides the other at least 120 days prior written notice of non-renewal, prior to any automatic renewal date.

As a result of the above, Bunker One is the purchaser of the majority of the Company's finished product from its Marrero, Louisiana re-refining facility, which makes up approximately 40% of the Company's revenues. Bunker One also currently owns over 5% of our outstanding common stock and has the right, during the term of the JSMA, to have a representative attend each meeting of the Board of Directors of the Company and the committees of the board (in a non-voting observer capacity). As such, we rely on Bunker One for a significant source of our revenues and the termination of, or material adverse change in, the terms of our relationship, or a material adverse change to Bunker One or its operations, could temporarily affect our business, financial condition, liquidity and results of operations. If our relationship with Bunker One is terminated, we would have to find a new purchaser of our Marrero finished products, or enter into another similar counterparty arrangement with a third party, which we may not be able to enter into on terms that are as favorable to us, or at all. We are also reliant on Bunker One's ability to timely pay us amounts due under the JSMA and in the event that Bunker One is unable to pay such amounts, timely, or at all, it could have a material adverse effect on our operating results. Due to our significant reliance on Bunker One, in the event Bunker One experiences issues in selling our finished products, or in connection with its operations in general, it could have a material adverse effect on our business, financial condition, liquidity and results of operations.

We are dependent on third party generators and collectors for our feedstock.

Generators are entities that generate used oil through their daily operations such as automotive businesses conducting oil changes on consumer and commercial vehicles and industrial users changing lubricants on machinery and heavy equipment.

Collectors are typically local businesses that purchase used oil from generators and provide on-site collection services. The collection market is highly fragmented and we believe there are more than 400 used oil collectors in the United States.

We depend on generators to generate used oil feedstock and collectors to collect such feedstock. In the event a significant number of generators cease generating feedstock, or generators and collectors cease providing us their feedstock or otherwise materially change the current process by which feedstock is collected, it could have a material adverse effect on our business, financial condition or results of operations.

Worsening economic conditions and trends and downturns in the business cycles of the industries we serve and which provide services to us would impact our business and operating results.

A significant portion of our customer base is comprised of companies in the chemical manufacturing and hydrocarbon recovery industries. The overall levels of demand for our products, refining operations, and future planned re-refined oil products are driven by fluctuations in levels of end-user demand, which depend in large part on general macroeconomic conditions in the U.S., as well as regional economic conditions. For example, many of our principal consumers are themselves heavily dependent on general economic conditions, including the price of fuel and energy, availability of affordable credit and capital, employment levels, interest rates, consumer confidence and housing demand. These cyclical shifts in our customers' businesses may result in fluctuations in demand, volumes, pricing and operating margins for our services and products.

In addition to our customers, the suppliers of our feedstock may also be affected by downturns in the economy and adverse changes in the price of feedstock. For example, we previously experienced difficulty obtaining feedstock from our suppliers who, because of the sharp downturn in the price of oil (used and otherwise) have seen their margins decrease substantially, which in some cases have made it uneconomical for such suppliers to purchase feedstock from their suppliers and/or sell to us at the rates set forth in their contracts. Any similar decline in the price of oil and/or the economy in general could create a decrease in the supply of feedstock, prevent us from maintaining our required levels of output and/or force us to seek additional suppliers of feedstock, who may charge more than our current suppliers, and therefore adversely affect our results of operations.

Our operating margins and profitability may be negatively impacted by changes in fuel and energy costs.

We transport our feedstock, refined oil and re-refined oil, VGO and other materials with trucks and by rail. As a result, increases in shipping and transportation costs caused by increases in oil, gasoline and diesel prices have a significant impact on our operating expenses. The price and supply of oil and gas is unpredictable and fluctuates based on events beyond our control, including geopolitical developments, natural disasters, supply and demand for oil and natural gas, actions by OPEC and other oil and gas producers, war and unrest in oil producing countries, regional production patterns and environmental concerns. A significant increase in transportation or fuel costs could lower our operating margins and negatively impact our profitability.

Additionally, the price at which we sell our refined oil and our re-refined oil, VGO and other materials is affected by changes in certain oil indexes. If the relevant oil index rises, we anticipate being able to increase the prices for our refined and re-refined oil. If the relevant oil index declines, we anticipate having to reduce prices for our refined and re-refined oil. However, the cost to collect used oil and refinery feedstock, including the amounts that must be paid to obtain used oil and feedstock, generally also increases or decreases when the relevant index increases or decreases. Even though the prices that can be charged for our refined and re-refined products and the costs to collect, refine, and re-refine the feedstock generally increase and decrease together, if the costs to collect, refine and re-refine used oil and petrochemical products increase in the future, we may not be able to increase the prices we charge for our refined and re-refined products to cover such increased costs. Additionally, the costs to collect, refine and re-refine used oil and petrochemical products may not decline if the prices we can charge for our products decline. If the prices we charge for our finished products and the costs to collect, refine and re-refine products do not move together or in similar magnitudes, our profitability may be materially and negatively impacted.

We are vulnerable to the potential difficulties associated with rapid growth.

We believe that our future success depends on our ability to manage the rapid growth that we have experienced, and the continued growth that we expect to experience organically and through acquisitions. Our growth places additional demands and responsibilities on our management to, among other things, maintain existing suppliers and customers and attract, recruit, retain and effectively manage employees, as well as expand operations. The following factors could present difficulties to us: lack of sufficient executive-level personnel and increased administrative burden; availability of suitable acquisition candidates, trucks, barges, tanks, rail cars and processing facilities; and the ability to provide focused service attention to our customers, among others.

Our contracts may not be renewed and our existing relationships may not continue, which could be exacerbated by the fact that a limited number of our customers represented a significant portion of our sales.

Our contracts and relationships in the black oil business include feedstock purchasing agreements with local waste oil collectors, feedstock sale agreements, a few key relationships in the bunkering, blending and No. 6 oil industry, and other relationships. Because our operations are extremely dependent on the black oil key bunkering, blending and No. 6 oil relationships as well as our third-party refining contracts, if we were to lose relationships, there would be a material adverse effect on our operations and results of operations. Additionally, if we were to lose any of our current local waste oil collectors, we could be required to spend additional resources locating and providing incentives for other waste oil collectors, which could cause our expenses to increase and/or cause us to curtail or abandon our business plans.

A significant portion of our historical revenues are a result of our agreement with KMTEX.

We have an agreement in place with KMTEX, which specializes in the custom processing of petrochemicals and other chemicals. Our services include terminal storage and expert project management in materials handling, distillation, filtration, molecular sieve, and reaction chemistry, pursuant to which KMTEX agreed to process feedstock of certain petroleum distillates, which we provide to KMTEX to process into more valuable feedstocks, including pygas, gasoline blendstock and cutterstock, which agreement currently expires on December 31, 2020 (provided that, as of the date of this filing, we are negotiating the terms of a further extension/renewal), provided that if not terminated by either party by written notice to the other, received within ninety (90) days prior to the expiration term, the agreement automatically renews for up to four additional one (1) year periods. However, either party can terminate the agreement at any time with ninety days prior written notice for any reason and with thirty days written notice upon the occurrence of certain material termination events as described in greater detail in the agreement. If KMTEX were to terminate our relationship and/or not agree to renew our agreement with it, we would be forced to spend resources attempting to locate another party which we could supply our feedstock which could take substantial time, if such alternative party is even available. If we are able to find another contracting party, the terms of the understanding or agreement with such contracting party may be on terms less favorable to us and/or may force us to transport our feedstock a greater distance. As a result of the above, if we were to lose our relationship with KMTEX our expenses may increase, our results of operations may decrease and/or it may cause us to curtail or abandon our business plans, all of which would likely cause the value of our securities to decrease in value.

We operate in competitive markets, and there can be no certainty that we will maintain our current customers or attract new customers or that our operating margins will not be impacted by competition.

The industries in which we operate are highly competitive. We compete with numerous local and regional companies of varying sizes and financial resources in our refining and feedstock consolidation operations, transportation services, feedstock collection and aggregation and used oil recycling, and we compete with larger oil companies, with significantly greater resources than us, in our oil re-refining operations. We expect competition to intensify in the future. Furthermore, numerous well-established companies are focusing significant resources on providing used oil collection, transportation, refining and re-refining services that will compete with our services. We may not be able to effectively compete with these other companies and competitive pressures, including possible downward pressure on the prices we charge for our products and services, may arise. In the event that we cannot effectively compete on a continuing basis, or competitive pressures arise, such inability to compete or competitive pressures could have a material adverse effect on our business, results of operations and financial condition.

Disruptions in the supply of feedstock and/or increases in the cost of feedstock could have an adverse effect on our business.

We depend on the continuing availability of raw materials, including feedstock, to remain in production. Additionally, we depend on the price of such raw materials, including feedstock being reasonable to us in relation to the prices we are able to receive for our final products. A serious disruption in supply of feedstock, or significant increases in the prices of feedstock, could significantly reduce the availability of raw materials at our plants and which are available to be processed by our third-party processors. Additionally, increases in production costs could have a material adverse effect on our business, results of operations and financial condition.

For example, in the past we experienced difficulty in obtaining feedstock from our suppliers who, because of the sharp downturn in the price of oil (used and otherwise) in 2015 and 2016, saw their margins decrease substantially, which in some cases made it uneconomical for such suppliers to purchase feedstock from their suppliers and/or sell to us at the rates set forth in their contracts. Any similar decline in the price of oil and/or the economy in general could create a decrease in the supply of feedstock, prevent us from maintaining our required levels of output and/or force us to seek out additional suppliers of feedstock, who may charge more than our current suppliers, and therefore adversely affect our results of operations.

Our reliance on small business customers causes us to be subject to the trends and downturns that impact small businesses, which could adversely affect our business.

Our feedstock customer base is primarily composed of small businesses in the vehicle repair and manufacturing industries. The high concentration of our feedstock customers that are small businesses exposes us to significant risk. Small businesses start, close, relocate, and are acquired and sold frequently. In addition, small businesses are often impacted more significantly by economic recessions when compared to larger businesses. As a result, we must continually identify new feedstock customers and expand our business with existing feedstock customers in order to sustain our growth and feedstock supply. If we experience a rise in levels of customer turnover, it may have a negative impact on the profitability of our business.

Unanticipated problems at, or downtime effecting, our facilities and those operated by third parties on which we rely, could have a material adverse effect on our results of operations.

Our ability to process feedstocks depends on our ability to operate our refining/processing operations and facilities, and those operated by third parties on which we rely, including, but not limited to KMTEX, and the total time that such facilities are online and operational. The occurrence of significant unforeseen conditions or events in connection with the operation or maintenance of such facilities, such as the need to refurbish such facilities, shortages of workers or materials, adverse weather, including, but not limited to lightning strikes, floods, hurricanes, tornadoes and earthquakes, equipment failures, fires, explosions, oil or other leaks, damage to or destruction of property and equipment associated therewith, environmental releases and/or damage, government regulation changes affecting the use of such facilities, terrorist attacks, mechanical or physical failures of equipment, acts of God, or other conditions or events, could prevent us from operating our facilities, or prevent such third parties from operating their facilities, or could force us or such third parties to shut such facilities down for repairs, maintenance, refurbishment or upgrades for a significant period of time. In the event any of our facilities or those of third parties on which we rely are offline for an extended period of time, it could have a material adverse effect on our results of operations and consequently the price of our securities.

The fees charged to customers under our agreements with them may not escalate sufficiently to cover increases in costs and the agreements may be suspended in some circumstances, which would affect our profitability.

Under our agreements with our customers, we may be unable to increase the fees that we charge our customers at a rate sufficient to offset any increases in our costs. Additionally, some customers' obligations under their agreements with us may be permanently or temporarily reduced upon the occurrence of certain events, some of which are beyond our control, including force majeure events. Force majeure events may include (but are not limited to) events such as revolutions, wars, acts of enemies, embargoes, import or export restrictions, strikes, lockouts, fires, storms, floods, acts of God, explosions, mechanical or physical failures of our equipment or facilities of our customers. If the escalation of fees is insufficient to cover increased costs or if any customer suspends or terminates its contracts with us, our profitability could be materially and adversely affected.

Improvements in or new discoveries of alternative energy technologies and/or government mandated use of such technologies and/or government restrictions or quotas on the use of oil and gas, could have a material adverse effect on our financial condition and results of operations.

Because our business depends on the demand for oil and used oil, any improvement in or new discoveries of alternative energy technologies (such as wind, solar, geothermal, fuel cells and biofuels), government mandated use of such technologies and/or government restrictions or quotas on the use of oil and gas that increase the use of alternative forms of energy and/or reduce the demand or market for oil, used oil and oil and used oil related products could have a material adverse impact on our business, financial condition and results of operations.

In addition to the above, we may be exposed to risks related to laws passed by governments or regulations incentivizing or mandating the use of alternative energy sources, such as wind power and solar energy, which may reduce demand for oil and natural gas and our drilling services. Such laws, regulations, treaties or international agreements could result in increased compliance costs or additional operating restrictions, which may have a negative impact on our business, and could adversely affect our operations by limiting drilling opportunities.

Improvements in or new methodologies or technology relating to the refining and re-refining of used oil feedstocks could have a material adverse effect on our financial condition and results of operations.

In the event our competitors or future competitors design or implement new methodologies or new technology relating to the refining or re-refining of used oil feedstock it could reduce demand for our processes, or make such processes commercially irrelevant. In the event we are not able to duplicate or license such new methodologies or technology it could have a material adverse impact on our business, financial condition and results of operations.

Our business is subject to operational and safety risks, including the risk of personal injury to employees and others.

Our operations involve risks such as truck accidents, equipment defects, malfunctions and failures. Additionally, our operations are subject to risk associated with releases of oil and other materials. Operation of our facilities involves additional risks of fire and explosion. Any of these risks could potentially result in injury or death of employees and others, a need to shut down or reduce operation of facilities, increased operating expense and exposure to liability for pollution and other environmental damage, and property damage or destruction.

While we seek to minimize our exposure to such risks through comprehensive training, compliance and response and recovery programs, as well as vehicle and equipment maintenance programs, if we were to incur substantial liabilities in excess of any applicable insurance, our business, results of operations and financial condition could be adversely affected. Any such incidents could also tarnish our reputation and reduce the value of our brand. Additionally, a major operational failure, even if suffered by a competitor, may bring enhanced scrutiny and regulation of our industry, with a corresponding increase in operating expense.

We may be subject to citizen opposition and negative publicity due to public concerns over our operations and planned future operations, which could have a material adverse effect on our business, financial condition or results of operations.

There currently exists a high level of public concern over hazardous waste and refining and re-refining operations, including with respect to the location and operation of transfer, processing, storage and disposal facilities. Part of our business strategy is to increase our re-refining capacity through the construction of new facilities in growth markets. Zoning, permit and licensing applications and proceedings, as well as regulatory enforcement proceedings, are all matters open to public scrutiny and comment. Accordingly, from time to time we may be subject to citizen opposition and publicity which may damage our reputation and delay or limit the planned expansion and development of future facilities or operations or impair our ability to renew existing permits, any of which could prevent us from implementing our growth strategy and have a material adverse effect on our business, financial condition or results of operations.

We face risks associated with global pandemics and epidemics.

Our sales volumes, and as a result, our results of operations and cash flows, significantly depend on the U.S. and to a lesser extent, worldwide demand for oil and used oil. As a result, pandemics, epidemics, and public health crises, which effect the U.S. and the world as a whole, and which result in travel disruptions, reductions in shipping and therefore declines in the need for oil and used oil, will harm our business and cause our operating results to suffer. For example, in December 2019, January 2020 and February 2020, an outbreak of a new strain of coronavirus in Wuhan, China has resulted in decreased production in China, which is one of the largest global producers and shippers of goods, and has consequently led to a decrease in global shipping. Furthermore, risks associated with the potential spread of the new strain of coronavirus has resulted in additional declines in shipping volumes with ships from oil tankers to container lines being turned away from ports, or held in quarantine, due to the fear of spreading the virus. The shipping segment has suffered even more as factories have been shut down across China, the world's largest consumer of commodities, and travel restrictions were put in place to control the spread of the coronavirus outbreak. It is anticipated that the diminished demand for transported goods as a result of such slowdown and shutdowns will continue to weigh on the shipping industry for months ahead. While we expect the decrease in global demand for shipping, and therefore oil and used oil, will have a negative effect on the price of oil and used oil, and the demand for oil and used oil, and therefore, our results of operations, at this point, the extent to which the coronavirus may impact our results is uncertain.

We depend heavily on the services of our Chief Executive Officer and Chairman, Benjamin P. Cowart.

Our success depends heavily upon the personal efforts and abilities of Benjamin P. Cowart, our Chief Executive Officer and Chairman, who is employed by us pursuant to an employment contract which continues in effect until December 31, 2020, provided that the agreement automatically extends for additional one year terms thereafter in the event neither party provides the other at least 60 days prior notice of their intention not to renew the terms of the agreement. The loss of Mr. Cowart or other key employees could have a material adverse effect on our business, results of operations or financial condition. In addition, the absence of Mr. Cowart may force us to seek a replacement who may have less experience or who may not understand our business as well, or we may not be able to find a suitable replacement.

Unanticipated problems or delays in building our facilities to the proper specifications may harm our business and viability.

Our future growth will depend on our ability to timely and economically complete and operate our re-refining facilities and operate our existing refining operations and facilities. If our operations are disrupted or our economic integrity is threatened for unexpected reasons, our business may experience a substantial setback. Moreover, the occurrence of significant unforeseen conditions or events in connection with the construction of our planned facilities may require us to reexamine our business model. Any change to our business model or management's evaluation of the viability of our planned services may adversely affect our business. Construction costs for our future facilities may also increase to a level that would make a new facility too expensive to complete or unprofitable to operate. Contractors, engineering firms, construction firms and equipment suppliers also receive requests and orders from other companies and, therefore, we may not be able to secure their services or products on a timely basis or on acceptable financial terms. We may suffer significant delays or cost overruns as a result of a variety of factors, such as increases in the prices of raw materials, shortages of workers or materials, transportation constraints, adverse weather, equipment failures, fires, damage to or destruction of property and equipment, environmental damage, unforeseen difficulties or labor issues, any of which could prevent us from beginning or completing construction or commencing operations at future re-refining facilities.

Strategic relationships on which we rely are subject to change.

Our ability to identify and enter into commercial arrangements with feedstock suppliers and refined and re-refined oil clients depends on developing and maintaining close working relationships with industry participants. Our success in this area also depends on our ability to select and evaluate suitable projects as well as to consummate transactions in a highly competitive environment. These factors are subject to change and may impair our ability to grow.

Disruptions to infrastructure and our and our partner's facilities could materially and adversely affect our business.

Our business depends on the continuing availability of road, railroad, port, storage and distribution infrastructure and our re-refining facilities. Any disruptions in this infrastructure network or such re-refining facilities, whether caused by labor difficulties, earthquakes, storms, other natural disasters, human error or malfeasance or other reasons, could have a material adverse effect on our business. We rely on third parties to maintain the rail lines from our plants to the national rail network, and any failure by these third parties to maintain the lines could impede the delivery of products, impose additional costs and could have a material adverse effect on our business, results of operations and financial condition. For example, previous damage to our terminal facility located at Cedar Marine Terminal in Baytown, Texas as a result of Hurricane Ike in 2008 (which caused the terminal to temporarily be out of operation) resulted in increased costs associated with the shipping of feedstock through third-party contractors, thereby raising the overall cost of the feedstock and lowering our margins. Additional hurricanes or natural disasters in the future could cause similar damage to our infrastructure, prevent us from generating revenues while such infrastructure is undergoing repair (if repairable) and/or cause our margins and therefore our results of operations to be adversely affected.

Any prolonged period during which the facilities we operate or acquire are non-operational or operational on a limited basis due to the decision to refurbish or upgrade such facilities, due to accidents or events which occur at such facilities, including, but not limited to fires, floods or other acts of God, or any other reason, including problems with the facilities, could adversely affect our revenues and results of operations. Furthermore, any period during which KMTEX's facilities or our other facilities are offline could have an adverse effect on our revenues, force us to seek alternative re-refining facilities (which may be more expensive or require us to transport our feedstock over longer distances) and may increase our expenses, decreasing our operating margins.

Negative publicity may harm our operations and we may face additional expenses due to such negative publicity.

Only a relatively small number of entities operate in our industry including competitors, feedstock suppliers, re-refining operators, purchasers of our products and transportation companies. If issues arise with our products or third parties (including entities which operate in our industry) allege issues with our products, even if no issues with such products exist, such negative publicity may force us to change service providers, undertake certain transportation activities ourselves, at higher costs than third parties would charge, or cause certain of our buyers, sellers or service providers to cease working with us. The result of such actions may result in our expenses increasing, a decrease in our ability to purchase feedstock, or our ability to sell or transport our resulting products, which could cause our revenues to decrease and/or expenses to increase, which could cause a material adverse effect on our results of operations.

Our commercial success will depend in part on our ability to obtain and maintain protection of our intellectual property.

Our success will depend in part on our ability to maintain or obtain and enforce patent rights and other intellectual property protection for our technologies, to preserve our trade secrets, and to operate without infringing upon the proprietary rights of third parties. We currently have five registered patents in the United States (none, internationally). If we file additional patent applications for our technologies in the future, such patents may not be granted and the scope of any claims granted in any patent may not provide us with proprietary protection or a competitive advantage. Furthermore, our current patents, or future patents, if granted, may not be valid and may not afford us with protection against competitors with similar technology. The failure to obtain or maintain patents or other intellectual property protection on the technologies underlying our technologies may have a material adverse effect on our competitive position and business prospects. It is also possible that our technologies may infringe on patents or other intellectual property rights owned by others. We may have to alter our products or processes, pay licensing fees, defend an infringement action or challenge the validity of the patents in court, or cease activities altogether because of patent rights of third parties, thereby causing additional unexpected costs and delays to it. A license may not be available to us, if at all, upon terms and conditions acceptable to us and we may not prevail in any intellectual property litigation. Intellectual property litigation is costly and time consuming, and we may not have sufficient resources to pursue such litigation. If we do not obtain a license under such intellectual property rights, are found liable for infringement or are not able to have such patents declared invalid, we may be liable for significant money damages and may encounter significant delays in bringing products to market.

Competition may impair our success.

New technologies may be developed by others that could compete with our refining and re-refining technologies. In addition, we face competition from other producers of oil substitutes and related products. Such competition is expected to be intense and could significantly drive down the price for our products. Competition will likely increase as prices of energy in the commodities market, including refined and re-refined oil, rise. Additionally, new companies are constantly entering the market, thus increasing the competition even further. These companies may have greater success in the recruitment and retention of qualified employees, as well as in conducting their own refining and re-refining operations, and may have greater access to feedstock, market presence, economies of scale, financial resources and engineering, technical and marketing capabilities, which may give them a competitive advantage. In addition, actual or potential competitors may be strengthened through the acquisition of additional assets and interests. If we are unable to compete effectively or adequately respond to competitive pressures, this may materially adversely affect our results of operations and financial condition and could also have a negative impact on our ability to obtain additional capital from investors.

Potential competition from our existing executive officers, after they leave their employment with us, and subject to the non-compete terms of their employment agreements, could negatively impact our profitability.

Although our Chief Executive Officer, Benjamin P. Cowart, our Chief Financial Officer and Secretary, Chris Carlson, and our Chief Operating Officer, John Strickland, are prohibited from competing with us while they are employed with us and for twelve months thereafter (subject to the terms of, and exceptions set forth in, their employment agreements with the Company), none of such individuals will be prohibited from competing with us after such twelve-month period ends. Accordingly, any of these individuals could be in a position to use industry experience gained while working with us to compete with us. Such competition could increase our costs to obtain feedstock, and increase our costs for contracting use of operating assets and services such as third-party refining capacity, trucking services or terminal access. Furthermore, such competition could distract or confuse customers, reduce the value of our intellectual property and trade secrets, or result in a reduction in the prices we are able to obtain for our finished products. Any of the foregoing could reduce our future revenues, earnings or growth prospects.

Competition due to advances in renewable fuels may lessen the demand for our products and negatively impact our profitability.

Alternatives to petroleum-based products and production methods are continually under development. For example, a number of automotive, industrial and power generation manufacturers are developing alternative clean power systems using fuel cells or clean-burning gaseous fuels that may address increasing worldwide energy costs, the long-term availability of petroleum reserves and environmental concerns, which if successful could lower the demand for our services. If these non-petroleum based products and oil alternatives continue to expand and gain broad acceptance such that the overall demand for our products is reduced, we may not be able to compete effectively in the marketplace.

We will rely on new technology to conduct our business, including TCEP and our technology could become ineffective or obsolete.

We will be required to continually enhance and update our technology to maintain our efficiency and to avoid obsolescence. Previously, from the third quarter of fiscal 2015, to the fourth quarter of 2019, TCEP was being used to pre-treat our used motor oil feedstock prior to shipping to our facility in Marrero, Louisiana instead of for its originally intended purpose of producing finished cutterstock, due to market conditions. During the fourth quarter of 2019, market conditions improved and we once again began using TCEP for its originally intended purpose of producing finished cutterstock. If conditions deteriorate in the future we may once again switch to using TCEP to pre-treat used motor oil. Additionally, the costs moving forward of enhancing and updating and/or replicating our technology or creating new technology may be substantial and may be higher than the costs that we anticipated for technology maintenance and development. If we are unable to maintain the efficiency of our technology, replicate our technology, or create new technologies our ability to manage our business and to compete may be impaired. Even if we are able to maintain technical effectiveness, our technology may not be the most efficient means of reaching our objectives, in which case we may incur higher operating costs than we would if our technology was more effective. The impact of these potential future technical shortcomings, including but not limited to the failure of TCEP, and/or the costs associated with enhancing or replicating TCEP could have a material adverse effect on our prospects, business, financial condition, and results of operations.

Our operations would be negatively affected if we are unable to use our facilities in the future.

If we were not able to use any one or more of our facilities moving forward, our ability to generate revenue and compete in the marketplace would be negatively affected. If we are unable to use our facilities for any reason, we will not be able to effectively generate revenue or compete with additional technologies brought to market by our competitors, the volume of our finished products would decline and our finished products could be worth less, and if our competitors are willing to pay more for feedstock than we are, they could drive up prices, which would cause our revenues to decrease, and cause our cost of sales to increase, respectively. Additionally, if we are forced to pay more for feedstock, our cash flows will be negatively impacted and our margins will decrease.

Our business is subject to local, legal, political, and economic factors which are beyond our control.

We believe that the current political environment for refining and re-refining facilities is sufficiently supportive to enable us to continue to operate our facilities and in the future plan and implement the construction of additional facilities; however, there are risks that conditions will change in an adverse manner. These risks include, but are not limited to, environmental issues, land use, air emissions, water use, zoning, workplace safety, restrictions imposed on the re-refining industry such as restrictions on production, substantial changes in product quality standards, restrictions on feedstock supply, price controls and export controls. Any changes in financial incentives, investment regulations, policies or a shift in political attitudes are beyond our control and may adversely affect our business, plans for future facilities, and future financial results.

Additionally, the U.S. Departments of Transportation, Coast Guard and Homeland Security and various federal, state, local and foreign agencies exercise broad powers over our transportation operations, generally governing such activities as authorization to engage in motor carrier operations, safety and permits to conduct transportation business. We may also become subject to new or more restrictive regulations that the Departments of Transportation and Homeland Security, the Occupational Safety and Health Administration, the Environmental Protection Agency or other authorities impose, including regulations relating to engine exhaust emissions, the hours of service that our drivers may provide in any one-time period, security and other matters. Compliance with these regulations could increase our costs and adversely affect our results of operations.

Our business may be harmed by anti-terrorism measures.

Due to ongoing increased concerns regarding future terrorist attacks and illegal immigration, federal, state and municipal authorities, from time to time, implement various security measures, including checkpoints and travel restrictions on large trucks. Although many companies are adversely affected by slowdowns in the availability of freight transportation, the negative impact could affect our business disproportionately. For example, if the security measures disrupt or impede the timing of our deliveries of feedstock, we may not have sufficient feedstock to run our re-refining processes at full capacity, or may incur increased expenses to do so. These measures may significantly increase our costs and reduce our operating margins and income.

Our business is geographically concentrated and is therefore subject to regional economic downturns.

Our operations and customers are concentrated principally in the Gulf Coast, upper Midwest, and Mid-Atlantic. Therefore, our business, financial condition and results of operations are susceptible to regional economic downturns and other regional factors, including state regulations and budget constraints and severe weather conditions. In addition, as we seek to expand in our existing markets, opportunities for growth within this region may become more limited and the geographic concentration of our business may increase.

If we cannot maintain adequate insurance coverage, we will be unable to continue certain operations.

Our business exposes us to various risks, including claims for causing damage to property and injuries to persons that may involve allegations of negligence or professional errors or omissions in the performance of our services. Such claims could be substantial. We believe that our insurance coverage is presently adequate and similar to, or greater than, the coverage maintained by other similarly situated companies in the industry. If we are unable to obtain adequate or required insurance coverage in the future, or if such insurance is not available at affordable rates, we could be in violation of our permit conditions and other requirements of the environmental laws, rules and regulations under which we operate. Such violations could render us unable to continue certain of our operations. These events could result in an inability to operate certain assets and significantly impair our financial condition.

Our insurance policies do not cover all losses, costs or liabilities that we may experience.

We maintain insurance coverage, but these policies do not cover all of our potential losses, costs or liabilities. We could suffer losses for uninsurable or uninsured risks, or in amounts in excess of our existing insurance coverage, which would significantly affect our financial performance. Our insurance policies also have deductibles and self-retention limits that could expose us to significant financial expense. Our ability to obtain and maintain adequate insurance may be affected by conditions in the insurance market over which we have no control. The occurrence of an event that is not fully covered by insurance could have a material adverse effect on our business, financial condition and results of operations. In addition, our business requires that we maintain various types of insurance. If such insurance is not available or not available on economically acceptable terms, our business would be materially and adversely affected.

Claims above our insurance limits, or significant increases in our insurance premiums, may reduce our profitability.

We currently employ 57 full-time drivers. From time to time, some of these employee drivers are involved in automobile accidents. We currently carry liability insurance of $1,000,000 for our drivers, subject to applicable deductibles, and carry umbrella coverage up to $25,000,000. We currently employ over 200 employees. Claims against us may exceed the amounts of available insurance coverage. If we were to experience a material increase in the frequency or severity of accidents, liability claims or workers' compensation claims or unfavorable resolutions of claims, our operating results could be materially affected.

Litigation related to personal injury from the operation of our business may result in significant liabilities and limit our profitability.

The hazards and risks associated with the transport, storage, and handling, treatment and disposal of used oil and other hydrocarbon products (such as fires, spills, explosions and accidents) may expose us to personal injury claims, property damage claims and/or products liability claims from our employees, customers or third parties. As protection against such claims and operating hazards, we maintain insurance coverage against some, but not all, potential losses. However, we may sustain losses for uninsurable or uninsured risks, or in amounts in excess of existing insurance coverage. Due to the unpredictable nature of personal injury litigation, it is not possible to predict the ultimate outcome of any future claims or lawsuits, and we may be held liable for significant personal injury or damage to property or third parties, or other losses, that are not fully covered by our insurance, which could have a material adverse effect on our financial condition, results of operations and cash flows.

The litigation environment in which we operate poses a significant risk to our businesses.

We may be involved from time to time in the ordinary course of business in lawsuits involving employment, commercial, and environmental issues, other claims for injuries and damages, and shareholder and class action litigation, among other matters. We may experience negative outcomes in such lawsuits in the future. Any such negative outcomes could have a material adverse effect on our business, liquidity, financial condition and results of operations. We evaluate litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, we establish reserves and disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of judgment. Actual outcomes or losses may differ materially from such assessments and estimates. The settlement or resolution of such claims or proceedings may have a material adverse effect on our results of operations. In addition, judges and juries in certain jurisdictions in which we conduct business have demonstrated a willingness to grant large verdicts, including punitive damages, to plaintiffs in personal injury, property damage and other tort cases. We use appropriate means to contest litigation threatened or filed against us, but the litigation environment in these areas poses a significant business risk to us and could cause a significant diversion of management resources and could have a material adverse effect on our financial condition, results of operations and cash flows.

The Company's information technology systems could suffer interruptions, failures or breaches and our business operations could be disrupted adversely effecting results of operations and the Company's reputation.

The Company's information technology systems, some of which are dependent on services provided by third parties, serve an important role in the operation of our business. These systems could be damaged or cease to function properly due to any number of causes, such as catastrophic events, power outages, security breaches, computer viruses or cyber-based attacks.

The Company has been, and likely will continue to be, subject to computer hacking, acts of vandalism or theft, malware, computer viruses or other malicious codes, phishing, employee error or malfeasance, catastrophes, unforeseen events or other cyber-attacks. To date, the Company has seen no material impact on our business or operations from these attacks or events. Any future significant compromise or breach of data security, whether external or internal, or misuse of customer, associate, supplier or Company data, could result in significant costs, lost sales, fines, lawsuits, and damage to the Company's reputation. However, the ever-evolving threats mean the Company and its third-party service providers and vendors must continually evaluate and adapt respective systems and processes and overall security environment, as well as those of any companies acquired. There is no guarantee that these measures will be adequate to safeguard against all data security breaches, system compromises or misuses of data. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to the Company's business, compliance with those requirements could also result in additional costs.

We operate our business through many locations, and if we are unable to effectively oversee all of these locations, our business reputation and operating results could be materially adversely affected.

Because we operate through various different facilities located throughout the United States, we are subject to risks related to our ability to oversee these locations. If in the future we are unable to effectively oversee our locations, our results of operations could be materially adversely affected, we could fail to comply with environmental regulations, we could lose customers, we could lose control of inventory and other assets, and our business could be materially adversely affected.

Increases in energy costs will affect our operating results and financial condition.

Our production costs will be dependent on the costs of the energy sources used to run our facilities and to procure feedstock. These costs are subject to fluctuations and variations, and we may not be able to predict or control these costs. If these costs exceed our expectations, this may adversely affect our results of operations.

Fluctuations in fuel costs could impact our operating expenses and results.

We operate a fleet of transportation, collection and aggregation trucks to collect and transport used oil and re-refined oil products, among other things. The price and supply of fuel is unpredictable and fluctuates based on events beyond our control, including, among others, geopolitical developments, supply and demand for oil and gas, actions by the Organization of the Petroleum Exporting Countries (OPEC) and other oil and gas producers, war and unrest in oil producing countries and regional production patterns. We have experienced increases in the cost of fuel over the past several years. Although in the past, we have been able to pass-through some of these costs to our customers, we may not be able to continue to do so in the future. A significant increase in our fuel or other transportation costs could lower our operating margins and negatively impact our profitability.

Our hedging activities may prevent us from benefiting fully from increases in oil prices and may expose us to other risks, including counterparty risk.

We use derivative instruments to hedge the impact of fluctuations in oil prices on our results of operations and cash flows. To the extent that we engage in hedging activities to protect ourselves against commodity price declines, we may be prevented from fully realizing the benefits of increases in oil prices above the prices established by our hedging contracts. In addition, our hedging activities may expose us to the risk of financial loss in certain circumstances, including instances in which the counterparties to our hedging contracts fail to perform under the contracts. Finally, we are subject to risks associated with the adoption of derivatives legislation and regulations related to derivative contracts which if adopted, could have an adverse impact on our ability to hedge risks associated with our business. If regulations adopted in the future require that we post margin for our hedging activities or require our counterparties to hold margin or maintain capital levels, the cost of which could be passed through to us, or impose other requirements that are more burdensome than current regulations, hedging transactions in the future would become more expensive than we experienced in the past.

Competitors that produce their own supply of feedstocks, have more extensive retail outlets, or have greater financial resources may have a competitive advantage.

The refining and re-refining industries are highly competitive with respect to both feedstock supply and refined/re-refined product markets. We compete with many companies for available supplies of feedstocks and for outlets for our products. We do not produce any of our feedstocks. Some of our competitors, however, obtain a portion of their feedstocks from their own production and some have more extensive retail outlets than we have. Competitors that have their own production or extensive retail outlets (and greater brand-name recognition) are at times able to offset losses from their operations with profits from producing or retailing operations, and may be better positioned to withstand periods of depressed margins or feedstock shortages.

Some of our competitors also have materially greater financial and other resources than we have. Such competitors have a greater ability to bear the economic risks inherent in all phases of our business. In addition, we compete with other industries that provide alternative means to satisfy the energy and fuel requirements of our industrial, commercial and individual customers.

<u>Risks Relating to Accounting and Internal Controls</u>

We incur significant costs as a result of operating as a fully reporting company in connection with Section 404 of the Sarbanes Oxley Act, and our management is required to devote substantial time to compliance initiatives.

We incur significant legal, accounting and other expenses in connection with our status as a fully reporting public company. The Sarbanes-Oxley Act of 2002 (the "<u>Sarbanes-Oxley Act</u>") and rules subsequently implemented by the SEC have imposed various requirements on public companies, including requiring changes in corporate governance practices. As such, our management and other personnel are required to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations increase our legal and financial compliance costs and make some activities more time consuming and costly. In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure of controls and procedures. Our testing has revealed deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 requires that we incur substantial accounting expense and expend significant management efforts. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we continue to identify deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

Our ability to use our net operating loss carry-forwards may be subject to limitation.

Under Section 382 of the Internal Revenue Code of 1986, as amended, substantial changes in our ownership may limit the amount of net operating loss carry-forwards that could be utilized annually in the future to offset our taxable income. Specifically, this limitation may arise in the event of a cumulative change in ownership of our company of more than 50% within a three-year period. Any such annual limitation may significantly reduce the utilization of our net operating loss carry-forwards before they expire. At December 31, 2019, the net operating loss carry-forwards reflect a reduction of approximately $33.0 million resulting from a 382 study which was completed during 2016. Transactions that may occur in the future may trigger an ownership change pursuant to Section 382, and prior transactions may be deemed to have triggered an ownership change pursuant to Section 382, the result of which could limit the amount of net operating loss carryforwards that we can utilize annually to offset our taxable income, if any. Any such limitation could have a material adverse effect on our results of operations.

Our inventory is subject to significant impairment charges in the event the prices of oil and gas fall sharply after such inventory is acquired.

We did not have an inventory impairment charge for the periods ended December 31, 2019 and 2018. In the event, commodity prices fall sharply during any period requiring the Company to take a non-cash charge/adjustment to the value of our products in inventory taking into account the lower market value for the products being held for sale. Similar significant impairment charges could negatively affect our balance sheet, result in us not meeting certain debt ratios set forth in our credit and loan agreements, and negatively affect our cash flows. Future significant impairment charges and/or significant decreases in oil prices could have a material adverse effect on our balance sheet, debt covenants (including creating an event of default) and could further cause the value of our securities to decline in value.

We may experience adverse impacts on our reported results of operations as a result of adopting new accounting standards or interpretations.

Our implementation of and compliance with changes in accounting rules, including new accounting rules and interpretations, could adversely affect our reported financial position or operating results or cause unanticipated fluctuations in our reported operating results in future periods.

Our consolidated financial statements, including our liabilities and statements of operations are subject to quarterly changes in our derivative accounting of our outstanding Series B and B1 Preferred Stock and warrants.

In accordance with ASC 815-40-25 and ASC 815-10-15, Derivatives and Hedging and ASC 480-10-25, Liabilities-Distinguishing from Equity, convertible preferred shares are accounted for net, outside of shareholders' equity and warrants are accounted for as liabilities at their fair value during periods where they can be net cash settled in case of a change in control transaction. The warrants are accounted for as a liability at their fair value at each reporting period. The value of the derivative warrant liability is re-measured at each reporting period with changes in fair value recorded in earnings. To derive an estimate of the fair value of these warrants, a Dynamic Black Scholes model is utilized which computes the impact of a possible change in control transaction upon the exercise of the warrant shares. This process relies upon inputs such as shares outstanding, our quoted stock prices, strike price and volatility assumptions to dynamically adjust the payoff of the warrants in the presence of the dilution effect. As a result, our consolidated financial statements and results of operations may fluctuate quarterly, based on factors, such as the trading value of our common stock and certain assumptions, which are outside of our control. Consequently, our liabilities and consolidated statements of operations may vary quarterly, based on factors other than the Company's revenues and expenses. The liabilities and accounting line items associated with our derivative securities on our balance sheet and statement of operations are non-cash items, and the inclusion of such items in our financial statements may materially affect the outcome of our quarterly and annual results, even though such items are non-cash and do not affect the cash we have available for operations. Investors should take such derivative accounting matters and other non-cash items into account when comparing our quarter-to-quarter and year-to-year operating results and financial statements.

We have identified material weaknesses in our disclosure controls and procedures and internal control over financial reporting. If not remediated, our failure to establish and maintain effective disclosure controls and procedures and internal control over financial reporting could result in material misstatements in our financial statements and a failure to meet our reporting and financial obligations, each of which could have a material adverse effect on our financial condition and the trading price of our common stock.

Maintaining effective internal control over financial reporting and effective disclosure controls and procedures are necessary for us to produce reliable financial statements. As reported under "Part II" - "Item 9. Controls and Procedures", as of December 31, 2019, our CEO and CFO have determined that our disclosure controls and procedures were not effective, and such disclosure controls and procedures have not been deemed effective since approximately September 30, 2018. Separately, management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019 and determined that such internal control over financial reporting was not effective as a result of such assessment.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Maintaining effective disclosure controls and procedures and effective internal control over financial reporting are necessary for us to produce reliable financial statements and the Company is committed to remediating its material weaknesses in such controls as promptly as possible. However, there can be no assurance as to when these material weaknesses will be remediated or that additional material weaknesses will not arise in the future. Any failure to remediate the material weaknesses, or the development of new material weaknesses in our internal control over financial reporting, could result in material misstatements in our financial statements and cause us to fail to meet our reporting and financial obligations, which in turn could have a material adverse effect on our financial condition and the trading price of our common stock, and/or result in litigation against us or our management. In addition, even if we are successful in strengthening our controls and procedures, those controls and procedures may not be adequate to prevent or identify irregularities or facilitate the fair presentation of our financial statements or our periodic reports filed with the SEC.

Risks Relating to Acquisitions

Our strategy includes pursuing acquisitions, partnerships and joint ventures and our potential inability to successfully integrate newly-acquired companies or businesses, or successfully manage our partnerships and joint ventures may adversely affect our financial results.

In the future, we may seek to grow our business by investing in new or existing facilities or technologies, making acquisitions or entering into partnerships and joint ventures. Acquisitions, partnerships, joint ventures or investments may require significant managerial attention, which may divert management from our other activities and may impair the operation of our existing businesses. Any future acquisitions of businesses or facilities could entail a number of additional risks, including:

- the failure to successfully integrate the acquired businesses or facilities or new technology into our operations;
- incurring significantly higher than anticipated capital expenditures and operating expenses;
- disrupting our ongoing business;
- dissipating our management resources;
- failing to maintain uniform standards, controls and policies;
- the inability to maintain key pre-acquisition business relationships;
- loss of key personnel of the acquired business or facility;
- exposure to unanticipated liabilities; and

- the failure to realize efficiencies, synergies and cost savings.

We may also assume liabilities and environmental liabilities as part of acquisitions. Although we will endeavor to accurately estimate and limit liabilities and environmental liabilities presented by the businesses or facilities to be acquired, some liabilities, including ones that may exist only because of the past operations of an acquired business or facility, may prove to be more difficult or costly to address than we then estimate. It is also possible that government officials responsible for enforcing environmental laws may believe an environmental liability is more significant than we then estimate, or that we will fail to identify or fully appreciate an existing liability before we become legally responsible to address it. We may have no recourse, or only limited recourse, to the former owners of such properties in the event such liabilities are present. As a result, if a liability were asserted against us based upon ownership of an acquired property, we might be required to pay significant sums to settle it, which could adversely affect our financial results and cash flow.

The consolidation of our operations with the operations of acquired companies, including the consolidation of systems, procedures, personnel and facilities, the relocation of staff, and the achievement of anticipated cost savings, economies of scale and other business efficiencies, presents significant challenges to our management, particularly if several acquisitions occur at the same time. Fully integrating an acquired company or business into our operations may take a significant amount of time. We may not be successful in overcoming these risks or any other problems encountered with acquisitions. To the extent we do not successfully avoid or overcome the risks or problems related to any acquisitions, our results of operations and financial condition could be adversely affected. Future acquisitions also could impact our financial position and capital needs, and could cause substantial fluctuations in our quarterly and yearly results of operations. Acquisitions could include significant goodwill and intangible assets, which may result in future impairment charges that would reduce our stated earnings or increase our stated losses.

We may not successfully identify and complete acquisitions on favorable terms or achieve anticipated synergies relating to any acquisitions, and such acquisitions could result in unforeseen operating difficulties and expenditures and require significant management resources.

We regularly review potential acquisitions of complementary businesses, services or products. However, we may be unable to identify suitable acquisition candidates in the future. Even if we identify appropriate acquisition candidates, we may be unable to complete or finance such acquisitions on favorable terms, if at all. In addition, the process of integrating an acquired business, service or product into our existing business and operations may result in unforeseen operating difficulties and expenditures. Integration of an acquired company also may require significant management resources that otherwise would be available for ongoing development of our business. Moreover, we may not realize the anticipated benefits of any acquisition or strategic alliance and such transactions may not generate anticipated financial results. Future acquisitions could also require us to incur debt, assume contingent liabilities or amortize expenses related to intangible assets, any of which could harm our business.

Our ability to make acquisitions may be adversely impacted by our outstanding indebtedness and by the price of our stock.

Our ability to make future business acquisitions, particularly those that would be financed solely or in part through cash from operations, may be curtailed due to our obligations to make payments of principal and interest on our outstanding indebtedness. We may not have sufficient capital resources, now or in the future, and may be unable to raise sufficient additional capital resources on terms satisfactory to us, if at all, in order to meet our capital requirements for such acquisitions. In addition, the terms of our indebtedness include covenants that directly restrict, or have the effect of restricting, our ability to make certain acquisitions while this indebtedness remains outstanding. To the extent that the amount of our outstanding indebtedness has a negative impact on our stock price, using our common stock as consideration will be less attractive for potential acquisition candidates. The future trading price of our common stock could limit our willingness to use our equity as consideration and the willingness of sellers to accept our shares and as a result could limit the size and scope of our acquisition program. If we are unable to pursue strategic acquisitions that would enhance our business or operations, the potential growth of our business and revenues may be adversely affected.

If the benefits of the January 2020 Heartland transaction do not meet the expectations of the marketplace, or financial or industry analysts, the market price of our common stock may decline.

The market price of our common stock may decline, if we are not otherwise able to achieve the perceived benefits of the January 2020 Heartland transaction discussed above under "Part I" - "Item 1. Business" - "Recent Material Transactions" - "Heartland Share Purchase and Subscription Agreement" as rapidly as, or to the extent, anticipated by the marketplace, or financial or industry analysts. Accordingly, investors may experience a loss as a result of a decreasing stock price and we may not be able to raise future capital, if necessary, in the equity markets.

The MG Company Agreement includes redemption rights.

The MG SPV Class B Unit holders may force MG SPV to redeem the outstanding Class B Units at any time on or after the earlier of (a) July 26, 2024 and (ii) the occurrence of an applicable triggering event. The cash purchase price for such redeemed Class B Units is the greater of (y) the fair market value of such units (without discount for illiquidity, minority status or otherwise) as determined by a qualified third party and (z) the original per-unit price for such Class B Units plus fifty percent (50%) of the aggregate capital invested by the Class B Unit holders through such redemption date. MG SPV may not have sufficient funds to redeem such Class B Units on such required redemption date and/or the Company may be forced to advance funds to MG SPV to allow it to complete such redemption, if such redemption is triggered.

Distributions of available cash of MG SPV pursuant to the MG Company Agreement (including pursuant to liquidations of MG SPV), subject to certain exemptions and exemptions set forth therein, are to be made (a) first, to the holders of the Class B Units, in an amount equal to the greater of (A) the aggregate unpaid “Class B Yield” (equal to an annual return of 22.5% per annum) and (B) an amount equal to fifty percent (50%) of the aggregate capital invested by the Class B Unit holders (initially Tensile-MG)(such aggregate capital invested by the Class B Unit holders, the “MG Invested Capital”, which totals $3 million as of the Closing Date), less prior distributions (the greater amount of (A) and (B), the “Class B Priority Distributions”); (b) second, the Class B Unitholders, together as a separate and distinct class, are entitled to receive an amount equal to the aggregate MG Invested Capital; (c) third, the Class A Unitholders (other than Class A Unitholders which received Class A Units upon conversion of Class B Units), together as a separate and distinct class, are entitled to receive all or a portion of any distribution equal to the sum of all distributions made under sections (a) and (b) above; and (d) fourth, to the holders of Units who are eligible to receive such distributions in proportion to the number of Units held by such holders

Our acquisitions may expose us to unknown liabilities.

Because we have acquired, and expect generally to acquire, all the outstanding shares of certain of our acquisition targets, our investment in those companies are or will be subject to all of their liabilities other than their respective debts which we paid or will pay at the time of the acquisitions. If there are unknown liabilities or other obligations, our business could be materially affected. We may also experience issues relating to internal controls over financial reporting that could affect our ability to comply with the Sarbanes-Oxley Act, or that could affect our ability to comply with other applicable laws.

Legal, Environmental, Governmental and Regulatory Risks

Currently pending or future litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements.

From time to time, we are involved in lawsuits, regulatory inquiries and may be involved in governmental and other legal proceedings arising out of the ordinary course of our business. Many of these matters raise difficult and complicated factual and legal issues and are subject to uncertainties and complexities. The timing of the final resolutions to these types of matters is often uncertain. Additionally, the possible outcomes or resolutions to these matters could include adverse judgments or settlements, either of which could require substantial payments, adversely affecting our results of operations and liquidity.

Climate change may adversely affect our facilities and our ongoing operations.

The potential physical effects of climate change on our operations are highly uncertain and depend upon the unique geographic and environmental factors present. Examples of such effects include rising sea levels at our coastal facilities, changing storm patterns and intensities, and changing temperature levels. As many of our facilities are located near coastal areas, rising sea levels may disrupt our ability to operate those facilities or transport feedstock and products. Extended periods of such disruption could have an adverse effect on our results of operation. We could also incur substantial costs to protect or repair these facilities.

We are subject to numerous environmental and other laws and regulations and, to the extent we are found to be in violation of any such laws and regulations, our business could be materially and adversely affected.

We are subject to extensive federal, state, provincial and local laws and regulations relating to the protection of the environment which, among other things:

- regulate the collection, transportation, handling, processing and disposal of hazardous and non-hazardous wastes;

- impose liability on persons involved in generating, handling, processing, transporting or disposing hazardous materials;
- impose joint and several liability for remediation and clean-up of environmental contamination; and
- require financial assurance that funds will be available for the closure and post-closure care of sites where hazardous wastes are stored, processed or disposed.

The breadth and complexity of all of these laws and regulations impacting us make consistent compliance extremely difficult and often result in increased operating and compliance costs, including requiring the implementation of new programs to promote compliance. Even with these programs, we and other companies in the industry are routinely faced with legal and administrative proceedings which can result in civil and criminal penalties, interruption of business operations, fines or other sanctions and require expenditures.

Our operations involve the risks of fuel spillage or seepage, environmental damage and hazardous waste disposal, among others. If we are involved in a spill or other accident involving hazardous substances, or if we are found to be in violation of applicable environmental laws or regulations, it could significantly increase our cost of doing business.

Additionally, under current law, we may be held liable for damage caused by conditions that existed before we acquired our assets and/or before we took control of our leased properties or if we arranged for the transportation, disposal or treatment of hazardous substances that cause environmental contamination. In the future, we may be subject to monetary fines, civil or criminal penalties, remediation, clean-up or stop orders, injunctions, orders to cease or suspend certain practices or denial of permits required to operate our facilities and conduct our operations. The outcome of any proceeding and associated costs and expenses could have a material adverse impact on our operations and financial condition.

Our trucking operations are subject to a number of federal, state and local rules and regulations generally governing such activities as authorization to engage in motor carrier operations, safety compliance and reporting, contract compliance, insurance requirements, taxation and financial reporting. We could be subject to new or more restrictive regulations, such as regulations relating to engine emissions, drivers' hours of service, occupational safety and health, ergonomics or cargo security. Compliance with such regulations could substantially reduce equipment productivity, and the costs of compliance could increase our operating expenses.

Environmental laws also govern the presence, maintenance and removal of asbestos-containing building materials, or ACBMs, and may impose fines and penalties for failure to comply with these requirements. Such laws require that owners or operators of buildings containing ACBM (and employers in such buildings) properly manage and maintain the asbestos, adequately notify or train those who may come into contact with asbestos, and undertake special precautions, including removal or other abatement, if asbestos would be disturbed during renovation or demolition of a building or plant. In addition, the presence of ACBM in our properties or plants may expose us to third-party liability (e.g., liability for personal injury associated with exposure to asbestos).

Environmental laws and regulations are subject to change and may become increasingly stringent or relaxed. Interpretation or enforcement of existing laws and regulations, or the adoption of new laws and regulations, may require us to modify or curtail our operations or replace or upgrade our facilities or equipment at substantial costs which we may not be able to pass on to our customers. On the other hand, if new laws and regulations are less stringent, then our customers or competitors may be able to compete with us more effectively, without reliance on our services, which could decrease the need for our services and/or increase competition which could adversely affect our revenues and profitability, if any.

We are required to obtain and maintain permits, licenses and approvals to conduct our operations in compliance with such laws and regulations. If we are unable to maintain our currently held permits, licenses and approvals, we may not be able to continue certain of our operations. If we are unable to obtain any additional permits, licenses and approvals which may be required as we expand our operations, we may be forced to curtail or abandon our current and/or future planned business operations.

In addition, mandatory fuel standards have been adopted in many jurisdictions which can be costly to implement and maintain compliance. For example, the International Maritime Organization set January 1, 2020 as the implementation date for ships to comply with new low sulfur fuel oil requirements ("IMO 2020"). Shipping companies may comply with this requirement by either using fuel with low sulfur content, which is more expensive than standard marine fuel, or by upgrading vessels to provide cleaner exhaust emissions, such as by installing "scrubbers" or retrofitting vessels to be powered by liquefied natural gas ("LNG"). The cost of compliance with these regulatory changes may be significant for shipping companies and it is uncertain how the availability and price of fuel globally will be affected by the implementation of the IMO 2020 regulations as refineries adjust their capacity to increase production of compliant fuels. These and future changes to applicable standards or other more stringent requirements in the industries we serve could reduce our ability to procure feedstocks, reduce our margins, increase our operational expenses, increase fuel prices, require us to incur additional handling costs and/or require the expenditure of capital. To the extent these expenditures, as with all costs, are not ultimately reflected in the prices of our products or we are unable to adequately source compliant fuels, our business and result of operations would be adversely affected. Furthermore, IMO 2020 and/or other regulations may decrease demand for our products or force us to change the mix of products we offer.

Environmental risks and regulations may adversely affect our business.

All phases of designing, constructing and operating our refining and re-refining plants present environmental risks and hazards. We are subject to environmental regulation implemented or imposed by a variety of federal, state and municipal laws and regulations as well as international conventions. Among other things, environmental legislation provides for restrictions and prohibitions on spills and discharges, as well as emissions of various substances produced in association with our operations. Legislation also requires that facility sites be operated, maintained, abandoned and reclaimed in such a way that would satisfy applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach could result in the imposition of fines and penalties, some of which could be material. Environmental legislation is evolving in a manner we expect may result in stricter standards and enforcement, larger fines and liability, as well as potentially increased capital expenditures and operating costs. The presence or discharge of pollutants in or into the air, soil or water may give rise to liabilities to governments and third parties and may require us to incur costs to remedy such presence or discharge.

Environmental, health and safety laws, regulations and permit requirements, and the potential for further expanded laws, regulations and permit requirements may increase our costs or reduce demand for our products and thereby negatively affect our business. Environmental permits required for our operations are subject to periodic renewal and may be revoked or modified for cause or when new or revised environmental requirements are implemented. Changing and increasingly strict environmental requirements and the potential for further expanded regulation may increase our costs and can affect the manufacturing, handling, processing, distribution and use of our products. If so affected, our business and operations may be materially and adversely affected. In addition, changes in these requirements may cause us to incur substantial costs in upgrading or redesigning our facilities and processes, including our waste treatment, storage, disposal and other waste handling practices and equipment. For these reasons, we may need to make capital expenditures beyond those currently anticipated to comply with existing or future environmental or safety laws. The application of environmental, health and safety laws, regulations and permit requirements to our business may cause us to limit our production, significantly increase the costs of our operations and activities, reduce the market for our products or to otherwise adversely affect our financial condition, results of operations or prospects.

Climate change legislation or regulations restricting emissions of greenhouse gases could result in increased operating and capital costs and reduced demand for our products.

There is a growing belief that emissions of greenhouse gases, or GHGs, such as carbon dioxide and methane, may be linked to climate change. Climate change and the costs that may be associated with its impacts and the regulation of GHGs have the potential to affect our business in many ways, including negatively impacting the costs of our operations, transportation costs, feedstock costs and demand for our products (due to changes in both costs and weather patterns).

In recent years, the U.S. Congress has from time to time considered adopting legislation to reduce emissions of GHGs several states have already taken legal measures to reduce emissions of GHGs primarily through the planned development of GHG emission inventories and/or regional GHG cap and trade programs. Most of these cap and trade programs work by requiring major sources of emissions, such as electric power plants, or major producers of fuels, such as refineries and gas processing plants, to acquire and surrender emission allowances. The number of allowances available for purchase is generally reduced each year in an effort to achieve the overall GHG emission reduction goal.

Depending on the scope of a particular program, we could be required to purchase and surrender allowances for GHG emissions resulting from our operations. Although most of the state-level initiatives have to date been focused on large sources of GHG emissions, such as electric power plants, it is possible that smaller sources such as our operations could become subject to GHG-related regulation. Depending on the particular program, we could be required to control emissions or to purchase and surrender allowances for GHG emissions resulting from our operations. Independent of Congress, the Environmental Protection Agency (EPA) has adopted regulations controlling GHG emissions under its existing Clean Air Act authority. For example, on December 15, 2009, the EPA officially published its findings that emissions of carbon dioxide, methane and other GHGs present an endangerment to human health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the earth's atmosphere and other climatic changes. These findings by the EPA allow the agency to proceed with the adoption and implementation of regulations that would restrict emissions of greenhouse gases under existing provisions of the federal Clean Air Act. In 2009, the EPA adopted rules regarding regulation of GHG emissions from motor vehicles. In 2010, EPA also issued a final rule, known as the "Tailoring Rule," that makes certain large stationary sources and modification projects subject to permitting requirements for greenhouse gas emissions under the Clean Air Act. In addition, on September 22, 2009, the EPA issued a final rule requiring the reporting of greenhouse gas emissions from specified large greenhouse gas emission sources in the U.S. beginning in 2011 for emissions occurring in 2010. None of our facilities currently generate enough greenhouse gasses to be subject to this reporting requirement under this rule, but we could become subject to such reporting requirements in the future.

Although it is not possible at this time to accurately estimate how potential future laws or regulations addressing greenhouse gas emissions would impact our business, any future federal laws or implementation of regulations that may be adopted to address greenhouse gas emissions could require us to incur increased operating costs and could adversely affect demand for our feedstocks and resulting products, and/or increase our transportation costs. The potential increase in the costs of our operations resulting from any legislation or regulation to restrict emissions of greenhouse gases could include new or increased costs to operate and maintain our facilities, install new emission controls on our facilities, acquire allowances to authorize our greenhouse gas emissions, pay any taxes related to our greenhouse gas emissions and administer and manage a greenhouse gas emissions program. While we may be able to include some or all of such increased costs in the rates charged for our products, such recovery of costs is uncertain. Moreover, incentives to conserve energy or use alternative energy sources could reduce demand for our products and/or lower the supply of our feedstocks. We cannot predict with any certainty at this time how these possibilities may affect our operations. Many scientists have concluded that increasing concentrations of GHGs in the Earth's atmosphere may produce climate change that could have significant physical effects, such as increased frequency and severity of storms, droughts, and floods and other climatic events; if such effects were to occur, they could have an adverse effect on our operations.

The adoption of regulations implementing recent financial reform legislation could impede our ability to manage business and financial risks by restricting our use of derivative instruments as hedges against fluctuating commodity prices.

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") establishes federal oversight and regulation of over-the-counter ("OTC") derivatives and requires the SEC and the Commodity Futures Trading Commission (the "CFTC") to enact further regulations affecting derivatives, including those we use to hedge our commodity exposure. Although the CFTC and the SEC have issued final regulations in certain areas, final rules in other areas and the scope of relevant definitions and/or exemptions still remain to be finalized.

The above regulations and rules could increase the costs to us of entering into derivatives to hedge or mitigate our commodity price exposure. If we voluntarily or involuntarily reduce our use of derivative contracts as a result of the new requirements, we become more exposed to commodity price fluctuations, which could adversely affect our ability to conduct our operations and/or hedge against falling prices, the result of which may mean more extreme swings in our results of operations and ultimately a decline in the value of our securities.

We could be subject to involuntary shutdowns or be required to pay significant monetary damages or remediation costs if we are found to be a responsible party for the improper handling or the release of hazardous substances.

As a company engaged in the sale, handling, transportation, storage, recycling and disposal of materials that are or may be classified as hazardous by federal, state, provincial or other regulatory agencies, we face risks of liability for environmental contamination. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or "CERCLA" or Superfund, and similar state laws impose strict liability for clean-up costs on current or former owners and operators of facilities that release hazardous substances into the environment, as well as on the businesses that generate those substances or transport them. As a potentially responsible party, or "PRP," we may be liable under CERCLA for substantial investigation and cleanup costs even if we operate our business properly and comply with applicable federal and state laws and regulations. Liability under CERCLA may be joint and several, which means that if we were found to be a business with responsibility for a particular CERCLA site, we could be required to pay the entire cost of the investigation and cleanup, even though we were not the party responsible for the release of the hazardous substance and even though other companies might also be liable. Even if we are able to identify who the other responsible parties might be, we may not be able to compel them to contribute to the remediation costs, or they might be insolvent or unable to contribute due to lack of financial resources.

Our facilities and the facilities of our clients and third-party contractors may have generated, used, handled and/or disposed of hazardous substances and other regulated wastes. Environmental liabilities could exist, including cleanup obligations at these facilities or at off-site locations, which could result in future expenditures that cannot be currently quantified and which could materially reduce our profits. In addition, new services or products offered by us could expose us to further environmental liabilities for which we have no historical experience and cannot estimate our potential exposure to liabilities.

Our operations are subject to numerous statutory and regulatory requirements, which may increase in the future.

Our operations are subject to numerous statutory and regulatory requirements, and our ability to continue to hold licenses and permits required for our businesses is subject to maintaining satisfactory compliance with such requirements. These requirements may increase in the future as a result of statutory and regulatory changes. Although we are very committed to compliance and safety, we may not, either now or in the future, be in full compliance at all times with such statutory and regulatory requirements. Consequently, we could be required to incur significant costs to maintain or improve our compliance with such requirements.

We may also assume additional environmental liabilities as part of further acquisitions. Although we will endeavor to accurately estimate and limit environmental liabilities presented by the businesses or facilities to be acquired, some liabilities, including ones that may exist only because of the past operations of an acquired business or facility, may prove to be more difficult or costly to address than we then estimate. It is also possible that government officials responsible for enforcing environmental laws may believe an environmental liability is more significant than we then estimate, or that we will fail to identify or fully appreciate an existing liability before we become legally responsible to address it.

We may be subject in the normal course of business to judicial, administrative or other third-party proceedings that could interrupt or limit our operations, require expensive remediation, result in adverse judgments, settlements or fines and create negative publicity.

Governmental agencies may, among other things, impose fines or penalties on us relating to the conduct of our business, attempt to revoke or deny renewal of our operating permits, franchises or licenses for violations or alleged violations of environmental laws or regulations or as a result of third-party challenges, require us to install additional pollution control equipment or require us to remediate potential environmental problems relating to any real property that we or our predecessors ever owned, leased or operated or any waste that we or our predecessors ever collected, transported, disposed of or stored. Individuals, citizens groups, trade associations or environmental activists may also bring actions against us in connection with our operations that could interrupt or limit the scope of our business. Any adverse outcome in such proceedings could harm our operations and financial results and create negative publicity, which could damage our reputation, competitive position and stock price. We may also be required to take corrective actions, including, but not limited to, installing additional equipment, which could require us to make substantial capital expenditures. We could also be required to indemnify our employees in connection with any expenses or liabilities that they may incur individually in connection with regulatory action against us. These could result in a material adverse effect on our prospects, business, financial condition and our results of operations.

The adoption of climate change legislation or regulation could result in increased operating costs and reduced demand for the refined products we produce.

The U.S. government, including the EPA, as well as several state and international governments, have either considered or adopted legislation or regulations in an effort to reduce greenhouse gas (GHG) emissions. These proposed or promulgated laws apply or could apply in states where we have interests or may have interests in the future. In addition, various groups suggest that additional laws may be needed in an effort to address climate change. We cannot predict the extent to which any such legislation or regulation will be enacted and, if so, what its provisions would be. To the extent we incur additional costs required to comply with the adoption of new laws and regulations that are not ultimately reflected in the prices of our products and services, our business, financial condition, results of operations and cash flows in future periods could be materially adversely affected. In addition, demand for the products we produce could be adversely affected.

Risks Related to Our Recovery Segment

Recovery segment customers may cancel or delay projects.

Recovery segment customers may cancel or delay projects for reasons beyond our control. If projects are delayed, the timing of our revenues could be affected. Revenue recognition occurs over long periods of time and is subject to unanticipated delays. If we receive relatively large orders in any given quarter, fluctuations in the levels of our quarterly backlog can result because the backlog in that quarter may reach levels that may not be sustained in subsequent quarters. As a result, our backlog may not be indicative of our future revenues.

Risks Related to Our Common Carrier Operations

We face competition from other common carriers and transportation providers.

Crossroad is a common carrier that provides transportation and logistical services for liquid petroleum products, as well as other hazardous materials and waste streams. We face competition from trucking companies, railroads, motor carriers and, to a lesser extent, ships and barges. In addition to price competition, we face competition with respect to transit times and quality and reliability of service. Any future improvements or expenditures materially increasing the quality or reducing the cost of alternative modes of transportation, automating transportation and/or increased competition from competitors, including competitors with more resources than us, could have a material adverse effect on our results of operations, financial condition, and liquidity. Additionally, any future consolidation of the trucking industry could materially affect the competitive environment in which we operate.

Risks Related to Our Prior Offering Terms

We face significant penalties and damages in the event registration statements we filed to register certain securities sold in our prior offerings are subsequently suspended or terminated.

We previously registered the shares of common stock issuable upon conversion of the Series B Preferred Stock, Series B1 Preferred Stock and upon exercise of the warrants sold in connection therewith under the Securities Act, for resale. The agreements pursuant to which we sold such securities, provide for liquidated damages upon the occurrence of certain events. The amount of the liquidated damages is 1.0% of the aggregate subscription amount paid by an investor for the units (i.e., Series B Preferred Stock and warrants and/or Series B1 Preferred Stock and warrants) affected by the event that are still held by the investor upon the occurrence of the event, due on the date immediately following the event that caused such failure (or the 30th day following such event if the event relates to the suspension of the registration statement), and each 30 days thereafter, with such payments to be prorated on a daily basis during each 30 day period, subject to a maximum of an aggregate of 6% per year (per transaction). If we fail to pay any liquidated damages in full within seven days after the date payable, we are required to pay interest thereon at a rate of 12% per annum until paid in full. In the event the registration statement, which has previously been declared effective within the timeframe required by the purchase agreement, is subsequently suspended or terminated, or we otherwise fail to meet certain requirements set forth in the purchase agreements, we could be required to pay significant penalties which could adversely affect our cash flow and cause the value of our securities to decline in value.

RISKS RELATED TO OUR SECURITIES

General Risks

Our Chief Executive Officer, Benjamin P. Cowart, has significant voting control over us, including the appointment of Directors and may have interests that differ from other shareholders. Mr. Cowart, as a significant shareholder, may, therefore, take actions that are not in the interest of other shareholders.

Benjamin P. Cowart, our Chairman, President and Chief Executive Officer, beneficially owns approximately 15.5% of our common stock (not including shares issuable upon exercise of options and warrants held by Mr. Cowart) and approximately 13.5% of our total voting stock, and as such, Mr. Cowart exercises significant control in determining the outcome of corporate transactions or other matters, including the election of directors, mergers, consolidations, the sale of all or substantially all of our assets, and also the power to prevent or cause a change in control. The interests of Mr. Cowart may differ from the interests of the other stockholders and thus result in corporate decisions that are adverse to other shareholders. Should conflicts of interest arise, Mr. Cowart may not act in the best interests of our other shareholders and conflicts of interest may not be resolved in a manner favorable to our other shareholders.

Securities analysts may not cover our common stock and this may have a negative impact on our common stock's market price.

The trading market for our common stock will depend, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. We currently have limited research coverage by securities and industry analysts. If one or more of the analysts who covers us downgrades our common stock, changes their opinion of our shares or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our common stock could decrease and we could lose visibility in the financial markets, which could cause our stock price and trading volume to decline.

Shareholders may be diluted significantly through our efforts to obtain financing and satisfy obligations through the issuance of additional securities.

Wherever possible, our Board of Directors will attempt to use non-cash consideration to satisfy obligations. In many instances, we believe that the non-cash consideration will consist of restricted shares of our common stock, preferred stock or warrants to purchase shares of our common stock. Our Board of Directors has authority, without action or vote of the shareholders, but subject to NASDAQ rules and regulations (which generally require shareholder approval for any transactions which would result in the issuance of more than 20% of our then outstanding shares of common stock or voting rights representing over 20% of our then outstanding shares of stock), to issue all or part of the authorized but unissued shares of common stock, preferred stock or warrants to purchase such shares of common stock. In addition, we may attempt to raise capital by selling shares of our common stock, possibly at a discount to market in the future. These actions will result in dilution of the ownership interests of existing shareholders, may further dilute common stock book value, and that dilution may be material. Such issuances may also serve to enhance existing management’s ability to maintain control of us, because the shares may be issued to parties or entities committed to supporting existing management.

We currently have a sporadic and volatile market for our common stock, and the market for our common stock is and may remain sporadic and volatile in the future.

We currently have a sporadic and volatile market for our common stock, which market is anticipated to remain sporadic and volatile in the future, and will likely be subject to wide fluctuations in response to several factors, including, but not limited to:

- actual or anticipated variations in our results of operations;
- our ability or inability to generate revenues;
- the number of shares in our public float;
- increased competition; and
- conditions and trends in the market for oil refining and re-refining services, transportation services and oil feedstock.

Our common stock is currently listed on the NASDAQ Capital Market. Our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. Shareholders and potential investors in our common stock should exercise caution before making an investment in us, and should not rely solely on the publicly quoted or traded stock prices in determining our common stock value, but should instead determine the value of our common stock based on the information contained in our public reports, industry information, and those business valuation methods commonly used to value private companies.

Additionally, the market price of our common stock historically has fluctuated significantly based on, but not limited to, such factors as general stock market trends, announcements of developments related to our business, actual or anticipated variations in our operating results, our ability or inability to generate new revenues, and conditions and trends in the industries in which our customers are engaged.

In recent years, the stock market in general has experienced extreme price fluctuations that have oftentimes been unrelated to the operating performance of the affected companies. Similarly, the market price of our common stock may fluctuate significantly based upon factors unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock.

We do not intend to pay cash dividends on our common stock in the foreseeable future, and therefore only appreciation of the price of our common stock will provide a return to our stockholders.

We currently anticipate that we will retain all future earnings, if any, to finance the growth and development of our business. We do not intend to pay cash dividends in the foreseeable future. Any payment of cash dividends will depend upon our financial condition, capital requirements, earnings and other factors deemed relevant by our Board of Directors, and will be subject to the terms of our credit agreements, which currently prevent us from paying cash dividends on, and/or redeeming, outstanding securities. As a result, only appreciation of the price of our common stock, which may not occur, will provide a return to our stockholders.

There may be future sales and issuances of our common stock, which could adversely affect the market price of our common stock and dilute shareholders ownership of common stock.

The exercise of any options granted to executive officers, directors and other employees under our equity compensation plans, the exercise of outstanding warrants, the conversion of outstanding convertible securities and other issuances of our common stock in the future could have an adverse effect on the market price of the shares of our common stock. We are not restricted from issuing additional shares of common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive shares of common stock, provided that we are subject to the requirements of the Nasdaq Capital Market (which generally require shareholder approval for any transactions which would result in the issuance of more than 20% of our then outstanding shares of common stock or voting rights representing over 20% of our then outstanding shares of stock), subject to certain exceptions. Sales of a substantial number of shares of our common stock in the public market or the perception that such sales might occur could materially adversely affect the market price of the shares of our common stock. Because our decision to issue securities in any future offering or transaction will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings or issuances. Additionally, the sale of a significant portion of our common stock may cause the value of our common stock to decline in value.

Our outstanding options, warrants and convertible securities may adversely affect the trading price of our common stock.

As of the date of this filing, we have (i) 4,418,250 outstanding stock options at a weighted average exercise price of $1.95 per share; (ii) 8,633,188 outstanding warrants to purchase 8,633,188 shares of common stock at a weighted average exercise price of $2.30 per share; (iii) 419,859 shares of common stock issuable upon the conversion of our 419,859 outstanding shares of Series A Convertible Preferred Stock (which convert on a one-for-one basis (subject to adjustments for stock splits and recapitalizations) into common stock); (iv) 3,833,449 shares of common stock issuable upon conversion of our 3,833,449 outstanding shares of Series B Preferred Stock (which convert on a one-for-one basis (subject to adjustments for stock splits and recapitalizations) into common stock); and (v) 7,004,236 shares of common stock issuable upon conversion of our 7,004,236 outstanding shares of Series B1 Preferred Stock (which convert on a one-for-one basis (subject to adjustments for stock splits and recapitalizations) into common stock). For the life of the options and warrants, the holders have the opportunity to profit from a rise in the market price of our common stock without assuming the risk of ownership. The issuance of shares upon the exercise of outstanding securities will also dilute the ownership interests of our existing stockholders.

The availability of these shares for public resale, as well as any actual resales of these shares, could adversely affect the trading price of our common stock. We cannot predict the size of future issuances of our common stock pursuant to the exercise of outstanding options or warrants or conversion of other securities, or the effect, if any, that future issuances and sales of shares of our common stock may have on the market price of our common stock. Sales or distributions of substantial amounts of our common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may cause the market price of our common stock to decline.

In addition, the common stock issuable upon exercise/conversion of outstanding convertible securities may represent overhang that may also adversely affect the market price of our common stock. Overhang occurs when there is a greater supply of a company’s stock in the market than there is demand for that stock. When this happens the price of the company’s stock will decrease, and any additional shares which shareholders attempt to sell in the market will only further decrease the share price. If the share volume of our common stock cannot absorb shares sold by holders of our outstanding convertible securities, then the value of our common stock will likely decrease.

We use derivative commodity instruments to attempt to hedge against fluctuating prices.

The Company utilizes derivative instruments to manage its exposure to fluctuations in the underlying commodity prices of its inventory. The Company's management sets and implements hedging policies, including volumes, types of instruments and counterparties, to support oil prices at targeted levels and manage its exposure to fluctuating prices. The Company’s derivative instruments consist of swap and futures arrangements for oil. In a commodity swap agreement, if the agreed-upon published third-party index price ("index price") is lower than the swap fixed price, the Company receives the difference between the index price and the swap fixed price. If the index price is higher than the swap fixed price, the Company pays the difference. For futures arrangements, the Company receives the difference, positive or negative, between an agreed-upon strike price and the market price. Our results of operations may be negatively affected by our derivative instruments.

The Lock-Up Agreement with Tensile includes termination rights.

We and Tensile entered into a Registration Rights and Lock-Up Agreement, pursuant to which we agreed to use commercially reasonable efforts to register the Tensile Shares and Warrant Shares prior to July 26, 2020 and Tensile agreed to not sell any of the Tensile Shares or Warrant Shares until July 26, 2020 and to sell no more than 300,000 of such Tensile Shares and Warrant Shares in any 90 day period through July 26, 2024 (the "Volume Limitation"), each, subject to certain exceptions set forth therein. The general restriction on selling shares, but not the Volume Limitation, terminates if our common stock is not traded on Nasdaq or a similar market for a period of more than five consecutive trading days. Upon any termination of the lock-up pursuant to the preceding sentence, in the event Tensile holds any Tensile Shares, Warrant Shares or any Warrants, we are required to disclose publicly all material nonpublic information disclosed to Tensile prior to the date of such termination. The sale by Tensile of common stock into the marketplace, in the event of the termination of the terms of the Lock-Up Agreement may result in a decrease in the then trading values of our common stock. Furthermore, the required disclosure of material nonpublic information, if required by the terms of the Lock-Up Agreement, could have a material adverse effect on our ability to compete in our industry, require the disclosure of proprietary and other information, and/or may cause the value of our common stock to decline in value.

Risks Relating to our Preferred Stock

We have established preferred stock which can be designated by the Board of Directors without shareholder approval and have established Series A Preferred Stock, Series B Preferred Stock and Series B1 Preferred Stock, which give the holders thereof a liquidation preference.

We have 50 million shares of preferred stock authorized, which includes 5 million shares of designated Series A Preferred Stock of which approximately 0.4 million shares are issued and outstanding, 10 million designated shares of Series B Preferred Stock, of which 3.8 million shares are issued and outstanding, and 17 million designated shares of Series B1 Preferred Stock, of which 7.0 million shares are issued. The Series A Preferred Stock has a liquidation preference of $1.49 per share. The Series B Preferred Stock and Series B1 Preferred stock have a liquidation preference of $3.10 per share and $1.56 per share, respectively, payable only after the liquidation preference on the Series A Preferred Stock are satisfied. As a result, if we were to dissolve, liquidate or sell our assets, the holders of our Series A Preferred Stock would have the right to receive up to the first approximately $0.6 million in proceeds from any such transaction, holders of our Series B Preferred Stock and Series B1 Preferred Stock would have the right to receive up to approximately $23.0 million of the remaining proceeds from any such transaction. The payment of the liquidation preferences could result in common stock shareholders not receiving any consideration if we were to liquidate, dissolve or wind up, either voluntarily or involuntarily. Additionally, the existence of the liquidation preferences may reduce the value of our common stock, make it harder for us to sell shares of common stock in offerings in the future, or prevent or delay a change of control. Because our Board of Directors is entitled to designate the powers and preferences of the preferred stock without a vote of our shareholders, subject to NASDAQ rules and regulations, our shareholders will have no control over what designations and preferences our future preferred stock, if any, will have.

We do not anticipate redeeming our Series B and B1 Preferred Stock on June 24, 2020, notwithstanding the fact that our Series B and B1 Preferred Stock is required to be redeemed on June 24, 2020, subject to the terms of the Certificate of Designations of such Preferred Stock and applicable law, and the dividend rate of such Preferred Stock increases to 10% per annum in the event the Company is unable to complete such redemptions.

We are required to redeem any non-converted shares of (a) Series B Preferred Stock, which remain outstanding on June 24, 2020, at the rate of $3.10 per share (or $12.0 million in aggregate as of the date of this filing); and (b) Series B1 Preferred Stock, which remain outstanding on June 24, 2020, at the rate of $1.56 per share (or $10.9 million in aggregate as of the date of this filing), subject to the terms of the certificate of designations of such Series B and B1 Preferred Stock and applicable law. The certificate of designations of the Series B and B1 Preferred Stock provide that the mandatory redemption date of the Series B and B1 Preferred Stock is automatically extended in the event that the terms of the Company's senior credit facility (i.e., the Credit Agreements), prohibit the redemption of such Series B and B1 Preferred Stock and because the Credit Agreements prohibit such redemption, the Company anticipates the redemption date of the Series B and B1 Preferred Stock being extended past June 24, 2020, until such date, if ever, as the Company's senior credit facilities (and any facilities which replace or refinance the Credit Agreements) no longer prohibit such redemptions. Effective on June 24, 2020, in the event the Series B and B1 Preferred Stock is not redeemed by the Company due to the provisions of the Company's senior credit facilities, the dividend rate of such preferred stock increases to 10% per annum. Notwithstanding the dividend rate increase, because the interest is payable in-kind (or in registered shares of common stock, if allowed under the applicable certificate of designation of the preferred stock, at the option of the Company), the increase in dividend rate following the redemption date may cause significant additional shares of Series B and B1 Preferred Stock and/or common stock to be due to the holders of such Series B and B1 Preferred Stock and may cause significant dilution to existing shareholders.

Notwithstanding the above, pursuant to the Nevada Revised Statutes, no redemption of the Series B or B1 Preferred Stock is allowed unless such redemption would not result in the Company (i) having less (a) assets than its (b) total liabilities plus the liquidation rights of any preferred stock or other preferred right holders and/or (ii) being unable to pay its debts as they become due after such redemption. Furthermore, the Series B and B1 Preferred Stock designations currently only provide for an 'all or nothing' type redemption, and as such, regardless of the compliance of the redemptions of the Series B and B1 Preferred Stock with the terms of the Company's senior credit agreements, the Company anticipates being legally unable to redeem the Series B and B1 Preferred Stock due to the requirements of Nevada law and the 'all or nothing' requirement of such preferred stock until such time as the Company has sufficient cash on hand to pay the entire liquidation preference of the Series B and B1 Preferred Stock ($23.0 million) and have sufficient cash left over to pay its debts as they become due.

Due to the above, the holders of the Series B and B1 Preferred Stock may be forced to hold such Series B and B1 Preferred Stock indefinitely and the Company may never be in a position to contractually or legally redeem the Series B and B1 Preferred Stock. The only rights of the holders of the Series B and B1 Preferred Stock in the event the Company is unable to redeem such preferred stock due to the reasons above would be to continue to hold such preferred stock (with dividends accruing at 10% per annum), sell such preferred stock in private transactions, or convert such preferred stock into common stock pursuant to the terms thereof.

Finally, notwithstanding the prohibitions on redemptions described above, the Company does not currently have the funds required to redeem such Series B and B1 Preferred Stock (i.e., an aggregate of $23.0 million), and does not anticipate having such funds in the near term, if at all. Consequently, the Company does not anticipate redeeming the Series B and B1 Preferred Stock on June 24, 2020 or at any time in the foreseeable future.

The issuance of common stock upon conversion of the Series B Preferred Stock and Series B1 Preferred Stock will cause immediate and substantial dilution to existing shareholders.

The Series B Preferred Stock (including accrued and unpaid dividends) is convertible into shares of the Company's common stock at any time at $3.10 per share (initially a one-for-one basis). If the Company's common stock trades at or above $6.20 per share for a period of 20 consecutive trading days, the Company may at such time force conversion of the Series B Preferred Stock (including accrued and unpaid dividends) into common stock of the Company. The Series B1 Preferred Stock (including accrued and unpaid dividends) is convertible into shares of the Company's common stock at the holder's option at any time after closing at $1.56 per share (initially a one-for-one basis). If the Company's common stock trades at or above $3.90 per share for a period of 20 consecutive trading days at any time, the Company may at such time force conversion of the Series B1 Preferred Stock (including accrued and unpaid dividends) into common stock of the Company.

The issuance of common stock upon conversion of the Series B Preferred Stock, and Series B1 Preferred Stock will result in immediate and substantial dilution to the interests of other stockholders since the holders of the Series B Preferred Stock and

Series B1 Preferred Stock may ultimately receive and sell the full amount of shares issuable in connection with the conversion of such Series B Preferred Stock and Series B1 Preferred Stock. Although the Series B Preferred Stock, and Series B1 Preferred Stock may not be converted by the holders thereof if such conversion would cause such holder to own more than 9.999% of our outstanding common stock (4.999% in the case of certain holders), these restrictions do not prevent such holders from converting some of their holdings, selling those shares, and then converting the rest of their holdings, while still staying below the 9.999%/4.999% limit. In this way, the holders of the Series B Preferred Stock and Series B1 Preferred Stock could sell more than these limits while never actually holding more shares than the limits allow. If the holders of the Series B Preferred Stock or Series B1 Preferred Stock choose to do this, it will cause substantial dilution to the then holders of our common stock.

Our outstanding Series B Preferred Stock and Series B1 Preferred Stock accrue a dividend.

Our Series B Preferred Stock accrues a dividend, payable quarterly in arrears (based on calendar quarters), in the amount of 6% per annum of the original issuance price of the Series B Preferred Stock ($3.10 per share or $12.0 million in aggregate as of the date of this report), increasing to 10% per annum in the event we are contractually or legally, unable to redeem the Series B Preferred Stock on June 24, 2020. The dividend is payable by the Company, at the Company's election, in registered common stock of the Company (if available) or cash, provided that any cash dividend payment is subject to us previously having repaid all amounts owed to our senior lender. In the event dividends are paid in registered common stock of the Company, the number of shares payable will be calculated by dividing (a) the accrued dividend by (b) 90% of the arithmetic average of the volume weighted average price (VWAP) of the Company's common stock for the 10 trading days immediately prior to the applicable date of determination (the "June 2015 Dividend Stock Payment Price"). Notwithstanding the foregoing, in no event may the Company pay dividends in common stock unless the applicable June 2015 Dividend Stock Payment Price is above $2.91. If the Company is prohibited from paying, or chooses not to pay the dividend in cash or is unable to pay the dividend in registered common stock, the dividend will be paid in-kind in Series B Preferred Stock shares at $3.10 per share.

The Series B1 Preferred Stock accrues a dividend, payable quarterly in arrears (based on calendar quarters), in the amount of 6% per annum of the original issuance price of the Series B1 Preferred Stock ($1.56 per share or $10.9 million in aggregate), provided that such dividend was to increase to 9% if certain Consolidated Adjusted EBITDA targets were not met during various periods between 2017-2018, and increasing to 10% per annum in the event we are contractually or legally, unable to redeem the Series B Preferred Stock on June 24, 2020. The dividend is payable by the Company, at the Company's election, in registered common stock of the Company (if available) or cash. In the event dividends are paid in registered common stock of the Company, the number of shares payable will be calculated by dividing (a) the accrued dividend by (b) 90% of the VWAP of the Company's common stock for the 10 trading days immediately prior to the applicable date of determination (the "May 2016 Dividend Stock Payment Price"). Notwithstanding the foregoing, in no event may the Company pay dividends in common stock unless the applicable May 2016 Dividend Stock Payment Price is above $1.52. If the Company is prohibited from paying, or chooses not to pay, the dividend in cash or is unable to pay the dividend in registered common stock, the dividend will be paid in-kind in Series B1 Preferred Stock shares at $1.56 per share.

We may not have sufficient available cash to pay the dividends as they accrue or may be prohibited contractually, or pursuant to applicable law, from paying such dividends in cash. The payment of the dividends, or our failure to timely pay the dividends when due, could reduce our available cash on hand, have a material adverse effect on our results of operations and cause the value of our stock to decline in value. Additionally, the issuance of shares of common stock or additional shares of Series B Preferred Stock or Series B1 Preferred Stock in lieu of cash dividends (and the subsequent conversion of such Series B Preferred Stock or Series B1 Preferred Stock into common stock pursuant to the terms of such Series B Preferred Stock and Series B1 Preferred Stock) could cause substantial dilution to the then holders of our common stock.

We may be required to issue additional shares of Series B Preferred Stock and Series B1 Preferred Stock upon the occurrence of certain events.

As described above, in the event we choose not to pay, or are prohibited from paying, the dividends which accrue on the Series B Preferred Stock and Series B1 Preferred Stock in cash, and/or we do not have sufficient registered shares of common stock available to allow for the payment of such dividends in common stock, we are required to pay such dividends in-kind in (a) Series B Preferred Stock shares at $3.10 per share, which will also include a $3.10 per share liquidation preference in connection with the Series B Preferred Stock dividends; and (b) Series B1 Preferred Stock shares at $1.56 per share, which will also include a $1.56 per share liquidation preference in connection with the Series B1 Preferred Stock, and the right to convert into common stock on a one-for-one basis.

Risks Relating to Our Listing on the Nasdaq Capital Market

Our Common Stock may be delisted from the Nasdaq Capital Market if we cannot satisfy Nasdaq's continued listing requirements.

Among the conditions required for continued listing on the Nasdaq Capital Market, Nasdaq requires us to maintain at least $2.5 million in stockholders' equity or $500,000 in net income over the prior two years or two of the prior three years, to have a majority of independent directors, and to maintain a stock price over $1.00 per share. Our stockholders' equity may not remain above Nasdaq's $2.5 million minimum, we may not generate over $500,000 of yearly net income moving forward, we may not be able to maintain independent directors, and we may not be able to maintain a stock price over $1.00 per share. If we fail to timely comply with the applicable requirements, our stock may be delisted. In addition, even if we demonstrate compliance with the requirements above, we will have to continue to meet other objective and subjective listing requirements to continue to be listed on the Nasdaq Capital Market. Delisting from the Nasdaq Capital Market could make trading our common stock more difficult for investors, potentially leading to declines in our share price and liquidity. Without a Nasdaq Capital Market listing, stockholders may have a difficult time getting a quote for the sale or purchase of our stock, the sale or purchase of our stock would likely be made more difficult and the trading volume and liquidity of our stock could decline. Delisting from the Nasdaq Capital Market could also result in negative publicity and could also make it more difficult for us to raise additional capital. The absence of such a listing may adversely affect the acceptance of our common stock as currency or the value accorded by other parties. Further, if we are delisted, we would also incur additional costs under state blue sky laws in connection with any sales of our securities. These requirements could severely limit the market liquidity of our common stock and the ability of our stockholders to sell our common stock in the secondary market. If our common stock is delisted by Nasdaq, our common stock may be eligible to trade on an over-the-counter quotation system, such as the OTCQB market, where an investor may find it more difficult to sell our stock or obtain accurate quotations as to the market value of our common stock. In the event our common stock is delisted from the Nasdaq Capital Market, we may not be able to list our common stock on another national securities exchange or obtain quotation on an over-the counter quotation system.

If we are delisted from the Nasdaq Capital Market, your ability to sell your shares of our common stock could also be limited by the penny stock restrictions, which could further limit the marketability of your shares.

If our common stock is delisted, it could come within the definition of "penny stock" as defined in the Exchange Act and would then be covered by Rule 15g-9 of the Exchange Act. That Rule imposes additional sales practice requirements on broker-dealers who sell securities to persons other than established customers and accredited investors. For transactions covered by Rule 15g-9, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser's written agreement to the transaction prior to the sale. Consequently, Rule 15g-9, if it were to become applicable, would affect the ability or willingness of broker-dealers to sell our securities, and accordingly would affect the ability of stockholders to sell their securities in the public market. These additional procedures could also limit our ability to raise additional capital in the future.

Due to the fact that our common stock is listed on the Nasdaq Capital Market, we are subject to financial and other reporting and corporate governance requirements which increase our costs and expenses.

We are currently required to file annual and quarterly information and other reports with the Securities and Exchange Commission that are specified in Sections 13 and 15(d) of the Securities Exchange Act of 1934, as amended. Additionally, due to the fact that our common stock is listed on the Nasdaq Capital Market, we are also subject to the requirements to maintain independent directors, comply with other corporate governance requirements and are required to pay annual listing and stock issuance fees. These obligations require a commitment of additional resources including, but not limited, to additional expenses, and may result in the diversion of our senior management's time and attention from our day-to-day operations. These obligations increase our expenses and may make it more complicated or time consuming for us to undertake certain corporate actions due to the fact that Nasdaq may require approval for such transactions and/or Nasdaq rules may require us to obtain shareholder approval for such transactions.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Properties and Facilities

The Company owns three oil collection facilities operated by H&H Oil, which are located in Houston, Austin, and Corpus Christi, Texas. The three owned locations range from 2 acres to 5 acres in area and have offices, storage tank facilities, small warehouse facilities for operations and yard areas for the parking of trucks. These facilities are related to the operations of the Black Oil segment.

In addition, the Company leases four smaller facilities, one located in San Antonio, Texas, one in Mission, Texas, one in Pittsburg, Texas, and one in Dallas, Texas each with a small yard for the parking of trucks, small storage tanks and an office. The San Antonio facility is leased under a thirty-six month lease which expired in June 2013 (subject to our right to renew the lease for an additional twelve months and/or purchase the property at the end of the lease term), which has a rental cost of $2,500 per month, provided that while not formally extended, we continue to operate under the same terms of the now expired lease. The Mission, Texas lease has a term expiring on November 1, 2020, and a rental cost of $1,250 per month. The Pittsburg lease is for three years, expiring May 1, 2020, at a monthly cost of $4,776. The Dallas lease expired in August 31, 2015, but we continue to lease this facility on a month to month basis for a rental cost of $4,500 per month. These facilities are related to the operations of the Black Oil segment.

The Company leases a 19 acre tank terminal facility in Baytown, Texas, where it aggregates the majority of the used motor oil for its TCEP technology. The TCEP technology is located on-site at this facility, which also has facilities for the loading and unloading of trucks and barges located near the Houston Ship Channel. The lease relating to this facility expires on November 30, 2032. The monthly rent relating to this facility is approximately $25,000 per month through November 2027, and $30,000 per month during the remaining term of the lease. The lease contains a provision providing the landlord the right to buy out our rights under the lease for the fair market value of such rights (as provided in the lease agreement) upon the occurrence of any change of control of the Company, including the sale of substantially all of our assets; or our merger with another entity which results in our shareholders holding less than 50% of the voting stock of the post-merger entity. Additionally, we have a right of first refusal to buy the landlord’s interest in the property leased in the event the landlord receives a bona fide offer to sell the premises and notifies us of its intent to accept such offer. This facility is related to the operations of the Black Oil segment.

We also lease approximately 5,893 square feet of office space at our current principal executive office located at 1331 Gemini St., Suite 250, Houston, Texas 77058. The office rent is $10,709 per month through maturity June 30, 2021. This property relates to general administrative functions of the Company and is proportionally allocated to each of our three segments.

The Company leases three smaller facilities, one located in Zanesville, Ohio, one in Mount Sterling, Kentucky, and one in Ravenswood, West Virginia each with a small yard for the parking of trucks, small storage tanks and an office. The Zanesville facility is leased under a twelve month lease with automatic renewals (subject to either party providing a written notice to the other party of the intent to cancel the lease prior to thirty days from the expiration of the current term), which has a rental cost of $3,500 per month. The Mount Sterling, Kentucky lease had a term expiring on March 22, 2018, but we continue to lease this facility on a month-to-month basis, pursuant to the terms of the lease, and a rental cost of $2,300 per month. The Ravenswood, West Virginia lease had a term expiring October 1, 2016, but we continue to lease this facility on a month to month basis for a rental cost of $1,772 per month.

The Company owns or co-owns five other facilities, which are located in Ohio. Two facilities are located in Columbus, of which one is the location of our refinery and the other is for the storage of feedstocks and finished products, the indirect ownership of 65% of which was transferred to Tensile in connection with the Heartland SPV (discussed above under “Part I” - “Item 1. Business” - “Recent Material Transactions” - “Heartland Share Purchase and Subscription Agreement”), effective January 1, 2020. There are two locations in Zanesville, of which one is used for an office, small warehouse facilities for operations and a yard area for the parking of trucks, and the other is used for bulk used oil storage and as a transfer facility. The fifth facility is located in Sandusky, Ohio and is used for bulk storage of used oil and as a transfer facility. All properties relate to the operations of the Black Oil segment.

Marrero Facility:

We lease a used motor oil refinery located in Marrero, Louisiana. The facility was constructed in 1992 by Chevron Texaco, can currently process more than 180,000 gallons per day and has a total storage capacity of nearly 17 million gallons. The facility is accessible by truck, rail, and barge. The lease has a term expiring in April 2023, with a monthly rental cost of $258,000. The lease also provides us the right to extend the lease for up to four additional five year extension terms through April 2043. This facility is related to the operations of the Black Oil segment.

Myrtle Grove:

Prior to June 17, 2019, we owned all of, and subsequent to June 17, 2019, as a result of the MG Purchase Agreement, defined and described above under "Part I" - "Item 1. Business" - "Recent Material Transactions" - "Heartland Share Purchase and Subscription Agreement"- "Myrtle Grove Share Purchase and Subscription Agreement", we own 84.42% of an entity which leases 45 acres of land on the Gulf Coast in Myrtle Grove, Louisiana. The site, which is currently being developed, is located approximately 26 miles from the Marrero facility (described above). Existing infrastructure includes offices and maintenance buildings, a lab, a control room, and a process area with existing piling and concrete, loading and unloading areas and fire protection for the process area. We also transferred additional refining equipment which we owned or leased located on the site to MG SPV in connection with the transaction described above. The lease has a term expiring in May 2022, and a rental cost of $54,000 per month. The lease also has 10 additional five year term renewal options through 2072, with the rental cost of each extension term increasing by 8% of the preceding term. This facility is related to the operations of the Black Oil segment.

We believe that our current facilities are suitable and adequate to meet our current needs, and that suitable additional or substitute space will be available as needed. However, we continue to evaluate the purchase or lease of additional properties or the consolidation of our properties, as our business requires.

Item 3. Legal Proceedings

From time to time, we may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business.

Such current litigation or other legal proceedings are described in, and incorporated by reference in, this "Item 3. Legal Proceedings" of this Annual Report on Form 10-K from, "Part II" - "Item 8. Financial Statements and Supplementary Data" in the Notes to Consolidated Financial Statements in "Note 4. Concentrations, Significant Customers, Commitments and Contingencies", under the heading "Litigation". The Company believes that the resolution of currently pending matters will not individually or in the aggregate have a material adverse effect on our financial condition or results of operations. However, assessment of the current litigation or other legal claims could change in light of the discovery of facts not presently known to the Company or by judges, juries or other finders of fact, which are not in accord with management's evaluation of the possible liability or outcome of such litigation or claims.

Additionally, the outcome of litigation is inherently uncertain. If one or more legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's financial condition and operating results for that reporting period could be materially adversely affected.

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 is traded on the NASDAQ Capital Market (“NASDAQ”) under the symbol “VTNR”.

HOLDERS

As of March 3, 2020, there were approximately (a) 264 holders of record of our common stock, not including holders who hold their shares in street name, and 45,554,841 shares of common stock issued and outstanding; (b) 74 holders of record of our 419,859 outstanding shares of Series A Preferred Stock; (c) 11 holders of record of our 3,883,449 outstanding shares of Series B Preferred Stock; and (d) 9 holders of record of our 7,004,236 outstanding shares of Series B1 Preferred Stock.

DESCRIPTION OF CAPITAL STOCK

Common Stock

The total number of authorized shares of our common stock is 750,000,000 shares, $0.001 par value per share.

Each share of our common stock is entitled to equal dividends and distributions per share with respect to the common stock when, as and if declared by our Board of Directors. No holder of any shares of our common stock has a preemptive right to subscribe for any of our securities, nor are any shares of our common stock subject to redemption or convertible into other securities. Upon liquidation, dissolution or winding-up of the Company, and after payment to our creditors and preferred shareholders, if any, our assets will be divided pro rata on a share-for-share basis among the holders of our common stock. Each share of our common stock is entitled to one vote on all shareholder matters. Shares of our common stock do not possess any cumulative voting rights.

Preferred Stock

The total number of “blank check” authorized shares of our preferred stock is 50,000,000 shares, $0.001 par value per share. The total number of authorized shares of our Series A Convertible Preferred Stock (“Series A Preferred”) is 5,000,000; the total number of authorized shares of Vertex’s Series B Preferred Stock is 10,000,000 (“Series B Preferred Stock”); the total number of authorized shares of Vertex's Series B1 Preferred Stock is 17,000,000 ("Series B1 Preferred Stock") and the total number of authorized shares of Vertex’s Series C Convertible Preferred Stock (of which none are outstanding) is 44,000 (“Series C Preferred Stock”).

Series A Preferred

Holders of outstanding shares of Series A Preferred are entitled to receive dividends, when, as, and if declared by our Board of Directors. No dividends or similar distributions may be made on shares of capital stock or securities junior to our Series A Preferred until dividends in the same amount per share on our Series A Preferred have been declared and paid. In connection with a liquidation, winding-up, dissolution or sale of the Company, each share of our Series A Preferred is entitled to receive $1.49 prior to similar liquidation payments due on shares of our common stock or any other class of securities junior to the Series A Preferred. Shares of Series A Preferred are not entitled to participate with the holders of our common stock with respect to the distribution of any remaining assets of the Company.

Each share of Series A Preferred is entitled to that number of votes equal to the number of whole shares of common stock into which it is convertible. Generally, holders of our common stock and Series A Preferred vote together as a single class.

Shares of Series A Preferred automatically convert into shares of our common stock on the earliest to occur of the following:

- The affirmative vote or written consent of the holders of a majority of the then-outstanding shares of Series A Preferred;
- If the closing market price of our common stock averages at least $15.00 per share over a period of 20 consecutive trading days and the daily trading volume averages at least 7,500 shares over such period;

- If we consummate an underwritten public offering of our securities at a price per share not less than $10.00 and for a total gross offering amount of at least $10 million; or

- If a sale of the Company occurs resulting in proceeds to the holders of Series A Preferred of a per share amount of at least $10.00.

Each share of Series A Preferred converts into one share of common stock, subject to adjustment.

Series B Preferred Stock

The Series B Preferred Stock accrues a dividend, payable quarterly in arrears (based on calendar quarters), in the amount of 6% per annum of the original issuance price of the Series B Preferred Stock ($3.10 per share).

The dividend is payable by the Company, at the Company's election, in registered common stock of the Company (if available) or cash. In the event dividends are paid in registered common stock of the Company, the number of shares payable will be calculated by dividing (a) the accrued dividend by (b) 90% of the arithmetic average of the volume weighted average price (VWAP) of the Company's common stock for the 10 trading days immediately prior to the applicable date of determination (the "June 2015 Dividend Stock Payment Price"). Notwithstanding the foregoing, in no event may the Company pay dividends in common stock unless the applicable June 2015 Dividend Stock Payment Price is above $2.91. If the Company is prohibited from paying, or chooses not to pay, the dividend in cash or is unable to pay the dividend in registered common stock, the dividend will be paid in-kind in Series B Preferred Stock shares at $3.10 per share.

The Series B Preferred Stock includes a liquidation preference (in the amount of $3.10 per share) which is junior to the Company's Series A Preferred Stock, ranks senior to the Company's Series C Preferred Stock and ranks equally with the Series B1 Preferred Stock. The Series B Preferred Stock also ranks junior to the Company's credit facilities and other debt holders as provided in further detail in the designation of the Series B Preferred Stock (the "Series B Designation").

The Series B Preferred Stock prohibits us from (i) increasing or decreasing (other than by redemption or conversion (as described in the Series B Designation)) the total number of authorized shares of Series B Preferred Stock (except to the extent required to issue payment-in-kind shares); (ii) re-issuing any shares of Series B Preferred Stock converted or redeemed; (iii) creating, or authorizing the creation of, or issuing or obligating the Company to issue shares of, any class or series of capital stock unless the same ranks junior to (and not pari passu with) the Series B Preferred Stock with respect to the distribution of assets on the liquidation, dissolution or winding up of the Company, the payment of dividends and rights of redemption, or increase the authorized number of shares of any additional class or series of capital stock unless the same ranks junior to (and not pari passu with) the Series B Preferred Stock with respect to the distribution of assets on the liquidation, dissolution or winding up of the Company, the payment of dividends and rights of redemption; (iv) effecting an exchange, reclassification, or cancellation of all or a part of the Series B Preferred Stock (except pursuant to the terms of the Series B Designation); (v) effecting an exchange, or creating a right of exchange, of all or part of the shares of another class of shares into shares of Series B Preferred Stock; (vi) issuing any shares of Series B Preferred Stock other than pursuant to the Purchase Agreement or as payment-in-kind shares; (vii) altering or changing the rights, preferences or privileges of the Series B Preferred Stock so as to affect adversely the shares of such series; or (viii) amending or waiving any provision of the Company's Articles of Incorporation or Bylaws relative to the Series B Preferred Stock so as to affect adversely the shares of Series B Preferred Stock in any material respect as compared to holders of other series, in each case without the prior written consent of holders of Series B Preferred Stock holding a majority of the then outstanding shares of Series B Preferred Stock.

The Series B Preferred Stock (including accrued and unpaid dividends) is convertible into shares of the Company's common stock at the holder's option at $3.10 per share (initially a one-for-one basis). If the Company's common stock trades at or above $6.20 per share for a period of 20 consecutive trading days, the Company may at such time force conversion of the Series B Preferred Stock (including accrued and unpaid dividends) into common stock of the Company.

The Series B Preferred Stock votes together with the common stock on an as-converted basis, provided that each holder's voting rights are subject to and limited by the Series B Beneficial Ownership Limitation described below.

The Company has the option to redeem the outstanding shares of Series B Preferred Stock at $3.10 per share, plus any accrued and unpaid dividends on such Series B Preferred Stock redeemed, at any time beginning on June 24, 2017, and the Company is required to redeem the Series B Preferred Stock at $3.10 per share, plus any accrued and unpaid dividends, on June 24, 2020, provided that such redemption is not required in the event the Company is contractually (which it is under its Credit Agreements) or legally prohibited from redeeming such preferred stock. In the event Series B Preferred Stock is not redeemed on June 24, 2020, the dividend rate increases to 10% per annum, until such time, if ever, as the Company is contractually and legally able to redeem such preferred stock.

The Series B Preferred Stock contains a provision prohibiting the conversion of such Series B Preferred Stock into common stock of the Company, if upon such conversion, the holder thereof would beneficially own more than 9.999% of the Company's then outstanding common stock (the "Series B Beneficial Ownership Limitation"). The Series B Beneficial Ownership Limitation does not apply to forced conversions undertaken by the Company pursuant to the terms of the designation (summarized above).

Series B1 Preferred Stock

The Series B1 Preferred Stock is subject to the terms and conditions and has the rights and preferences set forth in the Certificate of Designation of Vertex Energy, Inc. Establishing the Designation, Preferences, Limitations and Relative Rights of Its Series B1 Preferred Stock (the "Series B1 Designation"), which was filed with the Secretary of State of Nevada on May 12, 2016. The Series B1 Preferred Stock accrues a dividend, payable quarterly in arrears (based on calendar quarters), in the amount of 6% per annum of the original issuance price of the Series B1 Preferred Stock ($1.56 per share), provided that such dividend increased to 9% if the Consolidated Adjusted EBITDA (defined below) targets described below were not met during the periods indicated below during 2016-2017, until the earlier of (a) the date the next target is met, or (b) June 30, 2018. "Consolidated Adjusted EBITDA" means the Company's operating income, plus (i) share-based compensation expense, (ii) depreciation and amortization, (iii) goodwill impairment charges, (iv) acquisition related expenses, (v) nonrecurring restructuring charges, and (vi) other non-cash expenses or one-time items, all as calculated in accordance with United States generally accepted accounting principles, as consistently applied by the Company.

The Consolidated Adjusted EBITDA targets were as follows:

Measurement Period	Consolidated Adjusted EBITDA
For the six months ending December 31, 2016	Negative $1,000,000
For the three months ending March 31, 2017	$1,000,000
For the six months ending June 30, 2017	$3,500,000
For the nine months ending September 30, 2017	$5,500,000
For the twelve months ending December 31, 2017	$7,500,000

The Consolidated Adjusted EBITDA targets for the three months ended March 31, 2017, six months ended June 30, 2017, nine months ended September 30, 2017 and twelve months ending December 31, 2017 were not met and as a result the Series B1 Preferred Stock accrued a 9% dividend from June 30, 2017 through June 30, 2018.

The dividend is payable by the Company, at the Company's election, in registered common stock of the Company (if available) or cash, subject to the terms of the Company's senior loan documents. In the event dividends are paid in registered common stock of the Company, the number of shares payable will be calculated by dividing (a) the accrued dividend by (b) 90% of the arithmetic average of the volume weighted average price (VWAP) of the Company's common stock for the 10 trading days immediately prior to the applicable date of determination (the "May 2016 Dividend Stock Payment Price"). Notwithstanding the foregoing, in no event may the Company pay dividends in common stock unless the applicable May 2016 Dividend Stock Payment Price is above $1.52. If the Company is prohibited from paying, or chooses not to pay, the dividend in cash or is unable to pay the dividend in registered common stock, the dividend will be paid in-kind in additional shares of Series B1 Preferred Stock shares based on a value of $1.56 per share.

The Series B1 Preferred Stock includes a liquidation preference (in the amount of $1.56 per share) which is junior to the Company's Series A Preferred Stock, ranks senior to the Company's Series C Preferred Stock and ranks equally with the Series B Preferred Stock. The Series B1 Preferred Stock also ranks junior to the Company's credit facilities and other debt holders as provided in further detail in the Series B1 Designation.

The Series B1 Preferred Stock prohibits us from (i) increasing or decreasing (other than by redemption or conversion (as described in the Series B1 Designation)) the total number of authorized shares of Series B1 Preferred Stock (except to the extent required to issue payment-in-kind shares); (ii) re-issuing any shares of Series B1 Preferred Stock converted or redeemed; (iii) creating, or authorizing the creation of, or issuing or obligating the Company to issue shares of, any class or series of capital stock unless the same ranks junior to (and not pari passu with) the Series B1 Preferred Stock with respect to the distribution of assets on the liquidation, dissolution or winding up of the Company, the payment of dividends and rights of redemption, or increase the authorized number of shares of any additional class or series of capital stock unless the same ranks junior to (and not pari passu with) the Series B1 Preferred Stock with respect to the distribution of assets on the liquidation, dissolution or winding up of the Company, the payment of dividends and rights of redemption; (iv) issuing, incurring or obligating the Company to issue or incur any indebtedness that is convertible into, or exchangeable for, any equity security of the Company or instruments derivative of any equity security of the Company; (v) granting any rights to require a mandatory repurchase, retirement or redemption by the Company of any of the Company's equity securities or instruments derivative of its equity securities on or prior to June 24, 2020, or issuing, incurring or obligating the Company to issue or incur, any indebtedness with a maturity date on or prior to June 24, 2020, that is convertible into, or exchangeable for, equity securities or instruments derivative of the Company's equity securities; (vi) effecting an exchange, reclassification, or cancellation of all or a part of the Series B1 Preferred Stock (except pursuant to the terms of the Series B1 Designation); (vii) effecting an exchange, or creating a right of exchange, of all or part of the shares of another class of shares into shares of Series B1 Preferred Stock; (viii) issuing any shares of Series B1 Preferred Stock other than pursuant to the Purchase Agreement or as payment-in-kind shares; (ix) altering or changing the rights, preferences or privileges of the Series B1 Preferred Stock so as to affect adversely the shares of such series; or (x) amending or waiving any provision of the Company's Articles of Incorporation or Bylaws relative to the Series B1 Preferred Stock so as to affect adversely the shares of Series B1 Preferred Stock in any material respect as compared to holders of other series, in each case without the prior written consent of holders of Series B1 Preferred Stock holding a majority of the then outstanding shares of Series B1 Preferred Stock.

The Series B1 Preferred Stock (including accrued and unpaid dividends) is convertible into shares of the Company's common stock at the holder's option at any time after closing on a one-for-one basis. If the Company's common stock trades at or above $3.90 per share for a period of 20 consecutive trading days at any time, the Company may at such time force conversion of the Series B1 Preferred Stock (including accrued and unpaid dividends) into common stock of the Company.

The Series B1 Preferred Stock votes together with the common stock on an as-converted basis, provided that each holder's voting rights are subject to and limited by the Series B1 Beneficial Ownership Limitation described below.

The Company has the option to redeem the outstanding shares of Series B1 Preferred Stock at $1.72 per share, plus any accrued and unpaid dividends on such Series B1 Preferred Stock redeemed, at any time beginning on June 24, 2017 (the two year anniversary of the closing of the Company's June 2015 offering of Series B Preferred Stock) and the Company is required to redeem the Series B1 Preferred Stock at $1.56 per share, plus any accrued and unpaid dividends on June 24, 2020 (the five year anniversary of the closing of the Company's June 2015 offering of Series B Preferred Stock), provided that such redemption is not required in the event the Company is contractually (which it is under its Credit Agreements) or legally prohibited from redeeming such preferred stock. In the event Series B Preferred Stock is not redeemed on June 24, 2020, the dividend rate increases to 10% per annum, until such time, if ever, as the Company is contractually and legally able to redeem such preferred stock.

The Series B1 Preferred Stock contains a provision prohibiting the conversion of the Series B1 Preferred Stock into common stock of the Company, if upon such conversion or exercise, as applicable, the holder thereof would beneficially own more than 9.999% (provided that certain holders of the Series B1 Preferred Stock have contractually agreed to a lower conversion limit of 4.999%) of the Company's then outstanding common stock (the "Series B1 Beneficial Ownership Limitation"). The Series B1 Beneficial Ownership Limitation does not apply to forced conversions undertaken by the Company pursuant to the terms of the Series B1 Designation (summarized above).

Series C Convertible Preferred Stock

The Series C Preferred Stock does not accrue a dividend, but has participation rights on an as-converted basis, to any dividends paid on the Company's common stock (other than dividends paid solely in common stock). Each Series C Preferred Stock share has a $100 face value, and a liquidation preference (in the amount of $100 per share) which is junior to the Company's other outstanding shares of preferred stock, senior credit facilities and other debt holders as provided in further detail in the designation, but senior to the common stock.

The Series C Preferred Stock is convertible into shares of the Company's common stock at the holder's option at any time at $1.00 per share (initially a 100:1 basis (subject to adjustments for stock splits and recapitalizations)). The Series C Preferred Stock votes together with the common stock on an as-converted basis, provided that each holder's voting rights are subject to and limited by the Series C Beneficial Ownership Limitation described below and provided further that notwithstanding any of the foregoing, solely for purposes of determining the voting rights, the voting rights accorded to such Series C Convertible Preferred Stock will be determined as if converted at $1.05 per share (the market value of the common stock as of the close of trading on the day prior to the original issuance date of the Series C Preferred Stock), and subject to equitable adjustment as discussed in the designation. There are no redemption rights associated with the Series C Preferred Stock.

The Series C Preferred Stock contains a provision prohibiting the conversion of the Series C Preferred Stock into common stock of the Company, if upon such conversion or exercise, as applicable, the holder thereof would beneficially own more than 4.999% of the Company's then outstanding common stock (the "Series C Beneficial Ownership Limitation"). The Series C Beneficial Ownership Limitation may be increased up and down on a per holder basis, with 61 days prior written notice from any holder, provided the Series C Beneficial Ownership Limitation may never be higher than 9.999%.

So long as any shares of Series C Preferred Stock are outstanding, we are prohibited from undertaking any of the following without first obtaining the approval of the holders of a majority of the outstanding shares of Series C Preferred Stock: (a) increasing or decreasing (other than by redemption or conversion) the total number of authorized shares of Series C Preferred Stock; (b) re-issuing any shares of Series C Preferred Stock converted; (c) creating, or authorizing the creation of, or issuing or obligating the Company to issue shares of, any class or series of capital stock unless the same ranks junior to (and not pari passu with) the Series C Preferred Stock with respect to the distribution of assets on the liquidation, dissolution or winding up of the Company, or increasing the authorized number of shares of any additional class or series of capital stock unless the same ranks junior to (and not pari passu with) the Series C Preferred Stock with respect to the distribution of assets on the liquidation, dissolution or winding up of the Company; (d) effecting an exchange, reclassification, or cancellation of all or a part of the Series C Preferred Stock (except pursuant to the terms of the designation); (e) effecting an exchange, or creating a right of exchange, of all or part of the shares of another class of shares into shares of Series C Preferred Stock (except pursuant to the terms of the designation); (f) issuing any additional shares of Series C Preferred Stock; (g) altering or changing the rights, preferences or privileges of the shares of Series C Preferred Stock so as to affect adversely the shares of such series; or (h) amending or waiving any provision of the Company's Articles of Incorporation or Bylaws relative to the Series C Preferred Stock so as to affect adversely the shares of Series C Preferred Stock in any material respect as compared to holders of other series of shares.

Recent Sales of Unregistered Securities

The below includes information on recent sales of unregistered securities during the three months ended December 31, 2019 and from the period from January 1, 2020 to the filing date of this report, and does not include information which has previously been included in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K:

For the period from October 1, 2019 to December 31, 2019, a total of approximately $177,921 of dividends accrued on our outstanding Series B Preferred Stock and $211,269 of dividends accrued on our outstanding Series B1 Preferred Stock. We chose to pay such dividends in-kind by way of the issuance of 57,394 restricted shares of Series B Preferred Stock pro rata to each of the then holders of our Series B Preferred Stock in January 2020 and the issuance of 135,429 restricted shares of Series B1 Preferred Stock pro rata to each of the then holders of our Series B1 Preferred Stock in January 2020. If converted in full, the 57,394 shares of Series B Preferred Stock would convert into 57,394 shares of common stock and the 135,429 shares of Series B1 Preferred Stock would convert into 135,429 shares of common stock.

As the issuance of the Series B Preferred Stock and Series B1 Preferred Stock in-kind in satisfaction of the dividends did not involve a "sale" of securities under Section 2(a)(3) of the Securities Act, we believe that no registration of such securities, or exemption from registration for such securities, was required under the Securities Act. Notwithstanding the above, to the extent such shares are deemed "sold or offered", we claim an exemption from registration pursuant to Section 4(a)(2) and/or Rule 506 of Regulation D of the Securities Act, since the transaction did not involve a public offering, the recipients were "accredited investors", and acquired the securities for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof. The securities are subject to transfer restrictions, and the certificates evidencing the securities contain an appropriate legend stating that such securities have not been registered under the Securities Act and may not be offered or sold absent registration or pursuant to an exemption therefrom. The securities were not registered under the Securities Act and such securities may not be offered or sold in the United States absent registration or an exemption from registration under the Securities Act and any applicable state securities laws.

On January 13, 2020, a holder of our Series B1 Preferred Stock converted 9,018 shares of Series B1 Preferred Stock into 9,018 shares of common stock, pursuant to the terms of such Series B1 Preferred Stock.

On January 22, 2020, two holders of our Series B1 Preferred Stock converted 25,000 shares each of Series B Preferred Stock into 25,000 shares of common stock each, pursuant to the terms of such Series B Preferred Stock.

On January 27, 2020, a holder of our Series B1 Preferred Stock converted 252,337 shares of Series B1 Preferred Stock into 252,337 shares of common stock, pursuant to the terms of such Series B1 Preferred Stock.

On January 28, 2020, two holders of our Series B1 Preferred Stock converted 17,000 shares each of Series B Preferred Stock into 17,000 shares of common stock, each, pursuant to the terms of such Series B1 Preferred Stock.

We claim an exemption from registration provided by Section 3(a)(9) of the Securities Act for such issuances, as the securities were exchanged by us with our existing security holders in a transaction where no commission or other remuneration was paid or given directly or indirectly for soliciting such exchange.

As of the date of this filing, there were 419,859 outstanding shares of Series A Preferred Stock, which if converted in full, could be converted into 419,859 shares of common stock; 3,883,449 outstanding shares of Series B Preferred Stock, which if converted in full, could be converted into 3,883,449 shares of common stock; and 7,004,236 outstanding shares of Series B1 Preferred Stock, which if converted in full, could be converted into 7,004,236 shares of common stock.

Use of Proceeds From Sale of Registered Securities

None.

Issuer Purchases of Equity Securities

None.

Item 6. Selected Financial Data

Our selected consolidated financial data shown below should be read together with "Part II" - "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and respective notes included in "Part II" - "Item 8. Financial Statements and Supplementary Data". The data shown below is not necessarily indicative of results to be expected for any future period.

	Years Ended December 31,				
	2019	2018	2017	2016	2015
Statement of Operations Data:					
Revenues	$ 163,365,565	$ 180,720,661	$ 145,499,092	$ 98,078,914	$ 146,942,461
Income (loss) from operations	$ (2,774,044)	$ 488,348	$ (7,056,263)	$ (10,112,514)	$ (14,093,041)
Basic net loss per share	$ (0.28)	$ (0.23)	$ (0.36)	$ (0.51)	$ (0.86)
Diluted net loss per share	$ (0.28)	$ (0.23)	$ (0.36)	$ (0.51)	$ (0.86)
Weighted average number of basic common shares outstanding	40,988,946	35,411,264	32,653,402	30,520,820	28,181,096
Weighted average number of diluted common shares outstanding	40,988,946	35,411,264	32,653,402	30,520,820	28,181,096

	As of December 31,				
	2019	2018	2017	2016	2015
Consolidated Balance Sheet Data					
Cash and cash equivalents	$ 4,099,655	$ 1,249,831	$ 1,105,787	$ 1,701,435	$ 765,364
Working capital (deficit)	$ 2,609,609	$ 6,547,301	$ 3,523,548	$ (1,268,192)	$ (10,498,637)
Total assets	$ 120,759,919	$ 84,160,408	$ 84,305,474	$ 86,985,968	$ 93,644,816
Long-term obligations	$ 44,714,247	$ 16,175,790	$ 16,013,267	$ 6,214,103	$ 7,088,263
Total liabilities	$ 69,511,546	$ 33,171,401	$ 32,961,171	$ 28,667,747	$ 40,753,674
Total temporary equity	$ 28,146,347	$ 22,179,963	$ 22,959,945	$ 19,604,255	$ 11,955,207
Total equity	$ 23,102,026	$ 28,809,044	$ 28,384,358	$ 38,713,966	$ 40,935,935

The key operational issue contributing to the differences between 2019 and 2018 was the decrease in commodity prices. This resulted in lower 2019 revenues and cost of goods sold without a corresponding increase in our fixed costs. Other operating differences between 2019 and 2018, were due to the acquisitions completed the first quarter of 2018.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Strategy and Plan of Operations

The Principal elements of our strategy include:

- *Expand Feedstock Supply Volume.* We intend to expand our feedstock supply volume by growing our collection and aggregation operations. We plan to increase the volume of feedstock we collect directly by developing new relationships with generators and working to displace incumbent collectors; increasing the number of collection personnel, vehicles, equipment, and geographical areas we serve; and acquiring collectors in new or existing territories. We intend to increase the volume of feedstock we aggregate from third-party collectors by expanding our existing relationships and developing new vendor relationships. We believe that our ability to acquire large feedstock volumes will help to cultivate new vendor relationships because collectors often prefer to work with a single, reliable customer rather than manage multiple relationships and the uncertainty of excess inventory.

- *Broaden Existing Customer Relationships and Secure New Large Accounts*. We intend to broaden our existing customer relationships by increasing sales of used motor oil and re-refined products to these accounts. In some cases, we may also seek to serve as our customers' primary or exclusive supplier. We also believe that as we increase our supply of feedstock and re-refined products that we will secure larger customer accounts that require a partner who can consistently deliver high volumes.

- *Re-Refine Higher Value End Products.* We intend to develop, lease, or acquire technologies to re-refine our feedstock supply into higher-value end products. We believe that the expansion of our facilities and our technology, and investments in additional technologies, will enable us to upgrade feedstock into end products, such as lubricating base oil, that command higher market prices than the current re-refined products we produce.

- *Pursue Selective Strategic Relationships or Acquisitions.* We plan to grow market share by consolidating feedstock supply through partnering with or acquiring collection and aggregation assets. Such acquisitions and/or partnerships could increase our revenue and provide better control over the quality and quantity of feedstock available for resale and/or upgrading as well as providing additional locations for the implementation of TCEP, if we deem such commercially reasonable. In addition, we intend to pursue further vertical integration opportunities by acquiring complementary recycling and processing technologies where we can realize synergies by leveraging our customer and vendor relationships, infrastructure, and personnel, and by eliminating duplicative overhead costs.

RESULTS OF OPERATIONS

Description of Material Financial Line Items:

Revenues

We generate revenues from three existing operating segments as follows:

BLACK OIL - Revenues for our Black Oil segment are comprised primarily of product sales from our re-refineries and feedstock sales (used motor oil) which are purchased from generators of used motor oil such as oil change shops and garages, as well as a network of local and regional suppliers. Volumes are consolidated for efficient delivery and then sold to third-party re-refiners and fuel oil blenders for the export market. In addition, through used oil re-refining, we re-refine used oil into different commodity products. The Houston, Texas TCEP facility finished product is then sold by barge as a fuel oil cutterstock (provided that TCEP has only once again been used for this purpose since the fourth quarter of 2019, and prior to that, beginning in the third quarter of 2015, due to economic reasons, was temporarily being used to pre-treat our used motor oil feedstock prior to shipping to our facility in Marrero, Louisiana). Through the operations at our Marrero, Louisiana facility, we produce a Vacuum Gas Oil (VGO) product from used oil re-refining which is then sold via barge to crude refineries to be utilized as an intermediate feedstock in the refining process, as well as to the marine fuels market.

Through the operations at our Columbus, Ohio facility, the ownership of 65% of which was transferred to Tensile in connection with the Heartland SPV (discussed above under "Part I" - "Item 1. Business" - "Recent Material Transactions"), effective January 1, 2020, we produce a base oil finished product which is then sold via truck or rail car to end users for blending, packaging and marketing of lubricants.

REFINING AND MARKETING - The Refining and Marketing segment generates revenues relating to the sales of finished products. The Refining and Marketing segment gathers hydrocarbon streams in the form of petroleum distillates, transmix and other chemical products that have become off-specification during the transportation or refining process. These feedstock streams are purchased from pipeline operators, refineries, chemical processing facilities and third-party providers, and then processed at a third-party facility under our direction. The end products are typically three distillate petroleum streams (gasoline blendstock, pygas and fuel oil cutterstock), which are sold to major oil companies or to large petroleum trading and blending companies. The end products are delivered by barge and truck to customers.

RECOVERY - The Recovery segment is a generator solutions company for the proper recovery and management of hydrocarbon streams. We own and operate a fleet of trucks and other vehicles used for shipping and handling equipment and scrap materials.

Our revenues are affected by changes in various commodity prices including crude oil, natural gas, #6 oil and metals.

Cost of Revenues

BLACK OIL - Cost of revenues for our Black Oil segment are comprised primarily of feedstock purchases from a network of providers. Other cost of revenues include processing costs, transportation costs, purchasing and receiving costs, analytical assessments, brokerage fees and commissions, and surveying and storage costs.

REFINING AND MARKETING - The Refining and Marketing segment incurs cost of revenues relating to the purchase of feedstock, purchasing and receiving costs, and inspection and processing of the feedstock into gasoline blendstock, pygas and fuel oil cutter by a third party. Cost of revenues also includes broker’s fees, inspection and transportation costs.

RECOVERY - The Recovery segment incurs cost of revenues relating to the purchase of hydrocarbon products, purchasing and receiving costs, and inspection. Cost of revenues also includes broker’s fees, inspection and transportation costs.

Our cost of revenues are affected by changes in various commodity indices, including crude oil, natural gas, #6 oil and metals. For example, if the price for crude oil increases, the cost of solvent additives used in the production of blended oil products, and fuel cost for transportation cost from third party providers will generally increase. Similarly, if the price of crude oil falls, these costs may also decline.

General and Administrative Expenses

Our general and administrative expenses consist primarily of salaries and other employee-related benefits for executive, administrative, legal, financial and information technology personnel, as well as outsourced and professional services, rent, utilities, and related expenses at our headquarters, as well as certain taxes.

Depreciation and Amortization Expenses

Our depreciation and amortization expenses are primarily related to the fixed assets and intangible assets acquired in connection with the Vertex Holdings, L.P. (formerly Vertex Energy, L.P.), a Texas limited partnership (“Holdings”), Omega Refining, LLC's (“Omega Refining”) and Warren Ohio Holdings Co., LLC, f/k/a Heartland Group Holdings, LLC (“Heartland”), Acadiana Recovery, LLC (“Acadiana”), Nickco Recycling, Inc. (“Nickco”), Ygriega Environmental Services, LLC (“Ygriega”) and Specialty Environmental Services (“SES”) acquisitions.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2019 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2018

Set forth below are our results of operations for the three months ended December 31, 2019, as compared to the same period in 2018.

	Three Months Ended December 31,			
	2019	2018	$ Change	% Change
Revenues	$ 42,588,302	$ 41,801,748	$ 786,554	2 %
Cost of revenues	31,045,027	36,879,263	(5,834,236)	(16)%
Gross profit	11,543,275	4,922,485	6,620,790	135 %
Selling, general and administrative expenses	6,652,623	5,258,572	1,394,051	27 %
Depreciation and amortization	1,846,604	1,756,996	89,608	5 %
Total operating expenses	8,499,227	7,015,568	1,483,659	21 %
Income (loss) from operations	3,044,048	(2,093,083)	5,137,131	245 %
Other Income	126	—	126	100 %
Loss on sale of assets	(105,554)	(5,970)	(99,584)	(1,668)%
Gain (loss) on change in derivative warrant liability	(819,239)	2,888,687	(3,707,926)	(128)%
Interest Expense	(747,291)	(833,084)	85,793	10 %
Total other income (expense)	(1,671,958)	2,049,633	(3,721,591)	(182)%
Income (loss) before income tax	1,372,090	(43,450)	1,415,540	3,258 %
Income tax provision	—	—	—	— %
Net income (loss) attributable to non-controlling interest and redeemable non-controlling interest	(62,112)	157,883	(219,995)	(139)%
Net income (loss) attributable to Vertex Energy, Inc.	$ 1,434,202	$ (201,333)	$ 1,635,535	812 %

Each of our segments' gross profit (loss) during the three months ended December 31, 2019 and 2018 were as follows:

	Three Months Ended December 31, 2019	2018	$ Change	% Change
Black Oil				
Revenues	$ 36,215,635	$ 32,730,540	$ 3,485,095	11 %
Cost of Revenues	24,822,137	27,280,433	(2,458,296)	(9)%
Gross profit	$ 11,393,498	$ 5,450,107	$ 5,943,391	109 %

	Three Months Ended December 31, 2019	2018	$ Change	% Change
Refining And Marketing				
Revenues	$ 3,745,290	$ 5,553,741	$ (1,808,451)	(33)%
Cost of Revenues	2,883,187	5,972,018	(3,088,831)	(52)%
Gross profit (deficit)	$ 862,103	$ (418,277)	$ 1,280,380	(306)%

	Three Months Ended December 31, 2019	2018	$ Change	% Change
Recovery				
Revenues	$ 2,627,377	$ 3,517,467	$ (890,090)	(25)%
Cost of Revenues	3,339,703	3,626,812	(287,109)	(8)%
Gross deficit	$ (712,326)	$ (109,345)	$ (602,981)	(551)%

Our revenues and cost of revenues are significantly impacted by fluctuations in commodity prices. Increases in commodity prices typically result in increases in revenue and cost of revenues. Our gross profit is to a large extent a function of the market discount we are able to obtain in purchasing feedstock, as well as how efficiently management conducts operations.

Revenues increased 2% for the fourth quarter of 2019, compared to the same period in 2018, due primarily to increased volumes of products sold during the period. Total volume increased 23% and gross profit increased 135% for the three months ended December 31, 2019, compared to same period in 2018. Additionally, our per barrel margin increased 91% relative to the three months ended December 31, 2018. The majority of this increase was the result of the drop in High Sulfur Fuel Oil commodity prices during the fourth quarter of 2019, which resulted in lowering the index that we purchase the majority of our feedstock against, which improved our product spreads during this period.

During the three months ended December 31, 2019, total cost of revenues was $31,045,027, compared to $36,879,263 for the three months ended December 31, 2019, a decrease of $5,834,236 or 16% from the prior period. The main reason for the decrease was the result of a decline in commodity prices, which impacted our feedstock pricing and a decrease in volumes in our Refining & Marketing division, as well as our metals facilities.

Our Black Oil segment's volume increased approximately 17% during the three months ended December 31, 2019 compared to the same period in 2018. This increase was mainly due to steady production during the period and not having a turnaround during the period at either of our refining facilities during the three months ended December 31, 2019, compared to turn arounds during last year's period. Overall volume for the Refining and Marketing segment decreased 26% during the three month period ended December 31, 2019, as compared to the same period in 2018. This is a result of a focus on the production of higher quality finished products, which in turn has decreased the amount of volume being produced. This segment experienced a decrease in production of 54% for its cutterstock for the three months ended December 31, 2019, compared to the same period in 2018. Our gasoline blendstock volumes were down 100% for the three months ended December 31, 2019, compared to the same period in 2018. Our pygas volumes increased 8% for the three months ended December 31, 2019, as compared to the same period in 2018.

During the three months ended December 31, 2019, our Refining and Marketing cost of revenues were $2,883,187 of which the processing costs for our Refining and Marketing business located at KMTEX were $588,070. Revenues for the same period were $3,745,290 while gross profit from operations was $862,103. During the three months ended December 31, 2018, our Refining and Marketing cost of revenues were $5,972,018, which included the processing costs at KMTEX of $650,481. Revenues for the same period were $5,553,741, while gross deficit from operations was $418,277.

Commodity prices decreased approximately 34% for the three months ended December 31, 2019, compared to the same period in 2018. The average posting (U.S. Gulfcoast Residual Fuel No. 6 3%) for the three months ended December 31, 2019 decreased $21.02 per barrel from a three month average of $61.59 per barrel during the three months ended December 31, 2018 to $40.57 per barrel during the three months ended December 31, 2019.

Overall gross profit increased 135% and our margin per barrel increased approximately 91% for the three months ended December 31, 2019, compared to the same period in 2018. In our street collections and third party purchasing we were focused on lowering the prices paid to generators and suppliers for used motor oil during 2019. Additionally, our street collections operations had to quickly shift its services model where we implemented service fees for the handling of used motor oil, the managing of used oil filters, and various other services performed by our collection division during the period compared to this being a cost and us paying for these services to be completed in certain prior periods. Volumes in our street collections were up 19% for the three months ended December 31, 2019 as compared to the same period in 2018. One of our key initiatives continues to be a focus on growing our own volumes of collected material and displacing the third party oil processed in our facilities.

We had selling, general and administrative expenses of $6,652,623 for the three months ended December 31, 2019, compared to $5,258,572 from the prior year's period, an increase of $1,394,051 or 27% from the prior period. This increase is primarily due to the additional selling, general and administrative expenses incurred during the period as a result of increased personnel costs, legal expenses, and insurance expenses related to our expansion of trucks and facilities through organic growth, as well as increased accounting, legal and consulting expenses related to our Tensile transaction.

We had total other expense of $1,671,958 for the three months ended December 31, 2019, compared to total other income of $2,049,633 for the three months ended December 31, 2018. The main reason for the change in other expense during 2019 was the loss of $819,239 during 2019, compared to the gain of $2,888,687 during 2018, on change in value of derivative liability, in connection with certain warrants granted in June 2015 and May 2016, as described in greater detail in "Note 14. Preferred Stock and Temporary Equity" to the consolidated financial statements included herein under "Part II"-"Item 8- Financial Statements and Supplementary Data".

We had income before income taxes of $1,372,090 for the three months ended December 31, 2019 compared to a loss before income taxes of $43,450 for the three months ended December 31, 2018. The increase in income was mainly due to the decrease in costs of revenues as discussed above, partially offset by a $3,707,926 increase in loss on change in derivative warrant liability related to the non-cash adjustment relating to the value of the June 2015 and May 2016 warrants, as discussed above.

We had net income attributable to Vertex Energy, Inc. of $1,434,202 for the three months ended December 31, 2019, compared to a net loss attributable to Vertex Energy, Inc. of $201,333 for the three months ended December 31, 2018. The increase in net income was primarily due to increased direct collection volumes of product into our facilities during the current year and increased finished product volumes, coupled with the decrease in cost of revenues as discussed above.

RESULTS OF OPERATIONS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019 COMPARED TO THE FISCAL YEAR ENDED DECEMBER 31, 2018

	Year Ended December 31,			
	2019	2018	$ Change	% Change
Revenues	$ 163,365,565	$ 180,720,661	$ (17,355,096)	(10)%
Cost of revenues	134,777,113	151,314,039	(16,536,926)	(11)%
Gross profit	28,588,452	29,406,622	(818,170)	(3)%
Selling, general and administrative expenses	24,182,407	21,927,264	2,255,143	10 %
Depreciation and amortization	7,180,089	6,991,010	189,079	3 %
Total operating expenses	31,362,496	28,918,274	2,444,222	8 %
Income (loss) from operations	(2,774,044)	488,348	(3,262,392)	(668)%
Other income (expense)				
Other income	920,197	659	919,538	139,535 %
Gain (loss) on sale of assets	(74,111)	45,553	(119,664)	(263)%
Gain (loss) on change in value of derivative warrant liability	(487,524)	763,716	(1,251,240)	(164)%
Interest expense	(3,070,071)	(3,281,855)	211,784	6 %
Total other expense	(2,711,509)	(2,471,927)	(239,582)	(10)%
Loss before income tax	(5,485,553)	(1,983,579)	(3,501,974)	(177)%
Income tax benefit	—	—	—	— %
Net loss	(5,485,553)	(1,983,579)	(3,501,974)	(177)%
Net income (loss) attributable to non-controlling interest and redeemable non-controlling interest	(436,974)	234,188	(671,162)	(287)%
Net loss attributable to Vertex Energy, Inc.	$ (5,048,579)	$ (2,217,767)	$ (2,830,812)	(128)%

Each of our segment's gross profit during these periods was as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018	$ Change	% Change
Black Oil				
Revenues	$ 139,269,164	$ 143,836,981	$ (4,567,817)	(3)%
Cost of revenues	113,196,583	116,524,465	(3,327,882)	(3)%
Gross profit	$ 26,072,581	$ 27,312,516	$ (1,239,935)	(5)%
Refining And Marketing				
Revenues	$ 12,957,767	$ 22,935,482	$ (9,977,715)	(44)%
Cost of revenues	10,651,069	22,290,277	(11,639,208)	(52)%
Gross profit	$ 2,306,698	$ 645,205	$ 1,661,493	258 %
Recovery				
Revenues	$ 11,138,634	$ 13,948,198	$ (2,809,564)	(20)%
Cost of revenues	10,929,461	12,499,297	(1,569,836)	(13)%
Gross profit	$ 209,173	$ 1,448,901	$ (1,239,728)	(86)%

Our revenues and cost of revenues are significantly impacted by fluctuations in commodity prices. Increases in commodity prices typically result in increases in revenue and cost of revenues. Our gross profit is to a large extent a function of the market discount we are able to obtain in purchasing feedstock, as well as how efficiently management conducts operations.

Total revenues decreased 10% for the year ended December 31, 2019, compared to the year ended December 31, 2018, due primarily to decreases in commodity prices during the period of approximately 10%. The average posting (U.S. Gulfcoast Residual Fuel No. 6 3%) for 2019 decreased $7.31 per barrel from a 2018 average of $61.21 per barrel to an average of $53.90 per barrel during 2019. On average, prices we received for our products decreased 10% for the year ended December 31, 2019, compared to the year ended December 31, 2018.

Volume for our Black Oil segment increased 5% during fiscal 2019 compared to 2018. This volume increase is attributable to the increased amount of product which was processed through our facilities in Columbus, Ohio , the ownership of 65% of which was transferred to Tensile in connection with the Heartland SPV (discussed above under "Part I" - "Item 1. Business" - "Recent Material Transactions"), effective January 1, 2020, and Marrero, Louisiana during the period ended December 31, 2019, as compared to the same period in 2018. Our per barrel margin in the Black Oil segment decreased approximately 10% for the year ended December 31, 2019 from the same period in 2018. The decrease in margins was due to the issues experienced during the first half of the year at our refining facilities relating to weather events, extended turnarounds and overall operational challenges which caused an increase in operating expenses. Our Black Oil segment, which includes our TCEP facility, the Marrero facility and the Heartland facility (of which we own 35% effective January 1, 2020), generated revenues of $139,269,164 for the year ended December 31, 2019, with cost of revenues of $113,196,583, producing a gross profit of $26,072,581. During the year ended December 31, 2018, these revenues were $143,836,981 with cost of revenues of $116,524,465, producing a gross profit of $27,312,516. Gross profit decreased for the year ended December 31, 2019, compared to 2018, as a result of increased operating expenses through our various facilities offset by diligent management of our street collections and pricing.

Total volume company-wide was up 5% during fiscal 2019 compared to 2018, and our total per barrel margin decreased approximately 8% for fiscal 2019, compared to 2018. This decrease was a result of increased operating expenses experienced at our facilities during 2019. We experienced increased turnaround costs during the year as a result of hurricane/weather delays as well as substantially increased transportation expenses due to weather and fog along the Gulf Coast and Mississippi River.

Our Refining and Marketing segment experienced a decrease in production of 63% for its fuel oil cutterstock product for the year ended December 31, 2019, compared to the same period in 2018, as a result of a focus on the production of higher quality finished products, which in turn has decreased the amount of volume being produced, and our fuel oil cutterstock commodity prices decreased approximately 12% over the same period. The average posting (U.S. Gulfcoast No. 2 Waterborne) during 2019 decreased $7.18 per barrel from $61.08 per barrel for the year ended December 31, 2018 to $53.90 per barrel for the year ended December 31, 2019.

Our pygas production decreased 3% for the year ended December 31, 2019, compared to the same period in 2018 and commodity prices decreased approximately 10% for our pygas finished product for 2019, compared to the same period in 2018.

Our gasoline blendstock volumes decreased 100% for the year ended December 31, 2019 as compared to 2018. This was a result of no longer processing gasoline blendstocks in our Refining and Marketing division as the processing margins were no longer economically feasible. The lower margins were a result of decreases in available feedstock volumes. We have also had to assess the volume of fuel oil cutterstocks that we manage due to enhanced quality of products being demanded in the marketplace.

Overall volume for the Refining and Marketing segment decreased 34% during the year ended December 31, 2019, compared to the year ended December 31, 2018. Margins per barrel increased in the Refining and Marketing segment as a result of changes we have made in the products being managed and processed as well as the pricing of these products.

During the year ended December 31, 2019, our Refining and Marketing cost of revenues were $10,651,069, of which the processing costs for our Refining and Marketing business located at KMTEX were $2,007,295. Revenues for the same period were $12,957,767, while gross profit from operations was $2,306,698. During the year ended December 31, 2018, our Refining and Marketing cost of revenues were $22,290,277, which included the processing costs at KMTEX of $2,223,633. Revenues for the same period were $22,935,482, while gross profit was $645,205.

Our Recovery segment includes the business operations of Vertex Recovery Management as well as our Group III base oil business. Vertex acts as Penthol's exclusive agent to provide marketing, sales, and logistical duties of Group III base oil from the United Arab Emirates to the United States. Revenues for this segment decreased during 2019, as compared to the same period in 2018. This segment periodically participates in project work that is not ongoing, thus we expect to see fluctuations in revenue and gross profit from period to period. These projects are typically bid related and can take time to line out and get started; however we believe these are very good projects for the Company and we anticipate more in the upcoming periods. Revenues for this division decreased 20% as a result of a significant decrease in steel volumes and prices during 2019, as compared to 2018. Volumes of petroleum products acquired in our Recovery business were up 36% during the twelve months ended December 31, 2019, as compared to the same period in 2018. We are continuing to focus on volume growth in this division.

Prevailing prices of certain commodity products can significantly impact our revenues and cash flows. As noted above the revenue variances from fiscal 2018 to 2019 were largely impacted due to the changes in commodity pricing between the two periods as detailed below.

The following table sets forth the high and low spot prices during 2019 for our key benchmarks.

2019 **Benchmark**	**High**	**Date**	**Low**	**Date**
U.S. Gulfcoast No. 2 Waterborne (dollars per gallon)	$ 2.01	September 16	$ 1.53	January 2
U.S. Gulfcoast Unleaded 87 Waterborne (dollars per gallon)	$ 2.08	April 10	$ 1.31	January 2
U.S. Gulfcoast Residual Fuel No. 6 3% (dollars per barrel)	$ 68.54	April 25	$ 32.05	November 19
NYMEX Crude Oil (dollars per barrel)	$ 66.30	April 23	$ 46.54	January 2
Reported in Platt's US Marketscan (Gulf Coast)				

The following table sets forth the high and low spot prices during 2018 for our key benchmarks.

2018 Benchmark	High		Date	Low		Date
U.S. Gulfcoast No. 2 Waterborne (dollars per gallon)	$	2.32	October 1	$	1.50	December 28
U.S. Gulfcoast Unleaded 87 Waterborne (dollars per gallon)	$	2.20	October 3	$	1.26	December 27
U.S. Gulfcoast Residual Fuel No. 6 3% (dollars per barrel)	$	73.42	October 9	$	47.27	December 27
NYMEX Crude Oil (dollars per barrel)	$	76.41	October 1	$	44.61	December 27
Reported in Platt's US Marketscan (Gulf Coast)						

We saw a steady decline in each of the benchmark commodities we track during 2019 and 2018. During 2018 and specifically the second half of 2019, the commodity markets experienced a steady decline due to overall global economic conditions mostly related to supply and demand for the products we track.

Our margins are a function of the difference between what we are able to pay for raw materials and the market prices for the range of products produced. The various petroleum products produced are typically a function of Crude Oil indices and are quoted on multiple exchanges such as the New York Mercantile Exchange ("NYMEX"). These prices are determined by a global market and can be influenced by many factors, including but not limited to supply/demand, weather, politics, and global/regional inventory levels. As such, we cannot provide any assurances regarding results of operations for any future periods, as numerous factors outside of our control affect the prices paid for raw materials and the prices (for the most part keyed to the NYMEX) that can be charged for such products. Additionally, for the near term, results of operations will be subject to further uncertainty, as the global markets and exchanges, including the NYMEX, continue to experience volatility.

Gross profit decreased 3% to $28,588,452 for the year ended December 31, 2019 from $29,406,622 for the year ended December 31, 2018, primarily due to operational impacts to our business at our refining locations. We experienced extended delays due to weather events in the Gulf Coast which caused extended downtime at our facility during the year ended December 31, 2019. This resulted in higher turnaround costs as well as decreased production. In addition we experienced increased costs around our metals division during the year due to an increase in the market price of metals.

We had selling, general and administrative expenses of $24,182,407 for the year ended December 31, 2019, compared to $21,927,264 for the prior year's period, an increase of $2,255,143 or 10% from the prior period, due to the additional selling, general and administrative expenses incurred during the period as a result of increased personnel costs, legal expenses, and insurance expenses related to expansion of trucks and facilities through organic growth, as well as increased accounting, legal and consulting expenses related to our Tensile transaction.

We had total other expense of $2,711,509 for the year ended December 31, 2019, compared to total other expense of $2,471,927 for the year ended December 31, 2018. The main reasons for the change in other expense during 2019 was the receipt of a payment of $907,500 related to the proceeds of an insurance settlement for a fire that had occurred at the used oil re-refining plant located in Churchill County, Nevada, which we previously rented during the year ended December 31, 2019 as compared to year ended December 31, 2018, and the loss of $487,524 during 2019, compared to the gain of $763,716 during 2018, on change in value of derivative liability, in connection with certain warrants granted in June 2015 and May 2016, as described in greater detail in "Note 14. Preferred Stock and Temporary Equity" to the consolidated financial statements included herein under "Part II"-"Item 8- Financial Statements and Supplementary Data".

We had a loss before income taxes of $5,485,553 for the year ended December 31, 2019, compared to a loss before income taxes of $1,983,579, for the year ended December 31, 2018, a 177% increase. The increase in net loss before taxes was attributable to the decline in market and commodity prices, which reduced revenues during the period, as well as the increase in selling, general and administrative expenses.

We had a net loss attributable to Vertex Energy, Inc. of $5,048,579 for the year ended December 31, 2019, compared to a net loss of $2,217,767 for the year ended December 31, 2018, an increase in net loss of $2,830,812 or 128% from the prior period for the reasons described above.

Our revenues and cost of revenues are significantly impacted by fluctuations in commodity prices; decreases in commodity prices typically result in decreases in revenue and cost of revenues. Our gross profit is to a large extent a function of the market discount we are able to obtain in purchasing feedstock, as well as how efficiently management conducts operations.

Set forth below, we have disclosed a quarter-by-quarter summary of our statements of operations and statements of operations by segment information for the quarters ended December 31, September 30, June 30, and March 31, 2019 and 2018, respectively.

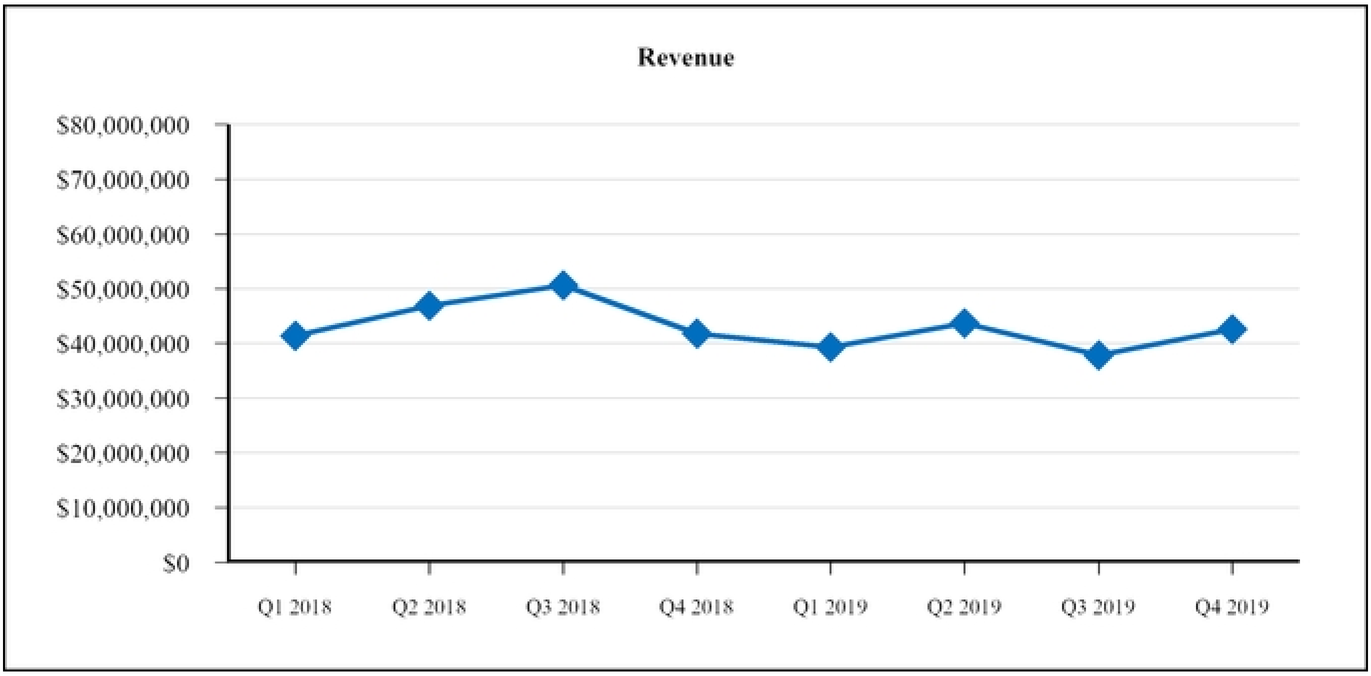
Statements of Operations by Quarter

	Fiscal 2019				Fiscal 2018			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	$42,588,302	$37,799,259	$43,657,292	$39,320,712	$41,801,748	$50,632,948	$46,917,770	$41,368,195
Cost of revenues	31,045,027	32,372,316	36,515,421	34,844,349	36,879,263	42,593,367	36,796,258	35,045,151
Gross profit	11,543,275	5,426,943	7,141,871	4,476,363	4,922,485	8,039,581	10,121,512	6,323,044
Selling, general and administrative expenses	6,652,623	6,153,184	6,028,859	5,347,741	5,258,572	5,658,659	5,364,591	5,645,442
Depreciation and amortization	1,846,604	1,815,582	1,780,890	1,737,013	1,756,996	1,806,839	1,733,076	1,694,099
Total operating expenses	8,499,227	7,968,766	7,809,749	7,084,754	7,015,568	7,465,498	7,097,667	7,339,541
Income (loss) from operations	3,044,048	(2,541,823)	(667,878)	(2,608,391)	(2,093,083)	574,083	3,023,845	(1,016,497)
Other income (expense)								
Interest income	126	918,153	1,918	—	—	—	659	—
Gain(loss) Asset Sales	(105,554)	—	29,150	2,293	(5,970)	—	8,843	42,680
Gain on change in value of derivative liability	(819,239)	1,290,792	746,017	(1,705,094)	2,888,687	(2,169,133)	475,913	(431,751)
Interest expense	(747,291)	(826,005)	(738,972)	(757,803)	(833,084)	(798,800)	(847,456)	(802,515)
Total other income (expense)	(1,671,958)	1,382,940	38,113	(2,460,604)	2,049,633	(2,967,933)	(362,041)	(1,191,586)
Income (loss) before income taxes	1,372,090	(1,158,883)	(629,765)	(5,068,995)	(43,450)	(2,393,850)	2,661,804	(2,208,083)
Income tax benefit	—	—	—	—	—	—	—	—
Net income (loss)	1,372,090	(1,158,883)	(629,765)	(5,068,995)	(43,450)	(2,393,850)	2,661,804	(2,208,083)
Net income (loss)attributable to non-controlling interest	(62,112)	(67,102)	(202,329)	(105,431)	157,883	(105,970)	131,736	50,539
Net income (loss)attributable to Vertex Energy, Inc.	$ 1,434,202	$ (1,091,781)	$ (427,436)	$ (4,963,564)	$ (201,333)	$ (2,287,880)	$ 2,530,068	$ (2,258,622)
Number of weighted average common shares outstanding								
Basic	42,063,871	41,376,335	40,294,870	40,195,925	40,062,779	35,144,113	33,300,456	33,063,732
Diluted	42,783,248	41,376,335	40,294,870	40,195,925	40,062,779	35,144,113	37,013,651	33,063,732

Statements of Operations by Quarters

	Fiscal 2019				Fiscal 2018			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Black Oil								
Revenues	$36,215,635	$32,330,530	$37,907,811	$32,815,187	$32,730,540	$40,400,064	$38,469,131	$32,237,246
Cost of revenues	24,822,137	27,663,982	31,368,939	29,341,525	27,280,433	32,550,126	29,723,927	26,969,978
Gross profit	$11,393,498	$ 4,666,548	$ 6,538,872	$ 3,473,662	$ 5,450,107	$ 7,849,938	$ 8,745,204	$ 5,267,268
Refining & Marketing								
Revenues	$ 3,745,290	$ 3,076,454	$ 3,277,402	$ 2,858,621	$ 5,553,741	$ 7,313,630	$ 4,392,870	$ 5,675,241
Cost of revenues	2,883,187	2,511,314	2,705,031	2,551,537	5,972,018	7,044,218	4,034,509	5,239,532
Gross profit (loss)	$ 862,103	$ 565,140	$ 572,371	$ 307,084	$ (418,277)	$ 269,412	$ 358,361	$ 435,709
Recovery								
Revenues	$ 2,627,377	$ 2,392,274	$ 2,472,079	$ 3,646,904	$ 3,517,467	$ 2,919,254	$ 4,055,769	$ 3,455,708
Cost of revenues	3,339,703	2,197,019	2,441,451	2,951,287	3,626,812	2,999,023	3,037,821	2,835,641
Gross profit (loss)	$ (712,326)	$ 195,255	$ 30,628	$ 695,617	$ (109,345)	$ (79,769)	$ 1,017,948	$ 620,067

The below graph charts our total quarterly revenue over time from March 31, 2018 to December 31, 2019:



Liquidity and Capital Resources

The success of our current business operations has become more dependent on repairs, and maintenance to our facilities and our ability to make routine capital expenditures. We also must maintain relationships with feedstock suppliers and end product customers, and operate with efficient management of overhead costs. Through these relationships, we have historically been able to achieve volume discounts in the procurement of our feedstock, thereby increasing the margins of our segments' operations. The resulting operating cash flow is crucial to the viability and growth of our existing business lines.

We had total assets of $120,759,919 as of December 31, 2019, compared to $84,160,408 at December 31, 2018. The increase was mainly due to the implementation of the new lease accounting requirements during the year ended December 31, 2019, which mandated the recognition of operating lease right of use assets totaling an aggregate of $35,586,885. The recognition of these right of use assets on the balance sheet existed in prior periods as well, but were not, due to the then accounting requirements, treated as assets on our balance sheet. Without taking into account the operating lease right to use assets, our total assets would have been $85,173,034 at December 31, 2019.

We had total liabilities of $69,511,546 as of December 31, 2019, compared to total liabilities of $33,171,401 as of December 31, 2018. The increase in liabilities was mainly in connection with the implementation of the new lease accounting requirements, which created a new line item on the balance sheet, operating lease liability, which totaled $35,586,885 as of December 31, 2019.

We had working capital of $2,609,609 as of December 31, 2019, compared to working capital of $6,547,301 as of December 31, 2018. The decrease in working capital is mainly due to the addition in the current period of the current portion of the operating lease liability in connection with the implementation of the new lease accounting requirements.

Our future operating cash flows will vary based on a number of factors, many of which are beyond our control, including commodity prices, the cost of recovered oil, and the ability to turn our inventory. Other factors that have affected and are expected to continue to affect earnings and cash flow are transportation, processing, and storage costs. Over the long term, our operating cash flows will also be impacted by our ability to effectively manage our administrative and operating costs. Additionally, we may incur future capital expenditures related to new refining facilities.

The Company financed insurance premiums through various financial institutions bearing interest rates from 4.00% to 4.90%. All such premium finance agreements have maturities of less than one year and have a balance of $1,165,172 at December 31, 2019.

Credit and Guaranty Agreement and Revolving Credit Facility with Encina Business Credit, LLC and Credit Agreement Amendments

Our outstanding EBC Credit Agreement and the Revolving Credit Agreement are defined and described in greater detail under "Part II" - "Item 8. Financial Statements and Supplementary Data" - "Note 9. Line of Credit and Long-Term Debt" - "Credit and Guaranty Agreement and Revolving Credit Facility with Encina Business Credit, LLC" and "Credit Agreement Amendments".

The principal balances of the EBC Credit Agreement and the Revolving Credit Agreement as of December 31, 2019 are $13,333,000 and $3,276,230, respectively.

Need for additional funding

Our re-refining business will require significant capital to design and construct any new facilities. The facility infrastructure would be an additional capitalized expenditure to these process costs and would depend on the location and site specifics of the facility.

Additionally, as part of our ongoing efforts to maintain a capital structure that is closely aligned with what we believe to be the potential of our business and goals for future growth, which is subject to cyclical changes in commodity prices, we will be exploring additional sources of external liquidity. The receptiveness of the capital markets to an offering of debt or equities cannot be assured and may be negatively impacted by, among other things, debt maturities, current market conditions, and potential stockholder dilution. The sale of additional securities, if undertaken by us and if accomplished, may result in dilution to our shareholders. However, such future financing may not be available in amounts or on terms acceptable to us, or at all.

In addition to the above, we may also seek to acquire additional businesses or assets. In addition, the Company could consider selling assets if a more strategic acquisition presents itself. Finally, in the event we deem such transaction in our best interest, we may enter into a business combination or similar transaction in the future.

We will also need additional capital in the future to redeem our Series B Preferred Stock and Series B1 Preferred Stock, provided that the required redemption date of such preferred stock (June 24, 2020), provided that, as discussed above under "Part I" - "Item 1A. Risk Factors" - "We do not anticipate redeeming our Series B and B1 Preferred Stock on June 24, 2020, notwithstanding the fact that our Series B and B1 Preferred Stock is required to be redeemed on June 24, 2020, subject to the terms of the Certificate of Designations of such Preferred Stock and applicable law, and the dividend rate of such Preferred Stock increases to 10% per annum in the event the Company is unable to complete such redemptions.", we do not anticipate being contractually, or legally, able to redeem such stock on such date, and further do not anticipate having sufficient cash on hand to complete such redemption on such date, or in the near term. In the event such preferred stock is not redeemed on June 24, 2020, the preferred stock will accrue a 10% per annum dividend (payable in-kind at the option of the Company), until such preferred stock is redeemed or converted into common stock.

There is currently only a limited market for our common stock, and as such, we anticipate that such market will be illiquid, sporadic and subject to wide fluctuations in response to several factors moving forward, including, but not limited to:

(1) actual or anticipated variations in our results of operations;

(2) the market for, and volatility in, the market for oil and gas;

(3) our ability or inability to generate new revenues; and

(4) the number of shares in our public float.

Furthermore, because our common stock is traded on the NASDAQ Capital Market, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. Additionally, at present, we have a limited number of shares in our public float, and as a result, there could be extreme fluctuations in the price of our common stock.

We believe that our stock prices (bid, ask and closing prices) may not relate to the actual value of our company, and may not reflect the actual value of our common stock. Shareholders and potential investors in our common stock should exercise caution before making an investment in our common stock, and should not rely on the publicly quoted or traded stock prices in determining our common stock value, but should instead determine the value of our common stock based on the information contained in our public reports, industry information, and those business valuation methods commonly used to value private companies.

Cash flows for the fiscal year ended December 31, 2019 compared to the fiscal year ended December 31, 2018 were as follows:

	Twelve Months Ended December 31,	
	2019	**2018**
Beginning cash, cash equivalents, and restricted cash	$ 2,849,831	$ 1,105,787
Net cash provided by (used in):		
Operating activities	2,473,167	5,376,287
Investing activities	(3,626,440)	(2,768,943)
Financing activities	2,503,267	(863,300)
Net increase in cash, cash equivalents, and restricted cash	1,349,994	1,744,044
Ending cash, cash equivalents, and restricted cash	$ 4,199,825	$ 2,849,831

Operating activities provided cash of $2,473,167 for the year ended December 31, 2019, as compared to providing cash of $5,376,287 in 2018. Our primary sources of liquidity are cash flows from our operations and the availability to borrow funds under our credit and loan facilities, as well as private sales of securities. The primary reason for the decrease in cash provided by operating activities for the year ended December 31, 2019, compared to the same period in 2018, was the increase in net loss, increase in accounts receivable and decrease in accounts payable, the loss on commodity derivative contracts, decrease in inventory and increase in accrued expenses.

Investing activities used cash of $3,626,440 for the year ended December 31, 2019 as compared to using cash of $2,768,943 in 2018, due mainly to the purchase of fixed assets.

Financing activities provided cash of $2,503,267 during the year ended December 31, 2019, as compared to using cash of $863,300 in 2018. The financing activities were comprised of note proceeds of approximately $2.8 million and contributions from the noncontrolling interest of Tensile of $3.2 million and proceeds from issuance of common stock and warrants to Tensile of $2.2 million, offset by approximately $4.6 million used to pay down our long-term debt, and $0.6 million of payments on our line of credit. Financing activities for 2018 were comprised of note proceeds of approximately $4.0 million, offset by approximately $4.1 million used to pay down our long-term debt, and $0.7 million of payments on our line of credit.

Contractual Obligations

Future maturities of long term debt as of December 31, 2019 and December 31, 2018 were as follows:

Creditor	Loan Type	Origination Date	Maturity Date	Loan Amount	December 31, 2019	December 31, 2018
Encina Business Credit, LLC	Term Loan	February 1, 2017	February 1, 2021	$ 20,000,000	$ 13,333,000	$ 15,350,000
Encina Business Credit SPV, LLC	Revolving Note	February 1, 2017	February 1, 2021	$ 10,000,000	3,276,230	3,844,636
Tetra Capital Lease	Finance Lease	May, 2018	May, 2022	$ 419,690	264,014	349,822
Wells Fargo Equipment Lease-VRM LA	Finance Lease	March, 2018	March, 2021	$ 30,408	12,341	22,390
Wells Fargo Equipment Lease-Ohio	Finance Lease	April-May, 2019	April-May, 2024	$ 621,000	551,260	—
Various institutions	Insurance premiums financed	Various	< 1 year	$ 2,902,428	1,165,172	999,152
Total					18,602,017	20,566,000
Deferred finance costs					(47,826)	(621,733)
Total, net of deferred finance costs					$ 18,554,191	$ 19,944,267

Future contractual maturities on notes payable are summarized as follows:

Creditor	2020	2021	2022	2023	2024	Thereafter
Encina Business Credit, LLC	$ 900,000	$ 12,433,000	$ —	$ —	$ —	$ —
Encina Business Credit SPV, LLC	3,276,230	—	—	—	—	—
Tetra Capital Lease	91,779	98,167	74,068	—	—	—
Wells Fargo Equipment Lease-VRM LA	10,537	1,804	—	—	—	—
Wells Fargo Equipment Lease-Ohio	114,848	120,895	127,264	138,476	49,777	—
Various institutions	1,165,172	—	—	—	—	—
Totals	5,558,566	12,653,866	201,332	138,476	49,777	—
Deferred finance costs	(47,826)	—	—	—	—	—
Totals, net of deferred finance costs	$ 5,510,740	$ 12,653,866	$ 201,332	$ 138,476	$ 49,777	$ —

Critical Accounting Policies and Use of Estimates

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Management regularly evaluates its estimates and judgments, including those related to revenue recognition, goodwill, intangible assets, long-lived assets valuation, and legal matters. Actual results may differ from these estimates. (See Note 2 to the financial statements included herein).

Revenue Recognition.

We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Revenue is recognized when our performance obligations under the terms of a contract with our customers are satisfied. Recognition occurs when the Company transfers control by completing the specified services at the point in time the customer benefits from the services performed or once our products are delivered. Revenue is measured as the amount of consideration we expect to receive in exchange for completing our performance obligations. Sales tax and other taxes we collect with revenue-producing activities are excluded from revenue. In the case of contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation based on the relative stand-alone selling prices of the various goods and/or services encompassed by the contract. We do not have any material significant payment terms, as payment is generally due within 30 days after the performance obligation has been satisfactorily completed. The Company has elected the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that we otherwise would have recognized is one year or less. In applying the guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) Topic 606, there were no judgments or estimates made that the Company deems significant.

The nature of the Company's contracts give rise to certain types of variable consideration. The Company estimates the amount of variable consideration to include in the estimated transaction price based on historical experience, anticipated performance and its best judgment at the time and to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

From time to time, our fuel oil customers in our Black Oil segment may request that we store product which they purchase from us in our facilities. We recognize revenues for these “bill and hold” sales once the following criteria have been met: (1) there is a substantive reason for the arrangement, (2) the product is segregated and identified as the customer's asset, (3) the product is ready for delivery to the customer, and (4) we cannot use the product or direct it to another customer.

Fair value of financial instruments

Under the Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”), we are permitted to elect to measure financial instruments and certain other items at fair value, with the change in fair value recorded in earnings. We elected not to measure any eligible items using the fair value option. Consistent with the Fair Value Measurement Topic of the FASB ASC, we implemented guidelines relating to the disclosure of our methodology for periodic measurement of our assets and liabilities recorded at fair market value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;

- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and

- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Our Level 1 assets primarily include our cash and cash equivalents. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. The carrying amounts of accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturities of these financial instruments.

Our Level 2 liabilities include our marked to market changes in the estimated value of our open derivative contracts held at the balance sheet date.

Our Level 3 liabilities include our marked to market changes in the estimated value of our derivative warrants issued in connection with our Series B Preferred Stock and Series B1 Preferred Stock.

The Company estimates the fair values of the crude oil swaps and collars based on published forward commodity price curves for the underlying commodity as of the date of the estimate for which published forward pricing is readily available. The determination of the fair values above incorporates various factors including the impact of the Company's non-performance risk and the credit standing of the counterparty involved in the Company's derivative contracts. In addition, the Company routinely monitors the creditworthiness of its counterparty.

Nonfinancial assets and liabilities measured at fair value on a nonrecurring basis include certain nonfinancial assets and liabilities as may be acquired in a business combination and thereby measured at fair value.

Impairment of long-lived assets

The Company evaluates the carrying value and recoverability of its long-lived assets when circumstances warrant such evaluation by applying the provisions of the FASB ASC regarding long-lived assets. It requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value. The Company determined that no long-lived asset impairment existed at December 31, 2019.

Derivative transactions.

All derivative instruments are recorded on the accompanying balance sheets at fair value. These derivative transactions are not designated as cash flow hedges under FASB ASC 815, Derivatives and Hedges. Accordingly, these derivative contracts are marked-to-market and any changes in the estimated value of derivative contracts held at the balance sheet date are recognized in the accompanying statements of operations as net gain or loss on derivative contracts. The derivative assets or liabilities are classified as either current or noncurrent assets or liabilities based on their anticipated settlement date. The Company nets derivative assets and liabilities for counterparties where it has a legal right of offset.

The Company, in accordance with ASC 815-40-25 and ASC 815-10-15 Derivatives and Hedging and ASC 480-10-25 Liabilities-Distinguishing from Equity, convertible preferred shares are accounted for net, outside of shareholders' equity and warrants are accounted for as liabilities at their fair value during periods where they can be net cash settled in case of a change in control transaction. The warrants are accounted for as a liability at their fair value at each reporting period. The value of the derivative warrant liability will be re-measured at each reporting period with changes in fair value recorded as earnings. To derive an estimate of the fair value of these warrants, a Dynamic Black Scholes model is utilized that computes the impact of a possible change in control transaction upon the exercise of the warrant shares. This process relies upon inputs such as shares outstanding, estimated stock prices, strike price and volatility assumptions to dynamically adjust the payoff of the warrants in the presence of the dilution effect.

Preferred Stock Classification.

A mandatorily redeemable financial instrument shall be classified as a liability unless the redemption is required to occur only upon the liquidation or termination of the reporting entity. A financial instrument issued in the form of shares is mandatorily redeemable if it embodies an unconditional obligation requiring the issuer to redeem the instrument by transferring its assets at a specified or determinable date (or dates) or upon an event certain to occur. A financial instrument that embodies a conditional obligation to redeem the instrument by transferring assets upon an event not certain to occur becomes mandatorily redeemable-and, therefore, becomes a liability-if that event occurs, the condition is resolved, or the event becomes certain to occur. The Series B Preferred Stock and Series B1 Preferred Stock require the Company to redeem such preferred stock on the fifth anniversary of the issuance of the Series B Preferred Stock and Series B1 Preferred Stock. SEC reporting requirements provide that any possible redemption outside of the control of the Company requires the preferred stock to be classified outside of permanent equity.

Redeemable Noncontrolling Interest

As more fully described in “Part II” - “Item 8. Financial Statements and Supplementary Data” - "Note 6. Myrtle Grove Share Purchase and Subscription Agreement", the Company is party to a put/call option agreement with the holder of MG SPV’s non-controlling interest. The put option permits the MG SPV's non-controlling interest holder, at any time on or after the earlier of (a) July 26, 2024 and (ii) the occurrence of certain triggering events (a “MG Redemption”) to require MG SPV to redeem the non-controlling interest from the holder of such interest. Per the agreement, the cash purchase price for such redeemed Class B Units is the greater of (y) the fair market value of such units (without discount for illiquidity, minority status or otherwise) as determined by a qualified third party agreed to in writing by a majority of the holders seeking an MG Redemption and Vertex Operating (provided that Vertex Operating still owns Class A Units on such date) and (z) the original per-unit price for such Class B Units plus fifty percent (50%) of the aggregate capital invested by the Class B Unit holders through such MG Redemption date. The agreement also permits the Company to acquire the non-controlling interest from the holder thereof upon certain events. Applicable accounting guidance requires an equity instrument that is redeemable for cash or other assets to be classified outside of permanent equity if it is redeemable (a) at a fixed or determinable price on a fixed or determinable date, (b) at the option of the holder, or (c) upon the occurrence of an event that is not solely within the control of the issuer.Distributions of available cash of MG SPV pursuant to the MG Company Agreement (including pursuant to liquidations of MG SPV), subject to certain exemptions and exemptions set forth therein, are to be made (a) first, to the holders of the Class B Units, in an amount equal to the greater of (A) the aggregate unpaid "Class B Yield" (equal to an annual return of 22.5% per annum) and (B) an amount equal to fifty percent (50%) of the aggregate capital invested by the Class B Unit holders (initially Tensile-MG)(such aggregate capital invested by the Class B Unit holders, the "MG Invested Capital", which totals $3 million as of the Closing Date), less prior distributions (the greater amount of (A) and (B), the "Class B Priority Distributions"); (b) second, the Class B Unitholders, together as a separate and distinct class, are entitled to receive an amount equal to the aggregate MG Invested Capital; (c) third, the Class A Unitholders (other than Class A Unitholders which received Class A Units upon conversion of Class B Units), together as a separate and distinct class, are entitled to receive all or a portion of any distribution equal to the sum of all distributions made under sections (a) and (b) above; and (d) fourth, to the holders of Units who are eligible to receive such distributions in proportion to the number of Units held by such holders. Based on this guidance, the Company has classified the MG SPV non-controlling interest between the liabilities and equity sections of the accompanying December 31, 2019 and December 31, 2018 consolidated balance sheets. If an equity instrument subject to the guidance is currently redeemable, the instrument is adjusted to its maximum redemption amount at the balance sheet date. If the equity instrument subject to the guidance is not currently redeemable but it is probable that the equity instrument will become redeemable (for example, when the redemption depends solely on the passage of time), the guidance permits either of the following measurement methods: (a) accrete changes in the redemption value over the period from the date of issuance (or from the date that it becomes probable that the instrument will become redeemable, if later) to the earliest redemption date of the instrument using an appropriate methodology, or (b) recognize changes in the redemption value immediately as they occur and adjust the carrying amount of the instrument to equal the redemption value at the end of each reporting period. The amount presented in temporary equity should be no less than the initial amount reported in temporary equity for the instrument. Because the MG SPV equity instrument will become redeemable solely based on the passage of time, the Company determined that it is probable that the MG SPV equity instrument will become redeemable. The Company has elected to apply the second of the two measurement options described above. An adjustment to the carrying amount of a non-controlling interest from the application of the above guidance does not impact net income in the consolidated financial statements. Rather, such adjustments are treated as equity transactions.

Leases

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), *Leases (Topic 842)*. ASU 2016-02 requires companies to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. We adopted ASU 2016-02, *Leases (Topic 842)* effective January 1, 2019 and will not recast comparative periods in transition to the new standard. In addition, we elected certain practical expedients which permit us to not reassess whether existing contracts are or contain leases, to not reassess the lease classification of any existing leases, to not reassess initial direct costs for any existing leases, and to not separate lease and nonlease components for all classes of underlying assets. We also made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet for all classes of underlying assets. Adoption of the new standard resulted in an increase in the Company's assets and liabilities of approximately $37.8 million. The ASU did not have an impact on our consolidated results of operations or cash flows. Additional information and disclosures required by this new standard are contained in "Part II" - "Item 8. Financial Statements and Supplementary Data" - "Note 18. Leases".

Internal Use Software and Cloud Computing Costs

We adopted the guidance in ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, on January 1, 2019. This ASU requires entities in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40, Internal-Use Software, to determine which costs to implement the service contract would be capitalized as an asset related to the service contract and which costs would be expensed. The requirements of ASU 2018-15 have been applied on a prospective basis to implementation costs incurred on or after January 1, 2019. As a result of the adoption of ASU 2018-15, we capitalized $0.7 million of implementation costs for the year ended December 31, 2019. We have not recognized any amortization related to these implementation costs for the year ended December 31, 2019.

Market Risk

Our revenues and cost of revenues are affected by fluctuations in the value of energy related products. We attempt to mitigate much of the risk associated with the volatility of relevant commodity prices by using our knowledge of the market to obtain feedstock at attractive costs, by efficiently managing the logistics associated with our products, by turning our inventory over quickly, and by selling our products into markets where we believe we can achieve the greatest value.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to interest rate risks primarily through borrowings under various bank facilities. Interest on these facilities is based upon variable interest rates using LIBOR or Prime as the base rate.

At December 31, 2019, the Company had about $13.3 million of variable-rate term debt outstanding. At this borrowing level, a hypothetical relative increase of 10% in interest rates would have an unfavorable but insignificant impact on the Company's pre-tax earnings and cash flows. The primary interest rate exposure on variable-rate debt is based on the LIBOR rate (1.69% at December 31, 2019) plus 6.50% per year.

Commodity Price Risk

We are exposed to market risks related to the volatility of crude oil and refined oil products. Our financial results can be significantly affected by changes in these prices which are driven by global economic and market conditions. We attempt to mitigate much of the risk associated with the volatility of relevant commodity prices by using our knowledge of the market to obtain feedstock at attractive costs, by efficiently managing the logistics associated with our products, by turning our inventory over quickly, and by selling our products into markets where we believe we can achieve the greatest value.

Item 8. Financial Statements and Supplementary Data

VERTEX ENERGY, INC.
TABLE OF CONTENTS TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Vertex Energy, Inc.
Houston, Texas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Vertex Energy, Inc. (the "Company") and subsidiaries as of December 31, 2019 and 2018, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2019, 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 at December 31, 2019 and 2018, and the results of its operations and their cash flows for each of the two years in the period ended December 31, 2019, 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 audit 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 controls over financial reporting. As part of our audit 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 provided a reasonable basis for our opinion.

/s/ Ham, Langston & Brezina, L.L.P.

We have served as the Company's auditor since 2017.

Houston, Texas
March 3, 2020

VERTEX ENERGY, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,099,655	$ 1,249,831
Restricted cash	100,170	1,600,000
Accounts receivable, net	12,138,078	9,027,990
Federal income tax receivable	68,606	137,212
Inventory	6,547,479	8,091,397
Derivative commodity asset	—	695,941
Prepaid expenses and other current assets	4,452,920	2,740,541
Total current assets	27,406,908	23,542,912
Fixed assets, at cost	69,469,548	66,762,388
Less accumulated depreciation	(24,708,151)	(19,874,896)
Fixed assets, net	44,761,397	46,887,492
Finance lease right-of-use assets	851,570	397,515
Operating lease right-of-use assets	35,586,885	—
Intangible assets, net	11,243,800	12,578,519
Deferred income taxes	68,605	137,211
Other assets	840,754	616,759
TOTAL ASSETS	$ 120,759,919	$ 84,160,408

See accompanying notes to the consolidated financial statements

VERTEX ENERGY, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
LIABILITIES, TEMPORARY EQUITY AND EQUITY		
Current liabilities		
Accounts payable	$ 7,620,098	$ 8,791,529
Accrued expenses	5,016,132	2,535,347
Dividends payable	389,176	403,002
Finance lease-current	217,164	95,857
Operating lease-current	5,885,304	—
Current portion of long-term debt, net of unamortized finance costs	2,017,345	1,325,240
Revolving note	3,276,230	3,844,636
Derivative commodity liability	375,850	—
Total current liabilities	24,797,299	16,995,611
Long-term debt, net of unamortized finance costs	12,433,000	14,402,179
Finance lease-long-term	610,450	276,355
Operating lease-long-term	29,701,581	—
Contingent consideration	—	15,564
Derivative warrant liability	1,969,216	1,481,692
Total liabilities	69,511,546	33,171,401
COMMITMENTS AND CONTINGENCIES (Note 4)	—	—
TEMPORARY EQUITY		
Series B Preferred Stock, $0.001 par value per share; 10,000,000 shares authorized, 3,826,055 and 3,604,827 shares issued and outstanding at December 31, 2019 and 2018, respectively with liquidation preference of $11,860,771 and $11,174,964 at December 31, 2019 and 2018, respectively.	11,006,406	8,900,208
Series B1 Preferred Stock, $0.001 par value per share; 17,000,000 shares authorized, 9,028,085 and 10,057,597 shares issued and outstanding at December 31, 2019 and 2018, respectively with liquidation preference of $14,083,813 and $15,689,851 at December 31, 2019 and 2018, respectively.	12,743,047	13,279,755
Redeemable non-controlling interest	4,396,894	—
Total Temporary Equity	28,146,347	22,179,963

See accompanying notes to the consolidated financial statements

VERTEX ENERGY, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
EQUITY		
Series A Convertible Preferred stock, $0.001 par value; 5,000,000 shares authorized and 419,859 and 419,859 shares issued and outstanding at December 31, 2019 and 2018, respectively, with a liquidation preference of $625,590 and $625,590 at December 31, 2019 and December 31, 2018, respectively.	420	420
Series C Convertible Preferred stock, $0.001 par value per share; 44,000 shares designated; zero and zero issued and outstanding at December 31, 2019 and 2018, respectively with a liquidation preference of zero and zero at December 31, 2019 and December 31, 2018, respectively.	—	—
Common stock, $0.001 par value per share; 750,000,000 shares authorized; 43,395,563 and 40,174,821 issued and outstanding at December 31, 2019 and 2018, respectively.	43,396	40,175
Additional paid-in capital	81,527,351	75,131,122
Accumulated deficit	(59,246,514)	(47,800,886)
Total Vertex Energy, Inc. stockholders' equity	22,324,653	27,370,831
Non-controlling interest	777,373	1,438,213
Total Equity	23,102,026	28,809,044
TOTAL LIABILITIES, TEMPORARY EQUITY AND EQUITY	$ 120,759,919	$ 84,160,408

See accompanying notes to the consolidated financial statements

VERTEX ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

	2019	2018
Revenues	$ 163,365,565	$ 180,720,661
Cost of revenues (exclusive of depreciation and amortization shown separately below)	134,777,113	151,314,039
Gross profit	28,588,452	29,406,622
Operating expenses:		
Selling, general and administrative expenses	24,182,407	21,927,264
Depreciation and amortization	7,180,089	6,991,010
Total operating expenses	31,362,496	28,918,274
Income (loss) from operations	(2,774,044)	488,348
Other income (expense):		
Other income	920,197	659
Gain (loss) on sale of assets	(74,111)	45,553
Gain (loss) on change in value of derivative warrant liability	(487,524)	763,716
Interest expense	(3,070,071)	(3,281,855)
Total other expense	(2,711,509)	(2,471,927)
Loss before income taxes	(5,485,553)	(1,983,579)
Income tax benefit	—	—
Net loss	(5,485,553)	(1,983,579)
Net income (loss) attributable to non-controlling interest and redeemable non-controlling interest	(436,974)	234,188
Net loss attributable to Vertex Energy, Inc.	(5,048,579)	(2,217,767)
Accretion of redeemable noncontrolling interest to redemption value	(2,279,371)	—
Accretion of discount on series B and B-1 Preferred Stock	(2,489,722)	(3,132,414)
Dividends on series B and B-1 Preferred Stock	(1,627,956)	(2,687,123)
Net loss available to common stockholders	$ (11,445,628)	$ (8,037,304)
Loss per common share		
Basic	$ (0.28)	$ (0.23)
Diluted	$ (0.28)	$ (0.23)
Shares used in computing loss per share		
Basic	40,988,946	35,411,264
Diluted	40,988,946	35,411,264

See accompanying notes to the consolidated financial statements

VERTEX ENERGY, INC.

CONSOLIDATED STATEMENTS OF EQUITY

FOR THE YEARS ENDING DECEMBER 31, 2019 AND 2018

	Common Stock		Series A Preferred		Series C Preferred		Additional Paid-in Capital	Retained Earnings	Non-controlling Interest	Total Equity
	Shares	$.001 Par	Shares	$.001 Par	Shares	$.001 Par				
Balance on December 31, 2017	32,658,176	$ 32,658	453,567	$ 454	31,568	$ 32	$ 67,768,509	$ (39,816,300)	$ 399,005	$ 28,384,358
Correction of non-controlling interest	—	—	—	—	—	—	—	52,718	(52,718)	—
Dividends and Series B and B1 Preferred Stock	166,630	167	—	—	—	—	313,097	(2,687,123)	—	(2,373,859)
Accretion of discount on Series B and B1 Preferred Stock	—	—	—	—	—	—	—	(1,960,013)	—	(1,960,013)
Conversion of Series B Preferred stock to common	32,149	33	—	—	—	—	99,629	(36,700)	—	62,962
Share based compensation expense, total	—	—	—	—	—	—	659,836	—	—	659,836
Exercise of options to common	241	—	—	—	—	—	—	—	—	—
Conversion of Series A Preferred stock to common	33,708	34	(33,708)	(34)	—	—	—	—	—	—
Conversion of Series C Preferred Stock to common	3,156,800	3,157	—	—	(31,568)	(32)	(3,125)	—	—	—
Conversion of Series B1 Preferred stock to common	3,977,117	3,976	—	—	—	—	6,200,326	(1,135,701)	—	5,068,601
Fixed assets contributed by noncontrolling interest	—	—	—	—	—	—	—	—	857,738	857,738
Issue of common stock from Nickco contingent consideration	150,000	150	—	—	—	—	92,850	—	—	93,000
Net income (loss)	—	—	—	—	—	—	—	(2,217,767)	234,188	(1,983,579)
Balance on December 31, 2018	40,174,821	40,175	419,859	420	—	—	75,131,122	(47,800,886)	1,438,213	28,809,044
Dividends on Series B and B1 Preferred Stock	—	—	—	—	—	—	—	(1,627,956)	—	(1,627,956)
Accretion of discount on Series B and B1 Preferred Stock	—	—	—	—	—	—	—	(2,169,597)	—	(2,169,597)
Conversion of B1 Preferred Stock to common	1,642,317	1,642	—	—	—	—	2,560,373	(320,125)	—	2,241,890
Share based compensation expense, total	—	—	—	—	—	—	642,840	—	—	642,840
Exercise of options to common	78,425	79	—	—	—	—	6,996	—	—	7,075
Distribution to noncontrolling	—	—	—	—	—	—	—	—	(285,534)	(285,534)
Adjustment of redeemable noncontrolling interest to redemption value	—	—	—	—	—	—	—	(2,217,703)	—	(2,217,703)
Adjustment of carrying amount of noncontrolling interest	—	—	—	—	—	—	970,809	—	—	970,809
Issue of common stock and warrants	1,500,000	1,500	—	—	—	—	2,215,211	—	—	2,216,711
Net loss	—	—	—	—	—	—	—	(5,110,247)	(375,306)	(5,485,553)
Balance on December 31,	43,395,563	$43,396	419,859	$ 420	—	$ —	$ 81,527,351	$(59,246,514)	$ 777,373	$23,102,026

2019

See accompanying notes to the consolidated financial statements

VERTEX ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDING DECEMBER 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities		
Net loss	$ (5,485,553)	$ (1,983,579)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Stock-based compensation expense	642,840	659,836
Depreciation and amortization	7,180,089	6,991,010
Reduction in allowance for bad debt	(320,013)	(299,110)
Gain on commodity derivative contracts	2,458,359	(1,062,682)
Net cash settlement on commodity derivatives	(2,841,052)	369,188
Gain on sale of assets	74,111	(45,553)
Gain on disposition	—	(241,416)
Amortization of debt discount and deferred costs	573,908	584,336
Deferred federal income tax	—	—
Decrease in fair value of derivative liability	487,524	(763,716)
Reduction in contingent consideration	(15,564)	(128,116)
Impairment of goodwill	—	176,349
Changes in operating assets and liabilities:		
Accounts receivable	(2,652,864)	2,143,834
Inventory	1,543,918	(1,786,555)
Prepaid expenses	(257,894)	(597,146)
Accounts payable	(1,171,433)	1,493,324
Accrued expenses	2,480,786	42,625
Other assets	(223,995)	(176,342)
Net cash provided by operating activities	2,473,167	5,376,287
Cash flows from investing activities		
Internally developed software	(489,093)	—
Proceeds from the sale of assets	232,020	—
Acquisitions	—	(269,826)
Purchase of fixed assets	(3,369,367)	(2,499,117)
Net cash used in investing activities	(3,626,440)	(2,768,943)
Cash flows from financing activities		
Line of credit proceeds (payments), net	(568,406)	(746,891)
Proceeds received from issuance of common stock and warrants	2,216,711	—
Proceeds from exercise of stock options	7,075	—
Distribution VRM LA	(285,534)	—
Contribution received from redeemable noncontrolling interest	3,150,000	—
Payments on finance leases	(165,598)	(77,886)
Proceeds from notes payable	2,809,139	4,024,964
Payments made on notes payable	(4,660,120)	(4,063,487)
Net cash provided by (used in) financing activities	2,503,267	(863,300)
Net change in cash and cash equivalents and restricted cash	1,349,994	1,744,044
Cash and cash equivalents and restricted cash at beginning of the year	2,849,831	1,105,787
Cash and cash equivalents and restricted cash at end of year	$ 4,199,825	$ 2,849,831

See accompanying notes to the consolidated financial statements

SUPPLEMENTAL INFORMATION				
Cash paid for interest	$	2,505,852	$	2,722,542
Cash paid for income taxes	$	—	$	—
NON-CASH INVESTING AND FINANCING TRANSACTIONS				
Conversion of Series A Preferred Stock into common stock	$	—	$	34
Conversion of Series B and B1 Preferred Stock into common stock	$	2,560,373	$	6,613,052
Dividends on Series B and B-1 Preferred Stock	$	1,627,956	$	2,687,123
Initial adjustment of carrying amount of redeemable noncontrolling interest	$	970,809	$	—
Accretion of discount on Series B and B-1 Preferred Stock	$	2,489,722	$	3,132,414
Accretion of redeemable noncontrolling interest to redemption value	$	2,279,371	$	—
Equipment acquired under capital leases	$	621,000	$	450,098
Contributed assets Vertex Recovery Management LA from non-controlling interest	$	—	$	857,738
Common restricted shares for Nickco acquisition	$	—	$	93,000

See accompanying notes to the consolidated financial statements

NOTE 1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

Vertex Energy, Inc. ("Vertex Energy" or the "Company"), provides a range of services designed to aggregate, process and recycle industrial and commercial waste systems. Vertex Energy currently provides these services in 15 states, primarily in the Gulf Coast and Central Midwest Region of the United States.

COMPANY OPERATIONS

Vertex Energy's operations are primarily focused on recycling industrial waste streams and off-specification commercial chemical products. The waste streams are purchased from an established network of local and regional collectors and generators. The Company manages the transport, storage and delivery of the aggregated feedstock and product streams to end users. Vertex Energy's three principal segments are comprised of Black Oil, Refining and Marketing, and Recovery.

Black Oil

Through its Black Oil segment, which has been operational since 2001, Vertex Energy aggregates and sells used motor oil. The Company has a network of approximately 50 suppliers that collect used oil from businesses such as oil change service stations, automotive repair shops, manufacturing facilities, petroleum refineries, and petrochemical manufacturing operations. The Company procures the used oil from collectors and manages the logistics of transport, storage and delivery to our customers. Typically, the used oil is sold in bulk to ensure the efficient delivery by truck, rail, or barge. In many cases, there are contractual procurement and sale agreements with the suppliers and customers, respectively. These contracts are beneficial to all parties involved because they ensure a minimum volume is procured from collectors, a minimum volume is sold to the customers, and the Company is insulated from inventory risk by a spread between the costs to acquire used oil and the revenues received from the sale and delivery of used oil. In addition, the Company operates its own re-refining operations at the Cedar Marine Terminal, in Baytown, Texas, which uses the Company's proprietary Thermal Chemical Extraction Process ("TCEP") technology to re-refine the used oil into marine fuel cutterstock (when such use makes economic sense) and a higher-value feedstock for further processing. The finished product can then be sold by barge as a fuel oil cutterstock and a feedstock component for major refineries. Through the operations at our Marrero, Louisiana facility, we produce a Vacuum Gas Oil (VGO) product from used oil re-refining which is then sold via barge to end users to utilize in a refining process or a fuel oil blend. Through the operations at our Columbus, Ohio facility, the ownership of 65% of which was transferred to Tensile in connection with the Heartland SPV (discussed below under "Note 19. Subsequent Events" - "Heartland Share Purchase and Subscription Agreement"), effective January 1, 2020, we produce a base oil finished product which is then sold via truck or rail car to end users for blending, packaging and marketing of lubricants.

Refining and Marketing

Through its Refining and Marketing segment, which has been operational since 2004, Vertex Energy aggregates used motor oil, petroleum distillates, transmix and other off-specification chemical products. These feedstock streams are purchased from pipeline operators, refineries, chemical processing facilities and third-party providers. The Company has a toll-based processing agreement in place with KMTEX, LLC. ("KMTEX") to re-refine these feedstock streams, under the Company's direction, into various end products. KMTEX uses industry standard processing technologies to re-refine the feedstock into pygas, gasoline blendstock and marine fuel cutterstock. The Company sells the re-refined products directly to end customers or to processing facilities for further refinement.

Recovery

Through its Recovery segment, which has been operational since 2002, Vertex Energy generates solutions for the proper recovery and management of hydrocarbon streams. The Company owns and operates a fleet of trucks and heavy equipment used for processing, shipping and handling of reusable process equipment and other scrap commodities.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. The subsidiaries are as follows:

- Cedar Marine Terminals, L.P. ("CMT") operates a 19-acre bulk liquid storage facility on the Houston Ship Channel. The terminal serves as a truck-in, barge-out facility and provides throughput terminal operations. CMT is also the site of the TCEP.

- Crossroad Carriers, L.P. ("Crossroad") is a common carrier that provides transportation and logistical services for liquid petroleum products, as well as other hazardous materials and product streams.

- Vertex Recovery, L.P. ("Vertex Recovery") is a generator solutions company for the recycling and collection of used oil and oil-related residual materials from large regional and national customers throughout the U.S. It facilitates its services through a network of independent recyclers and franchise collectors.

- H&H Oil, L.P. ("H&H Oil") collects and recycles used oil and residual materials from customers based in Austin, Baytown, Dallas, San Antonio and Corpus Christi, Texas.

- Vertex Refining, LA, LLC which owned a used oil re-refinery based in Marrero, Louisiana and also has assets in Belle Chasse, Louisiana, prior to the consummation of the MG Share Purchase in July 2019, as discussed below under "Note 6. Acquisitions and Dispositions" - "Myrtle Grove Share Purchase and Subscription Agreement.

- Vertex Refining, NV, LLC ("Vertex Refining") is a base oil marketing and distribution company with customers throughout the United States.

- Vertex Recovery Management, LLC is currently buying and preparing ferrous and non-ferrous scrap intended for large haul barge sales.

- Vertex Refining, OH, LLC collects and re-refines used oil and residual materials from customers throughout the Midwest. Refinery operations are based in Columbus, Ohio with collection branches located in Norwalk, Ohio, Zanesville, Ohio, Ravenswood, West Virginia, and Mt. Sterling, Kentucky. Effective January 1, 2020, the ownership of 65% of the assets of Vertex OH, LLC were transferred to Tensile in connection with the Heartland SPV (discussed below under "Note 19. Subsequent Events" - "Heartland Share Purchase and Subscription Agreement").

- Vertex Refining Myrtle Grove LLC ("MG SPV"), is a special purpose entity formed to hold the Belle Chasse, Louisiana, re-refining complex, which entity is 84.42% owned by Vertex Operating.

- Vertex Energy Operating, LLC ("Vertex Operating"), is a holding company for various of the subsidiaries described above.

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets to the same such amounts shown in the consolidated statements of cash flows.

	December 31, 2019	December 31, 2018
Cash and cash equivalents	$ 4,099,655	$ 1,249,831
Restricted cash	100,170	1,600,000
Cash and cash equivalents and restricted cash as shown in the consolidated statements of cash flows	$ 4,199,825	$ 2,849,831

The Company has placed $100,000 of restricted cash in a money market account, to serve as collateral for payment of a credit card.

In November 2018, we placed $1.5 million into an account in order to receive a letter of credit to serve as collateral for acquiring products. The transaction did not materialize and the full amount was released to us and received in February 2019. The amount is recorded as part of restricted cash in our 2018 consolidated balance sheet.

Accounts Receivable

Accounts receivable represents amounts due from customers. Accounts receivable are recorded at invoiced amounts, net of reserves and allowances, do not bear interest and are not collateralized. The Company uses its best estimate to determine the required allowance for doubtful accounts based on a variety of factors, including the length of time receivables are past due, economic trends and conditions affecting its customer base, significant one-time events and historical write-off experience. Specific provisions are recorded for individual receivables when we become aware of a customer's inability to meet its financial obligations. The Company reviews the adequacy of its reserves and allowances quarterly.

Receivable balances greater than 90 days past due are individually reviewed for collectability and if deemed uncollectible, are charged off against the allowance accounts after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance was $402,475 and $831,768 at December 31, 2019 and 2018, respectively.

Inventory

Inventories of products consist of feedstocks and refined petroleum products and are reported at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method. The Company reviews its inventory commodities whenever events or circumstances indicate that the value may not be recoverable.

Fixed Assets

Fixed assets are stated at historical costs. Depreciation of fixed assets placed in operations is provided using the straight-line method over the estimated useful lives of the assets. The policy of the Company is to charge amounts for major maintenance and repairs to expenses, and to capitalize expenditures for major replacements and betterments.

Internal-Use Software

We incur costs related to internal-use software and cloud computing development, including purchased software and internally-developed software. Costs incurred in the planning and evaluation stage of internally-developed software and cloud computing development are expensed as incurred. Costs incurred and accumulated during the application development stage are capitalized and included within intangibles, net on the consolidated balance sheets. Amortization of internal-use software will be recorded on a straight-line basis over the estimated useful life of the assets.

Cloud Computing Costs

We have entered into non-cancellable cloud computing hosting arrangements for which we incur implementation costs. Costs incurred in the planning and evaluation stage of the cloud computing hosting arrangement are expensed as incurred. Costs incurred during the application development stage related to implementation of the hosting arrangement are capitalized and included within prepaid expenses on the consolidated balance sheets. Amortization of implementation costs is recorded on a straight-line basis over the term of the associated hosting arrangement for each module or component of the related hosting arrangement when it is ready for its intended use. Amortization costs will be recorded primarily in selling, general and administrative expense on the consolidated statements of operations.

Asset Retirement Obligations

The Company records a liability, which is referred to as an asset retirement obligation, at fair value for the estimated cost to retire a tangible long-lived asset at the time the Company incurs that liability, which is generally when the asset is purchased, constructed, or leased. The Company records the liability when it has a legal obligation to incur costs to retire the asset and when a reasonable estimate of the fair value of the liability can be made. If a reasonable estimate cannot be made at the time the liability is incurred, the Company records the liability when sufficient information is available to estimate the liability's fair value.

Intangible Assets

Intangible assets are amortized over their estimated useful lives. Amortizable intangible assets are reviewed at least annually to determine whether events and circumstances warrant a revision to the remaining period of amortization or an impairment.

Goodwill

Goodwill is the excess of cost of an acquired entity over the amounts assigned to identifiable assets acquired and liabilities assumed in a business combination. In accordance with the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 350, "Intangibles - Goodwill and Other," goodwill is not amortized. We periodically, at least on an annual basis, review goodwill, considering factors such as projected cash flows and revenue and earnings multiples, to determine whether the carrying value of the goodwill is impaired. If the goodwill is deemed to be impaired, the difference between the carrying amount reflected in the financial statements and the estimated fair value is recognized as an expense in the period in which the impairment occurs. We define our reportable segments to be the same as our operating segments for purposes of reviewing impairment and the recoverability of goodwill and other intangible assets. For the years ended December 31, 2019 and 2018, goodwill impairment was $0 and $176,349, respectively.

Business Combinations

The Company accounts for business combinations using the acquisition method of accounting. The results of operations for the acquired entities are included in the Company's consolidated financial results from their associated acquisition dates. The Company allocates the purchase price of acquisitions to the tangible assets, liabilities, and identifiable intangible assets acquired based on their estimated fair values. A portion of the purchase price for certain of our acquisitions is contingent upon the realization of certain operating results. The fair values assigned to identifiable intangible assets acquired and contingent consideration were determined by third party specialists engaged by the Company on a case by case basis. The excess of the purchase price over the fair value of the identified assets and liabilities has been recorded as goodwill. If the purchase price is under the fair value of the identified assets and liabilities, a bargain purchase is recognized and included in income from continuing operations.

Fair Value of Financial Instruments

Under the FASB ASC, we are permitted to elect to measure financial instruments and certain other items at fair value, with the change in fair value recorded in earnings. We elected not to measure any eligible items using the fair value option. Consistent with the Fair Value Measurement Topic of the FASB ASC, we implemented guidelines relating to the disclosure of our methodology for periodic measurement of our assets and liabilities recorded at fair market value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Our Level 1 assets primarily include our cash and cash equivalents. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. The carrying amounts of accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturities of these financial instruments.

Our Level 2 liabilities include our marked to market changes in the estimated value of our open derivative contracts held at the balance sheet date.The Company estimates the fair values of the crude oil swaps and collars based on published forward commodity price curves for the underlying commodity as of the date of the estimate for which published forward pricing is readily available. The determination of the fair values above incorporates various factors including the impact of the Company's non-performance risk and the credit standing of the counterparty involved in the Company's derivative contracts. In addition, the Company routinely monitors the creditworthiness of its counterparty.

Our Level 3 liabilities include our marked to market changes in the estimated value of our derivative warrants issued in connection with our Series B Preferred Stock and Series B1 Preferred Stock.

Nonfinancial assets and liabilities measured at fair value on a nonrecurring basis include certain nonfinancial assets and liabilities as may be acquired in a business combination and thereby measured initially at fair value.

Debt Issuance Costs

The Company follows the accounting guidance of ASC 835-30, Interest-Imputation of Interest, which requires that debt issuance costs related to a recognized debt liability be reported on the Consolidated Balance Sheet as a direct reduction from the carrying amount of that debt liability.

Revenue Recognition

We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Revenue is recognized when our performance obligations under the terms of a contract with our customers are satisfied. Recognition occurs when the Company transfers control by completing the specified services at the point in time the customer benefits from the services performed or once our products are delivered. Revenue is measured as the amount of consideration we expect to receive in exchange for completing our performance obligations. Sales tax and other taxes we collect with revenue-producing activities are excluded from revenue. In the case of contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation based on the relative stand-alone selling prices of the various goods and/or services encompassed by the contract. We do not have any material significant payment terms, as payment is generally due within 30 days after the performance obligation has been satisfactorily completed. The Company has elected the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that we otherwise would have recognized is one year or less. In applying the guidance in Topic 606, there were no judgments or estimates made that the Company deems significant.

The nature of the Company's contracts give rise to certain types of variable consideration. The Company estimates the amount of variable consideration to include in the estimated transaction price based on historical experience, anticipated performance and its best judgment at the time and to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

From time to time, our fuel oil customers in our black oil segment may request that we store product at our facilities which they purchase from us. We recognize revenues for these “bill and hold” sales once the following criteria have been met: (1) there is a substantive reason for the arrangement, (2) the product is segregated and identified as the customer's asset, (3) the product is ready for delivery to the customer, and (4) we cannot use the product or direct it to another customer.

Reclassification of Prior Year Presentation

Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications had no effect on the reported results of operations.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of revenue and expenses. Actual results could differ from these estimates. Any effects on the business, financial position or results of operations from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

Significant items subject to estimates and assumptions include the carrying amount and useful lives of property and equipment and intangible assets, impairment assessments, share-based compensation expense, and valuation allowances for accounts receivable, inventories, deferred tax assets, and redemption value of noncontrolling interest.

Impairment of Long-Lived Assets

The Company evaluates the carrying value and recoverability of its long-lived assets when circumstances warrant such evaluation by applying the provisions of the FASB ASC regarding long-lived assets. It requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value. The Company determined that no long-lived asset impairment existed at December 31, 2019 and 2018.

Income Taxes

The Company accounts for income taxes in accordance with the FASB ASC Topic 740. The Company records a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and when temporary differences become deductible. The Company considers, among other available information, uncertainties surrounding the recoverability of deferred tax assets, scheduled reversals of deferred tax liabilities, projected future taxable income, and other matters in making this assessment.

As part of the process of preparing its consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process requires the Company to estimate its actual current tax liability and to assess temporary differences resulting from differing book versus tax treatment of items, such as deferred revenue, compensation and benefits expense and depreciation. These temporary differences result in deferred tax assets and liabilities, which are included within the Company’s consolidated balance sheet. Significant management judgment is required in determining the Company’s provision for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against its net deferred tax assets. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized and, when necessary, valuation allowances are established. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the level of historical taxable income, scheduled reversals of deferred taxes, projected future taxable income and tax planning strategies that can be implemented by the Company in making this assessment. If actual results differ from these estimates or the Company adjusts these estimates in future periods, the Company may need to adjust its valuation allowance, which could materially impact the Company’s consolidated financial position and results of operations.

Tax contingencies can involve complex issues and may require an extended period of time to resolve. Changes in the level of annual pre-tax income can affect the Company’s overall effective tax rate. Until all net operating losses are utilized, there is no impact on the effective tax rate. Significant management judgment is required in determining the Company’s provision for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against its net deferred tax assets. Furthermore, the Company’s interpretation of complex tax laws may impact its recognition and measurement of current and deferred income taxes.

The Company recognizes and measures a tax benefit from uncertain tax positions when it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company recognizes a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company adjusts these liabilities when its judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate or future recognition of an unrecognized benefit. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the consolidated statements of operations. Accrued interest and penalties are included within deferred taxes, unrecognized tax benefits and other long-term liabilities line in the consolidated balance sheet.

Derivative Transactions

All derivative instruments are recorded on the accompanying balance sheets at fair value. These derivative transactions are not designated as cash flow hedges under FASB ASC 815, Derivatives and Hedges. Accordingly, these derivative contracts are marked-to-market and any changes in the estimated value of derivative contracts held at the balance sheet date are recognized in the accompanying statements of operations as net gain or loss on derivative contracts. The derivative assets or liabilities are classified as either current or noncurrent assets or liabilities based on their anticipated settlement date. The Company nets derivative assets and liabilities for counterparties where it has a legal right of offset.

In accordance with ASC 815-40-25 and ASC 815-10-15, Derivatives and Hedging and ASC 480-10-25, Liabilities-Distinguishing from Equity, convertible preferred shares are accounted for net, outside of shareholders' equity and warrants are accounted for as liabilities at their fair value during periods where they can be net cash settled in case of a change in control transaction. The warrants are accounted for as a liability at their fair value at each reporting period. The value of the derivative warrant liability will be re-measured at each reporting period with changes in fair value recorded in earnings. To derive an estimate of the fair value of these warrants, a Dynamic Black Scholes model is utilized which computes the impact of a possible change in control transaction upon the exercise of the warrant shares. This process relies upon inputs such as shares outstanding, our quoted stock prices, strike price and volatility assumptions to dynamically adjust the payoff of the warrants in the presence of the dilution effect.

Preferred Stock Classification

A mandatorily redeemable financial instrument shall be classified as a liability unless the redemption is required to occur only upon the liquidation or termination of the reporting entity. A financial instrument issued in the form of shares is mandatorily redeemable if it embodies an unconditional obligation requiring the issuer to redeem the instrument by transferring its assets at a specified or determinable date (or dates) or upon an event certain to occur. A financial instrument that embodies a conditional obligation to redeem the instrument by transferring assets upon an event not certain to occur becomes mandatorily redeemable-and, therefore, becomes a liability-if that event occurs, the condition is resolved, or the event becomes certain to occur. The Series B Preferred Stock and Series B1 Preferred Stock requires the Company to redeem such preferred stock on the fifth anniversary of the issuance of the Series B Preferred Stock and Series B1 Preferred Stock if the redemption would not be subject to the existing restrictions under the Company's senior credit agreement and if the Company is not prohibited from completing such redemption under Nevada law. SEC reporting requirements provide that any possible redemption outside of the control of the Company requires the preferred stock to be classified outside of permanent equity.

Stock Based Compensation

The Company accounts for stock-based expense and activity in accordance with FASB ASC Topic 718, which establishes accounting for equity instruments exchanged for services. Under this topic, stock-based compensation costs are measured at the grant date, based on the calculated fair value of the award, and are recognized as an expense over both the employee and non-employee’s requisite service period, generally the vesting period of the equity grant.

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, expected option term, expected volatility of the stock over the option’s expected term, risk-free interest rate over the option’s expected term, and the expected annual dividend yield. The Company believes that the valuation technique and approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the stock options granted.

Earnings Per Share

Basic earnings per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding for the periods presented. The calculation of basic earnings per share for the years ended December 31, 2019 and December 31, 2018, respectively, includes the weighted average of common shares outstanding. Diluted net income (loss) per share is computed by dividing the net income (loss) attributable to common shareholders by the weighted average number of common and common equivalent shares outstanding during the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity, such as convertible preferred stock, stock options, warrants or convertible securities.

Contingent Consideration

During the year ended December 31, 2019, the Company wrote off and recognized in income the remaining portion of the contingent consideration related to the July 2017 Ygriega Environmental Services, LLC ("Ygriega") acquisition earn-out due to the fact that collected oil gallons targets required for the payout of such earn-out, were not met.

Other Income

During the year ended December 31, 2019, the Company received a payment of $907,500 related to the proceeds of an insurance settlement for a fire that had occurred at the used oil re-refining plant located in Churchill County, Nevada, which we previously rented. The insurance settlement satisfies a previous loan we made to Omega Refining, LLC to fund operating expenses at that facility. The Company previously determined this loan was uncollectible and wrote it off.

Redeemable Noncontrolling Interest

As more fully described in "Note 6. Myrtle Grove Share Purchase and Subscription Agreement", the Company is party to a put/call option agreement with the holder of MG SPV's non-controlling interest. The put option permits the MG SPV's non-controlling interest holder, at any time on or after the earlier of (a) July 26, 2024 and (ii) the occurrence of certain triggering events (a "MG Redemption") to require MG SPV to redeem the non-controlling interest from the holder of such interest. Per the agreement, the cash purchase price for such redeemed Class B Units is the greater of (y) the fair market value of such units (without discount for illiquidity, minority status or otherwise) as determined by a qualified third party agreed to in writing by a majority of the holders seeking an MG Redemption and Vertex Operating (provided that Vertex Operating still owns Class A Units on such date) and (z) the original per-unit price for such Class B Units plus fifty percent (50%) of the aggregate capital invested by the Class B Unit holders through such MG Redemption date. The agreement also permits the Company to acquire the non-controlling interest from the holder thereof upon certain events. Applicable accounting guidance requires an equity instrument that is redeemable for cash or other assets to be classified outside of permanent equity if it is redeemable (a) at a fixed or determinable price on a fixed or determinable date, (b) at the option of the holder, or (c) upon the occurrence of an event that is not solely within the control of the issuer. Distributions of available cash of MG SPV pursuant to the MG Company Agreement (including pursuant to liquidations of MG SPV), subject to certain exemptions and exemptions set forth therein, are to be made (a) first, to the holders of the Class B Units, in an amount equal to the greater of (A) the aggregate unpaid "Class B Yield" (equal to an annual return of22.5% per annum) and (B) an amount equal to fifty percent (50%) of the aggregate capital invested by the Class B Unit holders (initially Tensile-MG) (such aggregate capital invested by the Class B Unit holders, the "MG Invested Capital", which totals $3 million as of the Closing Date), less prior distributions (the greater amount of (A) and (B), the "Class B Priority Distributions"); (b) second, the Class B Unitholders, together as a separate and distinct class, are entitled to receive an amount equal to the aggregate MG Invested Capital; (c) third, the Class A Unitholders (other than Class A Unitholders which received Class A Units upon conversion of Class B Units), together as a separate and distinct class, are entitled to receive all or a portion of any distribution equal to the sum of all distributions made under sections (a) and (b) above; and (d) fourth, to the holders of Units who are eligible to receive such distributions in proportion to the number of Units held by such holders.Based on this guidance, the Company has classified the MG SPV non-controlling interest between the liabilities and equity sections of the accompanying December 31, 2019 and December 31, 2018 consolidated balance sheets. If an equity instrument subject to the guidance is currently redeemable, the instrument is adjusted to its maximum redemption amount at the balance sheet date. If the equity instrument subject to the guidance is not currently redeemable but it is probable that the equity instrument will become redeemable (for example, when the redemption depends solely on the passage of time), the guidance permits either of the following measurement methods: (a) accrete changes in the redemption value over the period from the date of issuance (or from the date that it becomes probable that the instrument will become redeemable, if later) to the earliest redemption date of the instrument using an appropriate methodology, or (b) recognize changes in the redemption value immediately as they occur and adjust the carrying amount of the instrument to equal the redemption value at the end of each reporting period. The amount presented in temporary equity should be no less than the initial amount reported in temporary equity for the instrument. Because the MG SPV equity instrument will become redeemable solely based on the passage of time, the Company determined that it is probable that the MG SPV equity instrument will become redeemable. The Company has elected to apply the second of the two measurement options described above. An adjustment to the carrying amount of a non-controlling interest from the application of the above guidance does not impact net income in the consolidated financial statements. Rather, such adjustments are treated as equity transactions.

New Accounting Pronouncements

Leases

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), *Leases (Topic 842)*. ASU 2016-02 requires companies to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. We adopted ASU 2016-02, *Leases (Topic 842)* effective January 1, 2019 and did not recast comparative periods in transition to the new standard. In addition, we elected certain practical expedients which permit us to not reassess whether existing contracts are or contain leases, to not reassess the lease classification of any existing leases, to not reassess initial direct costs for any existing leases, and to not separate lease and nonlease components for all classes of underlying assets. We also made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet for all classes of underlying assets. Adoption of the new standard resulted in an increase in the Company's assets and liabilities of approximately $37.8 million on January 1, 2019. The ASU did not have an impact on our consolidated results of operations or cash flows. Additional information and disclosures required by this new standard are contained in "Note 18. Leases".

Internal Use Software and Cloud Computing Costs

We adopted the guidance in ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, on January 1, 2019. This ASU requires entities in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40, Internal-Use Software, to determine which costs to implement the service contract would be capitalized as an asset related to the service contract and which costs would be expensed. The requirements of ASU 2018-15 have been applied on a prospective basis to implementation costs incurred on or after January 1, 2019. As a result of the adoption of ASU 2018-15, we capitalized $0.7 million of implementation costs for the year ended December 31, 2019. We have not recognized any amortization related to these implementation costs for the year ended December 31, 2019.

NOTE 3. REVENUES

Disaggregation of Revenue

The following table presents our revenues disaggregated by revenue source:

	Year ended December 31, 2019			
	Black Oil	**Refining & Marketing**	**Recovery**	**Total**
Primary Geographical Markets				
Northern United States	$ 42,195,020	$ —	$ —	$ 42,195,020
Southern United States	97,074,144	12,957,767	11,138,634	121,170,545
	$ 139,269,164	$ 12,957,767	$ 11,138,634	$ 163,365,565
Sources of Revenue				
Petroleum products	$ 139,269,164	$ 12,957,767	$ 2,666,077	$ 154,893,008
Metals	—	—	8,472,557	8,472,557
Total revenues	$ 139,269,164	$ 12,957,767	$ 11,138,634	$ 163,365,565

	Year ended December 31, 2018			
	Black Oil	Refining & Marketing	Recovery	Total
Primary Geographical Markets				
Northern United States	$ 41,207,747	$ —	$ —	$ 41,207,747
Southern United States	102,629,234	22,935,482	13,948,198	139,512,914
	$ 143,836,981	$ 22,935,482	$ 13,948,198	$ 180,720,661
Sources of Revenue				
Petroleum products	$ 143,836,981	$ 22,935,482	$ 1,960,915	$ 168,733,378
Metals	—	—	11,987,283	11,987,283
Total revenues	$ 143,836,981	$ 22,935,482	$ 13,948,198	$ 180,720,661

Petroleum products- We derive a majority of our revenues from the sale of recovered/re-refined petroleum products, which include Base Oil, VGO (Vacuum Gas Oil), Pygas, Gasoline, Cutterstock and Fuel Oils.

Metals- Consist of recoverable ferrous and non-ferrous recyclable metals from manufacturing and consumption. Scrap metal can be recovered from pipes, barges, boats, building supplies, surplus equipment, tanks, and other items consisting of metal composition. These materials are segregated, processed, cut-up and sent back to a steel mill for re-purposing.

NOTE 4. CONCENTRATIONS, SIGNIFICANT CUSTOMERS, COMMITMENTS AND CONTINGENCIES

The Company has concentrated credit risk for cash by maintaining deposits in one bank. These balances are insured by the Federal Deposit Insurance Corporation up to $250,000. From time to time during the years ended December 31, 2019 and 2018, the Company's cash balances exceeded the federally insured limits. No losses have been incurred relating to this concentration.

For the years ended December 31, 2019 and 2018, the Company's revenues and receivables were comprised of the following customer concentrations:

	2019		2018	
	% of Revenues	% of Receivables	% of Revenues	% of Receivables
Customer 1	40%	36%	34%	21%
Customer 2	8%	14%	—%	—%
Customer 3	9%	—%	11%	—%
Customer 4	3%	7%	4%	13%

At December 31, 2019 and 2018, and for the years then ended, the Company's segment revenues were comprised of the following customer concentrations:

	% of Revenue by Segment 2019			% of Revenue by Segment 2018		
	Black Oil	Refining	Recovery	Black Oil	Refining	Recovery
Customer 1	47%	—%	—%	43%	—%	—%
Customer 2	10%	—%	—%	—%	—%	—%
Customer 3	10%	—%	—%	14%	—%	—%
Customer 4	4%	—%	—%	5%	—%	—%

The Company had no vendors that represented 10% or more of total purchases or payables for the years ended December 31, 2019 and 2018.

The Company's revenue, profitability and future rate of growth are substantially dependent on prevailing prices for petroleum-based products. Historically, the energy markets have been very volatile, and there can be no assurance that these prices will not be subject to wide fluctuations in the future. A substantial or extended decline in such prices could have a material adverse effect on the Company's financial position, results of operations, cash flows, and access to capital and on the quantities of petroleum-based products that the Company can economically produce.

Business commitment:

On June 5, 2016, Vertex Energy and Penthol C.V. ("Penthol") of the Netherlands aka Penthol LLC (a Penthol subsidiary in the United States) reached an agreement for Vertex Energy to act as Penthol's exclusive agent to provide marketing, sales, and logistical duties of Group III base oil from the United Arab Emirates to the United States. The start-up date was July 25, 2016, with a 5 year term through 2021 and the product will ship via truck, rail and barge.

Litigation:

The Company, in its normal course of business, is involved in various other claims and legal action. In the opinion of management, the outcome of these claims and actions will not have a material adverse impact upon the financial position of the Company. We are currently party to or have recently resolved, the following material litigation proceedings:

Vertex Refining LA, LLC ("Vertex Refining LA"), the wholly-owned subsidiary of Vertex Operating was named as a defendant, along with numerous other parties, in five lawsuits filed on or about February 12, 2016, in the Second Parish Court for the Parish of Jefferson, State of Louisiana, Case No. 121749, by Russell Doucet et. al., Case No. 121750, by Kendra Cannon et. al., Case No. 121751, by Lashawn Jones et. al., Case No. 121752, by Joan Strauss et. al. and Case No. 121753, by Donna Allen et. al. The suits relate to alleged noxious and harmful emissions from our facility located in Marrero, Louisiana. The suits seek damages for physical and emotional injuries, pain and suffering, medical expenses and deprivation of the use and enjoyment of plaintiffs' homes. We intend to vigorously defend ourselves and oppose the relief sought in the complaints, provided that at this stage of the litigation, the Company has no basis for determining whether there is any likelihood of material loss associated with the claims and/or the potential and/or the outcome of the litigation.

Related Parties

The Company has a Related Party Transaction committee including at least two independent directors who review and pre-approve all related party transactions.

From time to time, the Company consults with a related party law firm. During the years ended December 31, 2019 and 2018, we paid $100,683 and $40,707, respectively, to such law firm for services rendered.

NOTE 5. FIXED ASSETS, NET

Fixed assets consist of the following:

	Useful Life (in years)	December 31, 2019	December 31, 2018
Equipment	7-20	$ 42,879,308	$ 40,404,582
Furniture and fixtures	7	108,896	108,896
Leasehold improvements	15	2,434,690	2,331,071
Office equipment	5	1,213,865	1,190,509
Vehicles	5	7,114,001	6,899,388
Building	20	274,203	274,203
Construction in progress		12,361,034	12,720,188
Land		3,083,551	2,833,551
Total fixed assets		69,469,548	66,762,388
Less accumulated depreciation		(24,708,151)	(19,874,896)
Net fixed assets		$ 44,761,397	$ 46,887,492

Depreciation expense was $5,189,331 and $5,166,467 for the years ended December 31, 2019 and 2018, respectively.

Construction in progress is related to refining equipment at the Marrero and Myrtle Grove facilities in Louisiana.

Asset Retirement Obligations:

The Company has asset retirement obligations with respect to certain of its refinery assets due to various legal obligations to clean and/or dispose of various component parts of each refinery at the time they are retired. However, these component parts can be used for extended and indeterminate periods of time as long as they are properly maintained and/or upgraded. It is the Company’s practice and current intent to maintain its refinery assets and continue making improvements to those assets based on technological advances. As a result, the Company believes that its refinery assets have indeterminate lives for purposes of estimating asset retirement obligations because dates, or ranges of dates, upon which the Company would retire refinery assets cannot reasonably be estimated. When a date or range of dates can reasonably be estimated for the retirement of any component part of a refinery, the Company estimates the cost of performing the retirement activities and records a liability for the fair value of that cost using established present value techniques.

NOTE 6. ACQUISITIONS AND DISPOSITIONS

Specialty Environmental Services

On April 30, 2018, the Company entered into and closed an Asset Purchase Agreement with Specialty Environmental Services ("SES") pursuant to which the Company agreed to buy substantially all of SES's customer relations, vehicles, equipment, supplies and tools in Texas for an aggregate purchase price of $269,826. We recognized the consideration in tangible and intangible assets as of the purchase date.

Myrtle Grove Share Purchase and Subscription Agreement

On July 26, 2019 (the “MG Closing Date”), Vertex Refining Myrtle Grove LLC, a Delaware limited liability company, which entity was formed as a special purpose vehicle in connection with the transactions, described in greater detail below (“MG SPV”), Vertex Operating, Tensile-Myrtle Grove Acquisition Corporation (“Tensile-MG”), an affiliate of Tensile Capital Partners Master Fund LP, an investment fund based in San Francisco, California (“Tensile”), and solely for the purposes of the MG Guaranty (defined below), we entered into and closed the transactions contemplated by a Share Purchase and Subscription Agreement (the “MG Share Purchase”).

Prior to entering into the MG Share Purchase, Vertex Operating’s wholly-owned subsidiary, Vertex Refining LA, LLC (“Vertex LA”), transferred all of the operating assets owned by it and related to the planned development of the MG Refinery (as defined below), which the parties agreed had a fair market value of $22,666,667, to MG SPV in consideration for 21,667 Class A Units and 1,000 Class B Units of MG SPV, which units were distributed to Vertex Operating. At the closing of the MG Share Purchase (on the MG Closing Date), Vertex Operating sold 1,000 of the Class B Units to Tensile-MG for consideration of $1 million and Tensile-MG, purchased an additional 3,000 Class B Units directly from MG SPV for $3 million (less Tensile's fees and expenses incurred in connection with the transaction of $850,000).

As a result of the transaction, Tensile, through Tensile-MG, acquired an approximate 15.58% ownership interest in MG SPV, which in turn now owns the Company's Belle Chasse, Louisiana, re-refining complex (the "MG Refinery").

We, as required, used all proceeds we received from the sale of the Class B Units to pay down the EBC Credit Agreement (defined and described under "Note 9. Line of Credit and Long-Term Debt"). Amounts received by MG SPV from its direct sale of Class B Units to Tensile-MG may only be used for additional investments in the MG refinery or for day to day operations at the MG Refinery. At December 31, 2019, $1.7 million reported as cash and cash equivalents on the balance sheet is restricted to MG Refinery investments or operating expenses.

The MG Share Purchase includes customary representations and warranties and requires Myrtle-Grove SPV to indemnify Tensile-MG (and its related parties), Vertex Operating to indemnify Tensile-MG (and its related parties), and Tensile-MG to indemnify the Company (and its related parties), against various matters (subject to minimum losses being incurred by Myrtle-Grove SPV (and its related parties, as applicable) of $226,000 and a maximum liability by Myrtle-Grove SPV for all losses of Myrtle-Grove SPV of $3,400,000, subject to certain exceptions). Additionally, Myrtle-Grove SPV's maximum indemnification liability under the agreement is not to exceed $4 million, except in the case of fraud, intentional misrepresentation or criminal activity.

The MG Share Purchase also provided for a guarantee by the Company to Tensile-MG of the payment obligations of Myrtle-Grove SPV and Vertex Operating as set forth in the MG Share Purchase, including the indemnification rights summarized above (the "MG Guaranty").

In connection with the closing of the MG Share Purchase, MG SPV, Vertex Operating and the Company entered into an environmental remediation and indemnity agreement, whereby we agreed to indemnify and hold Tensile-MG harmless against certain potential environmental liabilities.

As discussed above, after the consummation of the transactions set forth in the MG Share Purchase, MG SPV is owned 84.42% by Vertex Operating and 15.58% by Tensile-MG. The Class B Units held by Tensile-MG are convertible into Class A Units at the option of Tensile-MG, as provided in the Limited Liability Company Agreement of MG SPV dated July 25, 2019 (the "MG Company Agreement"), based on a conversion price (initially one-for-one) which may be reduced from time to time if new Units of MG SPV are issued, and automatically convert into Series A Units upon certain events described in the MG Company Agreement.

Additionally, the Class B Unit holders may force MG SPV to redeem the outstanding Class B Units at any time on or after the earlier of (a) July 26, 2024 and (ii) the occurrence of a Triggering Event (defined below)(an "MG Redemption"). The cash purchase price for such redeemed Class B Units is the greater of (y) the fair market value of such units (without discount for illiquidity, minority status or otherwise) as determined by a qualified third party agreed to in writing by a majority of the holders seeking an MG Redemption and Vertex Operating (provided that Vertex Operating still owns Class A Units on such date) and (z) the original per-unit price for such Class B Units plus fifty percent (50%) of the aggregate capital invested by the Class B Unit holders through such MG Redemption date. "Triggering Events" mean (a) any dissolution, winding up or liquidation of the Company, Vertex Operating or any significant subsidiary of Vertex Operating, (b) any sale, lease, license or disposition of any material assets of the Company, Vertex Operating or any significant subsidiary of Vertex Operating, (c) any transaction or series of related transactions (whether by merger, exchange, contribution, recapitalization, consolidation, reorganization, combination or otherwise) involving the Company, Vertex Operating or any significant subsidiary of Vertex Operating, the result of which is that the holders of the voting securities of the relevant entity as of the MG Closing Date are no longer the beneficial owners, in the aggregate, after giving effect to such transaction or series of transactions, directly or indirectly, of more than fifty percent (50%) of the voting power of the outstanding voting securities of the entity, subject to certain other requirements set forth in the MG Company Agreement, (d) the failure to consummate the Heartland Closing (defined below) by June 30, 2020 (a "Failure to Close"), (e) the failure of Vertex Operating to operate MG SPV in good faith with appropriate resources, or (f) the material failure of the Company and its affiliates to comply with the terms of the contribution agreement, whereby the Company contributed assets and operations to MG SPV.

On or after the third anniversary of the MG Closing Date, the Company or any of its subsidiaries, may elect to purchase all of the outstanding units of MG SPV held by Tensile-MG (or any assignee of Tensile-MG) as discussed in the MG Company Agreement.

On the MG Closing Date, and as a required term of the closing of the MG Share Purchase, Tensile entered into a Subscription Agreement dated July 25, 2019, and effective on July 26, 2019, in favor of the Company (the "Subscription Agreement"), pursuant to which it subscribed to purchase (a) 1,500,000 shares of our common stock (the "Tensile Shares"), and (b) warrants to purchase 1,500,000 shares of our common stock, which were documented by a Common Stock Purchase Warrant (the "Warrants" and the shares of common stock issuable upon exercise thereof, the "Warrant Shares") in consideration for $2.22 million or $1.48 per share and warrant.

The Warrants have an exercise price of $2.25 per share and a term of ten years. The Warrants also include a beneficial ownership limitation which prohibits Tensile from exercising any Warrants, if upon such exercise, Tensile, together with its affiliates, would, subject to limited exceptions, beneficially own in excess of 4.999% of the number of shares of our common stock outstanding immediately after the exercise. Tensile may elect to change this beneficial ownership limitation from 4.999% to up to 9.999% of the number of shares of our common stock outstanding immediately after the exercise upon 61 days' prior written notice to us.

In connection with the subscription, we and Tensile entered into a Registration Rights and Lock-Up Agreement dated July 25, 2019 (the "Lock-Up Agreement"), pursuant to which we agreed to use commercially reasonable efforts to register the Tensile Shares and Warrant Shares prior to the end of the Initial Lock-Up (defined below) and Tensile agreed to not sell any of the Tensile Shares or Warrant Shares for a period of one year following the MG Closing Date (the "Initial Lock-Up") and to sell no more than 300,000 of such Tensile Shares and Warrant Shares in any 90 day period during the four years thereafter (the "Volume Limitations"), each, subject to certain exceptions set forth therein.

The Initial Lock-Up, but not the Volume Limitation, terminates if our common stock is not traded on Nasdaq or a similar market for a period of more than five consecutive trading days. Upon any termination of the Initial Lock-Up pursuant to the preceding sentence, in the event Tensile holds any Tensile Shares, Warrant Shares or any Warrants, we are required to disclose publicly all material nonpublic information disclosed to Tensile prior to the date of such termination.

We also provided Tensile-Heartland Acquisition Corporation ("Tensile-Heartland"), an affiliate of Tensile, an option (the "Heartland Option"), exercisable at any time prior to June 30, 2020, to the extent certain pilot studies to be conducted by MG SPV meet the standards of Tensile-Heartland, in its sole discretion, or the outcome of such studies are waived by Tensile-Heartland, to execute and close (within 30 days from such date of exercise by Tensile-Heartland) the acquisition of a 65% interest in a special purpose entity which will be formed to hold ownership of our Heartland refinery, similar to what we have done with our Myrtle Grove facility as discussed above (the "Heartland Transaction"). Under the terms of that transaction, if closed, the Company will retain a 35% stake in the SPV and the Company will receive $13.5 million of non-recourse cash to its balance sheet. As discussed below under "Note 19. Subsequent Events" - "Heartland Share Purchase and Subscription Agreement", the Heartland Transaction closed on January 17, 2020.

Redeemable Noncontrolling Interest

As a result of the MG Share Purchase (as defined and discussed above), Tensile, through Tensile-Myrtle Grove Acquisition Corporation, acquired an approximate 15.58% ownership interest in Vertex Refining Myrtle Grove LLC, a Delaware limited liability company, which entity was formed as a special purpose vehicle in connection with the transactions. This is considered a redeemable noncontrolling equity interest, as it is redeemable in the future and not solely within our control.

The initial carrying amount that is recognized in temporary equity for redeemable noncontrolling interests is the initial carrying amount determined in accordance with the accounting requirements for noncontrolling interests in ASC 810-10. In accordance with ASC 810-10-45-23, changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary are accounted for as equity transactions. Therefore, the Company recognized no gain or loss in consolidated net income and the carrying amount of the noncontrolling interest was adjusted to reflect the change in our ownership interest of the subsidiary. The difference of $970,809 between the fair value of the consideration received of $3,150,000 and the carrying amount of the noncontrolling interest determined in accordance with ASC 810-10 of $2,179,191, was recognized in additional paid in capital.

After initial recognition, in accordance with ASC 480-10-S99-3A, the Company applied a two-step approach to measure noncontrolling interests at the balance sheet date. First, the Company applied the measurement guidance in ASC 810-10 by attributing a portion of the subsidiary's net loss of $61,668 to the noncontrolling interest. Second, the Company applied the subsequent measurement guidance in ASC 480-10-S99-3A, which indicates that the noncontrolling interest's carrying amount is the higher of (1) the cumulative amount that would result from applying the measurement guidance in ASC 810-10 in the first step or (2) the redemption value. Pursuant to ASC 480-10-S99-3A, for a security that is probable of becoming redeemable in the future, the Company adjusted the carrying amount of the redeemable noncontrolling interests to what would be the redemption value assuming the security was redeemable at the balance sheet date. This adjustment of $2,279,371 increased the carrying amount of redeemable noncontrolling interests to the redemption value as of December 31, 2019 of $4,396,894. Adjustments to the carrying amount of redeemable noncontrolling interests to redemption value are reflected in retained earnings.

The table below presents the reconciliation of changes in redeemable noncontrolling interest during the year ended December 31, 2019:

Beginning balance at January 1, 2019	$	—
Capital contribution from non-controlling interest		3,150,000
Initial adjustment of carrying amount of non-controlling interest		(970,809)
Net loss attributable to redeemable non-controlling interest		(61,668)
Accretion of non-controlling interest to redemption value		2,279,371
Ending balance at December 31, 2019	$	4,396,894

NOTE 7. INTANGIBLE ASSETS, NET

Components of intangible assets (subject to amortization) consist of the following items:

		December 31, 2019			December 31, 2018		
	Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relations	5-8	$ 1,329,580	$ 884,917	$ 444,663	$ 1,329,580	$ 718,890	$ 610,690
Vendor relations	10	6,654,497	4,197,213	2,457,284	6,654,497	3,531,764	3,122,733
Trademark/Trade name	6-16	1,249,887	531,885	718,002	1,249,887	436,869	813,018
TCEP Technology/Patent	15	13,287,000	6,180,643	7,106,357	13,287,000	5,294,843	7,992,157
Non-compete agreements	3-5	196,601	168,200	28,401	196,601	156,680	39,921
Internally developed software in progress	3-5	489,093	—	489,093	—	—	—
		$ 23,206,658	$ 11,962,858	$ 11,243,800	$ 22,717,565	$ 10,139,046	$ 12,578,519

Intangible assets are amortized on a straight-line basis. We continually evaluate the amortization period and carrying basis of intangible assets to determine whether subsequent events and circumstances warrant a revised estimated useful life or reduction in value. Certain internally developed software is expected to be completed and put into service in the second quarter of 2020.

Total amortization expense of intangibles was $1,823,812 and $1,818,854 for the years ended December 31, 2019 and 2018, respectively.

Estimated future amortization expense is as follows:

2020	$	1,921,630
2021		1,921,630
2022		1,706,702
2023		1,349,318
2024		1,292,875
Thereafter		3,051,645
	$	11,243,800

We analyzed the goodwill on the books relating to the prior acquisition of Nickco Recycling, Inc. ("Nickco") as of December 31, 2018 to determine whether the amount should be impaired at year end. Nickco was purchased with anticipated EBITDA to be in excess of $700,000 with the synergies of the two companies. The EBITDA for the first 12 months after acquisition of Nickco was well below the expected EBITDA. The earnout target for the seller of the business during the initial 12 months was a range between $392,000 and $567,000; and the achieved results of $334,000 did not meet the lower end of the threshold. Our budgeted target EBITDA for 2018 at this segment was $461,000 of EBITDA, and the results came in over $1 million short of the target. There were some circumstances around the operations and downtime that impacted these results. Based on the above financial performance, the Company impaired the remaining goodwill and recognized a $176,349 goodwill impairment in 2018, which is included in selling, administrative and general expenses and thus eliminated the goodwill balance in our Recovery segment.

NOTE 8. ACCOUNTS RECEIVABLE

Accounts receivable, net, consists of the following at December 31:

		2019		2018
Accounts receivable trade	$	12,540,553	$	9,859,758
Allowance for doubtful accounts		(402,475)		(831,768)
Accounts receivable trade, net	$	12,138,078	$	9,027,990

Accounts receivable represents amounts due from customers. Accounts receivable are recorded at invoiced amounts, net of reserves and allowances, and do not bear interest. The Company uses its best estimate to determine the required allowance for doubtful accounts based on a variety of factors, including the length of time receivables are past due, economic trends and conditions affecting its customer base, significant one-time events and historical write-off experience. Specific provisions are recorded for individual receivables when we become aware of a customer's inability to meet its financial obligations. The Company reviews the adequacy of its reserves and allowances quarterly.

NOTE 9. LINE OF CREDIT AND LONG-TERM DEBT

Credit and Guaranty Agreement and Revolving Credit Facility with Encina Business Credit, LLC

Effective February 1, 2017, we, Vertex Operating, and substantially all of our other operating subsidiaries, other than E-Source Holdings, LLC ("E-Source"), entered into a Credit Agreement (the "EBC Credit Agreement") with Encina Business Credit, LLC as agent (the "Agent" or "EBC") and Encina Business Credit SPV, LLC and CrowdOut Capital LLC as lenders thereunder (the "EBC Lenders"). Pursuant to the EBC Credit Agreement, and the terms thereof, the EBC Lenders agreed to loan us up to $20 million, provided that the amount outstanding under the EBC Credit Agreement at any time cannot exceed 50% of the value of the operating plant facilities and related machinery and equipment owned by us (not including E-Source).

Amounts borrowed under the EBC Credit Agreement bear interest at 12%, 13% or 14% per annum, based on the ratio of (a) (i) consolidated EBITDA for such applicable period minus (ii) capital expenditures made during such period, minus (iii) the aggregate amount of income taxes paid in cash during such period (but not less than zero) to (b) the sum of (i) debt service charges plus (ii) the aggregate amount of all dividend or other distributions paid on capital stock in cash for the most recently completed 12 month period (which ratio falls into one of the three following tiers: less than 1 to 1; from 1 to 1 to less than 1.45 to 1; or equal to or greater than 1.45 to 1, which together with the value below, determines which interest rate is applicable) and average availability under the Revolving Credit Agreement (defined below) (which falls into two tiers: less than $2.5 million and greater than or equal to $2.5 million, which together with the calculation above, determines which interest rate is applicable), as described in greater detail in the EBC Credit Agreement (increasing by 2% per annum upon the occurrence of an event of default). Interest on amounts borrowed under the EBC Credit Agreement is payable by us in arrears, on the first business day of each month, beginning on the first business day of the first full month following the closing, together with required $75,000 monthly principal repayments. We also have the right to make voluntary repayments of the amount owed under the EBC Credit Agreement in amounts equal to or greater than $100,000, from time to time. The interest rate is 14% at December 31, 2019.

The EBC Credit Agreement was to terminate on February 1, 2020, and has since been extended until February 1, 2021, as discussed below, on which date we are required to repay the outstanding balance owed thereunder and any accrued and unpaid interest thereon.

The amounts borrowed under the EBC Credit Agreement are guaranteed by us and our subsidiaries, other than E-Source, pursuant to a Guaranty and Security Agreement (the "Guaranty and Security Agreement"), whereby we also pledged substantially all of our assets and all of the securities of our subsidiaries (other than E-Source) as collateral securing the amount due under the terms of the EBC Credit Agreement. We also provided EBC mortgages on our Marrero, Louisiana, and Columbus, Ohio facilities, the ownership of 65% of which was transferred to Tensile in connection with the Heartland SPV (discussed below under "Note 19. Subsequent Events" - "Heartland Share Purchase and Subscription Agreement"), effective January 1, 2020, to secure the repayment of outstanding amounts and agreed to provide mortgages on certain other real property to be delivered post-closing. The post-closing mortgage properties provided were in Baytown, Pflugerville and Corpus Christi, Texas.

The EBC Credit Agreement contains customary representations, warranties and requirements for the Company to indemnify the EBC Lenders and their affiliates. The EBC Credit Agreement also includes various covenants (positive and negative) binding upon the Company, including, prohibiting us from undertaking acquisitions or dispositions unless they meet the criteria set forth in the EBC Credit Agreement, not incurring any capital expenditures in amount exceeding $3 million in any fiscal year that the EBC Credit Agreement is in place, and requiring us to maintain at least $2.5 million of borrowing availability under the Revolving Credit Agreement (defined below) at any time. As of December 31, 2019, the borrowing availability was $3,835,997, and the Company was in compliance with all covenants thereunder.

The EBC Credit Agreement includes customary events of default for facilities of a similar nature and size as the EBC Credit Agreement, including if an event of default occurs under any agreement evidencing $500,000 or more of indebtedness of the Company; we fail to make any payment when due under any material agreement; subject to certain exceptions, any judgment is entered against the Company in an amount exceeding $500,000; and also provides that an event of default occurs if a change in control of the Company occurs, which includes if (a) Benjamin P. Cowart, the Company's Chief Executive Officer, Chairman of the Board and largest shareholder, and Chris Carlson, the Chief Financial Officer of the Company, cease to own and control legally and beneficially, collectively, either directly or indirectly, equity securities in Vertex Energy, Inc., representing more than 15% of the combined voting power of all securities entitled to vote for members of the board of directors or equivalent on a fully-diluted basis, (b) the acquisition of ownership, directly or indirectly, beneficially or of record, by any person or group of securities representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding securities of Vertex Energy, Inc., or (c) during any period of 12 consecutive months, a majority of the members of the board of directors of the Company cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body (collectively "Events of Default"). An event of default under the Revolving Credit Agreement (defined below), is also an event of default under the EBC Credit Agreement.

Effective February 1, 2017, we, Vertex Operating and substantially all of our operating subsidiaries, other than E-Source, entered into a Revolving Credit Agreement (the "Revolving Credit Agreement") with Encina Business Credit SPV, LLC as lender ("Encina") and EBC as the administrative agent. Pursuant to the Revolving Credit Agreement, and the terms thereof, Encina agreed to loan us, on a revolving basis, up to $10 million, subject to the terms of the Revolving Credit Agreement and certain lending ratios set forth therein, which provide that the amount outstanding thereunder cannot exceed an amount equal to the total of (a) the lesser of (A) the value (as calculated in the Revolving Credit Agreement) of our inventory which are raw materials or finished goods that are merchantable and readily saleable to the public in the ordinary course of our business ("EBC Eligible Inventory"), net of certain inventory reserves, multiplied by 85% of the appraised value of EBC Eligible Inventory, or (B) the value (as calculated in the Revolving Credit Agreement) of EBC Eligible Inventory, net of certain inventory reserves, multiplied by 65%, subject to a ceiling of $4 million, plus (b) the face amount of certain accounts receivables (net of certain reserves applicable thereto) multiplied by 85% (subject to adjustment as provided in the Revolving Credit Agreement); minus (c) the then-current amount of certain reserves that the agent may determine necessary for the Company to maintain. At December 31, 2019, the maximum amount available to be borrowed was $3,835,997, based on the above borrowing base calculation.

Amounts borrowed under the Revolving Credit Agreement bear interest, subject to the terms of the Revolving Credit Agreement, at the one month LIBOR interest rate then in effect, subject to a floor of 0.25% (which interest rate is currently approximately 1.69% per annum), plus an additional 6.50% per annum (increasing by 2% per annum upon the occurrence of an event of default), provided that under certain circumstances amounts borrowed bear interest at the higher of (a) the "prime rate"; (b) the Federal Funds Rate, plus 0.50%; and (c) the LIBOR Rate for a one month interest period, plus 1.00%. Interest on amounts borrowed under the Revolving Credit Agreement is payable by us in arrears, on the first business day of each month, beginning on the first business day of the first full month following the closing.

The Revolving Credit Agreement was to terminate on February 1, 2020, but has since been extended until February 1, 2021, as discussed below, on which date we are required to repay the outstanding balance owed thereunder and any accrued and unpaid interest thereon. Borrowings under a revolving credit agreement that contain a subjective acceleration clause and also require a borrower to maintain a lockbox with the lender (whereby lockbox receipts may be applied to reduce the amount outstanding under the revolving credit agreement) are considered short-term obligations. As a result, the debt is classified as a current liability at December 31, 2019.

The amounts borrowed under the Revolving Credit Agreement are guaranteed by us and our subsidiaries, other than E-Source, pursuant to a separate Guaranty and Security Agreement, similar to the EBC Credit Agreement, described in greater detail above. We also provided Encina mortgages on our Marrero, Louisiana, and Columbus, Ohio facilities, the ownership of 65% of which was transferred to Tensile in connection with the Heartland SPV (discussed below under "Note 19. Subsequent Events" - "Heartland Share Purchase and Subscription Agreement"), effective January 1, 2020, to secure the repayment of outstanding amounts.

The Revolving Credit Agreement contains customary representations, warranties and requirements for the Company to indemnify Encina and its affiliates. The Revolving Credit Agreement also includes various covenants (positive and negative) binding upon the Company, including, prohibiting us from undertaking acquisitions or dispositions unless they meet the criteria set forth in the Revolving Credit Agreement, not incurring any capital expenditures in amount exceeding $3 million in any fiscal year that the Revolving Credit Agreement is in place, and requiring us to maintain at least $2.5 million of borrowing availability (reduced to $2.0 million pursuant to the amendments described below) under the Revolving Credit Agreement in any 30 day period. During the year ended December 31, 2019, the Company was not in compliant with the capital expenditure limitation; however, a waiver was obtained.

The Revolving Credit Agreement includes customary events of default for facilities of a similar nature and size as the Revolving Credit Agreement, including the same Events of Default as are described above under the description of the EBC Credit Agreement.

The balance of the EBC Credit Agreement and the Revolving Credit Agreement as of December 31, 2019 are $13,333,000 and $3,276,230, respectively.

Credit Agreement Amendments

On July 25, 2019, (a) EBC, the EBC Lenders, and Vertex Operating, entered into a Third Amendment and Limited Waiver to Credit Agreement, effective on July 26, 2019, pursuant to which the EBC Lenders agreed to amend the EBC Credit Agreement; and (b) the EBC Lenders and Vertex Operating entered into a Third Amendment and Limited Waiver to ABL Credit Agreement, effective on July 26, 2019, pursuant to which the EBC Lenders agreed to amend the Revolving Credit Agreement (collectively, the "Waivers").

The Waivers amended the credit agreements to: extend the due date of amounts owed thereunder from February 1, 2020 to February 1, 2021; to increase the amount of permitted indebtedness allowable thereunder from $500,000 to $750,000; to increase the amount of capital expenditures we are authorized to make in fiscal 2019 from $3.0 million to $3.5 million, and to set the amount of capital expenditures we are authorized to make in fiscal 2020 and thereafter at $3.0 million; and to decrease the minimum amount of availability required under the credit agreements to $1.5 million at any time from July 26, 2019 to August 31, 2019, and $2.0 million at any time thereafter. The Waivers also provided for waivers by the lenders of certain restrictions in the credit agreements which would have prevented us from consummating the MG Share Purchase and Heartland Share Purchase Agreement (discussed below under "Note 19. Subsequent Events" - "Heartland Share Purchase and Subscription Agreement"), subject to certain conditions, including us paying at least $1.1 million to the lenders from the amount received pursuant to the MG Purchase Agreement (which amount has been paid to date) and at least $7.0 million (unless otherwise agreed by the lenders) of the amount to be received by us pursuant to terms of the Heartland Purchase Agreement (which amount has been paid to date), to the lenders.

Insurance Premiums

The Company financed insurance premiums through various financial institutions bearing interest rates from 4.00% to 4.90%. All such premium finance agreements have maturities of less than one year and have a balance of $1,165,172 at December 31, 2019 and $999,152 at December 31, 2018.

Finance Leases

On March 1, 2018, the Company obtained one finance lease. Payments are $908 per month for three years and the amount of the finance lease obligation has been reduced to $12,341 at December 31, 2019.

On May 29, 2018, the Company obtained one finance lease. Payments are $26,305 per quarter for four years and the amount of the finance lease obligation has been reduced to $264,014 at December 31, 2019.

During April and May 2019, the Company obtained five finance leases. Payments are approximately $11,710 per month for five years and the amount of the finance lease obligation has been reduced to $551,260 at December 31, 2019.

The Company's outstanding debt as of December 31, 2019 and December 31, 2018 is summarized as follows:

Creditor	Loan Type	Origination Date	Maturity Date	Loan Amount	Balance on December 31, 2019	Balance on December 31, 2018
Encina Business Credit, LLC	Term Loan	February 1, 2017	February 1, 2021	$ 20,000,000	$ 13,333,000	$ 15,350,000
Encina Business Credit SPV, LLC	Revolving Note	February 1, 2017	February 1, 2021	$ 10,000,000	3,276,230	3,844,636
Tetra Capital Lease	Finance Lease	May, 2018	May, 2022	$ 419,690	264,014	349,822
Wells Fargo Equipment Lease-VRM LA	Finance Lease	March, 2018	March, 2021	$ 30,408	12,341	22,390
Wells Fargo Equipment Lease-Ohio	Finance Lease	April-May, 2019	April-May, 2024	$ 621,000	551,260	—
Various institutions	Insurance premiums financed	Various	< 1 year	$ 2,902,428	1,165,172	999,152
Total					18,602,017	20,566,000
Deferred finance costs					(47,826)	(621,733)
Total, net of deferred finance costs					$ 18,554,191	$ 19,944,267

Future maturities of debt are summarized as follows:

Creditor	2020	2021	2022	2023	2024	Thereafter
Encina Business Credit, LLC	$ 900,000	$ 12,433,000	$ —	$ —	$ —	$ —
Encina Business Credit SPV, LLC	3,276,230	—	—	—	—	—
Tetra Capital Lease	91,779	98,167	74,068	—	—	—
Wells Fargo Equipment Lease-VRM LA	10,537	1,804	—	—	—	—
Wells Fargo Equipment Lease-Ohio	114,848	120,895	127,264	138,476	49,777	—
Various institutions	1,165,172	—	—	—	—	—
Totals	5,558,566	12,653,866	201,332	138,476	49,777	—
Deferred finance costs	(47,826)	—	—	—	—	—
Totals, net of deferred finance costs	$ 5,510,740	$ 12,653,866	$ 201,332	$ 138,476	$ 49,777	$ —

NOTE 10. INCOME TAXES

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. We completed our accounting for all of the enactment-date income tax effects of the Tax Reform Act during the fourth quarter of 2018 with no further changes.

The components of income tax (benefit) expense for the years ended December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Current federal tax (expense)/benefit	$ (68,606)	$ (137,212)
Deferred federal tax (expense)/benefit	68,606	137,212
Total federal tax (expense)/benefit	$ —	$ —

Reconciliation between the amount determined by applying the U.S. federal income tax rate of 21% to pretax income from continuing operations and income tax expense presented in the accompanying consolidated statements of operations was as follows for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Statutory tax on book income	$ (1,152,000)	$ (417,000)
Permanent differences	139,000	114,000
Change in derivative liability	102,000	(160,000)
Myrtle Grove transaction gain	210,000	—
Change in valuation allowance	1,344,000	967,000
Prior year return true up	(643,000)	(504,000)
Income tax expense (benefit)	$ —	$ —

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2019 and 2018 are presented below:

	December 31, 2019	December 31, 2018
Deferred tax assets:		
Alternative minimum tax credits	$ 69,000	$ 137,000
Accrued bonus and stock based compensation	386,000	358,000
Basis of intangible assets	1,687,000	1,368,000
Bad debt reserve	85,000	175,000
Contribution carryover	38,000	26,000
Interest expense carryforward	487,000	190,000
Net operating loss carry forwards	13,682,000	12,500,000
Less valuation allowance	(13,453,000)	(12,109,000)
Total deferred tax assets	$ 2,981,000	$ 2,645,000

	December 31, 2019	December 31, 2018
Deferred tax liabilities:		
Basis of fixed assets	$ (2,788,000)	$ (2,444,000)
Contingent liability	—	3,000
Partnership income	(124,000)	(67,000)
Total deferred tax liabilities	$ (2,912,000)	$ (2,508,000)
Net deferred tax assets	$ 69,000	$ 137,000

The Company provides a valuation allowance when it is more likely than not that some portion of the deferred tax assets will not be realized. Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. Based on this evaluation, as of December 31, 2019 and 2018, valuation allowances of approximately $13,453,000 and $12,109,000, respectively, has been recorded to reduce net deferred tax assets to an amount that management believes is more than likely not to be realized.

The Company is subject to examination by Federal and State tax authorities for fiscal years 2016 through 2019, except for utilization of net operating losses.

At December 31, 2019, the Company had federal net operating loss carry-forwards ("NOLs") of approximately $73.1 million acquired as part of the April 2009 merger between World Waste Technologies, Inc. and the Company's wholly-owned subsidiary Vertex Merger Sub, LLC and subsequent operating losses incurred by the Company. IRC Sections 382 and 383 provide an annual limitation with respect to the ability of a corporation to utilize its tax attributes against future U.S. taxable income in the event of a change in ownership. The net operating loss carry-forwards at December 31, 2019 reflect a reduction of approximately $31.6 million as a result of an ownership change triggering event in May 2016, as defined under IRC Section 382. The net operating loss carryforward will begin to expire in 2026. Those arising in tax years after 2017 will never expire.

NOTE 11. STOCK BASED COMPENSATION

The stock based compensation cost that has been charged against income by the Company was $642,840 and $659,836 for the years ended December 31, 2019 and 2018, respectively, for options awarded by the Company.

Stock option activity for the years ended December 31, 2019 and 2018 is summarized as follows:

OPTIONS ISSUED FOR COMPENSATION:	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)		Grant Date Fair Value
Outstanding at December 31, 2017	3,180,417	$	2.21	4.62	$	3,298,196
Options granted	697,000		1.17	8.10		610,305
Options exercised	(7,500)		1.20	0.00		(4,241)
Options cancelled/forfeited/expired	(409,167)		1.80	0.00		(434,962)
Outstanding at December 31, 2018	3,460,750	$	2.05	3.50	$	3,469,298
Vested at December 31, 2018	2,127,500	$	2.48	4.67	$	2,122,478
Exercisable at December 31, 2018	2,127,500	$	2.48	4.67	$	2,122,478
Outstanding at December 31, 2018	3,460,750	$	2.05	3.50	$	3,469,298
Options granted	1,150,000		1.40	8.76		1,148,662
Options exercised	(112,500)		0.46	0.00		(41,789)
Options cancelled/forfeited/expired	(80,000)		0.46	0.00		(28,800)
Outstanding at December 31, 2019	4,418,250	$	1.95	6.25	$	4,547,371
Vested at December 31, 2019	2,383,625	$	2.50	4.84	$	2,625,779
Exercisable at December 31, 2019	2,383,625	$	2.50	4.84	$	2,625,779

On October 9, 2019, the Board of Directors granted one employee options to purchase an aggregate of 75,000 shares of common stock at an exercise price of $1.13 per share with a 5 year term (subject to continued employment), vesting at the rate of 1/4th of such options per year on the first 4 anniversaries of the grant, under our 2013 Stock Incentive Plan, as amended, in consideration for services rendered and to be rendered to the Company.

On October 29, 2019, the Board of Directors granted the same employee above options to purchase an aggregate of 125,000 shares of common stock at an exercise price of $1.00 per share with a 5 year term (subject to continued employment), vesting at the rate of 1/4th of such options per year on the first 4 anniversaries of the grant, under our 2019 Equity Incentive Plan, in consideration for services rendered and to be rendered to the Company.

On May 20, 2019, the Board of Directors granted 12 employees, 1 officer/director (Benjamin P. Cowart, the Company's Chief Executive Officer), and 5 board members options to purchase an aggregate of 487,000 , 163,000, and 300,000 , shares of common stock, respectively, at an exercise price of $1.45, $1.60, and $1.45 per share, respectively, with a ten year, 5 year, and ten year term, respectively (subject to continued employment/directorship), vesting at the rate of 1/4th of such options per year on the first 4 anniversaries of the grant, under our 2013 Stock Incentive Plan, as amended, in consideration for services rendered and to be rendered to the Company.

On April 12, 2018, the Board of Directors granted 11 employees and 1 officer/director (Benjamin P. Cowart, the Company's Chief Executive Officer) options to purchase an aggregate of 521,000 and 166,000, shares of common stock, respectively, at an exercise price of $1.14 and $1.26 per share, respectively, with a ten year and 5 year term, respectively (subject to continued employment/directorship), vesting at the rate of 1/4th of such options per year on the first 4 anniversaries of the grant, under our 2013 Stock Incentive Plan, as amended, in consideration for services rendered and to be rendered to the Company.

On May 22, 2018, the Board of Directors granted 1 employee options to purchase an aggregate of 10,000 shares of common stock at an exercise price of $1.03 per share with a 10 year term (subject to continued employment/directorship), vesting at the rate of

1/4th of such options per year on the first 4 anniversaries of the grant, under our 2013 Stock Incentive Plan, as amended, in consideration for services rendered and to be rendered to the Company.

A summary of the Company's stock warrant activity and related information for the years ended December 31, 2019 and 2018 is as follows:

WARRANTS ISSUED AND OTHER THAN SERIES B AND B1 PREFERRED STOCK:	Warrants		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)		Grant Date Fair Value
Outstanding at December 31, 2017	219,868	$	3.01	2.00	$	140,249
Warrants granted	—		—	—		—
Warrants exercised	—		—	—		—
Warrants canceled/forfeited/expired	—		—	—		—
Warrants at December 31, 2018	219,868	$	3.01	0.93	$	140,249
Vested at December 31, 2018	219,868	$	3.01	0.93	$	140,249
Exercisable at December 31, 2018	219,868	$	3.01	0.93	$	140,249
Outstanding at December 31, 2018	219,868	$	3.01	0.93	$	140,249
Warrants granted	1,500,000		2.25	9.70		1,496,372
Warrants exercised	—		—	—		—
Warrants canceled/forfeited/expired	(219,868)		3.01	—		(140,249)
Warrants at December 31, 2019	1,500,000	$	2.25	9.70	$	1,496,372
Vested at December 31, 2019	—	$	—	—	$	—
Exercisable at December 31, 2019	—	$	—	—	$	—

See "Note 14. Preferred Stock and Temporary Equity" for a description of the warrants that were granted in conjunction with our Series B and B1 Preferred stock. See "Note 6. Myrtle Grove Share Purchase and Subscription Agreement" for a description of the warrants that were granted in conjunction with the MG SPV closing.

NOTE 12. EARNINGS PER SHARE

Basic earnings per share includes no dilution and is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding for the periods presented. The calculation of basic earnings per share for the years ended December 31, 2019 and December 31, 2018, respectively, includes the weighted average of common shares outstanding. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity, such as convertible preferred stock, stock options, warrants or convertible securities. Due to their anti-dilutive effect, the calculation of diluted earnings per share for the years ended December 31, 2019 and December 31, 2018 excludes: 1) options to purchase 4,418,250 and 3,460,750 shares, respectively, of common stock, 2) warrants to purchase 8,633,188 and 7,353,056 shares, respectively, of common stock, 3) Series B Preferred Stock which is convertible into 3,826,055 and 3,604,827 shares, respectively, of common stock, 4) Series B1 Preferred Stock which is convertible into 9,028,085 and 10,057,597 shares, respectively, of common stock, and 5) Series A Preferred Stock which is convertible into 419,859 shares of common stock.

The following is a reconciliation of the numerator and denominator for basic and diluted earnings per share for the years ended December 31, 2019 and 2018:

		2019		2018
Basic loss per Share				
Numerator:				
Net loss available to common shareholders	$	(11,445,628)	$	(8,037,304)
Denominator:				
Weighted-average common shares outstanding		40,988,946		35,411,264
Basic loss per share	$	(0.28)	$	(0.23)
Diluted Earnings per Share				
Numerator:				
Net loss available to common shareholders	$	(11,445,628)	$	(8,037,304)
Denominator:				
Weighted-average shares outstanding		40,988,946		35,411,264
Effect of dilutive securities				
Stock options and warrants		—		—
Preferred stock		—		—
Diluted weighted-average shares outstanding		40,988,946		35,411,264
Diluted loss per share	$	(0.28)	$	(0.23)

NOTE 13. COMMON STOCK

The total number of authorized shares of the Company’s common stock is 750,000,000 shares, $0.001 par value per share. As of December 31, 2019 and December 31, 2018, there were 43,395,563 and 40,174,821, respectively, shares of common stock issued and outstanding.

Each share of the Company's common stock is entitled to equal dividends and distributions per share with respect to the common stock when, as and if declared by the Company's board of directors. No holder of any shares of the Company's common stock has a preemptive right to subscribe for any of the Company's securities, nor are any shares of the Company's common stock subject to redemption or convertible into other securities. Upon liquidation, dissolution or winding-up of the Company and after payment of creditors and preferred shareholders of the Company, if any, the assets of the Company will be divided pro rata on a share-for-share basis among the holders of the Company's common stock. Each share of the Company's common stock is entitled to one vote. Shares of the Company's common stock do not possess any cumulative voting rights.

During the year ended December 31, 2019, the Company issued 1,642,317 shares of common stock in connection with the conversion of Series B1 Preferred Stock, pursuant to the terms of such securities. In addition, the Company issued 1,500,000 shares of common stock pursuant to the provisions of a subscription agreement entered into with Tensile. Also, the Company issued 78,425 shares of common stock in connection with the exercise of options.

During the year ended December 31, 2018, the Company issued 7,199,774 shares of common stock in connection with the conversion of Series B1, Series B, Series C, and Series A Convertible Preferred Stock, pursuant to the terms of such securities. In addition, the Company issued 150,000 shares of common stock pursuant to the earnout provisions of the Nickco acquisition agreement. Also, the Company issued 241 shares of common stock in connection with the cashless exercise of options. Finally, the Company issued 166,630 shares of common stock in lieu of cash dividends which accrued on the Series B1 Preferred Stock.

NOTE 14. PREFERRED STOCK AND TEMPORARY EQUITY

The total number of authorized shares of the Company’s preferred stock is 50,000,000 shares, $0.001 par value per share. The total number of designated shares of the Company’s Series A Preferred Stock is 5,000,000 (“Series A Preferred”). The total number of designated shares of the Company's Series B Preferred Stock is 10,000,000. The total number of designated shares of the Company's Series B1 Preferred Stock is 17,000,000. As of December 31, 2019 and December 31, 2018, there were 419,859 shares of Series A Preferred Stock issued and outstanding. As of December 31, 2019 and December 31, 2018, there were 3,826,055 and 3,604,827 Series B Preferred shares issued and outstanding, respectively. As of December 31, 2019 and December 31, 2018, there were 9,028,085 and 10,057,597 shares of Series B1 Preferred Stock issued and outstanding, respectively. There were no shares of Series C Preferred Stock issued or outstanding as of December 31, 2019 or 2018.

Series A Preferred

Holders of outstanding shares of Series A Preferred are entitled to receive dividends, when, as, and if declared by our Board of Directors. No dividends or similar distributions may be made on shares of capital stock or securities junior to our Series A Preferred until dividends in the same amount per share on our Series A Preferred have been declared and paid. In connection with a liquidation, winding-up, dissolution or sale of the Company, each share of our Series A Preferred is entitled to receive $1.49 prior to similar liquidation payments due on shares of our common stock or any other class of securities junior to the Series A Preferred. Shares of Series A Preferred are not entitled to participate with the holders of our common stock with respect to the distribution of any remaining assets of the Company.

Each share of Series A Preferred is entitled to that number of votes equal to the number of whole shares of common stock into which it is convertible. Generally, holders of our common stock and Series A Preferred vote together as a single class.

Shares of Series A Preferred automatically convert into shares of our common stock on the earliest to occur of the following:

- The affirmative vote or written consent of the holders of a majority of the then-outstanding shares of Series A Preferred;
- If the closing market price of our common stock averages at least $15.00 per share over a period of 20 consecutive trading days and the daily trading volume averages at least 7,500 shares over such period;
- If we consummate an underwritten public offering of our securities at a price per share not less than $10.00 and for a total gross offering amount of at least $10 million; or
- If a sale of the Company occurs resulting in proceeds to the holders of Series A Preferred of a per share amount of at least $10.00.

Each share of Series A Preferred converts into one share of common stock, subject to adjustment.

Series B Preferred Stock and Temporary Equity

Dividends on our Series B Preferred Stock accrue at an annual rate of 6% of the original issue price of the preferred stock ($3.10 per share), subject to increase under certain circumstances, and are payable on a quarterly basis. The dividends are payable by the Company, at the Company's election, in registered common stock of the Company (if available) or cash. In the event dividends are paid in registered common stock of the Company, the number of shares payable will be calculated by dividing (a) the accrued dividend by (b) 90% of the arithmetic average of the volume weighted average price (VWAP) of the Company's common stock for the 10 trading days immediately prior to the applicable date of determination (the "June 2015 Dividend Stock Payment Price"). Notwithstanding the foregoing, in no event may the Company pay dividends in common stock unless the applicable June 2015 Dividend Stock Payment Price is above $2.91. If the Company is prohibited from paying or chooses not to pay, the dividend in cash (due to contractual senior credit agreements or other restrictions) or is unable to pay the dividend in registered common stock, the dividend can be paid in kind in Series B Preferred Stock shares at $3.10 per share.

The Series B Preferred Stock includes a liquidation preference (in the amount of $3.10 per share) which is junior to the Company's previously outstanding shares of preferred stock, senior credit facilities and other debt holders as provided in further detail in the designation and senior to the Series C Preferred Stock and pari passu with the Series B1 Preferred Stock.

The Series B Preferred Stock (including accrued and unpaid dividends) is convertible into shares of the Company's common stock at the holder's option at $3.10 per share (initially a one-for-one basis). If the Company's common stock trades at or above $6.20 per share for a period of 20 consecutive trading days, the Company may at such time force conversion of the Series B Preferred Stock (including accrued and unpaid dividends) into common stock of the Company.

The Series B Preferred Stock votes together with the common stock on an as-converted basis, provided that each holder's voting rights are subject to and limited by the Series B Beneficial Ownership Limitation described below.

The Company has the option to redeem the outstanding shares of Series B Preferred Stock at $3.10 per share, plus any accrued and unpaid dividends on such Series B Preferred Stock redeemed, at any time beginning on June 24, 2017, and the Company is required to redeem the Series B Preferred Stock at $3.10 per share, plus any accrued and unpaid dividends, on June 24, 2020. Notwithstanding either of the foregoing, the Series B Preferred Stock may not be redeemed unless and until amounts outstanding under the Company's senior credit facility have been paid in full and such redemption is legal under Nevada law.

The Series B Preferred Stock contains a provision prohibiting the conversion of such Series B Preferred Stock into common stock of the Company, if upon such conversion, the holder thereof would beneficially own more than 9.999% of the Company's then outstanding common stock (the "Series B Beneficial Ownership Limitation"). The Series B Beneficial Ownership Limitation does not apply to forced conversions undertaken by the Company pursuant to the terms of the designation (summarized above).

On June 24, 2015, we closed the transactions contemplated by the June 19, 2015 Unit Purchase Agreement (the "June 2015 Purchase Agreement") we entered into with certain institutional investors (the "June 2015 Investors"), pursuant to which the Company sold the June 2015 Investors an aggregate of 8,064,534 units (the " June 2015 Units"), each consisting of (i) one share of Series B Preferred Stock and (ii) one warrant to purchase one-half of a share of common stock of the Company (each a "June 2015 Warrant" and collectively, the "June 2015 Warrants"). The June 2015 Units were sold at a price of $3.10 per June 2015 Unit (the "June 2015 Unit Price") (a 6.1% premium to the closing bid price of the Company's common stock on the NASDAQ Capital Market on the date the June 2015 Purchase Agreement was entered into which was $2.91 per share (the "June 2015 Closing Bid Price")). The June 2015 Warrants have an exercise price of $2.92 per share ($0.01 above the June 2015 Closing Bid Price). Total gross proceeds from the offering of the June 2015 Units (the "June 2015 Offering") were $25.0 million.

The Placement Agent received a commission equal to 6.5% of the gross proceeds (less $4.0 million raised from certain investors in the June 2015 Offering for which they received no fee) from the June 2015 Offering, for an aggregate commission of $1.4 million which was netted against the proceeds.

In addition, under the June 2015 Purchase Agreement, the Company agreed to register the shares of common stock issuable upon conversion of the Series B Preferred Stock and upon exercise of the June 2015 Warrants under the Securities Act of 1933, as amended, for resale by the June 2015 Investors. The Company committed to file a registration statement on Form S-1 by the 30th day following the closing of the June 2015 Offering (which filing date was met) and to cause the registration statement to become effective by the 90th day following the closing (or, in the event of a "full review" by the Securities and Exchange Commission, the 120th day following the closing), which registration statement was declared effective by the Securities and Exchange Commission on August 6, 2015. The June 2015 Purchase Agreement provides for liquidated damages upon the occurrence of certain events, including, but not limited to, the failure by the Company to cause the registration statement to become effective by the deadlines set forth above. The amount of the liquidated damages is 1.0% of the aggregate subscription amount paid by a June 2015 Investor for the June 2015 Units affected by the event that are still held by the June 2015 Investor upon the occurrence of the event, due on the date immediately following the event that caused such failure (or the 30th day following such event if the event relates to the suspension of the registration statement as described in the June 2015 Purchase Agreement), and each 30 days thereafter, with such payments to be prorated on a daily basis during each 30 day period, subject to a maximum of an aggregate of 6% per annum.

Under the June 2015 Purchase Agreement, the Company agreed to indemnify the June 2015 Investors for liabilities arising out of or relating to (i) any untrue statement of a material fact contained in the registration statement, (ii) any inaccuracy in the representations and warranties of the Company contained in the June 2015 Purchase Agreement or the failure of the Company to perform its obligations under the June 2015 Purchase Agreement and (iii) any failure by the Company to fulfill any undertaking included in the registration statement, subject to certain exceptions. The Investors, severally, and not jointly agreed to indemnify the Company against (i) any failure by such Investor to comply with the covenants and agreements contained in the June 2015 Purchase Agreement and (ii) any untrue statement of a material fact contained in the registration statement to the extent such untrue statement was made in reliance upon and in conformity with written information furnished by or on behalf of that Investor specifically for use in preparation of the registration statement, subject to certain exceptions.

The Company agreed pursuant to the June 2015 Purchase Agreement, that until 60 days following effectiveness of the registration statement filed, to register the shares of common stock underlying the Series B Preferred Stock and June 2015 Warrants (the "June 2015 Lock-Up Period"), to not offer or sell any common stock or securities convertible or exercisable into common stock, except pursuant to certain exceptions described in the June 2015 Purchase Agreement, and each of the Company's officers and directors agreed to not sell or offer for sale any shares of common stock until the end of the June 2015 Lock-Up Period, subject to certain exceptions.

The Warrants issued in connection with the Series B Preferred Stock (Series B Warrants) were initially valued using the dynamic Black Scholes Merton formula pricing model that computes the impact of share dilution upon the exercise of the warrant shares at approximately $7,028,067. In accordance with ASC 815-40-25 and ASC 815-10-15 Derivatives and Hedging and ASC 480-10-25 Liabilities-Distinguishing Liabilities from Equity, the convertible preferred shares are accounted for net outside of stockholders' equity with the Warrants accounted for as liabilities at their fair value. The initial value assigned to the derivative warrant liability was recognized through a corresponding discount to the Series B Preferred Stock. The value of the derivative warrant liability will be re-measured at each reporting period with changes in fair value recorded in earnings. The initial valuation of the warrants resulted in a beneficial conversion feature on the convertible preferred stock of $5,737,796. The amounts related to the warrant discount and beneficial conversion feature will be accreted over the term as deemed dividend. Fees in the amount of $1.4 million relating to the stock placement were netted against proceeds.

The following table represents the activity related to the Series B Preferred Stock, classified as Temporary Equity on the accompanying Consolidated Balance Sheet, during the years ended December 31, 2019 and December 31, 2018:

	2019	2018
Balance at beginning of period	$ 8,900,208	$ 7,190,467
Less: conversions of shares to common	—	(62,962)
Plus: discount accretion	1,420,391	1,118,259
Plus: dividends in kind	685,807	654,444
Balance at end of period	$ 11,006,406	$ 8,900,208

The Series B Warrants and Series B1 Warrants were revalued at December 31, 2019 and December 31, 2018 using the Dynamic Black Scholes model that computes the impact of a possible change in control transaction upon the exercise of the warrant shares at approximately $1,969,216 and $1,481,692, respectively. At December 31, 2019, the Series B Warrants and Series B1 Warrants were valued at approximately $150,558 and $1,818,658, respectively. The dynamic Black-Scholes inputs used were: expected dividend rate of 0%, expected volatility of 65%-100%, risk free interest rate of 1.59% (Series B Warrants) and 1.58% (Series B1 Warrants), and expected term of 1 year (Series B Warrants) and 2 years (Series B1 Warrants).

As of December 31, 2019 and December 31, 2018, respectively, a total of $177,921 and $167,642 of dividends were accrued on our outstanding Series B Preferred Stock.

The Certificate of Designation contains customary anti-dilution protection for proportional adjustments (e.g. stock splits). The beneficial conversion feature (BCF) relates to potential differences between the effective conversion price (measured based on proceeds allocated to the Series B Preferred Stock) and the fair value of the stock into which Preferred B Shares are currently convertible (common stock). If a conversion option embedded in a debt host instrument does not require separate accounting as a derivative instrument under ASC 815, the convertible hybrid instrument must be evaluated under ASC 470-20 for the identification of a possible BCF. The BCF will be initially recognized as an offsetting reduction to Series B Preferred Stock (debit) - Temporary Equity, with the credit being recognized in equity (additional paid-in capital). The resulting debt issuance costs, debt discount, value allocated to warrants, and BCF should be accreted to the Series B Preferred Stock to ensure that the Series B Preferred Stock balance is equal to its face value as of the redemption or conversion date, if conversion is expected earlier.

The initial BCF of the Series B Preferred Stock was determined by calculating the intrinsic value of the conversion feature as follows:

Face amount of Series B Preferred Stock	$	25,000,000
Less: allocated value of Warrants		7,028,067
Allocated value of Series B Preferred Stock	$	17,971,933
Shares of Common stock to be converted		8,064,534
Effective conversion price	$	2.23
Market price	$	2.94
Intrinsic value per share	$	0.7115
Intrinsic value of beneficial conversion feature	$	5,737,796

Series B1 Preferred Stock and Temporary Equity

Dividends on our Series B1 Preferred Stock accrue at an annual rate of 6% of the original issue price of the preferred stock ($1.56 per share), subject to increases under certain circumstances, and are payable on a quarterly basis. The dividends are payable by the Company, at the Company's election, in registered common stock of the Company (if available) or cash. In the event dividends are paid in registered common stock of the Company, the number of shares payable will be calculated by dividing (a) the accrued dividend by (b) 90% of the arithmetic average of the volume weighted average price (VWAP) of the Company's common stock for the 10 trading days immediately prior to the applicable date of determination (the "May 2016 Dividend Stock Payment Price"). Notwithstanding the foregoing, in no event may the Company pay dividends in common stock unless the applicable May 2016 Dividend Stock Payment Price is above $1.52. If the Company is prohibited from paying, or chooses not to pay, the dividend in cash (due to contractual senior credit agreements or other restrictions) or is unable to pay the dividend in registered common stock, the dividend can be paid in kind in Series B1 Preferred Stock shares at $1.56 per share.

The Series B1 Preferred Stock include a liquidation preference (in the amount of $1.56 per share) which is junior to the Company's previously outstanding shares of preferred stock, except the Series B Preferred Stock, which it is pari passu with, senior credit facilities and other debt holders as provided in further detail in the designation and senior to the Series C Preferred Stock.

The Series B1 Preferred Stock (including accrued and unpaid dividends) is convertible into shares of the Company's common stock at the holder's option at $1.56 per share (initially a one-for-one basis). If the Company's common stock trades at or above $3.90 per share for a period of 20 consecutive trading days, after certain triggering events occur, the Company may at such time force conversion of the Series B1 Preferred Stock (including accrued and unpaid dividends) into common stock of the Company.

The Series B1 Preferred Stock votes together with the common stock on an as-converted basis, provided that each holder's voting rights are subject to and limited by the Series B1 Beneficial Ownership Limitation described below.

The Company has the option to redeem the outstanding shares of Series B1 Preferred Stock at $1.72 per share, plus any accrued and unpaid dividends on such Series B1 Preferred Stock redeemed, at any time beginning on June 24, 2017, and the Company is required to redeem the Series B Preferred Stock at $1.56 per share, plus any accrued and unpaid dividends, on June 24, 2020. Notwithstanding either of the foregoing, the Series B1 Preferred Stock may not be redeemed unless and until amounts outstanding under the Company's senior credit facility have been paid in full and such redemption is legal under Nevada law.

The Series B1 Preferred Stock and May 2016 Warrants (defined below) contain provisions prohibiting the conversion of such Series B1 Preferred Stock into common stock of the Company, if upon such conversion, the holder thereof would beneficially own more than 9.999% (4.999% for certain holders) of the Company's then outstanding common stock (the "Series B1 Beneficial Ownership Limitation"). The Series B1 Beneficial Ownership Limitation does not apply to forced conversions undertaken by the Company pursuant to the terms of the Designation (summarized above).

On May 10, 2016, we entered into a Unit Purchase Agreement (the "May 2016 Purchase Agreement") with certain institutional investors (the "May 2016 Investors"), pursuant to which, on May 13, 2016, the Company sold the May 2016 Investors an aggregate of 12,403,683 units (the "May 2016 Units"), each consisting of (i) one share of Series B1 Preferred Stock and (ii) one warrant to purchase one-quarter of a share of common stock of the Company (each a "May 2016 Warrant" and collectively, the "May 2016 Warrants"). The Units were sold at a price of $1.56 per Unit (the "May 2016 Unit Price") (a 2.6% premium to the closing bid price of the Company's common stock on the NASDAQ Capital Market on the date the May 2016 Purchase Agreement was entered into which was $1.52 per share (the "May 2016 Closing Bid Price")). The May 2016 Warrants have an exercise price of $1.53 per share ($0.01 above the May 2016 Closing Bid Price). Total gross proceeds from the offering of the Units (the "May 2016 Offering") were $19.4 million.

A total of $18,649,738 of the securities sold in the May 2016 Offering were purchased by investors who participated in the Company's prior June 2015 offering of Series B Preferred Stock and warrants to purchase shares of common stock. A total of 60% of the funds received from such investors were used to immediately repurchase such investors' Series B Preferred Stock. As a result, a total of $11,189,838 of the proceeds raised in the May 2016 Offering were used to immediately repurchase and retire 3,575,070 shares of Series B Preferred Stock (the "Repurchases"). Leaving net proceeds of approximately $8.2 million, before deducting placement agents' fees and estimated offering expenses.

The Placement Agent in the offering received a commission equal to 6.5% of the net proceeds from the May 2016 Offering, after affecting the Repurchases described above, for an aggregate commission of $0.61 million which was netted against the proceeds raised.

In addition, under the May 2016 Purchase Agreement, the Company agreed to register the shares of common stock issuable upon conversion of the Series B1 Preferred Stock and upon exercise of the May 2016 Warrants under the Securities Act of 1933, as amended, for resale by the May 2016 Investors. The Company committed to file a registration statement on Form S-1 by the 30th day following the closing of the May 2016 Offering (which filing date was met) and to cause the registration statement to become effective by the 90th day following the closing (or, in the event of a "full review" by the Securities and Exchange Commission, the 120th day following the closing), which registration statement was declared effective by the SEC on August 10, 2016. The May 2016 Purchase Agreement provides for liquidated damages upon the occurrence of certain events, including, but not limited to, the failure by the Company to cause the registration statement to become effective by the deadlines set forth above. The amount of the liquidated damages is 1.0% of the aggregate subscription amount paid by a May 2016 Investor for the May 2016 Units affected by the event that are still held by the May 2016 Investor upon the occurrence of the event, due on the date immediately following the event that caused such failure (or the 30th day following such event if the event relates to the suspension of the registration statement as described in the May 2016 Purchase Agreement), and each 30 days thereafter, with such payments to be prorated on a daily basis during each 30 day period, subject to a maximum of an aggregate of 6% per annum.

Under the May 2016 Purchase Agreement, the Company agreed to indemnify the May 2016 Investors for liabilities arising out of or relating to (i) any untrue statement of a material fact contained in the registration statement, (ii) any inaccuracy in the representations and warranties of the Company contained in the May 2016 Purchase Agreement or the failure of the Company to perform its obligations under the May 2016 Purchase Agreement and (iii) any failure by the Company to fulfill any undertaking included in the registration statement, subject to certain exceptions. The Investors, severally, and not jointly agreed to indemnify the Company against (i) any failure by such Investor to comply with the covenants and agreements contained in the May 2016 Purchase Agreement and (ii) any untrue statement of a material fact contained in the registration statement to the extent such untrue statement was made in reliance upon and in conformity with written information furnished by or on behalf of that Investor specifically for use in preparation of the registration statement, subject to certain exceptions.

The Company agreed pursuant to the May 2016 Purchase Agreement, that until 60 days following effectiveness of the registration statement filed, to register the shares of common stock underlying the Series B1 Preferred Stock and May 2016 Warrants (the "May 2016 Lock-Up Period"), to not offer or sell any common stock or securities convertible or exercisable into common stock, except pursuant to certain exceptions described in the May 2016 Purchase Agreement, and each of the Company's officers and directors agreed to not sell or offer for sale any shares of common stock until the end of the May 2016 Lock-Up Period, subject to certain exceptions.

The Warrants issued in connection with the Series B1 Preferred Stock offering (Series B1 Warrants) were initially valued using the Dynamic Black Scholes Merton formula pricing model that computes the impact of share dilution upon the exercise of the May 2016 Warrant shares at approximately $2,867,264. In accordance with ASC 815-40-25 and ASC 815-10-15 Derivatives and Hedging and ASC 480-10-25 Liabilities-Distinguishing Liabilities from Equity, the convertible Series B1 Preferred Stock shares are accounted for net outside of stockholders' equity at $12,743,047 with the May 2016 Warrants accounted for as liabilities at their fair value. The initial value assigned to the derivative warrant liability was recognized through a corresponding discount to the Series B1 Preferred Stock. The value of the derivative warrant liability will be re-measured at each reporting period with changes in fair value recorded in earnings. This initial valuation of the warrants resulted in a beneficial conversion feature on the convertible preferred stock of approximately $2,371,106. The amounts related to the warrant discount and beneficial conversion feature will be accreted over the term as a deemed dividend. Fees in the amount of $0.6 million relating to the stock placement were netted against proceeds.

The following table represents the activity related to the Series B1 Preferred Stock, classified as Temporary Equity on the accompanying Consolidated Balance Sheet, for the year ended December 31, 2019 and December 31, 2018:

	2019	2018
Balance at beginning of period	$ 13,279,755	$ 15,769,478
Less: conversions of shares to common	(2,241,890)	(5,068,602)
Plus: discount accretion	749,206	841,754
Plus: dividends in kind	955,976	1,737,125
Balance at end of period	$ 12,743,047	$ 13,279,755

For the years ending December 31, 2019 and December 31, 2018, respectively, a total of $211,256 and $235,360 of dividends were accrued on our outstanding Series B1 Preferred Stock.

The Certificate of Designation of the Series B1 Preferred Stock contains customary anti-dilution protection for proportional adjustments (e.g. stock splits). The May 2016 beneficial conversion feature (BCF) relates to the potential difference between the effective conversion price (measured based on proceeds allocated to the Series B1 Preferred Stock) and the fair value of the stock into which Series B1 Preferred Stock shares are currently convertible (common stock). If a conversion option embedded in a debt host instrument does not require separate accounting as a derivative instrument under ASC 815, the convertible hybrid instrument must be evaluated under ASC 470-20 for the identification of a possible BCF. The May 2016 BCF will be initially recognized as an offsetting reduction to Series B1 Preferred Stock (debit) - Temporary Equity, with the credit being recognized in equity (additional paid-in capital). The resulting May 2016 debt issuance costs, debt discount, value allocated to warrants, and BCF should be accreted to the Series B1 Preferred Stock to ensure that the Series B1 Preferred Stock balance is equal to its face value as of the redemption or conversion date, if conversion is expected earlier.

The May 2016 BCF was determined by calculating the intrinsic value of the conversion feature as follows:

	May 13, 2016
Face amount of Series B1 Preferred Stock	$ 19,349,745
Less: allocated value of May 2016 Warrants	2,867,264
Allocated value of Series B1 Preferred Stock	$ 16,482,481
Shares of Common stock to be converted	12,403,683
Effective conversion price	$ 1.33
Market price	$ 1.52
Intrinsic value per share	$ 0.19
Intrinsic value of May 2016 beneficial conversion feature	$ 2,371,106

The following is an analysis of changes in the derivative liability:

Level Three Roll-Forward	Year Ended December 31,	
	2019	2018
Balance at beginning of period	$ 1,481,692	$ 2,245,408
Change in fair value of warrants	487,524	(763,716)
Balance at end of period	$ 1,969,216	$ 1,481,692

NOTE 15. COMMODITY DERIVATIVE INSTRUMENTS

The Company utilizes derivative instruments to manage its exposure to fluctuations in the underlying commodity prices of its inventory. The Company's management sets and implements hedging policies, including volumes, types of instruments and counterparties, to support oil prices at targeted levels and manage its exposure to fluctuating prices.

The Company’s derivative instruments consist of swap and futures arrangements for oil. In a commodity swap agreement, if the agreed-upon published third-party index price (“index price”) is lower than the swap fixed price, the Company receives the difference between the index price and the swap fixed price. If the index price is higher than the swap fixed price, the Company pays the difference. For futures arrangements, the Company receives the difference positive or negative between an agreed-upon strike price and the market price.

The mark-to-market effects of these contracts as of December 31, 2019 and December 31, 2018 , are summarized in the following table. The notional amount is equal to the total net volumetric derivative position during the period indicated. The fair value of the crude oil swap agreements is based on the difference between the strike price and the New York Mercantile Exchange futures price for the applicable trading months.

December 31, 2019				
Contract Type	**Contract Period**	**Weighted Average Trade Price (Barrels)**	**Remaining Volume (Barrels)**	**Fair Value**
Swap	Dec. 2019- Mar. 2020	$ 40.88	130,000	$ 539,800
Swap	Dec. 2019- Mar. 2020	$ 81.19	130,000	$ (673,428)
Futures	Dec. 2019- Mar. 2020	$ 84.83	105,000	$ (242,222)

December 31, 2018							
Contract Type	**Contract Period**	**Weighted Average Trade Price (Barrels)**		**Remaining Volume (Barrels)**		**Fair Value**	
Swap	Dec. 2018- Feb. 2019	$	48.78	60,000	$		(1,048,400)
Swap	Dec. 2018- Feb. 2019	$	68.69	60,000	$		1,097,124
Futures	Feb. 2019- Mar. 2019	$	70.42	69,000	$		394,317
Futures	Dec. 2018- Feb. 2019	$	45.41	30,000	$		252,900

The carrying values of the Company's derivatives positions and their locations on the consolidated balance sheets as of December 31, 2019 and 2018 are presented in the table below.

Balance Sheet Classification	**Contract Type**		**2019**		**2018**
	Crude oil swaps	$	(133,628)	$	48,724
	Crude oil futures		(242,222)		647,217
Derivative commodity asset (liability)		$	(375,850)	$	695,941

For the years ended December 31, 2019 and 2018, we recognized a $2,458,359 loss and $1,062,682 gain, respectively, on commodity derivative contracts on the consolidated statements of operations as part of our costs of revenues.

NOTE 16. JOINT VENTURE

On May 25, 2016, Vertex Recovery Management, LLC, our wholly-owned subsidiary ("VRM") and Industrial Pipe, Inc. ("Industrial Pipe"), formed a joint venture Louisiana limited liability company, Vertex Recovery Management LA, LLC ("VRMLA"). VRM owns 51% and Industrial Pipe owns 49% of VRMLA. VRMLA is currently buying and preparing ferrous and non-ferrous scrap intended for large haul barge sales. We consolidated 100% of VRMLA's net loss and income of $765,931 and $602,259, respectively for the years ended December 31, 2019 and December 31, 2018, respectively, and then deducted and added the 49% or $375,306 and $234,188, respectively, of income (loss) attributable to the non-controlling interest back to the Company's "Net income (loss) attributable to Vertex Energy, Inc." in the Consolidated Statement of Operations.

NOTE 17. SEGMENT REPORTING

The Company's reportable segments include the Black Oil, Refining and Marketing and Recovery segments. Segment information for the years ended December 31, 2019 and 2018 are as follows:

YEAR ENDED DECEMBER 31, 2019

	Black Oil	Refining and Marketing	Recovery	Total
Revenues	$ 139,269,164	$ 12,957,767	$ 11,138,634	$ 163,365,565
Income (loss) from operations	$ 433,901	$ (576,487)	$ (2,631,458)	$ (2,774,044)
Total assets	$ 114,976,772	$ 1,101,470	$ 4,681,677	$ 120,759,919

YEAR ENDED DECEMBER 31, 2018

	Black Oil	Refining and Marketing	Recovery	Total
Revenues	$ 143,836,981	$ 22,935,482	$ 13,948,198	$ 180,720,661
Income (loss) from operations	$ 3,561,223	$ (2,250,924)	$ (821,951)	$ 488,348
Total assets	$ 76,540,888	$ 1,407,002	$ 6,212,518	$ 84,160,408

NOTE 18. LEASES

The Company has various lease agreements including leases of plant, facilities, railcar, and equipment. Some leases include options to purchase, terminate or extend for one or more years. These options are included in the lease term when it is reasonably certain that the option will be exercised.

Leases with an initial term of 12 months or less are not recorded on our consolidated balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. Leases with initial terms in excess of 12 months are recorded as operating or financing leases in our consolidated balance sheet.

Lease assets and operating 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 secured incremental borrowing rates based on the information available at commencement date, including lease term, in determining the present value of future payments. The operating lease asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised.

At inception, the Company determines if an arrangement contains a lease and whether that lease meets the classification criteria of a finance or operating lease. Some of the Company's lease arrangements contain lease components (e.g., minimum rent payments) and non-lease components (e.g. maintenance, labor charges, etc.). The Company generally does not separate lease and nonlease components for all classes of underlying assets. For certain equipment leases, such as freight car, vehicles and work equipment, the Company accounts for the lease and non-lease components as a single lease component.

Certain of the Company's lease agreements include rental payments that are adjusted periodically for an index or rate. The leases are initially measured using the projected payments adjusted for the index or rate in effect at the commencement date. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Finance Leases

Finance leases are included in finance lease right-of-use lease assets and finance lease liability current and long-term liabilities on the unaudited consolidated balance sheets. The associated amortization expense of $166,946 and interest expense of $41,889 are included in depreciation and amortization and interest expense, respectively, on the unaudited consolidated statements of operations for the year ended December 31, 2019. Please see "Note 9. Line of Credit and Long-Term Debt" for more details.

Operating Leases

Operating leases are included in operating lease right-of-use lease assets, and operating current and long-term lease liabilities on the consolidated balance sheets. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Variable lease expense is recognized in the period in which the obligation for those payments is incurred. Lease expense for equipment is included in cost of revenues and other rents are included in selling, general and administrative expense on the consolidated statements of operations and are reported net of lease income. Lease income is not material to the results of operations for the year ended December 31, 2019. Total operating lease costs for the year ended December 31, 2019 was $6.3 million.

Cash Flows

An initial right-of-use asset of $37.8 million was recognized as a non-cash asset addition with the adoption of the new lease accounting standard. Cash paid for amounts included in operating lease liabilities was $2.3 million during the year ended December 31, 2019 and is included in operating cash flows. Cash paid for amounts included in finance lease was $165,598 during the year ended December 31, 2019 and is included in financing cash flows.

Maturities of our lease liabilities for all operating leases are as follows as of December 31, 2019:

	Facilities	Equipment	Plant	Railcar	Total
Year 1	$ 719,607	$ 161,539	$ 4,060,417	$ 943,741	$ 5,885,304
Year 2	549,293	161,539	4,060,417	582,386	5,353,635
Year 3	392,654	26,953	4,060,417	24,696	4,504,720
Year 4	306,000	—	4,060,417	1,278	4,367,695
Year 5	300,000	—	4,060,417	—	4,360,417
Thereafter	2,375,000	—	35,524,907	—	37,899,907
Total lease payments	$ 4,642,554	$ 350,031	$ 55,826,992	$ 1,552,101	$ 62,371,678
Less: interest	(1,685,627)	(22,605)	(24,980,750)	(95,811)	(26,784,793)
Present value of lease liabilities	$ 2,956,927	$ 327,426	$ 30,846,242	$ 1,456,290	$ 35,586,885

The weighted average remaining lease terms and discount rates for all of our operating leases were as follows as of December 31, 2019:

Remaining lease term and discount rate:	December 31, 2019
Weighted average remaining lease terms (years)	
Lease facilities	5.34
Lease equipment	2.17
Lease plant	13.26
Lease railcar	1.33
Weighted average discount rate	
Lease facilities	9.17%
Lease equipment	8.00%
Lease plant	9.37%
Lease railcar	8.00%

Significant Judgments

Significant judgments include the discount rates applied, the expected lease terms, lease renewal options and residual value guarantees. There are several leases with renewal options or purchase options. Using the practical expedient, the Company utilized existing lease classifications as of December 31, 2018.

The purchase options are not expected to have a material impact on the lease obligation. There are several facility and plant leases which have lease renewal options from one to twenty years.

The largest facility lease has an initial term through 2032. That lease does not have an extension option. For the two plant leases both have multiple 5-year extension options for a total of 20 years. Two extension options have been included in the lease right to use asset and lease obligation at December 31, 2019.

The Company will reassess the lease terms and purchase options when there is a significant change in circumstances or when the Company elects to exercise an option that had previously been determined that it was not reasonably certain to do so.

NOTE 19. SUBSEQUENT EVENTS

Issuance of Series B and B1 Preferred Stock Shares in-Kind

We paid the accrued dividends on our Series B Preferred Stock and Series B1 Preferred Stock, which accrued as of December 31, 2019, in-kind by way of the issuance of 57,394 restricted shares of Series B Preferred Stock pro rata to each of the then holders of our Series B Preferred Stock in January 2020 and the issuance of 135,429 restricted shares of Series B1 Preferred Stock pro rata to each of the then holders of our Series B1 Preferred Stock in January 2020. If converted in full, the 57,394 shares of Series B Preferred Stock would convert into 57,394 shares of common stock and the 135,429 shares of Series B1 Preferred Stock would convert into 135,429 shares of common stock.

Conversions of Series B1 Preferred Stock

On January 3, 2020 a holder of our Series B1 Preferred Stock converted 1,107,893 shares of Series B1 Preferred Stock into 1,107,893 shares of common stock, pursuant to the terms of such Series B1 Preferred Stock.

On January 9, 2020 and January 13, 2020, two holders converted an aggregate of 601,090 and 9,018 shares of Series B1 Preferred Stock into 601,090 and 9,018 shares of common stock, respectively, pursuant to the terms of such Series B1 Preferred Stock.

On January 10, 2020, a holder of our Series B1 Preferred Stock converted 104,940 shares of Series B1 Preferred Stock into 104,940 shares of common stock, pursuant to the terms of such Series B1 Preferred Stock.

On January 13, 2020, a holder of our Series B1 Preferred Stock converted 9,018 shares of Series B1 Preferred Stock into 9,018 shares of common stock, pursuant to the terms of such Series B1 Preferred Stock.

On January 22, 2020, two holders of our Series B1 Preferred Stock converted 25,000 shares each of Series B Preferred Stock into 25,000 shares of common stock each, pursuant to the terms of such Series B Preferred Stock.

On January 27, 2020, a holder of our Series B1 Preferred Stock converted 252,337 shares of Series B1 Preferred Stock into 252,337 shares of common stock, pursuant to the terms of such Series B1 Preferred Stock.

On January 28, 2020, two holders of our Series B1 Preferred Stock converted 17,000 shares each of Series B Preferred Stock into 17,000 shares of common stock each, pursuant to the terms of such Series B1 Preferred Stock.

Heartland Share Purchase and Subscription Agreement

On January 17, 2020 (the “Heartland Closing Date”), Vertex Operating, Tensile-Heartland, and solely for the purposes of the Heartland Guaranty (defined below), the Company, and HPRM LLC, a Delaware limited liability company, which entity was formed as a special purpose vehicle in connection with the transactions, described in greater detail below (“Heartland SPV”), entered into a Share Purchase and Subscription Agreement (the “Heartland Share Purchase”).

Prior to entering into the Heartland Share Purchase, the Company transferred 100% of the ownership of Vertex Refining OH, LLC, its indirect wholly-owned subsidiary (“Vertex OH”) to Heartland SPV in consideration for 13,500 Class A Units, 13,500 Class A-1 Preferred Units and 11,300 Class B Units of Heartland SPV and immediately thereafter contributed 248 Class B Units to the Company’s wholly-owned subsidiary, Vertex Splitter Corporation, a Delaware corporation (“Vertex Splitter”), as a contribution to capital.

Vertex OH owned the Company’s Columbus, Ohio, Heartland facility, which produces a base oil product that is sold to lubricant packagers and distributors.

Pursuant to the Heartland Share Purchase, Vertex Operating sold Tensile-Heartland the 13,500 Class A Units and 13,500 Class A-1 Preferred Units of Heartland SPV in consideration for $13.5 million. Also, on the Heartland Closing Date, Tensile-Heartland purchased 7,500 Class A Units and 7,500 Class A-1 Units in consideration for $7.5 million (less the expenses of Tensile-Heartland in connection with the transaction) directly from Heartland SPV.

The approximate $7.5 million purchase amount and future free cash flows from the operation of Heartland SPV are planned to be available for investments at the Heartland facility to increase self-collections, maximize the throughput of the refinery, enhance the quality of the output and complete other projects.

Concurrently with the closing of the transactions described above, and pursuant to the terms of the Heartland Share Purchase, the Company, through Vertex Operating, purchased 1,000 newly issued Class A Units from MG SPV at a cost of $1,000 per unit ($1 million in aggregate).

The Heartland Share Purchase provides Tensile-Heartland an option, exercisable at its election, any time, subject to the terms of the Heartland Share Purchase, to purchase up to an additional 7,000 Class A-2 Preferred Units at a cost of $1,000 per Class A-2 Preferred Unit from Heartland SPV.

The Heartland SPV is currently owned 35% by Vertex Operating and 65% by Tensile-Heartland. Heartland SPV is managed by a five-member Board of Managers, of which three members are appointed by Tensile-Heartland and two are appointed by the Company. The Class A Units held by Tensile-Heartland are convertible into Class B Units as provided in the Limited Liability Company Agreement of Heartland SPV (the “Heartland Company Agreement”), based on a conversion price (initially one-for-one) which may be reduced from time to time if new Units of Heartland SPV are issued and will automatically convert into Series A Units upon certain events described in the Heartland Company Agreement.

The Class A-1 and A-2 Preferred Units (“Class A Preferred Units”), which are 100% owned by Tensile-Heartland, accrue a 22.5% per annum preferred return subject to terms of the Heartland Company Agreement (the “Class A Yield”).

Additionally, the Class A Unit holders (common and preferred) may force Heartland SPV to redeem the outstanding Class A Units at any time on or after the earlier of (a) the fifth anniversary of the Closing Date and (ii) the occurrence of a Heartland Triggering Event (defined below)(a “Heartland Redemption”). The cash purchase price for such redeemed Class A Unit will be the greater of (y) the fair market value of such units (without discount for illiquidity, minority status or otherwise) as determined by a qualified third party agreed to in writing by a majority of the holders seeking Heartland Redemption and Vertex Operating (provided that Vertex Operating still owns Class B Units on such date) and (z) the original per-unit price for such Class A Units plus fifty percent (50%) of the aggregate capital invested by the Class A Unit holders through such Heartland Redemption date. “Heartland Triggering Events” include (a) any termination of the Administrative Services Agreement pursuant to its terms and/or any material breach by us of the environmental remediation and indemnity agreement, (b) any dissolution, winding up or liquidation of the Company, Vertex Operating or any significant subsidiary of Vertex Operating, (c) any sale, lease, license or disposition of any material assets of the Company, Vertex Operating or any significant subsidiary of Vertex Operating, or (d) any transaction or series of related transactions (whether by merger, exchange, contribution, recapitalization, consolidation, reorganization, combination or otherwise) involving the Company, Vertex Operating or any significant subsidiary of Vertex Operating, the result of which is that the holders of the voting securities of the relevant entity as of the Closing Date are no longer the beneficial owners, in the aggregate, after giving effect to such transaction or series of transactions, directly or indirectly, of more than fifty percent (50%) of the voting power of the outstanding voting securities of the entity, subject to certain other requirements set forth in the Heartland Company Agreement.

In the event that Heartland SPV fails to redeem such Class A Units within 180 days after a redemption is triggered, the Class A Yield is increased to 25% until such time as such redemption is completed (with such increase being effective back to the original date of a notice of redemption). In addition, in such event, the Class A Unit holders may cause Heartland SPV to initiate a process intended to result in a sale of Heartland SPV.

Distributions of available cash of Heartland SPV pursuant to the Heartland Company Agreement (including pursuant to liquidations of Heartland SPV), subject to certain exceptions set forth therein, are to be made (a) first, to the holders of the Class A Preferred Units, in amount equal to the greater of (A) the aggregate unpaid Class A Yield and (B) an amount equal to fifty percent (50%) of the aggregate capital invested by the Class A Preferred Unit holders (initially Tensile-Heartland)(such aggregate capital invested by the Class A Preferred Unit holders, the “Heartland Invested Capital”, which totaled approximately $21 million as of the Heartland Closing Date, subject to adjustment as provided in the Heartland Share Purchase), less prior distributions (such greater amount of (A) and (B), the “Class A Preferred Priority Distributions”); (b) second, the Class A Preferred Unitholders, together as a separate and distinct class, are entitled to receive an amount equal to the aggregate Heartland Invested Capital; (c) third, the Class B Unitholders (other than Class B Unitholders which received Class B Units upon conversion of Class A Preferred Units), together as a separate and distinct class, are entitled to receive all or a portion of any distribution equal to the sum of all distributions made under sections (a) and (b) above; and (d) fourth, to the holders of Units who are eligible to receive such distributions in proportion to the number of Units held by such holders.

Variable interest entity

Per ASC 810-10-25-38A and 38B, a reporting entity shall be deemed to have a controlling financial interest in a variable interest entity (VIE) if it has both of the following characteristics: the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance, and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company determined that since substantially all of the activities of Heartland SPV (i.e., the VIE) are conducted on behalf of a single VIE holder, and that the Company is the primary beneficiary of the VIE. Accordingly, Heartland SPV should be consolidated in the Company’s consolidated financial statements. Accordantly, the only impact to the consolidated financial position and results of operations will be to present the 65% owned by Tensile-Heartland in non-controlling interest.

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

We have established and maintain a system of disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed with the Securities and Exchange Commission pursuant to the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Commission and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosures.

Management, with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2019, the end of the fiscal period covered by this report. As of December 31, 2019, based on the evaluation of these disclosure controls and procedures, our CEO and CFO have concluded that our disclosure controls and procedures were not effective to provide reasonable assurance that information required to be disclosed in our reports filed with the Securities and Exchange Commission pursuant to the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Commission and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Managements' Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO, and effected by the Company's board of directors, management or other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of 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 because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company has assessed the effectiveness of our internal control over financial reporting as of December 31, 2019, using the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In our assessment of the effectiveness of internal control over financial reporting as of December 31, 2019, we determined that a control deficiency existed that constituted a material weakness, as described below:

> We did not design or maintain an effective control environment with formal accounting policies and controls to adequately identify and record complex and non-routine transactions, including our evaluation and review of work performed by specialists hired by us to assist in the assessments and conclusions surrounding such transactions.

While the deficiency described above did not result in a material adjustment to our consolidated financial statements, the material weakness created a reasonable possibility that there could be a material misstatement of our annual or interim financial statements and related disclosures that would not be prevented or detected on a timely basis.

As of the date of this filing, we are planning to address the material weakness described above by (a) seeking outside assistance from qualified experts when or if we enter into or effect transactions which raise complex financial accounting issues and related disclosures, and (b) implementing additional documentation and disclosure controls and procedures to facilitate high level management review in order to detect material errors in our financials. Accordingly, management has concluded that the financial statements fairly present in all material respects our financial condition, results of operations and cash flows as at, and for, the periods presented in this report.

Changes in Internal Control over Financial Reporting

We regularly review our system of internal control over financial reporting to ensure we maintain an effective internal control environment. There were no changes in our internal control over financial reporting that occurred during the year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be set forth under the headings "Election of Directors", "Executive Officers", "Corporate Governance", "Code of Conduct", "Committees of the Board", and "Delinquent Section 16(a) Reports" (to the extent applicable and warranted) in the Company's 2020 Proxy Statement to be filed with the U.S. Securities and Exchange Commission ("SEC") within 120 days after December 31, 2019 in connection with the solicitation of proxies for the Company's 2020 annual meeting of shareholders and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item will be set forth under the headings "Executive and Director Compensation", "Executive Compensation", "Directors Compensation", "Outstanding Equity Awards at Fiscal Year-End", "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report" (to the extent required), in the Company's 2020 Proxy Statement to be filed with the SEC within 120 days after December 31, 2019 and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be set forth under the heading "Voting Rights and Principal Stockholders" and "Equity Compensation Plan Information" in the Company's 2020 Proxy Statement to be filed with the SEC within 120 days after December 31, 2019 and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be set forth under the headings "Certain Relationships and Related Transactions" and "Committees of the Board" - "Director Independence" in the Company's 2020 Proxy Statement to be filed with the SEC within 120 days after December 31, 2019 and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this Item will be set forth under the heading "Ratification of Appointment of Auditors"- "Audit Fees" in the Company's 2020 Proxy Statement to be filed with the SEC within 120 days after December 31, 2020 and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

- **Documents filed as part of this report**

- **All financial statements**

(1) Financial Statement Schedules

Except as provided above, all financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto included in this Form 10-K.

- **Exhibits required by Item 601 of Regulation S-K**

The information required by this Section (a)(3) of Item 15 is set forth on the exhibit index that follows the Signatures page of this Form 10-K.

Item 15. Exhibits, Financial Statement Schedules

None.

EXHIBIT INDEX

Exhibit Number		Filed or Furnished Herewith	Incorporated by Reference			
			Form			File No.
2.1(+)	Share Purchase and Subscription Agreement by and among Vertex Refining Myrtle Grove LLC, Tensile-Myrtle Grove Acquisition Corporation, Vertex Energy Operating LLC, and solely for the purposes of Section 9.1, Vertex Energy, Inc., dated July 25, 2019		8-K	2.1	7/31/2019	001-11476
2.2(+)	Share Purchase and Subscription Agreement dated January 17, 2020, by and among HPRM LLC, Vertex Energy Operating LLC, Tensile-Heartland Acquisition Corporation, and solely for the purposes of Section 9.1, Vertex Energy, Inc.		8-K	2.2	1/24/2020	000-53619
3.1	Articles of Incorporation (and amendments thereto) of Vertex Energy, Inc.		8-K/A	3.1	6/26/2009	000-53619
3.2	Amended and Restated Certificate of Designation of Rights, Preferences and Privileges of Vertex Energy, Inc.'s Series A Convertible Preferred Stock.		8-K	3.1	7/16/2010	000-53619
3.3	Amended and Restated Certificate of Designation of Vertex Energy, Inc. Establishing the Designation, Preferences, Limitations and Relative Rights of Its Series B Preferred Stock, filed with the Secretary of State of Nevada on May 12, 2016		8-K	3.1	5/13/2016	001-11476
3.4	Amended and Restated Certificate of Designation of Vertex Energy, Inc. Establishing the Designation, Preferences, Limitations and Relative Rights of Its Series C Convertible Preferred Stock, filed with the Secretary of State of Nevada on May 12, 2016		8-K	3.2	5/13/2016	001-11476
3.5	Certificate of Designation of Vertex Energy, Inc. Establishing the Designation, Preferences, Limitations and Relative Rights of Its Series B1 Preferred Stock, filed with the Secretary of State of Nevada on May 12, 2016		8-K	3.3	5/13/2016	001-11476
3.6	Amended and Restated Bylaws of Vertex Energy, Inc.		8-K	3.1	4/29/2019	001-11476
4.1	Description of Securities of the Registrant*	X				
10.1(#)	Tolling Agreement between KMTEX, Ltd. and Vertex Energy Inc., dated April 17, 2013		8-K	10.1	11/12/2013	001-11476
10.2	Vertex Energy, Inc., 2008 Stock Incentive Plan***		8-K/A	4.1	6/26/2009	000-53619
10.3	2008 Stock Incentive Plan - Form of Stock Option Agreement***		10-K	10.27	12/31/2012	001-11476
10.4	Vertex Energy, Inc., 2009 Stock Incentive Plan***		8-K	4.1	7/31/2009	000-53619
10.5	2009 Stock Incentive Plan - Form of Stock Option Agreement***		10-K	10.29	12/31/2012	001-11476
10.6	Vertex Energy, Inc. 2013 Stock Incentive Plan***		S-8	4.1	7/28/2014	333-197659
10.7	Vertex Energy, Inc.-Form of 2013 Stock Incentive Plan Stock Option Award***		8-K	10.1	9/30/2013	001-11476
10.8	Vertex Energy, Inc.-Form of 2013 Stock Incentive Plan Restricted Stock Grant Agreement***		S-8	4.3	7/28/2014	333-197659

Exhibit Number		Filed or Furnished Herewith	Incorporated by Reference Form			File No.
10.9	Employment Agreement between Vertex Refining LA, LLC and James P. Gregory (Effective May 2, 2014)***		8-K	10.1	7/29/2014	001-11476
10.10	Land Lease between Marrero Terminal LLC, as Landlord and Omega Refining, LLC, as Tenant, relating to the Used Motor Oil Re-Refinery Located at 5000 River Road, Marrero, Louisiana 70094, dated as of April 30, 2008 and amendments		10-Q	10.22	6/30/2014	001-11476
10.11	Commercial Lease between Plaquemines Holdings, LLC as Landlord and Omega Refining, LLC, as Tenant, relating to the Myrtle Grove Facility Located at 278 East Ravenna Road, Myrtle Grove, LA, dated as of May 25, 2012 and amendments		10-Q	10.23	6/30/2014	001-11476
10.12	Common Stock Purchase Warrant to purchase 109,934 shares of common stock of the Company held by The Benjamin Paul Cowart 2012 Grantor Retained Trust (December 4, 2014)		8-K	4.1	12/9/2014	001-11476
10.13	Common Stock Purchase Warrant to purchase 109,934 shares of common stock of the Company held by The Shelley T. Cowart 2012 Grantor Retained Trust (December 4, 2014)		8-K	4.2	12/9/2014	001-11476
10.14	Form of Unit Purchase Agreement dated June 19, 2015 by and between Vertex Energy, Inc. and the purchasers named therein		8-K	10.1	6/19/2015	001-11476
10.15	Form of Warrant (incorporated by reference to Exhibit B of the Form of Unit Purchase Agreement incorporated by reference herein as Exhibit 10.14)		8-K	10.3	6/19/2015	001-11476
10.16	Executive Employment Agreement with Benjamin P. Cowart (August 7, 2015)***		10-Q	10.73	6/30/2015	001-11476
10.17	Executive Employment Agreement with Chris Carlson (August 7, 2015)***		10-Q	10.74	6/30/2015	001-11476
10.18	Amended and Restated 2013 Stock Incentive Plan ***		8-K	10.1	9/21/2015	001-11476
10.19(##)	First Amendment to Processing Agreement between KMTEX LLC and Vertex Energy, Inc., effective November 1, 2013		8-K/A	10.2	11/10/2015	001-11476
10.20	Executive Employment Agreement with John Strickland (COO), effective October 1, 2015		8-K	10.1	10/19/2015	001-11476
10.21(##)	Second Amendment to Processing Agreement between KMTEX LLC and Vertex Energy, Inc., dated December 3, 2015 and effective January 1, 2016		8-K	10.1	1/15/2016	001-11476
10.22(##)	Swap Agreement dated January 29, 2016, by Vertex Energy Operating, LLC and Safety-Kleen Systems, Inc.		8-K	10.1	2/3/2016	001-11476
10.23(##)	Base Oil Sales Agreement dated January 29, 2016, by Vertex Energy Operating, LLC and Safety-Kleen Systems, Inc.		8-K	10.2	2/3/2016	001-11476
10.24	Form of Warrant for May 2016 Unit Offering		8-K	10.2	5/13/2016	001-11476
10.25	Credit Agreement dated as of February 1, 2017, by and among Vertex Energy Operating, LLC, as the Lead Borrower for the Borrowers named therein, the Guarantors named therein, Encina Business Credit, LLC as Agent and the Lenders party thereto		8-K	10.1	2/7/2017	001-11476

Exhibit Number		Filed or Furnished Herewith	Incorporated by Reference Form			File No.
10.26	ABL Credit Agreement dated as of February 1, 2017, by and among Vertex Energy Operating, LLC, as the Lead Borrower for the Borrowers named therein, the Guarantors named therein, Encina Business Credit, LLC as Agent and the Lenders party thereto		8-K	10.2	2/7/2017	001-11476
10.27	Form of Guaranty and Security Agreement, dated as of February 1, 2017, by and among Vertex Energy Operating, LLC, Bango Oil LLC, Vertex Refining NV, LLC, Vertex Refining OH, LLC, Vertex Merger Sub, LLC, Vertex Refining LA, LLC, Vertex II GP, LLC, Vertex Acquisition Sub, LLC, Cedar Marine Terminals, LP, Vertex Recovery, L.P., Golden State Lubricants Works, LLC, Crossroad Carriers, L.P., Vertex Recovery Management, LLC, Vertex Recovery Management LA, LLC H & H Oil, L.P., and Vertex Energy, Inc. and each other grantor from time to time party thereto and Encina Business Credit, LLC, as Agent		8-K	10.3	2/7/2017	001-11476
10.28 (###)	Third Amendment to Processing Agreement between KMTEX LLC and Vertex Energy, Inc., entered into on December 14, 2016, and effective January 1, 2017*		10-K	10.66	12/31/2016	001-11476
10.29	Form of First Amendment and Consent to Credit Agreement dated October 9, 2017, by and among Vertex Energy, Inc., Vertex Energy Operating, LLC, Encina Business Credit, LLC as Agent and the Lenders party thereto		8-K	10.3	12/19/2017	001-11476
10.30	Second Amendment to Credit Agreement dated December 15, 2017, by and among Vertex Energy, Inc., Vertex Energy Operating, LLC, Encina Business Credit, LLC as Agent and the Lenders party thereto		8-K	10.4	12/19/2017	001-11476
10.31	First Amendment to ABL Credit Agreement dated December 15, 2017, by and among Vertex Energy, Inc., Vertex Energy Operating, LLC, Encina Business Credit, LLC as Agent and the Lenders party thereto		8-K	10.5	12/19/2017	001-11476
10.32%	Limited Liability Company Agreement of Vertex Refining Myrtle Grove LLC dated July 25, 2019		8-K	10.1	7/31/2019	001-11476
10.33	Right of First Offer Letter Agreement dated July 25, 2019, by and between Tensile-Myrtle Grove Acquisition Corporation, Vertex Energy Operating LLC and Vertex Energy, Inc.		8-K	10.2	7/31/2019	001-11476
10.34%	Subscription Agreement dated July 25, 2019, by Tensile Partners Master Fund LP in favor of Vertex Energy, Inc.		8-K	10.3	7/31/2019	001-11476
10.35	Common Stock Purchase Warrant initially held by Tensile Partners Master Fund LP to purchase up to 1,500,000 shares of common stock, dated July 25, 2019		8-K	10.4	7/31/2019	001-11476
10.36	Registration Rights and Lock-Up Agreement dated July 25, 2019, by and between Vertex Energy, Inc. and Tensile Partners Master Fund LP		8-K	10.5	7/31/2019	001-11476
10.37%	Third Amendment to Credit Agreement dated December 15, 2017, by and among Vertex Energy, Inc., Vertex		8-K	10.8	7/31/2019	001-11476

Exhibit Number		Filed or Furnished Herewith	Incorporated by Reference Form			File No.
10.38%	Third Amendment to ABL Credit Agreement dated December 15, 2017, by and among Vertex Energy, Inc., Vertex Energy Operating, LLC, Encina Business Credit, LLC as Agent and the Lenders party thereto, dated July 25, 2019		8-K	10.9	7/31/2019	001-11476
10.39	Vertex Energy, Inc. 2019 Equity Incentive Plan		8-K	2.1	10/29/2019	001-11476
10.40%£	Joint Supply and Marketing Agreement dated January 10, 2020, by and between Bunker One (USA) Inc. and Vertex Energy Operating, LLC		8-K	10.1	1/13/2020	001-11476
	Limited Liability Company Agreement of HPRM LLC dated January 17, 2020		8-K	10.2	1/24/2020	001-11476
14.1	Code of Ethical Business Conduct and Whistleblower Protection Policy		8-K/A	14.1	2/13/2013	001-11476
21.1	Subsidiaries*	X				
23.1	Consent of Ham, Langston & Brezina, L.L.P.*	X				
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act*	X				
31.2	Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act*	X				
32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act**	X				
32.2	Certification of Principal Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act**	X				
99.1	Glossary of Selected Terms		10-K	99.1	12/31/2012	001-11476
99.2	Charters Of The Compensation Committee; Audit Committee; Nominating And Corporate Governance Committee; and Related Party Transaction Committee		8-K/A	99.2	2/13/2013	001-11476
99.3	Charter of Risk Committee		10-Q	99.2	9/30/2013	001-11476
99.4	Amended Charter of the Compensation Committee effective July 24, 2014		10-Q	99.2	9/30/2014	001-11476
99.5	Unaudited Pro Forma Condensed Consolidated Financial Information of Vertex Energy, Inc. showing the effects of the Heartland SPV transaction		8-K	99.2	1/24/2020	001-11476
101.INS	XBRL Instance Document	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X				

* Filed herewith.

** Furnished herewith.

*** Indicates management contract or compensatory plan or arrangement.

Certain portions of these documents (which portions have been replaced by "X's") have been omitted in connection with a request for Confidential Treatment which has been accepted by the Commission. This entire exhibit including the omitted confidential information has been filed separately with the Commission.

Certain portions of this document (which portions have been replaced by "***'s") have been omitted in connection with a request for Confidential Treatment which has been accepted by the Commission. This entire exhibit including the omitted confidential information has been filed separately with the Commission.

Certain portions of this document as filed herewith (which portions have been replaced by "***'s") have been omitted in connection with a request for Confidential Treatment which has been submitted to the Commission in connection with this filing. This entire exhibit including the omitted confidential information has been filed separately with the Commission.

+ Certain schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request; provided, however that Vertex Energy, Inc. may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedule or exhibit so furnished.

£ Certain confidential portions of this Exhibit were omitted by means of marking such portions with brackets ("[****]") because the identified confidential portions (i) are not material and (ii) would be competitively harmful if publicly disclosed.

% Certain schedules, annexes and similar attachments have been omitted pursuant to Item 601(a)(5) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request; provided, however that Vertex Energy, Inc. may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedule or exhibit so furnished.

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.

VERTEX ENERGY, INC.

Date: March 3, 2020	*By: /s/ Benjamin P. Cowart* Benjamin P. Cowart Chief Executive Officer (Principal Executive Officer)
Date: March 3, 2020	*By: /s/ Chris Carlson* Chris Carlson Chief Financial Officer (Principal Accounting/Financial Officer)

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.

By: */s/ Benjamin P. Cowart*
Benjamin P. Cowart
Chief Executive Officer
(Principal Executive Officer)
and Chairman
Date: March 3, 2020

By: */s/ Christopher Stratton*
Christopher Stratton
Director
Date: March 3, 2020

By: */s/ Timothy C. Harvey*
Timothy C. Harvey
Director
Date: March 3, 2020

By: /s/ *James P. Gregory*
James P. Gregory
Director
Date: March 3, 2020

By: */s/ Chris Carlson*
Chris Carlson
Chief Financial Officer
(Principal Accounting/Financial Officer)
Date: March 3, 2020

By: */s/ Dan Borgen*
Dan Borgen
Director
Date: March 3, 2020

By: */s/ David Phillips*
David Phillips
Director
Date: March 3, 2020