

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Vertex Energy Inc.

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

FORM 10-Q

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

For the fiscal quarter ended June 30, 2016

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

(State or other jurisdiction of
incorporation or organization)

94-3439569

(I.R.S. Employer Identification No.)

**1331 GEMINI STREET, SUITE 250
HOUSTON, TEXAS**

(Address of principal executive offices)

77058

(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, and 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

State the number of shares of the issuer's common stock outstanding, as of the latest practicable date: 31,008,902 shares of common stock issued and outstanding as of August 8, 2016 (which number includes 1,258,928 shares of common stock held in escrow in order to satisfy the indemnification obligations of a certain prior acquisition and sale transaction undertaken by us).

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

VERTEX ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,973,631	\$ 765,364
Escrow - current restricted cash and cash equivalents	1,501,793	—
Accounts receivable, net	7,362,563	6,315,414
Inventory	3,772,773	3,548,311
Prepaid expenses	1,136,828	1,367,442
Assets being held for sale	—	11,170,243
Total current assets	<u>17,747,588</u>	<u>23,166,774</u>
Noncurrent assets		
Fixed assets, at cost	63,091,029	60,846,824
Less accumulated depreciation	<u>(10,040,893)</u>	<u>(7,818,217)</u>
Fixed assets, net	53,050,136	53,028,607
Intangible assets, net	16,089,615	16,967,985
Other assets	482,749	481,450
Total noncurrent assets	<u>69,622,500</u>	<u>70,478,042</u>
TOTAL ASSETS	<u>\$ 87,370,088</u>	<u>\$ 93,644,816</u>
LIABILITIES, TEMPORARY EQUITY, AND EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 6,710,695	\$ 13,244,388
Dividends payable	345,323	376,571
Capital leases	194,533	186,948
Current portion of long-term debt, net of unamortized finance costs	8,758,859	18,118,142
Revolving note	2,188,819	1,744,122
Deferred revenue	232,145	323,891
Total current liabilities	<u>18,430,374</u>	<u>33,994,062</u>
Long-term liabilities		
Long-term debt, net of unamortized finance costs	3,563,005	5,211,008
Derivative liability	4,756,900	1,548,604
Total liabilities	<u>26,750,279</u>	<u>40,753,674</u>
COMMITMENTS AND CONTINGENCIES (Note 4)		
	—	—
TEMPORARY EQUITY		
Series B preferred shares, \$0.001 par value per share; 10,000,000 shares authorized, 4,832,422 and 8,160,809 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively with a liquidation preference of \$14,980,508 at June 30, 2016.		
	7,758,538	11,955,207
Series B-1 preferred shares, \$0.001 par value per share; 17,000,000 shares authorized, 12,403,683 shares issued and outstanding at June 30, 2016 with a liquidation preference of \$19,349,745 at June 30, 2016.		
	13,591,132	—

	June 30, 2016	December 31, 2015
EQUITY		
50,000,000 of total Preferred shares authorized:		
Series A Convertible Preferred Stock, \$0.001 par value;		
5,000,000 shares authorized, 492,716 and 612,943 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively with a liquidation preference of \$734,147 and \$913,285 at June 30, 2016 and December 31, 2015, respectively.	493	613
Series C Convertible Preferred Stock, \$0.001 par value;		
44,000 shares designated in 2016, 44,000 and 0 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively with a liquidation preference of \$4,400,000 at June 30, 2016.	44	—
Common stock, \$0.001 par value per share;		
750,000,000 shares authorized; 29,765,702 and 28,239,276 issued and outstanding at June 30, 2016 and December 31, 2015, respectively, with 1,108,928 shares held in escrow at June 30, 2016.	29,765	28,239
Additional paid-in capital	59,883,874	53,014,054
Accumulated deficit	(20,602,610)	(12,106,971)
Total Vertex Energy, Inc. stockholders' equity	39,311,566	40,935,935
Non-controlling interest	(41,427)	—
Total Equity	\$ 39,270,139	\$ 40,935,935
TOTAL LIABILITIES, TEMPORARY EQUITY, AND EQUITY	\$ 87,370,088	\$ 93,644,816

See accompanying notes to the consolidated financial statements

VERTEX ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	\$ 24,428,444	\$ 49,119,711	\$ 38,561,048	\$ 86,804,050
Cost of revenues	19,168,398	43,635,177	33,539,526	81,643,633
Gross profit	5,260,046	5,484,534	5,021,522	5,160,417
Operating expenses:				
Selling, general and administrative expenses (exclusive of acquisition related expenses)	4,688,035	5,641,250	10,184,022	11,011,278
Depreciation and amortization expense	1,553,655	1,561,314	3,147,239	3,118,296
Acquisition related expenses	26,523	—	75,899	157,678
Total operating expenses	6,268,213	7,202,564	13,407,160	14,287,252
Loss from operations	(1,008,167)	(1,718,030)	(8,385,638)	(9,126,835)
Other income (expense):				
Provision for doubtful accounts	—	—	—	(2,650,000)
Other income	2,486	10	2,963	18
Loss on sale of assets	—	—	(46,728)	(57,660)
Gain on sale of assets	—	12,818	9,748,561	—
Gain (loss) on change in value of derivative liability	1,645,288	1,816,982	(341,032)	1,816,982
Loss on futures contracts	(317,675)	—	(261,759)	—
Interest expense	(406,019)	(556,975)	(2,321,511)	(2,088,155)
Total other income (expense)	924,080	1,272,835	6,780,494	(2,978,815)
Loss before income tax	(84,087)	(445,195)	(1,605,144)	(12,105,650)
Income tax benefit/(expense)	—	—	117,646	(5,306,000)
Net loss	(84,087)	(445,195)	(1,487,498)	(17,411,650)
Net loss attributable to non-controlling interest	(41,427)	—	(41,427)	—
Net loss attributable to Vertex Energy, Inc.	\$ (42,660)	\$ (445,195)	\$ (1,446,071)	\$ (17,411,650)
Accretion of discount on Series B and B-1 Preferred Stock	(471,877)	—	(858,535)	—
Accrual of dividends on Series B and B-1 Preferred Stock and retirement of a portion of Series B Preferred discount	(5,817,327)	—	(6,191,033)	—
Net loss available to common shareholders	\$ (6,331,864)	\$ (445,195)	\$ (8,495,639)	\$ (17,411,650)
Loss per common share				
Basic	\$ (0.21)	\$ (0.02)	\$ (0.29)	\$ (0.62)
Diluted	\$ (0.21)	\$ (0.02)	\$ (0.29)	\$ (0.62)
Shares used in computing earnings per share				
Basic	29,765,702	28,130,575	29,535,212	28,124,492
Diluted	29,765,702	28,130,575	29,535,212	28,124,492

See accompanying notes to the consolidated financial statements

VERTEX ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(UNAUDITED)

	Six Months Ended	
	June 30, 2016	June 30, 2015
Cash flows from operating activities		
Net loss	\$ (1,446,071)	\$ (17,411,650)
Adjustments to reconcile net loss to cash used in operating activities		
Stock based compensation expense	256,164	176,426
Depreciation and amortization	4,460,895	3,118,296
Rent paid by common stock	244,000	—
Gain on sale of assets	(9,748,561)	—
Loss on sale of assets	46,728	63,410
Increase in fair value of derivative liability	341,032	(1,816,982)
Deferred federal income tax expense/(gain)	—	5,306,000
Changes in operating assets and liabilities		
Accounts receivable	(1,047,149)	(3,096,566)
Allowance for doubtful accounts	—	2,650,000
Inventory	(224,462)	3,532,326
Prepaid expenses	230,614	(327,343)
Costs in excess of billings	—	779,285
Accounts payable and accrued expenses	(4,664,798)	(640,352)
Deferred revenue	(91,746)	61,713
Other assets	(1,303)	—
Net cash used in operating activities	<u>(11,644,657)</u>	<u>(7,605,437)</u>
Cash flows from investing activities		
Purchase of fixed assets	(2,310,582)	(1,196,240)
Proceeds from sale of Bango assets	29,788,114	—
Costs related to sale of Bango assets	(10,792,446)	—
Establish escrow account - restricted cash	(1,501,792)	—
Notes receivable	—	(500,000)
Proceeds from sale of assets	20,900	4,500
Net cash provided by (used in) investing activities	<u>15,204,194</u>	<u>(1,691,740)</u>
Cash flows from financing activities		
Proceeds from sale of Series C Preferred stock	4,000,000	—
Purchase/Buy Back Series B Preferred Stock	(11,189,849)	—
Proceeds from issuance of Series B-1 Preferred Stock	19,349,756	—
Issue costs for Series B-1 Preferred Stock	(607,890)	—
Proceeds from issuance of Series B Preferred Stock	—	23,557,552
Proceeds from note payable	5,405,091	—
Payments on note payable	(17,753,076)	(16,375,703)
Line of credit (payments) proceeds, net	444,698	1,815,795
Net cash provided by (used in) financing activities	<u>(351,270)</u>	<u>8,997,644</u>
Net change in cash and cash equivalents	3,208,267	(299,533)
Cash and cash equivalents at beginning of the period	765,364	6,017,076
Cash and cash equivalents at end of period	<u>\$ 3,973,631</u>	<u>\$ 5,717,543</u>

SUPPLEMENTAL INFORMATION

Cash paid for interest	\$ 1,006,379	\$ 2,071,299
Cash (paid) received for income tax expense (benefit)	\$ 117,646	\$ —
NON-CASH INVESTING AND FINANCING TRANSACTIONS		
Conversion of Series A Preferred Stock into common stock	120	17
Accretion of discount on Series B and B-1 Preferred stock	\$ 858,535	\$ —
Dividends-in-Kind accrued on Series B and B-1 Preferred stock and retirement of a portion of the Series B Preferred	\$ 6,191,033	\$ —
Beneficial Conversion of Series B1 and B Preferred stock, respectively	\$ 2,371,106	\$ 5,737,810

See accompanying notes to the consolidated financial statements

VERTEX ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(UNAUDITED)

NOTE 1. GOING CONCERN

During the year ended December 31, 2014, events of default occurred under our Credit Agreement with Goldman Sachs Bank USA (as described in "Note 9, Line of Credit and Long-Term Debt"), which were subsequently waived by Goldman Sachs Bank USA pursuant to amendments to the Credit Agreement. Operating losses in 2014, 2015 and continuing into the year-to-date second quarter of 2016 have inhibited the Company's ability to generate sufficient cash flows to meet its operating needs. Although the Company did generate minimal net income in the second quarter of 2016, these circumstances raise substantial doubt about the Company's ability to continue as a going concern. To address the cash flow deficiency and operating losses the Company is currently pursuing a number of actions, including: 1) working on inventory strategies related to charging for collection services in this new low oil cost environment; 2) seeking to obtain additional funds through public or private financing sources; 3) restructuring existing debts from lenders; 4) seeking to reduce operating costs; 5) minimizing projected capital costs for 2016; and 6) exploring opportunities to sell or lease any non-income producing assets. There can be no assurances that sufficient liquidity can be generated from one or more of these initiatives or that these initiatives can be consummated within the period needed to meet certain obligations.

The Company's consolidated financial statements have been prepared under the assumption that it will continue as a going concern, which assumes the continuity of operations, the realization of assets and the satisfaction of liabilities as they come due in the normal course of business. Although the Company believes that it will be able to generate sufficient liquidity from the measures described above, its current circumstances raise substantial doubt about its ability to continue to operate as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 2. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

The accompanying unaudited consolidated interim financial statements of Vertex Energy, Inc. (the "Company" or "Vertex Energy") have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission ("SEC") and should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's annual consolidated financial statements as filed with the SEC on Form 10-K on April 4, 2016 (the "Form 10-K"). The December 31, 2015 balance sheet was derived from the audited financial statements of our 2015 Form 10-K. In the opinion of management all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of financial position and the results of operations for the interim periods presented, have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Certain prior period amounts have been reclassified to conform to current period presentation. Notes to the consolidated financial statements which would substantially duplicate the disclosures contained in the audited consolidated financial statements for the most recent fiscal year 2015 as reported in Form 10-K have been omitted.

NOTE 3. SUMMARY OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Inventory

Inventories of products consist of feedstocks, refined petroleum products and recovered ferrous and non-ferrous metals 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.

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 Financial Accounting Standards Board Accounting Standards Codification ("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.

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.

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 statements of financial condition. 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. 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 year to date loss at March 31, 2015 put the Company in an accumulated loss position for the cumulative 12 quarters then ended. The Company did not have sufficient positive evidence to overcome the recent losses and determined it was more likely than not the deferred tax assets would not be realized as of December 31, 2015. As a result, we created a net valuation reserve of \$5,306,000 to offset our entire balance of deferred tax assets of \$11,702,000 less our \$6,436,000 balance of deferred tax liabilities.

This resulted in a net book tax expense of \$ 5,306,000 in 2015. The June 30, 2016 current income tax benefit is the result of a federal income tax refund.

Derivative liabilities

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.

NOTE 4. CONCENTRATIONS, SIGNIFICANT CUSTOMERS, COMMITMENTS AND CONTINGENCIES

At June 30, 2016 and 2015 and for each of the six months then ended, the Company's revenues and receivables were comprised of the following customer concentrations:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	% of Revenues	% of Receivables	% of Revenues	% of Receivables
Customer 1	19%	17%	24%	—%
Customer 2	12%	2%	2%	2%
Customer 3	9%	1%	15%	17%
Customer 4	8%	6%	7%	18%
Customer 5	1%	—%	8%	25%
Customer 6	—%	12%	—%	—%

At June 30, 2016 and 2015 and for each of the six months then ended, the Company's segment revenues were comprised of the following customer concentrations:

	% of Revenue by Segment			% Revenue by Segment		
	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
	Black Oil	Refining	Recovery	Black Oil	Refining	Recovery
Customer 1	100%	—%	—%	100%	—%	—%
Customer 2	100%	—%	—%	100%	—%	—%
Customer 3	100%	—%	—%	54%	46%	—%
Customer 4	—%	100%	—%	—%	100%	—%
Customer 5	—%	100%	—%	—%	100%	—%
Customer 6	—%	—%	100%	—%	—%	100%

The Company has no vendors that represented more than 10% of total purchases for the six months ended June 30, 2016 and one company that represented 18% of total purchases for the six months ended June 30, 2015.

In February 2013, Bank of America agreed to lease the Company equipment to enhance the TCEP operation, which went into effect in April 2013. Under the current terms of the lease agreement, 22 monthly payments remain of approximately \$13,328 each.

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.

New business commitment:

On June 5, 2016, Vertex and Penthol C.V. ("Penthol") of the Netherlands aka Penthol LLC (a Penthol subsidiary in the United States) reached an agreement for Vertex 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, 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 the following material litigation proceedings:

Vertex Refining, NV, LLC ("Vertex Refining, NV"), the wholly-owned subsidiary of Vertex Energy Operating, LLC, our wholly -owned subsidiary ("Vertex Operating") and the Company were named as defendants in a lawsuit filed on or about August 3, 2015, in the Tenth Judicial District Court in the State of Nevada, in and for the County of Churchill, case #15-10DC-0502, by Republic Bank N.A. alleging breach of contract and unjust enrichment with respect to the Asset Purchase Agreement dated May 2, 2014 between the defendants and Omega Refining, LLC, regarding the sale of refinery assets in Fallon, Nevada. This case has been settled and a stipulation for dismissal was filed on or about March 10, 2016.

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.

NOTE 5. DISPOSITION

On January 28, 2016, the Company entered into an Asset Purchase Agreement (the "Sale Agreement") with Bango Oil, LLC ("Bango Oil") and Safety-Kleen Systems Inc. ("Safety-Kleen") pursuant to which the Company agreed to sell to Safety-Kleen the used oil re-refining plant on approximately 40 acres in Churchill County, Nevada (the "Bango Plant"), which we previously rented, and all equipment, tools and other tangible personal property located at the Bango Plant, which relate to or are used in connection with the operations of the Bango Plant (collectively, the "Bango Assets") for an aggregate purchase price of \$ 35 million. As shown in the table below, a gain on sale of approximately \$9.7 million was recorded associated with the sale. The gain on sale is included in the accompanying consolidated statement of operations.

Sales price (fair value)	\$	35,000,000
Release of lien on certain equipment at the Bango Plant		(3,100,000)
Transaction Fees		<u>(2,111,886)</u>
Net Proceeds		29,788,114
Book Value at January 29, 2016 (date transaction closed)		<u>20,039,553</u>
Gain on Sale	\$	<u>9,748,561</u>

Net proceeds were used to pay an aggregate of \$ 16.1 million toward the Credit Agreement with Goldman Sachs Bank (described in "Note 9. Line of Credit and Long-Term Debt"), \$9.3 million to exercise the Purchase Option (described below) and \$ 1.5 million for equipment and rail park lease acquisitions subsequently included in the Sale Agreement.

Additionally, at the closing, we placed \$ 1.5 million in restricted cash and \$ 1 million worth of our common stock (1,108,928 shares) into escrow with 50% of the shares to be released to us 12 months following the closing and such cash and the remainder of the shares held in escrow to be released to us 18 months after the closing, in order to satisfy any indemnification claims made by Safety-Kleen pursuant to the terms of the Sale Agreement. On June 30 and December 31 of each year that any of our shares of common stock are in escrow, in the event the value of the shares held in escrow is less than \$1 million, based on the then market price of our common stock, we are required to increase the number of shares of common stock held in escrow to total \$1 million in aggregate value.

Finally, the Sale Agreement required the Company to use sale proceeds to exercise the purchase option set forth in that certain Lease With Option For Membership Interest Purchase (the "Bango Lease") entered into on April 30, 2015, by and between us, Vertex Refining NV and Bango Oil, whereby, we had the option at any time during the term of the lease to purchase all of the equity interests of Bango Oil (the "Purchase Option"), effectively acquiring ownership of the Bango Plant for \$9.3 million. The Membership Interest Purchase Agreement contains standard and customary representations of the parties and indemnification rights, subject in each case to a \$3 million cap on aggregate indemnification. Upon the closing of the Membership Interest Purchase Agreement, we effectively obtained ownership of the Bango Plant, which we then sold to Safety-Kleen, and Bango Oil became a wholly-owned subsidiary of Vertex Refining NV.

NOTE 6. ACCOUNTS RECEIVABLE

Accounts receivable, net, consists of the following at:

	June 30, 2016	December 31, 2015
Accounts receivable	\$9,239,682	\$8,280,749
Allowance for doubtful accounts	(1,877,119)	(1,965,335)
Accounts receivable, net	\$7,362,563	\$6,315,414

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.

Receivable balances greater than 30 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 Company does not have any significant off balance sheet credit exposure related to its customers.

NOTE 7. NOTES RECEIVABLE

Current portion of notes receivable, net, consists of the following at:

	June 30, 2016	December 31, 2015
Notes receivable	\$ —	\$ 5,346,452
Allowance for doubtful accounts	—	(3,654,790)
Notes receivable	\$ —	\$ 1,691,662

The current notes receivable balance as of December 31, 2015 represented amounts due from Omega Holdings, LLC. Of the total notes receivable balance, \$1,691,662 represents invoiced amounts that did not bear interest as of December 31, 2015.

The remaining obligation was settled with the sale of the Bango facility in January 2016.

NOTE 8. ASSETS HELD FOR SALE

During 2015 the Company reclassified amounts due from Omega Holdings, LLC to the Company based on the portion of the acquisition purchase price that was allocated to the Bango facility (see "Note 5 - Disposition"). The Company sold the Bango facility in January 2016 so the following assets were re-classified as "Assets held for sale" at December 31, 2015. The balance of "Assets held for sale" at June 30, 2016 is zero.

Accounts Receivable	\$	1,691,662
Note Receivable - Current		8,308,000
Fixed Assets - Construction in Process		1,170,581
Total Assets held for sale at December 31, 2015		11,170,243
January 2016 sale of assets		(11,170,243)
Total Assets held for sale as of June 30, 2016	\$	—

NOTE 9. LINE OF CREDIT AND LONG-TERM DEBT

In May, 2014, the Company entered into a Credit and Guaranty Agreement with Goldman Sachs Bank USA (as amended, the "Credit Agreement"). Pursuant to the agreement, Goldman Sachs Bank USA loaned the Company \$40,000,000 in the form of a term loan. As set forth in the Credit Agreement, the Company has the option to select whether loans made under the Credit Agreement bear interest at (a) the greater of (i) the prime rate in effect, (ii) the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System plus ½ of 1%, (iii) the sum of (A) the Adjusted LIBOR Rate and (B) 1%, and (iv) 4.5% per annum; or (b) the greater of (i) 1.50% and (ii) the applicable ICE Benchmark Administration Limited interest rate, divided by (x) one minus, (y) the Adjusted LIBOR Rate. Interest on the Credit Agreement is payable monthly in arrears.

The Credit Agreement is secured by all of the assets of the Company.

On March 26, 2015, the Company entered into a Second Amendment with Goldman Sachs Bank USA to amend the Credit Agreement to among other things, provide for the waiver of the prior defaults and to restructure certain covenants and other financial requirements of the Credit Agreement and to allow for our entry into the MidCap Loan Agreement.

The Credit Agreement contains customary representations, warranties, and covenants for facilities of similar nature and size as the Credit Agreement. The Credit Agreement also includes various covenants binding the Company including limits on indebtedness the Company may incur and maintenance of certain financial ratios relating to consolidated EBITDA and debt leverage. As each credit facility contains cross-default provisions, the default under each lender credit agreement constitutes a default under the agreement with the other lender.

On January 29, 2016, we, Vertex Operating, certain of our other subsidiaries, Goldman Sachs Specialty Lending Holdings, Inc., as lender ("Lender") and Goldman Sachs Bank USA, a New York State-Chartered Bank, as Administrative Agent, Lead Arranger and Collateral Agent ("Agent") entered into an Amended and Restated Credit and Guaranty Agreement (the "Restated Credit Agreement"). The Restated Credit Agreement changed the Credit Agreement to an \$8.9 million multi-draw term loan credit facility (of which approximately \$ 6.4 million was outstanding and \$ 2.5 million was available to be drawn pursuant to the terms of the Restated Credit Agreement on substantially similar terms as the then outstanding amounts owed to the Lender); modified the Credit Agreement to adjust certain EBITDA calculations in connection with the purchase of Bango Oil and the sale of the Bango Plant as described above; provided for approval for us to exercise the Purchase Option, enter into and effect the transactions contemplated by a Membership Interest Purchase Agreement, Subscription Agreement, and the Sale Agreement, and allowed for the issuance of the Fox Note (defined below) and the Mortgage (defined below) confirmed that we are required to make payments of \$800,000 per quarter from June 30, 2016 through maturity (May 2, 2019); provided us a moratorium on the prepayment of amounts owed under the Restated Credit Agreement as a result of various financial ratios we are required to meet through December 31, 2016; provided for us to retain any business interruption insurance proceeds received in connection with the Bango Plant; provided for us to pay \$16 million received at closing from the sale of the Bango Assets, all amounts released from escrow and any other cash proceeds in excess of \$500,000 received from the Sale Agreement after closing to the Lender as prepayment of amounts due under the Restated Credit Agreement; allowed us the right to make certain permitted acquisitions moving forward, without further consent of the Lender, provided that among other requirements, such acquisitions are in the same business or line of business as the

Company, that such acquired businesses have generated consolidated adjusted EBITDA for the four fiscal quarters preceding such acquisition in excess of capital expenditures for such period (taking into account adjustments acceptable to the Agent for synergies expected to be achieved within the 90 days following the closing of such acquisition), and that the funding for such acquisition comes from certain limited sources set forth in greater detail in the Restated Credit Agreement; adjusted certain fixed charge coverage ratios and leverage ratios we are required to meet on a quarterly basis from September 30, 2016 to maturity; required us to maintain at least \$2 million of liquidity at all times; provided that events of default under the Credit Agreement include events of default under the Fox Note (defined below); and made various other updates and changes to take into account transactions which had occurred through the date of such agreement, and to remove expired and non-material terms of the prior Credit Agreement. The balance under the Credit Agreement was \$5,600,000 at June 30, 2016 and principal payments in the amounts of \$ 1,600,000, \$3,200,000 and \$800,000 are due in 2016, 2017 and 2018, respectively.

Effective March 27, 2015, the Company, Vertex Operating and all of the Company's other subsidiaries other than E-Source Holdings, LLC (" E-Source") and Golden State Lubricant Works, LLC entered into a Loan and Security Agreement with MidCap Business Credit LLC ("MidCap") and the "MidCap Loan Agreement"). Pursuant to the MidCap Loan Agreement, MidCap agreed to loan us up to the lesser of (i) \$ 7 million; and (ii) 85% of the amount of accounts receivable due to us which meet certain requirements set forth in the MidCap Loan Agreement ("Qualified Accounts"), plus the lesser of (y) \$3 million and (z) 50% of the cost or market value, whichever is lower, of our raw material and finished goods which have not yet been sold, subject to the terms and conditions of the MidCap Loan Agreement ("Eligible Inventory"), minus any amount which MidCap may require from time to time in order to over secure amounts owed to MidCap under the MidCap Loan Agreement, as long as no event of default has occurred or is continuing under the terms of the MidCap Loan Agreement. The requirement of MidCap to make loans under the MidCap Loan Agreement is subject to certain standard conditions and requirements.

On November 9, 2015, we and certain of our subsidiaries entered into a First Amendment to Loan and Security Agreement (the "Midcap First Amendment"). The Midcap First Amendment amended the Midcap Loan Agreement to add Vertex Refining OH, LLC ("Vertex OH") as a party thereto; remove Vertex OH's requirement to enter into a negative pledge agreement with MidCap; created separate maximum borrowing base credit limits for Vertex OH's accounts and customers (\$100,000 maximum per customer, subject to certain exceptions); excluded customers who are based outside of the U.S. or Canada from the credit limits if backed by a bank letter of credit or covered by a foreign receivables insurance policy; removed inventory of Vertex OH from the definition of Eligible Inventory under the Midcap Loan Agreement; and provided that additional affiliates of the Company may become party to the Midcap Loan Agreement by executing an assumption agreement and revolving note in favor of Midcap.

On January 29, 2016, Vertex OH, borrowed \$ 5.15 million from Fox Encore 05 LLC, the prior owner of Bango Oil (" Fox Encore") and provided a Promissory Note to Fox Encore to reflect such borrowed funds (the "Fox Note"). The Fox Note bears interest at 10% percent per annum (15% upon the occurrence of an event of default), payable monthly in arrears beginning on February 29, 2016. The principal and all accrued and unpaid interest on the Fox Note is due on the earlier of (a) July 31, 2016 (as may be extended by Vertex OH as discussed below, the "Maturity Date"), or (b) upon acceleration of the Fox Note during the existence of an event of default as discussed therein. Provided that no event of default is then existing on the Fox Note or under any other loan document associated therewith, and certain other requirements as described in the Fox Note are met, Vertex OH has the right to three (3) extension options (each, an "Extension Option") pursuant to which Vertex OH may extend the Maturity Date for six (6) months each. The first extension extends the Maturity Date of the Fox Note until January 31, 2017 and Vertex OH exercised this Extension Option on June 16, 2016. The second extension will extend the Maturity Date of the Fox Note until July 31, 2017, and the third extension will extend the Maturity Date of the Fox Note until January 29, 2018. Upon exercising an Extension Option, Vertex OH is required to pay Fox Encore an extension fee equal to 3% of the then outstanding principal amount of the Fox Note, which amount is separate from, and is not applied toward, the outstanding indebtedness owed under the Fox Note; provided, however, that if Vertex OH elects to exercise the Extension Option to extend the Maturity Date to January 31, 2017, the 3% fee for such extension is not to be paid in cash but is instead added to the outstanding principal balance of the Fox Note. The Fox Note may be prepaid in whole or in part at any time without penalty, provided that if repaid in full by July 31, 2016, the amount to be repaid is decreased by \$150,000. The Fox Note is secured by the Mortgage described below. The Fox Note includes certain standard and customary financial reporting requirements, notice requirements, indemnification requirements, covenants and events of default. The Fox Note also includes a provision allowing the Lender (or any other lender party to the Restated Credit Agreement) to purchase the Fox Note upon the occurrence of an event of default under the Restated Credit Agreement.

On January 29, 2016, Vertex OH, entered into an Open-End Mortgage, Security Agreement, Fixture Filing and Assignment of Leases and Rents agreement (the "Mortgage") with Fox Encore in order to secure the amount owed under the Fox Note discussed above. Pursuant to the Mortgage, Vertex OH granted Fox Encore a security interest in the Columbus, Ohio refinery owned by Vertex OH.

The Company has notes payable to Texas Citizens Bank bearing interest at 5.5% per annum, maturing on January 7, 2020. The balance of the notes payable is \$1,755,893 at June 30, 2016.

The Company financed insurance premiums through various financial institutions bearing interest rates from 4% to 4.52%. All such premium finance agreements have maturities of less than one year and have a balance of \$515,762 at December 31, 2015 and a balance of \$ 127,606 at June 30, 2016.

On May 2, 2014, in connection with the closing of the Omega Refining acquisition, the Company assumed two capital leases totaling \$3,154,860. Payments made since 2014 have reduced the balance to \$228,486 at June 30, 2016.

For the six months ended June 30, 2016, we reported interest expense of approximately \$ 2.3 million of which \$0.9 million is interest expense on our currently outstanding debt and the remaining \$1.3 million is a one-time write off of the Goldman Sachs deferred finance costs and one-time interest related expenses of \$0.1 million on the Fox Note. The write off of these deferred finance costs was due to the accelerated \$16 million payment made on the Goldman Sachs loan as noted above.

The Company's outstanding debt facilities as of June 30, 2016 are summarized as follows:

Creditor	Loan Type	Origination Date	Maturity Date	Loan Amount	Balance on June 30, 2016
MidCap Revolving Line of Credit	Revolving Note	March, 2015	March, 2017	\$ 7,000,000	\$ 2,188,819
	Term Loan - Restated Credit Agreement	January 29, 2016	May 2, 2019	8,900,000	5,600,000
Goldman Sachs USA	Promissory Note	January 29, 2016	July 31, 2016	5,150,000	5,150,000
Fox Encore Promissory Note	Capital Lease	September, 2012	August, 2017	3,154,860	228,486
Pacific Western Bank	Term Note	January, 2015	January, 2020	2,045,500	1,755,893
Texas Citizens Bank	Insurance premiums financed	Various	< 1 year	1,789,481	127,606
Various institutions					
Total					\$ 15,050,804
Deferred Finance Cost, Net					(345,586)
Total, net of Deferred Finance Costs				\$ 28,039,841	\$ 14,705,218

Future contractual maturities of notes payable are summarized as follows:

Creditor	2016	2017	2018	2019	2020	Thereafter
MidCap Revolving Line of Credit	\$ 2,188,819	\$ —	\$ —	\$ —	\$ —	\$ —
Goldman Sachs USA	1,600,000	3,200,000	800,000	—	—	—
Fox Encore Promissory Note	5,150,000	—	—	—	—	—
Pacific Western Bank	95,332	133,154	—	—	—	—
Texas Citizens Bank	224,387	468,225	495,013	523,333	44,935	—
Various institutions	127,606	—	—	—	—	—
Totals	\$ 9,386,144	\$ 3,801,379	\$ 1,295,013	\$ 523,333	\$ 44,935	\$ —

Amendment No. 1 to Amended and Restated Credit and Guaranty Agreement

On May 9, 2016, we entered into Amendment No. 1 to the Amended and Restated Credit Agreement (“Amendment No. 1”), which amended the Restated Credit Agreement. Pursuant to Amendment No. 1, we, Vertex Operating, substantially all of our other wholly-owned subsidiaries, the Lender and the Agent, agreed to amend the Restated Credit Agreement to (a) change the threshold constituting a change of control under the Restated Credit Agreement, from any time that Benjamin P. Cowart, our Chief Executive Officer, Chairman and largest stockholder, ceases to beneficially own and control at least 20% on a fully diluted basis of the economic and voting interests of our capital stock (“Fully-Diluted Capital Stock”), to any time that Mr. Cowart beneficially owns less than 10% of our Fully-Diluted Capital Stock; (b) extend the date that we are required to meet certain fixed charge coverage ratios from the quarter ending September 30, 2016, to the quarter ending March 31, 2017; (c) adjust the calculation of leverage ratio described in the Restated Credit Agreement; (d) allow for the May 2016 Offering and the required payment of \$800,000 to the Lender in connection with such May 2016 Offering (representing the payment originally due June 30, 2016); (e) provide that the financial covenants relating to fixed charge ratios and leverage ratios would not be tested for the quarters ending September 30, 2016 and December 31, 2016; (f) amend the required timing for certain other post-closing events to occur under the terms of the Restated Credit Agreement; and (g) include a release whereby we (and substantially all of our wholly-owned subsidiaries) released the Investor and Agent for any claims which we had, or could have had, as of the date the parties entered into Amendment No. 1.

NOTE 10. EARNINGS PER SHARE

Basic earnings per share includes no dilution and is computed by dividing income 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 six months ended June 30, 2016 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 six months ended June 30, 2016 excludes: 1) options to purchase 2,777,552 shares of common stock, 2) warrants to purchase 4,252,135 shares of common stock, 3) Series B Preferred stock which is convertible into 4,832,422 shares of common stock, 4) Series B1 Preferred stock which is convertible into 12,403,683 shares of common stock and, 5) Series A Preferred and Series C Preferred stock, also convertible into common stock.

The following is a reconciliation of the numerator and denominator for basic and diluted earnings per share for the six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic Earnings per Share				
Numerator:				
Net (loss) income available to common shareholders	\$ (6,331,864)	\$ (445,195)	\$ (8,495,639)	\$ (17,411,650)
Denominator:				
Weighted-average shares outstanding	29,765,702	28,130,575	29,535,212	28,124,492
Basic earnings per share	\$ (0.21)	\$ (0.02)	\$ (0.29)	\$ (0.62)
Diluted Earnings per Share				
Numerator:				
Net (loss) income available to common shareholders	\$ (6,331,864)	\$ (445,195)	\$ (8,495,639)	\$ (17,411,650)
Denominator:				
Weighted-average shares outstanding	29,765,702	28,130,575	29,535,212	28,124,492
Effect of dilutive securities				
Stock options and warrants	—	—	—	—
Preferred stock	—	—	—	—
Diluted weighted-average shares outstanding	29,765,702	28,130,575	29,535,212	28,124,492
Diluted earnings per share	\$ (0.21)	\$ (0.02)	\$ (0.29)	\$ (0.62)

NOTE 11. 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 June 30, 2016, there were 29,765,702 common shares issued and outstanding (which number does not include the 1,108,928 shares of common stock held in escrow in order to satisfy the indemnification obligations of certain prior acquisition and sale transaction undertaken by us).

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 holders of any shares of the Company's common stock have 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.

Common stock activity during the six months ended June 30, 2016 was as follows:

- On January 21, 2016, the Company issued 244,000 shares of common stock to pay the January 2016 rent due pursuant to the terms of our lease on our Fallon, Nevada plant.
- On January 29, 2016, the Company issued 1,108,928 shares of common stock as part of the escrow fulfillment of the sale of the Vertex Refining Nevada assets to Safety-Kleen Systems, Inc. (the "[Bango Sale](#)").
- On February 4, 2016, the Company issued 53,271 shares of common stock in connection with a former employee's cashless exercise of stock options to purchase 100,000 shares of common stock.
- On February 5, 2016, the Company issued 120,227 shares of common stock in the conversion of an equal amount of Series A Preferred shares into common stock.

NOTE 12. PREFERRED STOCK AND DETACHABLE WARRANTS

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 Convertible 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. The number of designated shares of the Company's Series C Preferred Stock is 44,000. As of June 30, 2016 and December 31, 2015, there were 492,716 shares and 612,943 shares of Series A Preferred Stock issued and outstanding, respectively. As of June 30, 2016 and December 31, 2015, there were 4,832,422 and 8,160,809 shares of Series B Preferred Stock issued and outstanding, respectively. In connection with the May 2016 Purchase Agreement described below under "Series B1 Preferred Stock and Temporary Equity", 3,575,070 shares of Series B Preferred Stock were repurchased and retired. As of June 30, 2016, there were 12,403,683 shares of Series B1 Preferred Stock issued and outstanding. As of June 30, 2016 and December 31, 2015 there were 44,000 and 0 shares of Series C Preferred Stock issued and outstanding, respectively. The 44,000 shares of Series C Preferred Stock would convert into 4,400,000 shares of Common 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 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 "Dividend Stock Payment Price"). Notwithstanding the foregoing, in no event may the Company pay dividends in common stock unless the applicable Dividend Stock Payment Price is above \$2.91. If the Company is prohibited from paying 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 will be paid in kind in Series B Preferred Stock shares at \$3.10 per share.

The Series B Preferred Stock include 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.

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.

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 "Purchase Agreement") we entered into with certain institutional investors (the "Investors"), pursuant to which the Company sold the Investors an aggregate of 8,064,534 units (the "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 Units were sold at a price of \$3.10 per Unit (the "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 Purchase Agreement was entered into which was \$2.91 per share (the "Closing Bid Price"). The June 2015 Warrants have an exercise price of \$2.92 per share (\$0.01 above the Closing Bid Price). Total gross proceeds from the offering of the Units (the "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 Offering for which they received no fee) from the Offering, for an aggregate commission of \$1.365 million which was netted against the proceeds.

We used the net proceeds from the Offering to repay amounts owed under the Credit Agreement in the amount of \$15.1 million.

In addition, under the 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 Investors. The Company committed to file a registration statement on Form S-1 by the 30th day following the closing of the 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 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 an Investor for the Units 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 as described in the 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 Purchase Agreement, the Company agreed to indemnify the 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 Purchase Agreement or the failure of the Company to perform its obligations under the 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 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 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 "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 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 Lock-Up Period, subject to certain exceptions.

The June 2015 Warrants were 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. The Black-Scholes inputs used were: expected dividend rate of 0%, expected volatility of 70%-100%, risk free interest rate of 1.59%, and expected term of 5.5 years. This valuation resulted in a beneficial conversion feature on the convertible preferred stock of approximately \$5,682,741. This amount will be accreted over the term as a deemed dividend. Fees in the amount of \$1.4 million relating to the stock placement were netted against proceeds. The June 2015 Warrants are exercisable beginning on December 26, 2015, and expire December 24, 2020.

In connection with the May 2016 Purchase Agreement described below under "Series B1 Preferred Stock and Temporary Equity", certain funds received in that offering totaling \$11,189,838 were used to immediately repurchase and retire 3,575,070 shares of Series B Preferred Stock and pay the accrued but unpaid dividends due thereon and on certain other shares of Series B Preferred Stock held by those holders (the "Repurchases"). In connection with this transaction, \$5,408,131 of unaccreted discount on these 3,575,070 shares of Series B Preferred Stock which were retired, was immediately recognized, which represents the pro-rata portion of the unaccreted discount.

The following table represents the carrying amount of the Series B Preferred Stock, classified as Temporary Equity on the Balance Sheet, at inception and as of June 30, 2016 and December 31, 2015:

Temporary Equity:			
At Inception	June 24, 2015		
Face amount of Series B Preferred	\$	25,000,000	
Less: warrant value		7,028,067	
Less: beneficial conversion feature		5,737,796	
Less: issuance costs and fees		1,442,462	
Carrying amount at inception	\$	10,791,675	
		June 30, 2016	December 31, 2015
Face amount of Series B Preferred	\$	25,000,000	\$ 25,000,000
Less: repurchase of 3,575,070 shares		11,189,838	—
Plus: dividends in kind		1,088,132	—
Less: unaccreted discount		(7,139,756)	(13,044,793)
Carrying amount	\$	7,758,538	\$ 11,955,207

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 as approved by shareholders, the convertible preferred shares are accounted for net outside of stockholders' equity at \$7,758,538 with the June 2015 Warrants accounted for as liabilities at their fair value of \$2,226,092 as of June 30, 2016. 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 June 2015 Warrants, the Company utilized a dynamic Black Scholes Merton formula that computes the impact of share dilution 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 June 2015 Warrants in the presence of the dilution effect. In the event the convertible preferred shares are redeemed, any redemption price in excess of the carrying amount of the convertible preferred stock would be treated as a dividend.

The changes in liabilities measured using significant unobservable inputs for the six months ended June 30, 2016 were as follows:

Level Three Roll-Forward

Item	Level 3
Balance at December 31, 2014	\$ —
Warrants issued June 24, 2015	7,028,067
Change in valuation of warrants	(5,479,463)
Balance at December 31, 2015	\$ 1,548,604
Change in valuation of warrants	1,986,320
Balance at March 31, 2016	3,534,924
May 2016 Series B1 Preferred Warrants (described below)	2,867,264
Change in valuation of warrants	(1,645,288)
Balance at June 30, 2016	\$ 4,756,900

The June 2015 Warrants related to the Series B Preferred Stock were revalued at June 30, 2016 and December 31, 2015 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 \$2,226,092. The June 2015 Warrants related to the Series B Preferred Stock and the May 2016 Warrants (defined below under "Series B1 Preferred Stock and Temporary Equity" related to the Series B1 Preferred Stock were revalued at June 30, 2016 and December 31, 2015 (as to the Series B Preferred Stock Warrants) using the dynamic Black Scholes Merton model that computes the impact of a possible change in control transaction upon the exercise of the warrant shares. At June 30, 2016, the June 2015 Warrants and the May 2016 Warrants were valued at approximately \$2,226,092 and \$2,530,808, respectively. The dynamic Black Scholes Merton inputs used were: expected dividend rate of 0%, expected volatility of 76%-100%, risk free interest rate of 1.01%, and expected term of 3.97 years (June 2015 Warrants) and 5.37 years (May 2016 Warrants).

The Certificate of Designation of the Series B Preferred Stock 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 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	\$ 5,682,741

As of June 30, 2016 and December 31, 2015, respectively, a total of \$264,074 and \$376,571 of dividends were accrued on our outstanding Series B Preferred Stock (not including shares of Series B Preferred Stock converted into common stock in August 2015, as described above). We were prohibited from paying such dividends in shares of common stock because the applicable Dividend Stock Payment Price was below \$2.91. The "Dividend Stock Payment Price" is calculated by dividing (a) the accrued dividends 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. In the event the applicable Dividend Stock Payment Price is below \$2.91 we are required to pay such dividend in cash or in-kind in additional shares of Series B Preferred Stock. Pursuant to the terms of our Credit Agreement, we are prohibited from paying the dividend in cash and therefore we paid the accrued dividends in-kind for the quarters ending June 30, 2016, March 31, 2016 and December 31, 2015, respectively, by way of the issuance of restricted shares of Series B Preferred Stock pro rata to each of the then holders of our Series B Preferred Stock totaling 62,822, 124,258 and 122,425 in July 2016, April 2016 and January 2016, respectively. If converted in full, these dividends issued in kind would convert on a one to one basis into shares of our common stock.

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 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 will 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 para pasu with, senior credit facilities and other debt holders as provided in further detail in the designation.

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.

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% 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 came from 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").

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 \$0.53 million which was netted against the proceeds raised.

We used the net proceeds from the May 2016 Offering to repay amounts owed under the Credit Agreement in the amount of \$0.8 million and the remaining proceeds will be used for working capital purposes and potential acquisitions.

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). 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 May 2016 Warrants were 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. The dynamic Black Scholes Merton inputs used were: expected dividend rate of 0%, expected volatility of 70%-100%, risk free interest rate of 1.22%, and expected term of 5.5 years. This valuation resulted in a beneficial conversion feature on the convertible preferred stock of

approximately \$2,371,106. This amount 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 May 2016 Warrants are exercisable beginning on November 14, 2016, and expire on November 14, 2021.

The following table represents the carrying amount of the Series B1 Preferred Stock, classified as Temporary Equity on the Balance Sheet, at inception (May 13, 2016) and as of June 30, 2016:

Temporary Equity:	
At Inception	May 13, 2016
Face amount of Series B1 Preferred	\$ 19,349,745
Less: May 2016 Warrant value	2,867,264
Less: May 2016 Beneficial Conversion Feature	2,371,106
Less: May 2016 issuance costs and fees	607,880
Carrying amount at inception	<u>\$ 13,503,495</u>
	June 30, 2016
Face amount of Series B1 Preferred	\$ 19,349,745
Less: unaccreted discount	5,758,613
Carrying amount	<u>\$ 13,591,132</u>

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 \$13,591,132 with the May 2016 Warrants accounted for as liabilities at their fair value of \$2,530,808 as of June 30, 2016. 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, the Company utilized a dynamic Black Scholes Merton formula that computes the impact of share dilution upon the exercise of the May 2016 Warrants. 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. In the event the convertible Series B1 Preferred Stock shares are redeemed, any redemption price in excess of the carrying amount of the convertible Series B1 Preferred Stock would be treated as a dividend.

The changes in liabilities measured using significant unobservable inputs for the three and six months ended June 30, 2016 are described above within the Level Three Roll-Forward table under Series B Preferred Stock and Temporary Equity.

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	\$ 19,349,756
Less: allocated value of May 2016 Warrants	2,867,264
Allocated value of Series B1 Preferred Stock	\$ 16,482,492
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

For the quarter ending June 30, 2016 a total of \$145,123 of dividends were accrued on our outstanding Series B1 Preferred Stock. We were prohibited from paying such dividends in shares of common stock because the applicable May 2016 Dividend Stock Payment Price was below \$1.52. In the event the applicable Dividend Stock Payment Price is below \$1.52, we are required to pay such dividend in cash or in-kind in additional shares of Series B1 Preferred Stock. Pursuant to the terms of our Credit Agreement, we are prohibited from paying the dividend in cash and therefore we paid the accrued dividends in-kind for the quarter ending June 30, 2016 by way of the issuance of 97,875 restricted shares of Series B1 Preferred Stock pro rata to each of the then holders of our Series B1 Preferred Stock in July 2016. If converted in full, the 97,875 shares of Series B1 Preferred Stock would convert into 97,875 shares of our common stock.

Series C Convertible Preferred Stock

On January 29, 2016, we sold 44,000 shares of Series C Preferred Stock (as described below) in consideration for \$4 million.

The Series C Convertible Preferred Stock ("Series C Preferred Stock"), authorized on January 29, 2016, 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 previously 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 (the "Voting Rights"), 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.

NOTE 13. SEGMENT REPORTING

The Company's reportable segments include the Black Oil, Refining & Marketing and Recovery divisions. Segment information for the three and six months ended June 30, 2016 and 2015 is as follows:

THREE MONTHS ENDED JUNE 30, 2016

	Black Oil	Refining & Marketing	Recovery	Total
Revenues	\$ 19,836,390	\$ 2,923,481	\$ 1,668,573	\$ 24,428,444
Income (loss) from operations	\$ (812,262)	\$ 47,336	\$ (243,241)	\$ (1,008,167)

THREE MONTHS ENDED JUNE 30, 2015

	Black Oil	Refining & Marketing	Recovery	Total
Revenues	\$ 34,338,534	\$ 11,447,889	\$ 3,333,288	\$ 49,119,711
Income (loss) from operations	\$ (2,511,824)	\$ 703,384	\$ 90,410	\$ (1,718,030)

SIX MONTHS ENDED JUNE 30, 2016

	Black Oil	Refining & Marketing	Recovery	Total
Revenues	\$ 29,969,884	\$ 5,549,936	\$ 3,041,228	\$ 38,561,048
Income (loss) from operations	\$ (7,795,446)	\$ (228,968)	\$ (361,224)	\$ (8,385,638)

SIX MONTHS ENDED JUNE 30, 2015

	Black Oil	Refining & Marketing	Recovery	Total
Revenues	\$ 59,252,510	\$ 19,714,009	\$ 7,837,531	\$ 86,804,050
Income (loss) from operations	\$ (10,487,316)	\$ 840,249	\$ 520,232	\$ (9,126,835)

NOTE 14. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Income tax expense (benefit) attributable to income from continuing operations differed from the amounts computed by applying the U.S. federal income tax of 34% to pretax income from continuing operations as a result of the following for the estimated fiscal years 2016 and 2015:

	2016	2015
Statutory tax on book income	\$ (546,000)	\$ (5,852,000)
Permanent differences	(47,000)	(3,428,000)
Net operating loss utilization	—	—
Change in valuation allowance	632,000	15,109,000
Other	(156,646)	(523,000)
Income tax expense (benefit)	\$ (117,646)	\$ 5,306,000

NOTE 15. NEW 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 operating loss of \$84,545 for the three months ended June 30, 2016 and then added the 49% or \$41,427 loss attributable to the non-controlling interest back to the Company's "Net income (loss) attributable to Vertex Energy, Inc." in the Balance Sheet.

NOTE 16. SUBSEQUENT EVENTS**Issuance of Series B Preferred Stock and Series B1 Preferred Stock Shares In-Kind**

Pursuant to the terms of our Credit Agreement with our senior lender, we are prohibited from paying dividends in cash and therefore we paid the accrued dividends on our Series B Preferred Stock and Series B1 Preferred Stock, which accrued as of June 30, 2016, in-kind by way of the issuance of 62,822 restricted shares of Series B Preferred Stock pro rata to each of the then holders of our Series B Preferred Stock in July 2016 and the issuance of 97,875 restricted shares of Series B1 Preferred Stock pro rata to each of the then holders of our Series B1 Preferred Stock in July 2016. If converted in full, the 62,822 shares of Series B Preferred Stock would convert into 62,822 shares of common stock and the 97,875 shares of Series B1 Preferred Stock would convert into 97,875 shares of common stock.

Conversion of Series C Preferred Stock

On August 1, 2016, the holder of our 44,000 outstanding shares of Series C Convertible Preferred Stock, converted 12,432 of such shares into 1,243,200 shares of our common stock (each share of Series C Convertible Preferred Stock converts into 100 shares of common stock at the option of the holder thereof). We claim an exemption from registration provided by Section 3(a)(9) of the Securities Act for such issuance, as the security was exchanged by us with our existing security holder in a transaction where no commission or other remuneration was paid or given directly or indirectly for soliciting such exchange. As a result of the conversion, there are 31,568 outstanding shares of Series C Convertible Preferred Stock, which if converted in full, would convert into 3,156,800 shares of common stock.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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;
- 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;
- material weaknesses in our internal controls over financial reporting;
- 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;
- 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;
- required earn-out payments and other contingent payments we are required to make;
- 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;
- risks relating to our outstanding preferred stock, the terms thereof, and redemption obligations associated therewith;
- the lack of capital available on acceptable terms to finance our continued growth; and
- other risk factors included under "Risk Factors" below and in our Annual Report on Form 10-K.

You should read the matters described in "Risk Factors" below and disclosed in the Company's Annual Report on Form 10-K, filed with the Commission on April 4, 2016 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 hereto as Exhibit 99.1, for a list of abbreviations and definitions used throughout this Report.

This information should be read in conjunction with the interim unaudited financial statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the audited financial statements and notes thereto and "Part II", "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report on Form 10-K for the year ended December 31, 2015. Certain capitalized terms used below and otherwise defined below, have the meanings given to such terms in the footnotes to our consolidated financial statements included above under "Part I - Financial Information" - "Item 1. Financial Statements".

In this Quarterly Report on Form 10-Q, 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:

- “Exchange Act” refers to the Securities Exchange Act of 1934, as amended;
- “SEC” or the “Commission” refers to the United States Securities and Exchange Commission; and
- “Securities Act” refers to the Securities Act of 1933, as amended.

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. Information on our website is not part of this Report, and we do not desire to incorporate by reference such information herein. You may also read and copy any documents we file with the SEC at the SEC’s Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. You can also obtain copies of the document upon the payment of a duplicating fee to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. 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. Our SEC filings are also available to the public from the SEC’s website at <http://www.sec.gov>. 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.

Corporate History:

Vertex Energy, Inc. (the “Company,” “we,” “us,” and “Vertex”) was 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 canceled and exchanged for 0.10 shares of our common stock; (ii) each outstanding share of World Waste Series A preferred stock was canceled 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 canceled and exchanged for 11.651 shares of our Series A preferred stock.

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 divisions Black Oil, Refining and Marketing, and Recovery.

We currently provide our services in 15 states, primarily in the Gulf Coast and Central Midwest regions of the United States. For the rolling twelve month period ending June 30, 2016, we aggregated approximately 105 million gallons of used motor oil and other petroleum by-product feedstocks and managed the re-refining of approximately 71.4 million gallons of used motor oil with our proprietary Thermal Chemical Extraction Process (“TCEP”), VGO and Base Oil processes.

Our Black Oil division 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.

Our Refining and Marketing division aggregates and manages the re-refinement of used motor oil and other petroleum by-products and sells the re-refined products to end customers. We operate a refining facility that uses our proprietary TCEP (which is currently not in operation) and we also utilize third-party processing facilities. We also acquired our Marrero, Louisiana facility,

which facility re-refines used motor oil and also produces vacuum gas oil ("VGO") and our Myrtle Grove re-refining complex in Belle Chasse, Louisiana in May 2014. At the same time we acquired Golden State Lubricant Works, LLC ("Golden State"), a blending and storage facility in Bakersfield, California which is no longer in operation as of the date of this report.

Our Recovery division includes a generator solutions company for the proper recovery and management of hydrocarbon streams as well as a company named E-Source Holdings, LLC ("E-Source"). E-Source 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 that are used for shipping and handling equipment and scrap materials.

Black Oil Division

Our Black Oil division 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 26 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 15 transportation trucks and more than 150 aboveground storage tanks with over 7.3 million gallons of storage capacity. These assets are used by both the Black Oil division and the Refining and Marketing division. 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 use our proprietary TCEP technology to re-refine used oil into marine fuel cutterstock and a higher-value feedstock for further processing; however we are currently not utilizing our TCEP technology due to market conditions. In addition, at our Marrero 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) we produce a base oil product that is sold to lubricant packagers and distributors.

Refining and Marketing Division

Our Refining and Marketing division 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 division. 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 Division

The Recovery division is a generator solutions company for the proper recovery and management of hydrocarbon streams. The Recovery division also provides industrial dismantling, demolition, decommissioning, investment recovery and marine salvage services in industrial facilities. The Company (through this division) owns and operates a fleet of eight trucks and heavy equipment used for processing, shipping and handling of reusable process equipment and other scrap commodities.

Biomass Renewable Energy

We are also continuing to work on joint development commercial projects which focus on the separation of municipal solid waste into feedstocks for energy production. We are very selective in choosing opportunities that we believe will result in value for our shareholders. We can provide no assurance that the ongoing venture will successfully bring any projects to a point of financing or successful construction and operation.

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. As noted above, we are currently not utilizing this technology.

Products and Services

We generate substantially all of our revenue from the sale of five 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.

Acquisitions:

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"); Crossroad Carriers, L.P. ("Crossroad"); Vertex Recovery, L.P. ("Vertex Recovery"); and H&H Oil, L.P. ("H&H Oil") and B&S LP contributed real estate associated with the operations of H&H Oil.

- **Cedar Marine Terminals, L.P.** ("Cedar Marine Terminals") 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. Cedar Marine Terminals is also the site of our proprietary, patented, TCEP (described above).
- **Crossroad Carriers, L.P.** is a third-party 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. It facilitates its services through a network of independent recyclers and franchise collectors.
- **H&H Oil, L.P.** collects and recycles used oil and residual materials from customers based in Austin, Baytown, San Antonio and Corpus Christi, Texas.

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. Additionally, Chris Carlson, our Chief Financial Officer, owned a 10% interest in Holdings.

We had numerous relationships and related-party transactions with Holdings and its subsidiaries prior to closing the Acquisition, including, but not limited to, our lease of a storage facility, our subletting of office space, and agreements to operate the TCEP facility and to transport and store feedstock and end products. The closing of the Acquisition eliminated these related party transactions. The description of our operations below reflects the closing of the Acquisition, unless otherwise stated or the discussion requires otherwise.

Effective October 1, 2013, Vertex acquired a 51% interest in E-Source Holdings, LLC ("E-Source"), a company that leases and operates 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 division. Effective January 1, 2014, the Company purchased an additional 19% ownership interest in E-Source. On September 4, 2014, the Company acquired the remaining 30% interest in E-Source and as of such date the Company owns 100% of E-Source.

On May 2, 2014, we completed the Initial Closing (defined below) contemplated under that certain Asset Purchase Agreement entered into on March 17, 2014 (as amended, the "Omega Purchase Agreement") by and among the Company, Vertex Refining LA, LLC and Vertex Refining NV, LLC ("Vertex Refining Nevada"), both wholly-owned subsidiaries of Vertex Energy Operating, LLC, our wholly-owned subsidiary ("Vertex Operating"), Louisiana LV OR LLC f/k/a 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").

Pursuant to the Omega Purchase Agreement, we agreed to acquire certain of Omega's assets 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. Specifically, the assets included Omega's Marrero, Louisiana and Bango, Nevada, re-refineries (which re-refine approximately 80 million gallons of used motor oil per year). Additionally, the Marrero, Louisiana plant produces vacuum gas oil (VGO) and the Bango, Nevada plant produces base lubricating oils. Omega also operated Golden State Lubricants Works, LLC, a strategic blending and storage facility located in Bakersfield, California, which we acquired in the acquisition and have since ceased operations at. In connection with the acquisition, we also acquired certain of Omega's prepaid assets and inventory.

The acquisition was to close in two separate closings, the first of which relating to the acquisition of Omega Refining (including the Marrero, Louisiana re-refinery and Omega's Myrtle Grove complex in Belle Chaise, Louisiana) and ownership of Golden State, as described above (the "Acquired Business"), closed on May 2, 2014 (the "Initial Closing"), and the second of which relating to the acquisition of Bango Refining and the Bango, Nevada plant, was planned to close thereafter, subject to certain closing conditions being met prior to closing (the "Final Closing").

The purchase price paid at the Initial Closing was \$30,750,000 in cash, 500,000 shares of our restricted common stock (valued at approximately \$4 million) and the assumption of certain capital lease obligations and other liabilities relating to contracts and leases of Omega Refining in connection with the Initial Closing. We also agreed to provide Omega a loan in the amount of up to approximately \$13.8 million (described below).

The required closing date of the Final Closing was extended by the parties until January 31, 2015, provided that such Final Closing failed to occur by such date, and on February 25, 2015, we provided Omega Refining, Bango Refining, and Omega Holdings, formal notice of the termination of the Company's rights to complete the Final Closing, provided that as disclosed below in January 2016, we acquired and then immediately sold the Bango Plant.

In connection with the Initial Closing, Omega Refining and Bango Refining provided Vertex Refining Nevada a Secured Promissory Note (the "Omega Secured Note") in the aggregate amount of \$13,858,067, which was due and payable on June 30, 2015, which was not paid on such date, which is in default and which accrues interest at 18% per annum until paid in full. The repayment of the Omega Secured Note is guaranteed by Omega Holdings pursuant to a Guaranty Agreement and secured by a security interest granted pursuant to the terms of the Omega Secured Note and a Leasehold Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing.

The assets and operations acquired from Omega fall under our Black Oil division.

On December 5, 2014 (the "Closing"), we closed the transactions contemplated by the October 21, 2014 Asset Purchase Agreement by and among the Company; Vertex Refining OH, LLC ("Vertex OH"), a wholly-owned subsidiary of Vertex Operating; Vertex Operating and Warren Ohio Holdings Co., LLC, f/k/a Heartland Group Holdings, LLC ("Heartland") (as amended, the "Heartland Purchase Agreement").

In connection with the Closing, we acquired substantially all of the assets of 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, used oil storage and transfer facilities located in Columbus, Zanesville and Norwalk, Ohio (provided that the acquisition of the Norwalk, Ohio location is subject to the terms and conditions of the Second Amendment), and leases related to storage and transfer facilities located in Zanesville, Ohio, Mount Sterling, Kentucky, and Ravenswood, West Virginia (collectively, the "Heartland Assets") and assumed certain liabilities of Heartland associated with certain assumed and acquired agreements (collectively, the "Acquired Business"). The main assets excluded from the purchased assets pursuant to the Heartland Purchase Agreement were Heartland's cash and cash equivalents, receivables, certain prepaid expenses, refunds and related claims, rights to certain tax refunds, certain assets used in the operations of Heartland which are used more than incidentally by Heartland's majority equity owner (Warren Distribution, Inc. ("Warren")) in connection with the operation of its other businesses and certain real property.

The purchase price paid in consideration for the Heartland Assets was the assumption of the assumed liabilities and an aggregate of 2,257,467 shares of restricted common stock (the "Heartland Shares"), representing a total of 1,189,637 shares valued at \$8,276,792, as agreed pursuant to the terms of the original Heartland Purchase Agreement, 303,957 shares which were due in consideration for the purchase of various inventory of Heartland acquired by the Company at the closing in connection with the purchase of inventory, valued at \$792,270, and a total of 763,873 shares due in consideration for the Reimbursement of Operating Losses (described below). A total of 150,000 shares of restricted common stock issued at Closing are being held in escrow and will be used to satisfy indemnification claims (the "Escrow Shares"). An aggregate of an additional \$200,000 was owed to Heartland in connection with an inventory true-up after Closing and as such, we subsequently issued Heartland an additional 56,180 shares of restricted common stock (\$200,000 divided by \$3.56).

Pursuant to a Consulting Agreement previously entered into with Heartland in July 2014, Vertex Operating agreed to provide consulting services to Heartland while the parties negotiated the definitive terms of the Heartland Purchase Agreement (the "Consulting Agreement"), and to reimburse Heartland for its operating losses (on a cash basis net of interest, depreciation, corporate overhead expenses and insurance proceeds received), which totaled \$2,716,561 as of closing (the "Reimbursement for Operating Losses").

Heartland also has the right pursuant to the terms of the Heartland Purchase Agreement to earn additional earn-out consideration of up to a maximum of \$8,276,792, based on total EBITDA related to the Heartland Business during the twelve month period beginning on January 1, 2016 (the "Earnout Period"), as follows (as applicable, the "Contingent Payment"):

EBITDA generated during Earnout Period	Contingent Payment Due
Less than \$1,650,000	\$0
At least \$1,650,000	\$4,138,396
More than \$1,650,000 and less than \$3,300,000	Pro-rated between \$4,138,396 and \$8,276,792
\$3,300,000	\$8,276,792

Any Contingent Payment due is payable 50% in cash and 50% in shares of the Company's common stock based on VWAP commencing on the trading day immediately following the last day of the Earnout Period and ending on such tenth trading day thereafter, subject to NASDAQ rules and regulations. Additionally, the amount of any Contingent Payment is reduced by two-thirds of the cumulative total of required capital expenditures incurred at Heartland's refining facility in Columbus, Ohio, which are paid or funded by Vertex OH after the closing, not to exceed \$866,667, which capital expenditures are estimated to total \$1.3 million in aggregate. In December 2015 the Company wrote off the \$6,069,000 that was included in liabilities as a contingency because the projections indicated that it was likely that there would not be a payout during the Earnout Period.

The assets and operations acquired from Heartland fall under our Black Oil division.

Aaron Oil Acquisition

Effective August 6, 2015, H&H Oil acquired a collection route consisting of collecting, shipping and selling used oil, oil filters, antifreeze and other related services in the state of Louisiana, but excluding industrial customers, maritime customers, off shore customers, dockside locations, industrial services, used absorbent services, wastewater generating customers and collectors/transporters of crankcase used oil, petroleum fuel reclamation customers and crude oil producers/processing/recovery/reclamation customers of Aaron Oil Company, Inc. ("Aaron Oil"). Included in the purchase were certain trucks and other assets owned by Aaron Oil and certain contract rights. The President, Chief Executive Officer and owner of Aaron Oil is Dan Cowart, the brother of our Chief Executive Officer and largest stockholder, Benjamin P. Cowart. The acquisition price paid at closing was approximately \$1 million, which included a reimbursement for certain prepaid contract rights. Aaron Oil also agreed to provide account servicing services to us for a period of sixty days following the closing at an agreed upon price per gallon of oil serviced. Aaron Oil also agreed to a non-compete provision prohibiting Aaron Oil from competing against the Company in the Louisiana market for a period of two years from the closing.

Recent Events:

Vertex Recovery Management LA, LLC

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 operating loss of \$84,545 for the three months ended June 30, 2016 and then added the 49% or \$41,427 loss attributable to the non-controlling interest back to the Company's "Net income (loss) attributable to Vertex Energy, Inc." in the Balance Sheet.

On June 5, 2016, we and Penthol C.V. ("Penthol") of the Netherlands aka Penthol LLC (a Penthol subsidiary in the United States) reached an agreement for us 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, and the product will ship via truck, rail and barge.

Purchase and Sale Agreement, Churchill County, Nevada Plant

On January 28, 2016, we entered into an Asset Purchase Agreement (the "Sale Agreement") with Vertex Operating and its wholly-owned subsidiary, Vertex Refining Nevada, Bango Oil, LLC ("Bango Oil") (provided that Bango Oil did not become a party to the agreement until we exercised the Purchase Option, described below) and Safety-Kleen Systems, Inc. ("Safety-Kleen").

Pursuant to the Sale Agreement, which closed on January 29, 2016, we (through Bango Oil after we acquired Bango Oil as described below pursuant to our exercise of the Purchase Option) sold Safety-Kleen the used oil re-refining plant located on approximately 40 acres in Churchill County, Nevada (the "Bango Plant"), which we previously rented, and all equipment, tools and other tangible personal property located at the Bango Plant, which relate to or are used in connection with the operations of the Bango Plant (collectively, the "Bango Assets"). Safety-Kleen assumed certain liabilities associated with contracts assumed in the purchase and related to bringing the Bango Plant back into operational status. The aggregate purchase price for the Bango Assets was \$35 million, subject to adjustment as described in the Sale Agreement for certain taxes, costs and expenses incurred by Safety-Kleen after closing. A total of \$1.3 million of the purchase price was used by us in order to exercise the options we had pursuant to two Lease and Purchase Agreements (the "Equipment Leases") we were party to, which provided for the use of a rail facility and related equipment and a pre-fabricated metal building located at the Fallon, Nevada, facility, and which provided us (through Vertex Refining Nevada) the right to acquire the applicable property/equipment subject to each Equipment Lease at any time prior to the expiration of the leases for \$914,000 and \$400,000, respectively. Additionally, \$100,000 of the purchase price was retained by Safety-Kleen to acquire certain water rights necessary for operation of the Bango Plant. Finally, a required closing condition of the Sale Agreement was that we use a portion of the purchase price to exercise the purchase option set forth in that certain Lease With Option For Membership Interest Purchase (the "Bango Lease") entered into on April 30, 2015, by and between us, Vertex Refining Nevada and Bango Oil, whereby, we had the option at any time during the term of the lease to purchase all of the equity interests of Bango Oil (the "Purchase Option"), effectively acquiring ownership of the Bango Plant. The Purchase Option was exercised by us on January 29, 2016, in connection with the closing of the Sale Agreement, at which time Bango Oil became a wholly-owned subsidiary of Vertex Refining Nevada, and we paid approximately \$9 million of consideration to Bango Oil in connection with the Purchase Option. The terms of the Bango Lease and Equipment Leases are described in greater detail in the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on May 5, 2015. Additionally, an aggregate of \$16 million of the purchase price paid by Safety-Kleen in connection with the Sale Agreement was required to be paid by us to our senior lender, Goldman Sachs Bank USA, at closing, which amount was paid at closing, and which funds were used to pay down amounts owed to Goldman Sachs Bank USA under our Credit Agreement, as described in greater detail below under "Amended and Restated Credit and Guaranty Agreement".

Additionally, at the closing, we placed \$1.5 million in cash and \$1 million worth of our common stock (1,108,928 shares) into escrow with 50% of the shares to be released 12 months following the closing and such cash and the remainder of the shares held in escrow to be released 18 months after the closing, in order to satisfy any indemnification claims made by Safety-Kleen pursuant to the terms of the Sale Agreement. On June 30 and December 31 of each year that any of our shares of common stock are in escrow, in the event the value of the shares held in escrow is less than \$1 million, based on the then market price of our common stock, we are required to increase the number of shares of common stock held in escrow to total \$1 million in aggregate value. No additional shares were required to be escrowed as of June 30, 2016.

The Sale Agreement includes standard indemnification obligations of the parties, subject to certain caps on indemnification and deductibles. The closing of the transactions contemplated by the Sale Agreement was subject to usual and customary closing conditions, including requiring that we and Safety-Kleen enter into a Swap Agreement and Base Oil Agreement, all of which were satisfied prior to or at closing.

Houlihan Lokey acted as exclusive financial advisor to the Company in connection with the transaction.

The Company received net cash of approximately \$17.3 million in connection with the transactions contemplated by the Sale Agreement, after deducting legal, administrative and banker fees; amounts paid in connection with the exercise of the Purchase Option; cash amounts set aside in escrow; and the purchase price of the equipment related to the Bango Plant as described above, of which \$16 million was immediately paid to the Lender (defined below under "Amended and Restated Credit and Guaranty Agreement") to pay down amounts owed to Lender under the Credit Agreement (defined below under "Amended and Restated Credit and Guaranty Agreement").

Subscription Agreement

On January 29, 2016, separate from and subsequent to the closing of the transactions contemplated by the Membership Interest Purchase Agreement, Fox Encore 05 LLC, the sole owner of Bango Oil, as seller ("Fox Encore"), entered into a Subscription Agreement with the Company whereby Fox Encore subscribed for and purchased 44,000 shares of newly-designated Series C Preferred Stock in consideration for \$4 million. The 44,000 shares of Series C Preferred Stock are convertible into 4,400,000 shares of the Company's common stock subject to the terms of a Certificate of Designation of the Series C Preferred Stock.

\$5.15 Million Promissory Note

On January 29, 2016, following the closing of, and separate from the transactions contemplated by, the Membership Interest Purchase Agreement, Vertex OH, borrowed \$5.15 million from Fox Encore and provided a Promissory Note to Fox Encore to reflect such borrowed funds (the "Fox Note"). The Fox Note bears interest at 10% percent per annum (15% upon the occurrence of an event of default), payable monthly in arrears beginning on February 29, 2016. The principal and all accrued and unpaid interest on the Fox Note is due on the earlier of (a) July 31, 2016 (as may be extended by Vertex OH as discussed below, the "Maturity Date"), or (b) upon acceleration of the Fox Note during the existence of an event of default as discussed therein. Provided that no event of default is then existing on the Fox Note or under any other loan document associated therewith, and certain other requirements as described in the Fox Note are met, Vertex OH has the right to three (3) extension options (each, an "Extension Option") pursuant to which Vertex OH may extend the Maturity Date for six (6) months each. The first extension will extend the Maturity Date of the Fox Note until January 31, 2017, the second extension will extend the Maturity Date of the Fox Note until July 31, 2017, and the third extension will extend the Maturity Date of the Fox Note until January 29, 2018. Upon exercising an Extension Option, Vertex OH is required to pay Fox Encore an extension fee equal to 3% of the then outstanding principal amount of the Fox Note, which amount is separate from, and is not applied toward, the outstanding indebtedness owed under the Fox Note; provided, however, that if Vertex OH elects to exercise the Extension Option to extend the Maturity Date to January 31, 2017, the 3% fee for such extension is not to be paid in cash but is instead added to the outstanding principal balance of the Fox Note. The Fox Note may be prepaid in whole or in part at any time without penalty, provided that if repaid in full by July 31, 2016, the amount to be repaid is decreased by \$150,000. The Fox Note is secured by a mortgage. The Fox Note includes certain standard and customary financial reporting requirements, notice requirements, indemnification requirements, covenants and events of default. The Fox Note also includes a provision allowing the Lender (or any other lender party to the Restated Credit Agreement each as described below under "Amended and Restated Credit and Guaranty Agreement") to purchase the Fox Note upon the occurrence of an event of default under the Restated Credit Agreement.

May 2016 Unit Offering

On May 13, 2016, we closed the transactions contemplated by the May 10, 2016 Unit Purchase Agreement (the "May 2016 Purchase Agreement") entered into with certain accredited investors (the "May 2016 Investors"), pursuant to which we sold to 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 of the Company, \$0.001 par value per share (the "Series B1 Preferred Stock") and (ii) one warrant to purchase one-quarter of a share of common stock of the Company, \$0.001 par value per share, totaling an aggregate of warrants to purchase 3,100,926 shares of common stock (each a "May 2016 Warrant" and collectively, the "May 2016 Warrants"). The May 2016 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), are exercisable beginning 185 days after the date of the closing of the May 2016 Offering (November 14, 2016), have a term of 5.5 years and have cashless exercise rights to the extent the shares of common stock issuable upon exercise of the May 2016 Warrants are not registered with the Securities and Exchange Commission. Total gross proceeds from the offering of the May 2016 Units (the "May 2016 Offering") were \$19,349,740.

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. A total of 60% of the funds received from such investors was 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 and pay accrued interest on such repurchased shares through the closing date (the "Repurchases"), leaving net proceeds of approximately \$7.5 million, after deducting placement agent's fees, described below and offering expenses. Of these net proceeds, \$800,000 was used to pay amounts owed at the end of June 2016, under the terms of the Amended and Restated Credit and Guaranty Agreement, and the remaining proceeds are planned to be used for working capital purposes and potential acquisitions.

Craig-Hallum Capital Group LLC (the "Placement Agent") acted as exclusive placement agent in connection with the May 2016 Offering. The Placement Agent received a commission equal to 6.5% of the net proceeds after affecting the Repurchases described above, from the May 2016 Offering, for an aggregate commission of approximately \$530,000.

The Company's Chief Executive Officer and Chairman, Benjamin P. Cowart, and the Company's Chief Financial Officer and Secretary, Chris Carlson, each purchased 32,052 May 2016 Units (\$50,000 of May 2016 Units) in the May 2016 Offering and in connection with such purchases were issued 32,052 shares of Series B1 Preferred Stock and May 2016 Warrants to purchase 8,013 shares of common stock.

Amended and Restated Certificate of Designation of Series B Preferred Stock

As a required condition to closing the May 2016 Offering, the holders of the Company's Series B Preferred Stock agreed to amend the Certificate of Designation of the Company's Series B Preferred Stock to: (a) provide that the Series B Preferred Stock ranks equally with the Series B1 Preferred Stock upon liquidation and redemption; (b) clarify that each holder of Series B Preferred Stock is limited to voting the lesser of (i) 9.99% of the Company's common stock then outstanding; and (ii) such number of voting shares of the Company, if any, that, when added together with the other voting securities of the Company beneficially owned (as calculated pursuant to Rule 13d-3 of the Exchange Act) by such holder, totals 9.99% of the Company's then outstanding common stock; and (c) allow for the Repurchases. The amended designation was filed with the Secretary of State of Nevada on May 12, 2016.

Amended and Restated Certificate of Designation of Series C Convertible Preferred Stock

As a required condition to closing the May 2016 Offering, the holder of the Company's Series C Convertible Preferred Stock agreed to amend the Certificate of Designation of the Company's Series C Convertible Preferred Stock to provide that the Series B1 Preferred Stock ranked senior to the Series C Preferred Stock upon liquidation. The amended designation was filed with the Secretary of State of Nevada on May 12, 2016.

Certificate of Designation of 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 "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 or \$19.3 million in aggregate), provided that such dividend increases to 9% if the Consolidated Adjusted EBITDA (defined below) targets described below are 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 are 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 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 the May 2016 Closing Bid Price. If the Company is prohibited from paying 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 will be paid in-kind in additional shares of Series B1 Preferred Stock shares based on the original May 2016 Unit Price.

The Series B1 Preferred Stock includes a liquidation preference (in the amount of the May 2016 Unit Price) 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 Designation.

The Series B1 Preferred Stock prohibits us from (i) increasing or decreasing (other than by redemption or conversion (as described in the 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 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 at the May 2016 Unit Price (initially a one-for-one basis). If the Company's common stock trades at or above \$3.90 per share (250% of the May 2016 Unit Price) for a period of 20 consecutive trading days at any time following the earlier of (a) the effective date of the resale registration statement (described below), or (b) six months after the closing of the May 2016 Offering, 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 Beneficial Ownership Limitation described below.

The Company has the option to redeem the outstanding shares of Series B1 Preferred Stock at 110% of the May 2016 Unit Price 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 the May 2016 Unit Price 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). Notwithstanding either of the foregoing, the Series B1 Preferred Stock may not be redeemed unless and until amounts outstanding under the Credit Agreement have been paid in full.

Both the Series B1 Preferred Stock and the May 2016 Warrants contain a provision prohibiting the conversion of the Series B1 Preferred Stock and the exercise of the May 2016 Warrants into common stock of the Company, if upon such conversion or exercise, as applicable, the holder thereof would beneficially own more than 9.999% of the Company's then outstanding common stock (the "Beneficial Ownership Limitation"). The Beneficial Ownership Limitation does not apply to forced conversions undertaken by the Company pursuant to the terms of the Designation (summarized above). The Beneficial Ownership Limitation also applies to the voting rights of the Series B1 Preferred Stock. Certain of the investors also agreed to contractually reduce the Beneficial Ownership Limitation to 4.999%.

Amended and Restated Credit and Guaranty Agreement

On January 29, 2016, we, Vertex Operating, certain of our other subsidiaries, Goldman Sachs Specialty Lending Holdings, Inc., as lender (“Lender”) and Goldman Sachs Bank USA, a New York State-Chartered Bank, as Administrative Agent, Lead Arranger and Collateral Agent (“Agent”) entered into an Amended and Restated Credit and Guaranty Agreement (the “Restated Credit Agreement”), which amended and restated that certain \$40 million Credit and Guaranty Agreement entered into between the parties on May 2, 2014 (as amended and modified to date, the “Credit Agreement”). The Restated Credit Agreement changed the Credit Agreement to an \$8.9 million multi-draw term loan credit facility (of which approximately \$6.4 million was outstanding and \$2.5 million was available to be drawn pursuant to the terms of the Restated Credit Agreement on substantially similar terms as the currently outstanding amounts owed to the Lender); modified the Credit Agreement to adjust certain EBITDA calculations in connection with the purchase of Bango Oil and the sale of the Bango Plant as described above; provided for approval for us to exercise the Purchase Option, enter into and effect the transactions contemplated by the Membership Interest Purchase Agreement, Subscription Agreement, and the Sale Agreement, and allowed for the issuance of the Fox Note and a Mortgage; confirmed that we are required to make payments of \$800,000 per quarter from June 30, 2016 through maturity (May 2, 2019); provided us a moratorium on the prepayment of amounts owed under the Restated Credit Agreement as a result of various financial ratios we are required to meet through December 31, 2016; provided for us to retain any business interruption insurance proceeds received in connection with the Bango Plant; provided for us to pay \$16 million received at closing from the sale of the Bango Assets, all amounts released from escrow and any other cash proceeds in excess of \$500,000 received from the Sale Agreement after closing to the Lender as prepayment of amounts due under the Restated Credit Agreement; allowed us the right to make certain permitted acquisitions moving forward, without further consent of the Lender, provided that among other requirements, such acquisitions are in the same business or line of business as the Company, that such acquired businesses have generated consolidated adjusted EBITDA for the four fiscal quarters preceding such acquisition in excess of capital expenditures for such period (taking into account adjustments acceptable to the Agent for synergies expected to be achieved within the 90 days following the closing of such acquisition), and that the funding for such acquisition comes from certain limited sources set forth in greater detail in the Restated Credit Agreement; adjusted certain fixed charge coverage ratios and leverage ratios we are required to meet on a quarterly basis from September 30, 2016 to maturity; required us to maintain at least \$2 million of liquidity at all times; provided that events of default under the Credit Agreement include events of default under the Fox Note; and made various other updates and changes to take into account transactions which had occurred through the date of such agreement, and to remove expired and non-material terms of the prior Credit Agreement.

Amendment No. 1 to Amended and Restated Credit and Guaranty Agreement

On May 9, 2016, we entered into Amendment No. 1 to the Amended and Restated Credit Agreement (“Amendment No. 1”), which amended the Restated Credit Agreement. Pursuant to Amendment No. 1, we, Vertex Operating, substantially all of our other wholly-owned subsidiaries, the Lender and the Agent, agreed to amend the Restated Credit Agreement to (a) change the threshold constituting a change of control under the Restated Credit Agreement, from any time that Benjamin P. Cowart, our Chief Executive Officer, Chairman and largest stockholder, ceases to beneficially own and control at least 20% on a fully diluted basis of the economic and voting interests of our capital stock (“Fully-Diluted Capital Stock”), to any time that Mr. Cowart beneficially owns less than 10% of our Fully-Diluted Capital Stock; (b) extend the date that we are required to meet certain fixed charge coverage ratios from the quarter ending September 30, 2016, to the quarter ending March 31, 2017; (c) adjust the calculation of leverage ratio described in the Restated Credit Agreement; (d) allow for the May 2016 Offering and the required payment of \$800,000 to the Lender in connection with such May 2016 Offering (representing the payment originally due June 30, 2016); (e) provide that the financial covenants relating to fixed charge ratios and leverage ratios would not be tested for the quarters ending September 30, 2016 and December 31, 2016; (f) amend the required timing for certain other post-closing events to occur under the terms of the Restated Credit Agreement; and (g) include a release whereby we (and substantially all of our wholly-owned subsidiaries) released the Investor and Agent for any claims which we had, or could have had, as of the date the parties entered into Amendment No. 1.

RESULTS OF OPERATIONS

Description of Material Financial Line Items:

Revenues

We generate revenues from three existing operating divisions as follows:

BLACK OIL - Revenues for our Black Oil division 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. 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. Through the operations at our Columbus, Ohio facility 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 division generates revenues relating to the sales of finished products. The Refining and Marketing division 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 division is a generator solutions company for the proper recovery and management of hydrocarbon streams. This division also provides dismantling, demolition, decommission and marine salvage services at industrial facilities. 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 division 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 division 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 division incurs cost of revenues relating to the purchase of hydrocarbon products, purchasing and receiving costs, inspection, demolition and transporting of metals and other salvage and materials. 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 property, plant and equipment and intangible assets acquired in connection with the Holdings, E-Source, Omega Refining acquisitions and Warren Ohio Holdings Co., LLC f/k/a Heartland Group Holdings, LLC ("Heartland") asset purchase, described in greater detail above under "Part 1"-"Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations"-"Material Acquisitions".

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2016 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2015

Set forth below are our results of operations for the three months ended June 30, 2016 as compared to the same period in 2015.

	Three Months Ended June 30,		\$ Change - Favorable (Unfavorable)	% Change - Favorable (Unfavorable)
	2016	2015		
Revenues	\$ 24,428,444	\$ 49,119,711	\$ (24,691,267)	(50)%
Cost of revenues	19,168,398	43,635,177	24,466,779	56 %
Gross profit	5,260,046	5,484,534	(224,488)	(4)%
Selling, general and administrative expenses (exclusive of acquisition related expenses)	4,688,035	5,641,250	953,215	17 %
Depreciation and amortization	1,553,655	1,561,314	7,659	— %
Acquisition related expenses	26,523	—	(26,523)	(100)%
Total operating expenses	6,268,213	7,202,564	934,351	13 %
Loss from operations	(1,008,167)	(1,718,030)	709,863	41 %
Other income (expense):				
Other income (loss)	2,486	10	2,476	24,760 %
Gain (loss) on change in value of derivative liability	1,645,288	1,816,982	(171,694)	(9)%
Gain (loss) asset sales	—	12,818	(12,818)	(100)%
Gain (loss) on futures contracts	(317,675)	—	(317,675)	(100)%
Interest expense	(406,019)	(556,975)	150,956	27 %
Total other income (expense)	924,080	1,272,835	(348,755)	(27)%
Income/(loss) before income tax	(84,087)	(445,195)	361,108	81 %
Income tax benefit (expense)	—	—	—	— %
Net income (loss)	\$ (84,087)	\$ (445,195)	\$ 361,108	81 %
Non-controlling interest	\$ (41,427)	\$ —	\$ (41,427)	(100)%
Net income (loss) attributable to Vertex Energy, Inc.	\$ (42,660)	\$ (445,195)	\$ 402,535	90 %

Each of our segments' income (loss) from operations during the three months ended June 30, 2016 and 2015 was as follows:

	Three Months Ended June 30,		\$ Change - Favorable (Unfavorable)	% Change - Favorable (Unfavorable)
	2016	2015		
Black Oil Segment				
Total revenue	\$ 19,836,390	\$ 34,338,534	\$ (14,502,144)	(42)%
Total cost of revenue	15,557,879	30,912,204	15,354,325	50 %
Gross profit	4,278,511	3,426,330	852,181	25 %
Reduction in contingent consideration	—	—	—	— %
Selling general and administrative expense	3,871,146	4,677,801	806,655	17 %
Depreciation and amortization	1,193,104	1,260,353	67,249	5 %
Acquisition related expenses	26,523	—	(26,523)	(100)%
Loss from operations	\$ (812,262)	\$ (2,511,824)	\$ 1,699,562	68 %
Refining Segment				
Total revenue	\$ 2,923,481	\$ 11,447,889	\$ (8,524,408)	(74)%
Total cost of revenue	2,169,238	9,956,771	7,787,533	78 %
Gross profit	754,243	1,491,118	(736,875)	(49)%
Selling general and administrative expense	470,505	605,365	134,860	22 %
Depreciation and amortization	236,402	182,369	(54,033)	(30)%
Income from operations	\$ 47,336	\$ 703,384	\$ (656,048)	(93)%
Recovery Segment				
Total revenue	\$ 1,668,573	\$ 3,333,288	\$ (1,664,715)	(50)%
Total cost of revenue	1,441,281	2,766,202	1,324,921	48 %
Gross profit	227,292	567,086	(339,794)	(60)%
Selling general and administrative expense	346,384	358,084	11,700	3 %
Depreciation and amortization	124,149	118,592	(5,557)	(5)%
Income (loss) from operations	\$ (243,241)	\$ 90,410	\$ (333,651)	(369)%

The following schedule separates revenues and gross profit contributed by our recently acquired business entities and operations, Omega Refining and Heartland, during the three month period ending June 30, 2016. The isolated figures are presented in dollars and as a percentage of total consolidated revenue.

	Three Months Ended June 30, 2016		
	Consolidated Results	Omega Refining	% Contributed by Omega Refining
Total revenue	\$ 24,428,444	\$ 14,460,501	59%
Gross profit	5,260,046	3,220,497	61%
	Three Months Ended June 30, 2016		
	Consolidated Results	Heartland	% Contributed by Heartland
Total revenue	24,428,444	3,806,353	16%
Gross profit	5,260,046	1,000,328	19%

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.

Total revenues decreased by 50% for the three months ended June 30, 2016 compared to the same period in 2015, due to lower commodity prices and volumes during the three months ended June 30, 2016 compared to the same period in 2015. Total volume decreased 35% largely as a result of not running TCEP during the first half of 2016, as well as the impact of not running the Heartland facility due to a fire which occurred at the facility in February 2016 and the facility being off-line for the first half of the quarter

compared to the same period in 2015. Gross profit decreased by 4% for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. Prices of our finished products continue to be impacted across the industry by the lower commodity prices. However, our per barrel margin increased 47% relative to the three months ended June 30, 2015. This increase was a result of improvement in our feedstock pricing and finished product values during the three months ended June 30, 2016, compared to the same period during 2015. The 56% decrease in cost of revenues for the three months ended June 30, 2016 compared to the three months ended June 30, 2015 is mainly a result of the overall decrease in commodity prices along with the transition to charging for our services versus paying for the feedstocks which has an impact on our cost of revenues. In addition due to the Heartland facility not running during the first half of the quarter our overall costs were lower.

Our Black Oil division's volume decreased approximately 22% during the three months ended June 30, 2016 compared to the same period in 2015. This decrease was due to the decreased amount of volume managed through our TCEP and Heartland facilities which produces a cutterstock product and base oil respectively. Volumes collected through our H&H Oil and Heartland collection facilities decreased 13% during the three months ended June 30, 2016 compared to the same period in 2015. Our focus continues to be on growing our own volumes of collected oil and displacing third party oil processed in our facilities, while maintaining proper spreads in the business.

Overall volumes of product sold decreased 35% for the second quarter of 2016 versus the second quarter of 2015. This is important for our business as it illustrates our reach into the market.

We experienced a 100% decrease in the volume of our TCEP refined product during the three months ended June 30, 2016, compared to the same period in 2015. This decrease was a result of strategic decisions that were made during the quarter not to produce our TCEP finished product and to ship the feedstock we would have otherwise used at our TCEP facility to our Marrero facility during the current period due to market pricing impacts on the margins of the product produced in the Houston market vs. the Marrero, Louisiana market, in order to keep the volumes up and move lower priced feedstock through the Marrero facility. In addition, commodity prices decreased approximately 37% for the three months ended June 30, 2016, compared to the same period in 2015. The average posting (U.S. Gulfcoast Residual Fuel No. 6 3%) for the three months ended June 30, 2016 decreased \$19.01 per barrel from a three month average of \$50.91 for the three months ended June 30, 2015 to \$31.90.

Our TCEP technology did not generate any revenues or gross profit and did not incur any cost of revenues during the three months ended June 30, 2016 compared to revenues of \$9,328,599 during the three months ended June 30, 2015 with cost of revenues of \$7,891,407, producing a gross profit of \$1,437,152.

Overall volume for the Refining and Marketing division decreased 67% during the three months ended June 30, 2016 as compared to the same period in 2015. This division experienced a decrease in production of 88% for its gasoline blendstock for the three months ended June 30, 2016, compared to the same period in 2015. Our fuel oil cutter volumes decreased 39% for the three months ended June 30, 2016, compared to the same period in 2015. Our pygas volumes decreased 60% for the three months ended June 30, 2016 as compared to the same period in 2015.

Our Recovery division includes the business operations of Vertex Recovery as well as the business of E-Source (of which we own a 100% interest). Revenues for this division decreased 50% mostly as a result of decreased commodity prices as well as decreased volumes and project work during the period at our E-Source division for the three months ended June 30, 2016, compared to the prior period. Gross profit for the recovery division decreased 60% for the three months ended June 30, 2016, compared to the same period in 2015. Our volumes decreased 45% for the three months ended June 30, 2016 as compared to the same period in 2015. This division through E-Source, periodically participates in project work that is not ongoing thus we expect to see fluctuations in revenue and gross profit from this division from period to period.

Overall gross profit decreased 4% mostly due to lower volumes and the impact of lower production at our Heartland facility which lowered the amount of volume of finished products we were able to sell for the three months ended June 30, 2016, compared to the same period in 2015.

We had total operating expenses of \$ 6,268,213 for the three months ended June 30, 2016 which included minimal acquisition related expenses, compared to \$7,202,564 of total operating for the prior year's period (including no acquisition related expenses), a decrease of \$ 934,351 or 13% from the prior period. This decrease is primarily due to a decrease of \$953,215 in selling, general and administrative expenses, which were in connection with reductions in salaries as well as extensive cost cutting efforts put in place at the end of 2015, as well as a decrease of \$7,659 in depreciation and amortization offset by an increase of \$26,523 in acquisition related expenses.

We had a loss from operations of \$ 1,008,167 for the three months ended June 30, 2016, compared to a loss from operations of \$ 1,718,030 for the three months ended June 30, 2015, a decrease in loss from operations of \$ 709,863 or 41% from the prior year's

period. The decrease in the loss from operations was mainly due to market and operational conditions as well as the decreases in selling, general and administrative expenses.

We also had interest expense of \$ 406,019 for the three months ended June 30, 2016, compared to interest expense of \$556,975 for the three months ended June 30, 2015, a decrease in interest expense of \$150,956 or 27% from the prior period.

We had \$ 1,645,288 of gain on change in value of derivative liability for the three months ended June 30, 2016, in connection with a beneficial conversion feature on certain warrants granted in June 2015 and May 2016, as described in greater detail in "Note 12. Preferred Stock and Detachable Warrants " to the unaudited financial statements included herein under "Part I"-"Item 1. Financial Statements".

We had a loss on futures contracts of \$ 317,675 for the three months ended June 30, 2016, we use futures contracts to offset the effects of the market value changes in our hedged items, as well as to avoid significant volatility that might arise due to market exposure in our inventory.

We had a net loss of \$84,087 for the three months ended June 30, 2016, compared to a net loss of \$445,195 for the three months ended June 30, 2015, a decrease in net loss of \$361,108 or 90% from the prior period for the reasons described above.

During the three months ended June 30, 2016, the processing costs for our Refining and Marketing division located at KMTEX were \$396,910. In addition, we have provided the results of operations for this segment of our business below during the same three month period.

Three Months Ended June 30, 2016

	Refining and Marketing
Revenues	\$ 2,923,481
Income from operations	\$ 47,336

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2016 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2015

Set forth below are our results of operations for the six months ended June 30, 2016 as compared to the same period in 2015.

	Six Months Ended June 30,		\$ Change - Favorable (Unfavorable)	% Change - Favorable (Unfavorable)
	2016	2015		
Revenues	\$ 38,561,048	\$ 86,804,050	\$ (48,243,002)	(56)%
Cost of Revenues	33,539,526	81,643,633	48,104,107	59 %
Gross Profit	5,021,522	5,160,417	(138,895)	(3)%
Reduction in contingent consideration	—	—	—	— %
Selling, general and administrative expenses	10,184,022	11,011,278	827,256	8 %
Depreciation and amortization	3,147,239	3,118,296	(28,943)	(1)%
Acquisition related expenses	75,899	157,678	81,779	52 %
Income (loss) from operations	(8,385,638)	(9,126,835)	741,197	8 %
Other income/(expense):				
Provision for doubtful accounts	—	(2,650,000)	2,650,000	100 %
Other Income (loss)	2,963	18	2,945	16,361 %
Gain (loss) on change in value of derivative liability	(341,032)	1,816,982	(2,158,014)	(119)%
Loss on sale of assets	(46,728)	(57,660)	10,932	19 %
Gain on sale of assets	9,748,561	—	9,748,561	100 %
Gain/(loss) on futures contracts	(261,759)	—	(261,759)	(100)%
Interest expense	(2,321,511)	(2,088,155)	(233,356)	(11)%
Total other income (expense)	6,780,494	(2,978,815)	9,759,309	328 %
Income (loss) before income taxes	(1,605,144)	(12,105,650)	10,500,506	87 %
Income tax (expense) benefit	117,646	(5,306,000)	5,423,646	102 %
Net income (loss)	(1,487,498)	(17,411,650)	\$ 15,924,152	91 %
Non-controlling interest	(41,427)	—	41,427	— %
Net loss attributable to Vertex Energy, Inc.	\$ (1,446,071)	\$ (17,411,650)	\$ 15,965,579	92 %

Each of our segments' gross profit (loss) during the six months ended June 30, 2016 and 2015 was as follows:

	Six Months Ended June 30,		\$ Change - Favorable (Unfavorable)	% Change - Favorable (Unfavorable)
	2016	2015		
Black Oil Segment				
Total revenue	\$ 29,969,884	\$ 59,252,510	\$ (29,282,626)	(49)%
Total cost of revenue	26,760,117	58,053,328	31,293,211	54 %
Gross profit	3,209,767	1,199,182	2,010,585	168 %
Reduction in contingent consideration	—	—	—	— %
Selling general and administrative expense	8,501,316	9,055,422	554,106	6 %
Depreciation and amortization	2,427,999	2,473,398	45,399	2 %
Acquisition related expenses	75,899	157,678	81,779	52 %
Income (loss) from operations	<u>\$ (7,795,447)</u>	<u>\$ (10,487,316)</u>	<u>\$ 2,691,869</u>	<u>26 %</u>
Refining Segment				
Total revenue	\$ 5,549,936	\$ 19,714,009	\$ (14,164,073)	(72)%
Total cost of revenue	4,268,903	17,262,173	12,993,270	75 %
Gross profit	1,281,033	2,451,836	(1,170,803)	(48)%
Selling general and administrative expense	1,039,482	1,209,367	169,885	14 %
Depreciation and amortization	470,519	402,220	(68,299)	(17)%
Income (loss) from operations	<u>\$ (228,968)</u>	<u>\$ 840,249</u>	<u>\$ (1,069,217)</u>	<u>(127)%</u>
Recovery Segment				
Total revenue	\$ 3,041,228	\$ 7,837,531	\$ (4,796,303)	(61)%
Total cost of revenue	2,510,506	6,328,132	3,817,626	60 %
Gross profit	530,722	1,509,399	(978,677)	(65)%
Selling general and administrative expense	643,224	746,489	103,265	14 %
Depreciation and amortization	248,721	242,678	(6,043)	(2)%
Income (loss) from operations	<u>\$ (361,223)</u>	<u>\$ 520,232</u>	<u>\$ (881,455)</u>	<u>(169)%</u>

The following schedule separates revenues and gross profit contributed by our recently acquired business entities and operations, Omega Refining and Heartland, during the six month period ending June 30, 2016. The isolated figures are presented in dollars and as a percentage of total consolidated revenue.

Six Months Ended June 30, 2016			
	Consolidated Results	Omega Refining	% Contributed by Omega Refining
Total Revenue	\$ 38,561,048	\$ 20,613,754	53%
Gross Profit	5,021,522	2,627,965	52%
	Consolidated Results	Heartland	% Contributed by Heartland
Total Revenue	\$ 38,561,048	\$ 6,688,654	17%
Gross Profit	5,021,522	818,305	16%

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.

Total revenues decreased by 56% for the six months ended June 30, 2016 compared to the same period in 2015, due primarily to the lower commodity prices during the six months ended June 30, 2016 compared to the same period in 2015. Total volume decreased 33% in the second quarter of 2016 as well as the impact of not running the Heartland facility due to a fire which occurred in the facility

in February 2016 and required the facility to be offline during the second half of the first quarter of fiscal 2016 and the first half of the current quarter. Gross profit decreased by 3% for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. Prices of our finished products have been impacted across the industry by the sharp decline in energy prices that occurred during the last quarter of 2014 and the first three months of 2015.

Additionally, our per barrel margin increased 45% relative to the six months ended June 30, 2015. This increase was a result of decreased operational costs related to the Marrero and Heartland facilities in addition to improved margins in our feedstock and finished product values during the six months ended June 30, 2016, compared to the same period during 2015 as a result of the charges implemented through our collections division. The 59% decrease in cost of revenues for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 is mainly a result of the overall decrease in commodity prices along with the charges implemented through our collections.

Our Black Oil division's volume decreased approximately 27% during the six months ended June 30, 2016 compared to the same period in 2015. This decrease was due to the decreased amount of volume managed through our TCEP and Heartland facilities which produce a cutterstock finished product and base oil respectively. Volumes collected through our H&H Oil and Heartland collection facilities decreased 7% during the six months ended June 30, 2016 compared to the same period in 2015. 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.

Overall volumes of product sold decreased 33% for the six months ended June 30, 2016 versus the same period in 2015. This is important for our business as it illustrates our reach into the market and expansion of overall market share.

We experienced a 100% decrease in the volume of our TCEP refined product during the six months ended June 30, 2016, compared to the same period in 2015. This decrease was a result of strategic decisions we made not to produce our TCEP finished product and to ship the feedstock we would have otherwise used at our TCEP facility to our Marrero facility due to market pricing impacts on the margins of the product produced in the Houston, Texas market vs. the Marrero, Louisiana market. The margins on the VGO product produced at our Marrero facility tend to be greater than those produced at our TCEP facility, and due to the sharp decline in prices we were not able to adjust our feedstock purchases at our TCEP facility to keep up with the change in market conditions. In addition, commodity prices decreased approximately 44% for the six months ended June 30, 2016, compared to the same period in 2015. The average posting (U.S. Gulfcoast Residual Fuel No. 6 3%) for the six months ended June 30, 2016 decreased \$21.15 per barrel from a six month average of \$47.61 for the six months ended June 30, 2015 to \$26.46 per barrel for the six months ended June 30, 2016.

Our TCEP technology did not generate any revenues or gross profit and did not incur any cost of revenues during the six months ended June 30, 2016 compared to revenues of \$11,585,930 during the six months ended June 30, 2015 with cost of revenues of \$10,471,299, producing a gross profit of \$1,114,631.

Overall volume for the Refining and Marketing division decreased 52% during the six months ended June 30, 2016 as compared to the same period in 2015. This division experienced a decrease in production of 85% for its gasoline blendstock for the six months ended June 30, 2016, compared to the same period in 2015. Our fuel oil cutter volumes decreased 48% for the six months ended June 30, 2016, compared to the same period in 2015. Our pygas volumes decreased 49% for the six months ended June 30, 2016 as compared to the same period in 2015. These decreases were a result of decisions not to purchase or process certain non-profitable feedstock streams under the current market conditions.

Our Recovery division includes the business operations of Vertex Recovery as well as the business of E-Source (of which we own a 100% interest). Revenues for this division decreased 61% as a result of lower commodity prices, lower volumes and the decline of project based work related to our E-Source business during the six months ended June 30, 2016, compared to the same period in 2015. Volumes of petroleum products acquired during the six months ended June 30, 2016 in our Recovery business were relatively unchanged from the prior period. This division through E-Source, periodically participates in project work that is not ongoing thus we expect to see fluctuations in revenue and gross profit from this division from period to period.

Overall gross profit decreased 3% and our margin per barrel increased approximately 45% for the six months ended June 30, 2016, compared to the same period in 2015. This increase was largely a result of lower volumes along with the increase in charge for oil in our Black Oil collection division.

The following table sets forth the high and low spot prices during the six months ended June 30, 2016 for our key benchmarks.

2016

Benchmark	High	Date	Low	Date
U.S. Gulfcoast No. 2 Waterborne (dollars per gallon)	\$ 1.44	June 8	\$ 0.78	January 20
U.S. Gulfcoast Unleaded 87 Waterborne (dollars per gallon)	\$ 1.57	June 8	\$ 0.89	February 9
U.S. Gulfcoast Residual Fuel No. 6 3% (dollars per barrel)	\$ 37.19	June 29	\$ 16.24	January 19
NYMEX Crude oil (Dollars per barrel)	\$ 51.23	June 8	\$ 26.21	February 9

Reported in Platt's US Marketscan (Gulf Coast)

The following table sets forth the high and low spot prices during the six months ended June 30, 2015 for our key benchmarks.

2015

Benchmark	High	Date	Low	Date
U.S. Gulfcoast No. 2 Waterborne (dollars per gallon)	\$ 1.91	May 6	\$ 1.59	April 8
U.S. Gulfcoast Unleaded 87 Waterborne (dollars per gallon)	\$ 2.16	June 11	\$ 1.72	April 8
U.S. Gulfcoast Residual Fuel No. 6 3% (dollars per barrel)	\$ 54.73	May 6	\$ 43.19	April 2
NYMEX Crude oil (Dollars per barrel)	\$ 61.43	June 10	\$ 49.14	April 2

Reported in Platt's US Marketscan (Gulf Coast)

We saw a steady increase during the first six months of 2016 in each of the benchmark commodities we track compared to the same period in 2015.

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.

As our competitors bring new technologies to the marketplace, which will likely enable them to obtain higher values for the finished products created through their technologies from purchased black oil feedstock, we anticipate that they will be able to pay more for feedstock due to the additional value received from their finished product (i.e., as their margins increase, they are able to increase the prices they are willing to pay for feedstock). If we are not able to continue to refine and improve our technologies and gain efficiencies in the TCEP technology (which is not currently being operated due to market conditions), our VGO technology through our Marrero facility, and our base oil technology at Heartland, we could be negatively impacted by the ability of our competitors to bring new processes to market which compete with our processes, as well as their ability to outbid us for feedstock supplies.

If we are unable to effectively compete with additional technologies brought to market by our competitors, 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 (as described above, our revenues track the spread between the prices we purchase feedstock for and the prices we can sell finished product at), 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.

We had selling, general, and administrative expenses of \$10,184,022 for the six months ended June 30, 2016, which does not include \$ 75,899 of acquisition related expenses, compared to \$11,011,278 of selling, general, and administrative expenses for the prior year's period (which does not include \$157,678 of acquisition related expenses), a decrease of \$827,256 or 8% from the prior

period (not including acquisition related expenses). This decrease is primarily due to the reductions made during the end of 2015 in our selling, general and administrative expenses generated by new business lines, specifically those business lines acquired from Omega Refining, Heartland and the E-Source acquisition.

We had a loss from operations of \$ 8,385,638 for the six months ended June 30, 2016 , compared to a loss from operations of \$ 9,126,835 for the six months ended June 30, 2015, a decrease of \$741,197 or 8% from the prior year's six-month period. The decrease was mainly due to a reduction in selling, general and administrative expenses in 2016 of approximately \$800,000.

We had a provision for doubtful accounts related to the Heartland purchase of \$ 0 for the six months ended June 30, 2016 , compared to a \$2,650,000 provision for doubtful accounts for the six months ended June 30, 2015 . The 2015 provision for doubtful accounts was collateralized by insurance proceeds that were collected in 2016.

We also had interest expense of \$ 2,321,511 for the six months ended June 30, 2016 , compared to interest expense of \$ 2,088,155 for the six months ended June 30, 2015, an increase in interest expense of \$233,356 or 11% from the prior period mainly due to the debt facilities with Goldman Sachs and Midcap as described below. The increase in interest expense was mostly due to the \$1.3 million write off of "Deferred finance costs, net" offset by a reduction in our debt facilities with Goldman Sachs and Midcap.

We had gain on the sale of assets of \$ 9,748,561 for the six months ended June 30, 2016 , related to the purchase and sale of the Bango facility in January 2016.

We had a \$341,032 loss on change in value of derivative liability for the six months ended June 30, 2016 , in connection with a beneficial conversion feature on certain warrants granted in June 2015 and May 2016, as described in greater detail in "Note 12. Preferred Stock and Detachable Warrants" to the unaudited financial statements included herein under "Part I"-"Item 1 Financial Statements" compared to a gain on change in the value of our derivative liability of \$1,816,982 in the prior year's period.

We had a loss on futures contracts of \$261,759 for the six months ended June 30, 2016 . We use futures contract to offset the effects of the market value changes in our hedged items, as well as to avoid significant volatility that might arise due to market exposure.

We had an income tax benefit of \$ 117,646 for the six months ended June 30, 2016 , compared to an income tax expense of \$5,306,000 for the six months ended June 30, 2015. For tax reporting purposes, we have net operating losses ("NOLs") of approximately \$69.7 million as of June 30, 2016 that are available to reduce future taxable income. In determining the carrying value of our net deferred tax asset, the Company considered all negative and positive evidence. The Company has incurred a cumulative pre-tax loss of approximately \$23 million over a three year period ended June 30, 2016.

We had net loss of \$1,487,498 for the six months ended June 30, 2016 , compared to a net loss of \$ 17,411,650 for the six months ended June 30, 2015, a reduction in net loss of \$15,924,152 or 91% from the prior period for the reasons described above.

During the six months ended June 30, 2016 , the processing costs for our Refining and Marketing division located at KMTEX were \$941,438. In addition, we have provided the results of operations for this segment of our business below during the same six month period.

Six Months Ended June 30, 2016

	Refining and Marketing
Revenues	\$ 5,549,936
Loss from operations	\$ (228,968)

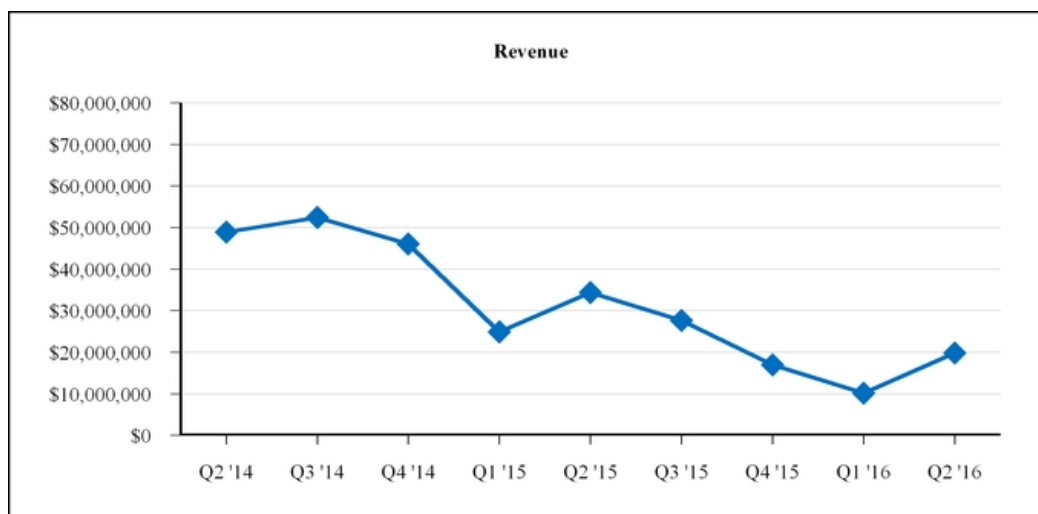
Set forth below, we have disclosed a quarter-by-quarter summary of our statements of operations and our quarter by quarter gross profit by segment for the first and second quarter of 2016, fiscal year 2015 and the last three quarters of 2014.

	Fiscal 2016		Fiscal 2015				Fiscal 2014		
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter
Revenues	\$ 24,428,444	\$ 14,132,604	\$ 20,875,827	\$ 39,262,584	\$ 49,119,711	\$ 37,684,339	\$ 62,572,071	\$ 76,903,516	\$ 72,079,622
Cost of Revenues	19,168,398	14,371,128	20,497,691	34,104,949	43,635,177	38,008,456	67,049,736	73,761,171	63,844,569
Gross Profit	5,260,046	(238,524)	378,136	5,157,635	5,484,534	(324,117)	(4,477,665)	3,142,345	8,235,053
Reduction of contingent liability	—	—	(6,069,000)	—	—	—	(3,371,836)	(1,876,752)	—
Selling, general and administrative expenses	4,688,035	5,495,987	6,982,422	6,052,764	5,641,250	5,370,028	7,303,475	4,706,104	4,363,617
Depreciation and amortization	1,553,655	1,593,584	1,920,416	1,597,881	1,561,314	1,556,982	1,296,450	1,180,443	1,068,273
Acquisition related expenses	26,523	49,376	11,584	5,910	—	157,678	994,603	259,235	1,959,418
Inventory Impairment Charge	—	—	—	—	—	—	467,911	—	—
Total operating expense	6,268,213	7,138,947	2,845,422	7,656,555	7,202,564	7,084,688	6,690,603	4,269,030	7,391,308
Income (loss) from operations	(1,008,167)	(7,377,471)	(2,467,286)	(2,498,920)	(1,718,030)	(7,408,805)	(11,168,268)	(1,126,685)	843,745
Other income (expense)									
Provision for doubtful accounts	—	—	1,995,180	—	—	(2,650,000)	—	—	—
Other income (expense)	2,486	476	(4,475)	11	10	8	223,255	109,980	7
Gain (loss) on change in value of derivative liability	1,645,288	(1,986,320)	2,844,430	818,051	1,816,982	—	—	—	—
Gain on bargain purchase	—	—	—	—	—	—	375,000	92,635	6,481,051
Loss on sale of assets	—	(46,728)	—	—	—	—	—	—	—
Goodwill impairment loss	—	—	(4,922,353)	—	—	—	—	—	—
Gain (loss) on futures contracts	(317,675)	55,916	155,660	395,430	—	—	—	—	—
Gain on sale of assets	—	9,748,562	92,261	(20,657)	12,818	(70,478)	—	—	(10,866)
Interest expense	(406,019)	(1,915,492)	(728,780)	(763,791)	(556,975)	(1,531,180)	(956,319)	(947,325)	(657,235)
Total other income (expense)	924,080	5,856,414	(568,077)	429,044	1,272,835	(4,251,650)	(358,064)	(744,710)	5,812,957
Income (loss) before income taxes	(84,087)	(1,521,057)	(3,035,363)	(2,069,876)	(445,195)	(11,660,455)	(11,526,332)	(1,871,395)	6,656,702
Income tax benefit (expense)	—	117,646	—	—	—	(5,306,000)	46,212	(57,975)	—
Net income (loss)	\$ (84,087)	\$ (1,403,411)	\$ (3,035,363)	\$ (2,069,876)	\$ (445,195)	\$ (16,966,455)	\$ (11,480,120)	\$ (1,929,370)	\$ 6,656,702
Non-controlling interest	(41,427)	—	—	—	—	—	—	—	—
Net income (loss)	\$ (42,660)	\$ (1,403,411)	\$ (3,035,363)	\$ (2,069,876)	\$ (445,195)	\$ (16,966,455)	\$ (11,480,120)	\$ (1,929,370)	\$ 6,656,702

GROSS PROFIT BY SEGMENT BY QUARTER

	Fiscal 2016		Fiscal 2015				Fiscal 2014		
	Second	First	Fourth	Third	Second	First	Fourth	Third	Second
	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter
Black Oil									
Revenues	\$ 19,836,390	\$ 10,133,494	\$ 17,004,934	\$ 27,632,744	\$ 34,338,534	\$ 24,913,976	\$ 46,028,775	\$ 52,434,252	\$ 48,878,522
Cost of revenues	15,557,879	11,202,238	17,244,210	25,128,353	30,912,204	27,141,124	48,709,354	50,846,953	42,973,852
Gross profit (loss)	\$ 4,278,511	\$ (1,068,744)	\$ (239,276)	\$ 2,504,391	\$ 3,426,330	\$ (2,227,148)	\$ (2,680,579)	\$ 1,587,299	\$ 5,904,670
Refining & Marketing									
Revenues	\$ 2,923,481	\$ 2,626,455	\$ 2,687,922	\$ 8,752,135	\$ 11,447,889	\$ 8,266,120	\$ 14,694,971	\$ 19,655,674	\$ 18,517,819
Cost of revenues	2,169,238	2,099,665	2,270,299	8,281,753	9,956,771	7,305,402	15,570,210	18,680,731	16,626,592
Gross profit (loss)	\$ 754,243	\$ 526,790	\$ 417,623	\$ 470,382	\$ 1,491,118	\$ 960,718	\$ (875,239)	\$ 974,943	\$ 1,891,227
Recovery									
Revenues	\$ 1,668,573	\$ 1,372,655	\$ 1,182,971	\$ 2,877,705	\$ 3,333,288	\$ 4,504,243	\$ 1,848,325	\$ 4,813,590	\$ 4,683,281
Cost of revenues	1,441,281	1,069,225	983,182	694,843	2,766,202	3,561,930	2,770,172	4,233,487	4,244,125
Gross profit (loss)	\$ 227,292	\$ 303,430	\$ 199,789	\$ 2,182,862	\$ 567,086	\$ 942,313	\$ (921,847)	\$ 580,103	\$ 439,156

The graph below charts our total quarterly revenue over time from April 1, 2014 to June 30, 2016:



Liquidity and Capital Resources

The success of our current business operations has become dependent on repairs, and maintenance to our facilities and our ability to make routine capital expenditures, as well as our ability to manage our margins which are a function of the difference between what we are able to pay or charge for raw materials and the market prices for the range of products produced. 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 \$87,370,088 as of June 30, 2016 compared to \$93,644,816 at December 31, 2015. The decrease was mainly due to the sale of the Bango Refinery that reduced current assets, specifically, "Assets being held for sale" by \$11,170,243 during the period offset by an increase in restricted cash of \$1,501,793 relating amounts held in escrow in connection with the sale of the Bango Refinery and a \$3,208,267 increase in cash and cash equivalents in connection with the May 2016 Offering.

We had total current liabilities of \$ 18,430,374 as of June 30, 2016 compared to \$33,994,062 at December 31, 2015. This decrease was largely due to the approximate \$16 million pay down of the Goldman Sachs debt as a result of funds generated from the Bango Sale.

We had total liabilities of \$ 26,750,279 as of June 30, 2016, including current liabilities of \$ 18,430,374 and long-term debt of \$3,563,005, which included \$1,755,893 related to E-Source debt.

We had a working capital deficit of \$682,786 as of June 30, 2016 compared to a working capital deficit of \$10,827,288 as of December 31, 2015. The improvement in working capital deficit from December 31, 2015 to June 30, 2016 is due to the reasons described above.

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 capital expenditures related to new TCEP facilities in the future, in the event oil prices increase to a point necessary to make TCEP economically feasible and we determine, funding permitted, to construct additional TCEP facilities.

The Company financed insurance premiums through various financial institutions bearing interest rates from 4% to 4.52%. All such premium finance agreements have maturities of less than one year and have a balance of \$127,606 at June 30, 2016.

The Company's outstanding debt facilities as of June 30, 2016 are summarized as follows:

Creditor	Loan Type	Origination Date	Maturity Date	Loan Amount	Balance on June 30, 2016
MidCap Revolving Line of Credit	Revolving Note	March, 2015	March, 2017	\$ 7,000,000	\$ 2,188,819
Goldman Sachs USA	Term Loan - Restated Credit Agreement	January 29, 2016	May 2, 2019	8,900,000	5,600,000
Fox Encore Promissory Note	Promissory Note	January 29, 2016		5,150,000	5,150,000
Pacific Western Bank	Capital Lease	September, 2012	August, 2017	3,154,860	228,486
Texas Citizens Bank	Term Note	January, 2015	January, 2020	2,045,500	1,755,893
Various institutions	Insurance premiums financed	Various	< 1 year	1,789,481	127,606
Total				28,039,841	15,050,804
Deferred Finance Costs, Net					(345,586)
Total, Net of Deferred Finance Costs				28,039,841	14,705,218

Future contractual maturities of notes payable are summarized as follows:

Creditor	2016	2017	2018	2019	2020	Thereafter
MidCap Revolving Line of Credit	\$ 2,188,819	\$ —	\$ —	\$ —	\$ —	\$ —
Goldman Sachs USA	1,600,000	3,200,000	800,000	—	—	—
Fox Encore Promissory Note	5,150,000	—	—	—	—	—
Pacific Western Bank	95,332	133,154	—	—	—	—
Texas Citizens Bank	224,387	468,225	495,013	523,333	44,935	—
Various institutions	127,606	—	—	—	—	—
Totals	\$ 9,386,144	\$ 3,801,379	\$ 1,295,013	\$ 523,333	\$ 44,935	\$ —

Credit and Guaranty Agreement

On May 2, 2014, the Company entered into a Credit and Guaranty Agreement (as amended from time to time, the “Credit Agreement”) with Goldman Sachs Bank USA. Pursuant to the agreement, Goldman Sachs Bank USA loaned the Company \$40,000,000 in the form of a term loan. As set forth in the Credit Agreement, the Company has the option to select whether loans made under the Credit Agreement bear interest at (a) the greater of (i) the prime rate in effect, (ii) the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System plus ½ of 1%, (iii) the sum of (A) the Adjusted LIBOR Rate and (B) 1%, and (iv) 4.5% per annum; or (b) the greater of (i) 1.50% and (ii) the applicable ICE Benchmark Administration Limited interest rate, divided by (x) one minus, (y) the Adjusted LIBOR Rate. Interest on the Credit Agreement is payable monthly in arrears.

The Goldman Sachs Bank USA financing arrangement is secured by all of the assets of the Company.

On January 29, 2016, we, Vertex Operating, certain of our other subsidiaries, Lender and Agent entered into an Amended and Restated Credit and Guaranty Agreement (the “Restated Credit Agreement”), which amended and restated the Credit Agreement. The Restated Credit Agreement changed the Credit Agreement to an \$8.9 million multi-draw term loan credit facility (of which approximately \$6.4 million was outstanding and \$2.5 million was available to be drawn pursuant to the terms of the Restated Credit Agreement on substantially similar terms as the currently outstanding amounts owed to the Lender); modified the Credit Agreement to adjust certain EBITDA calculations in connection with the purchase of Bango Oil and the sale of the Bango Plant as described above; provided for approval for us to exercise the Purchase Option, enter into and effect the transactions contemplated by the Membership Interest Purchase Agreement, Subscription Agreement, and the Sale Agreement, and allow for the issuance of the Fox Note and the Mortgage (as described above under “Part I” - “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” - “Recent Events”); confirmed that we are required to make payments of \$800,000 per quarter from June 30, 2016 through maturity (May 2, 2019); provided us a moratorium on the prepayment of amounts owed under the Restated Credit Agreement as a result of various financial ratios we are required to meet through December 31, 2016; provided for us to retain any business interruption insurance proceeds received in connection with the Bango Plant; provided for us to pay \$16 million received at closing from the sale of the Bango Assets, all amounts released from escrow and any other cash proceeds in excess of \$500,000 received from the Sale Agreement after closing to the Lender as prepayment of amounts due under the Restated Credit Agreement; allowed us the right to make certain permitted acquisitions moving forward, without further consent of the Lender, provided that among other requirements, such acquisitions are in the same business or line of business as the Company, that such acquired businesses have generated consolidated adjusted EBITDA for the four fiscal quarters preceding such acquisition in excess of capital expenditures for such period (taking into account adjustments acceptable to the Agent for synergies expected to be achieved within the 90 days following the closing of such acquisition), and that the funding for such acquisition comes from certain limited sources set forth in greater detail in the Restated Credit Agreement; adjusted certain fixed charge coverage ratios and leverage ratios we are required to meet on a quarterly basis from September 30, 2016 to maturity; required us to maintain at least \$2 million of liquidity at all times; provided that events of default under the Credit Agreement include events of default under the Fox Note; and made various other updates and changes to take into account transactions which had occurred through the date of such agreement, and to remove expired and non-material terms of the prior Credit Agreement.

Amendment No. 1 to Amended and Restated Credit and Guaranty Agreement

On May 9, 2016, we entered into Amendment No. 1 to the Amended and Restated Credit Agreement (“Amendment No. 1”), which amended the Restated Credit Agreement. Pursuant to Amendment No. 1, we, Vertex Operating, substantially all of our other wholly-owned subsidiaries, the Lender and the Agent, agreed to amend the Restated Credit Agreement to (a) change the threshold constituting a change of control under the Restated Credit Agreement, from any time that Benjamin P. Cowart, our Chief Executive Officer, Chairman and largest stockholder, ceases to beneficially own and control at least 20% on a fully diluted basis of the economic and voting interests of our capital stock (“Fully-Diluted Capital Stock”), to any time that Mr. Cowart beneficially owns less than 10% of our Fully-Diluted Capital Stock; (b) extend the date that we are required to meet certain fixed charge coverage ratios from the quarter ending September 30, 2016, to the quarter ending March 31, 2017; (c) adjust the calculation of leverage ratio described in the Restated Credit Agreement; (d) allow for the May 2016 Offering (described below) and the required payment of \$800,000 to the Lender in connection with such Offering (representing the payment originally due June 30, 2016); (e) provide that the financial covenants relating to fixed charge ratios and leverage ratios would not be tested for the quarters ending September 30, 2016 and December 31, 2016, in the event we make an \$800,000 payment to the Lender in connection with our May 2016 Offering described below, which payment was made; (f) amend the required timing for certain other post-closing events to occur under the terms of the Restated Credit Agreement; and (g) include a release whereby we (and substantially all of our wholly-owned subsidiaries) released the Investor and Agent for any claims which we had, or could have had, as of the date the parties entered into Amendment No. 1.

MidCap Loan Agreement

Effective March 27, 2015, the Company, Vertex Operating and all of the Company’s other subsidiaries other than E-Source and Golden, entered into a Loan and Security Agreement with MidCap Business Credit LLC (“MidCap” and the “MidCap Loan Agreement”). Pursuant to the MidCap Loan Agreement, MidCap agreed to loan us up to the lesser of (i) \$7 million; and (ii) 85% of the amount of accounts receivable due to us which meet certain requirements set forth in the MidCap Loan Agreement (“Qualified Accounts”), plus the lesser of (y) \$3 million and (z) 50% of the cost or market value, whichever is lower, of our raw material and finished goods which have not yet been sold, subject to the terms and conditions of the MidCap Loan Agreement (“Eligible Inventory”), minus any amount which MidCap may require from time to time in order to over secure amounts owed to MidCap under the MidCap Loan Agreement, as long as no event of default has occurred or is continuing under the terms of the MidCap Loan Agreement. The requirement of MidCap to make loans under the MidCap Loan Agreement is subject to certain standard conditions and requirements.

The MidCap Loan had a balance of \$2,188,819 and \$1,744,122 on June 30, 2016 and December 31, 2015, respectively.

We are required to make immediate pre-payments of outstanding principal owed under the MidCap Note in the amount certain thresholds are exceeded as set forth in the MidCap Loan Agreement. We are also required to provide MidCap certain monthly reports and accountings.

We agreed to pay MidCap certain fees in connection with the MidCap Loan Agreement including (a) a non-refundable fee equal to 0.75% of the \$7 million credit limit (\$52,500), which was due upon our entry into the MidCap Loan Agreement, and is due on each anniversary thereafter; (b) reimbursement for MidCap’s audit fees incurred from time to time; a collateral monitoring charge of 0.20% of the greater of the average outstanding balance of the MidCap Note (as defined below) at the end of each month or \$3 million; (c) a fee equal to 0.75% of the difference between the credit limit of \$7 million and the greater of (i) the amount actually borrowed, and (ii) \$3 million, as calculated in the MidCap Loan Agreement, payable monthly in arrears and added to the balance of the MidCap Note; and (d) a one-time placement fee equal to 0.50% of the \$7 million credit limit which we paid upon our entry into the MidCap Loan Agreement.

The MidCap Loan Agreement contains customary representations, warranties, covenants for facilities of similar nature and size as the MidCap Loan Agreement, and requirements for the Company to indemnify MidCap for certain losses. The Credit Agreement also includes various covenants (positive and negative), binding the Company and its subsidiaries, including not permitting the availability for loans under the MidCap Loan Agreement to ever be less than 10% of the credit limit (\$700,000); prohibiting us from creating liens on any collateral pledged under the MidCap Loan Agreement, subject to certain exceptions; and prohibiting us from paying any dividends on capital stock, advancing any money to any person, guarantying any debt, creating any indebtedness, and entering into any transactions with affiliates on terms more favorable than those of an arms-length third party transaction.

The MidCap Loan Agreement includes customary events of default for facilities of a similar nature and size as the MidCap Loan Agreement.

The MidCap Loan Agreement continues in effect until the second anniversary of the parties’ entry into the Agreement, subject to the right of the parties, via mutual agreement, to extend such rights and agreement, provided that we have the right to terminate the MidCap Loan Agreement at any time with 60 days prior written notice. In the event we desire to terminate the MidCap Loan Agreement,

we are required to pay MidCap a termination fee of \$70,000, subject to certain exceptions in the MidCap Loan Agreement. We also have the right to terminate the agreement without providing 60 days' prior notice as long as we pay MidCap the equivalent amount of interest which would have been due (as calculated in the MidCap Loan Agreement) for such 60 day period, along with the \$70,000 termination fee. In the event the MidCap Loan Agreement is terminated by MidCap upon the occurrence of an event of default, we are required to pay MidCap a fee of \$70,000 upon such termination.

We also entered into a Revolving Note (the "MidCap Note") to evidence amounts borrowed from MidCap from time to time under the MidCap Loan Agreement. Interest on the MidCap Note accrues at a fluctuating rate equal to the aggregate of: (x) the prime rate then effect, and (y) 1.75% per annum, or at such other rate mutually agreed on from time to time by the parties, based upon the greater of (i) any balance owing under the MidCap Note at the close of each day; or (ii) a minimum assumed average daily loan balance of \$3 million. Interest is payable in arrears, on the first day of each month that amounts are outstanding under the MidCap Note.

We and each of our subsidiaries subject to the MidCap Loan Agreement are jointly and severally liable for the repayment of amounts owed under the MidCap Note. Pursuant to the MidCap Loan Agreement, we granted MidCap a security interest in substantially all of our assets and provided MidCap junior mortgages on all real estate which we own, subject to the first priority mortgages of the Lender. Finally, MidCap and the Lender entered into an Intercreditor Agreement, which governs which of the lenders have first and second priority security interests over our assets which are pledged as collateral in order to secure repayment of the amounts owed pursuant to the Credit Agreement and MidCap Loan Agreement.

Also on November 9, 2015, we and certain of our subsidiaries entered into a First Amendment to Loan and Security Agreement (the "Midcap First Amendment"), which amended the Midcap Loan Agreement with Midcap. The Midcap First Amendment amended the Midcap Loan Agreement to add Vertex OH as a party thereto; remove Vertex OH's requirement to enter into a negative pledge agreement with MidCap; created separate maximum borrowing base credit limits for Vertex OH's accounts and customers (\$100,000 maximum per customer, subject to certain exceptions); excluded customers who are based outside of the U.S. or Canada from the credit limits if backed by a bank letter of credit or covered by a foreign receivables insurance policy; removed inventory of Vertex OH from the definition of Eligible Inventory under the Midcap Loan Agreement; and provided that additional affiliates of the Company may become party to the Midcap Loan Agreement by executing an assumption agreement and revolving note in favor of Midcap.

Omega Secured Note

In connection with the Initial Closing of the Omega Purchase Agreement (described above under "Part I" - "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" - "Material Acquisitions"), Omega Refining and Bango Refining provided Vertex Refining Nevada a Secured Promissory Note (the "Omega Secured Note") in the aggregate amount of \$13,858,067, which had a balance of \$13,858,067 as of December 31, 2014, representing (a) a loan to Omega in the amount of approximately \$7.56 million (representing the agreed upon value of the amount by which the consideration paid at the Initial Closing (which included consideration relating to the assets acquired at the Initial Closing and which were planned to be acquired at the Final Closing) exceeded the value of assets acquired at the Initial Closing) (the "Purchase Price Loan"); (b) a \$750,000 loan related to the delivery of a certain amount of used motor oil inventory at the Initial Closing (the "First Inventory Loan"); (c) a \$1,400,000 loan related to the delivery of a certain amount of used motor oil inventory which was planned to be acquired at the Final Closing (the "Second Inventory Loan" and along with the First Inventory Loan, the "Inventory Loans"); (d) advances totaling \$4.15 million to satisfy accounts payable and other working capital related obligations of Omega after the Initial Closing (the "Draw Down Loans"); and (e) an additional loan of \$1 million for capital expenditures (the "Capital Expenditure Loan").

The Purchase Price Loan and the Draw Down Loans accrued interest at the short-term federal rate as published by the Internal Revenue Service from time to time (approximately 0.33% per annum as of the Initial Closing) prior to October 30, 2014, and thereafter at 9.5% per annum, payable monthly in arrears and had a maturity date of March 31, 2015, provided that the loan was not paid when due. The First Inventory Loan and the Draw Down Loans accrue interest at the rate of 9.5% per annum beginning on May 31, 2014, were due and payable on March 31, 2015.

The repayment of the Secured Note is guaranteed by Omega Holdings pursuant to a Guaranty Agreement and secured by a security interest granted pursuant to the terms of the Secured Note and a Leasehold Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing. Additionally, we have the right to set-off any amount due upon an event of default under the Secured Note against certain of the shares pledged by Omega in connection with the Initial Closing and the earn-out consideration due to Omega (provided that we have determined that no earn-out consideration will be due to Omega), subject to the terms of the Asset Purchase Agreement.

The Omega Secured Note had an outstanding balance of \$0 and \$13,858,067 as of June 30, 2016 and December 31, 2015.

On January 28, 2016, we entered into and closed the transactions contemplated by the Sale Agreement described in greater detail above under “ Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” - “Recent Events” - “Purchase and Sale Agreement, Churchill County, Nevada Plant”.

Pursuant to the Sale Agreement, we (through Bango Oil after we acquired Bango Oil as described below pursuant to our exercise of the Purchase Option) sold Safety-Kleen the used oil re-refining plant located on approximately 40 acres in Churchill County, Nevada (the “Bango Plant”), which we previously rented, and all equipment, tools and other tangible personal property located at the Bango Plant, which relate to or are used in connection with the operations of the Bango Plant (collectively, the “Bango Assets”). Safety-Kleen assumed certain liabilities associated with contracts assumed in the purchase and related to bringing the Bango Plant back into operational status. The aggregate purchase price for the Bango Assets was \$35 million, subject to adjustment as described in the Sale Agreement for certain taxes, costs and expenses incurred by Safety-Kleen after closing. A total of \$1.3 million of the purchase price was used by us in order to exercise the options we had pursuant to two Lease and Purchase Agreements (the “Equipment Leases”) we were party to, which provided for the use of a rail facility and related equipment and a pre-fabricated metal building located at the Fallon, Nevada, facility, and which provided us (through Vertex Refining Nevada) the right to acquire the applicable property/equipment subject to each Equipment Lease at any time prior to the expiration of the leases for \$914,000 and \$400,000, respectively. Additionally, \$100,000 of the purchase price was retained by Safety-Kleen to acquire certain water rights necessary for operation of the Bango Plant. Finally, a required closing condition of the Sale Agreement was that we use a portion of the purchase price to exercise the purchase option set forth in that certain Lease With Option For Membership Interest Purchase (the “Bango Lease”) entered into on April 30, 2015, by and between us, Vertex Refining Nevada and Bango Oil, whereby, we had the option at any time during the term of the lease to purchase all of the equity interests of Bango Oil (the “Purchase Option”), effectively acquiring ownership of the Bango Plant. The Purchase Option was exercised by us on January 29, 2016 in connection with the closing of the Sale Agreement, at which time Bango Oil became a wholly-owned subsidiary of Vertex Refining Nevada, and we paid approximately \$9 million of consideration to Bango Oil in connection with the Purchase Option. Additionally, an aggregate of \$16 million of the purchase price paid by Safety-Kleen in connection with the Sale Agreement was required to be paid by us to our senior lender, Goldman Sachs Bank USA, at closing, which amount was paid at closing, and which funds were used to pay down amounts owed to Goldman Sachs Bank USA under our Credit Agreement.

Additionally, at the closing, we placed \$1.5 million in cash and \$1 million worth of our common stock (1,108,928 shares) into escrow with 50% of the shares to be released 12 months following the closing and such cash and the remainder of the shares held in escrow to be released 18 months after the closing, in order to satisfy any indemnification claims made by Safety-Kleen pursuant to the terms of the Sale Agreement. On June 30 and December 31 of each year that any of our shares of common stock are in escrow, in the event the value of the shares held in escrow is less than \$1 million, based on the then market price of our common stock, we are required to increase the number of shares of common stock held in escrow to total \$1 million in aggregate value.

The Company received net cash of approximately \$17.3 million in connection with the transactions contemplated by the Sale Agreement, after deducting legal, administrative and banker fees; amounts paid in connection with the exercise of the Purchase Option; cash amounts set aside in escrow; and the purchase price of the equipment related to the Bango Plant as described above, of which \$16 million was immediately paid to the Lender to pay down amounts owed to Lender under the Credit Agreement.

During 2015, the Company reclassified amounts due from Omega Holdings, LLC to the Company based on the portion of the acquisition purchase price that was allocated to the Nevada facility upon acquisition because the Company sold the facility. The assets held for sale balance of \$11,170,243 is made up of (1) accounts receivable of \$1,691,662 (2) notes receivable of \$8,308,000 and (3) fixed asset construction in progress of \$1,170,581.

Fox Note

On January 29, 2016, Vertex OH, borrowed \$5.15 million from Fox Encore and provided a Promissory Note to Fox Encore to reflect such borrowed funds (the "Fox Note"). The Fox Note bears interest at 10% percent per annum (15% upon the occurrence of an event of default), payable monthly in arrears beginning on February 29, 2016. The principal and all accrued and unpaid interest on the Fox Note is due on the earlier of (a) July 31, 2016 (as may be extended by Vertex OH as discussed below, the "Maturity Date"), or (b) upon acceleration of the Fox Note during the existence of an event of default as discussed therein. Provided that no event of default is then existing on the Fox Note or under any other loan document associated therewith, and certain other requirements as described in the Fox Note are met, Vertex OH has the right to three (3) extension options (each, an "Extension Option") pursuant to which Vertex OH may extend the Maturity Date for six (6) months each. The first extension will extend the Maturity Date of the Fox Note until January 31, 2017, the second extension will extend the Maturity Date of the Fox Note until July 31, 2017, and the third extension will extend the Maturity Date of the Fox Note until January 29, 2018. Upon exercising an Extension Option, Vertex OH is required to pay Fox Encore an extension fee equal to 3% of the then outstanding principal amount of the Fox Note, which amount is separate from, and is not applied toward, the outstanding indebtedness owed under the Fox Note; provided, however, that if Vertex OH elects to exercise the Extension Option to extend the Maturity Date to January 31, 2017, the 3% fee for such extension is not to be paid in cash but is instead added to the outstanding principal balance of the Fox Note. The Fox Note may be prepaid in whole or in part at any time without penalty, provided that if repaid in full by July 31, 2016, the amount to be repaid is decreased by \$150,000. The Fox Note is secured by the Mortgage described above. The Fox Note includes certain standard and customary financial reporting requirements, notice requirements, indemnification requirements, covenants and events of default.

Texas Citizens Bank Loan Agreement

On January 7, 2015, E-Source entered into a loan agreement with Texas Citizens Bank to consolidate various smaller debt obligations. The loan Agreement provides a term note in the amount of \$1,755,893 that matures on January 7, 2020. Borrowings bear a fixed interest rate of 5.5% per annum and interest is calculated from the date of each advance until repayment in full or maturity. The loan has 59 scheduled monthly payments of \$45,147 which includes principal and interest. The loan is collateralized by all of the assets of E-Source. The loan contains customary representations, warranties, and covenants for facilities of similar nature and size.

Unit Offering

On May 13, 2016, closed the transactions contemplated by the May 10, 2016 Unit Purchase Agreement (the "May 2016 Purchase Agreement") with certain accredited investors (the "Investors"), pursuant to which we sold the Investors an aggregate of approximately 12 million units (the "May 2016 Units"), each consisting of (i) one share of Series B1 Preferred Stock of the Company, \$0.001 par value per share (the "Series B1 Preferred Stock") and (ii) one warrant to purchase one-quarter of a share of common stock of the Company, \$0.001 par value per share (each a "May 2016 Warrant" and collectively, the "May 2016 Warrants"). The May 2016 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 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 Closing Bid Price). Total gross proceeds from the offering of the Units (the "May 2016 Offering") were \$19.3 million.

A total of approximately \$18.6 million 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. 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 approximately \$11.2 million of the proceeds raised in the May 2016 Offering were used to immediately repurchase and retire approximately 3.6 million shares of Series B Preferred Stock and pay accrued interest on such repurchased shares through the closing date (the "Repurchases"), leaving net proceeds of approximately \$8.1 million, before deducting placement agents' fees and offering expenses. Of these net proceeds, \$800,000 was used to pay amounts owed to the Lender, as discussed above and the remaining proceeds for working capital purposes and potential acquisitions.

Craig-Hallum Capital Group LLC (the "Placement Agent") acted as exclusive placement agent in connection with the May 2016 Offering. The Placement Agent received a commission equal to 6.5% of the net proceeds after affecting the Repurchases described above, from the May 2016 Offering, for an aggregate commission of approximately \$530,000.

The Company's Chief Executive Officer and Chairman, Benjamin P. Cowart, and the Company's Chief Financial Officer and Secretary, Chris Carlson, each purchased 32,052 Units (\$50,000 of May 2016 Units) in the May 2016 Offering and in connection with such purchases was issued 32,052 shares of Series B1 Preferred Stock and May 2016 Warrants to purchase 8,013 shares of common stock.

The May 2016 Offering terms and the terms of the Series B1 Preferred Stock are described in greater detail in the Current Reports on Form 8-K filed with the Securities and Exchange Commission on May 10, 2016 and May 13, 2016.

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 proposed process costs and would depend on the location and site specifics of the facility.

Management believes that the amount planned to be raised through the unit offering described above, the amount remaining from the transactions undertaken in January 2016 (described above) and the amount available under our MidCap Loan Agreement, in addition to projected earnings, will provide sufficient liquidity to fund our operations for the foreseeable future, although we may seek additional financing to fund acquisitions or other developments in the future and to repay amounts owed to our senior creditor. We may raise funds in the future through the sale of common stock, preferred stock, debt, or convertible debt, which may include the grant of warrants. We may also seek to obtain sufficient funding to completely refinance the Goldman and/or MidCap debt subsequent to the date of this filing which may take any or all of the forms described above.

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.

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 six months ended June 30, 2016 compared to the six months ended June 30, 2015

	Six Months Ended June 30,	
	2016	2015
Beginning cash and cash equivalents	\$ 765,364	\$ 6,017,076
Net cash provided by (used in):		
Operating activities	(11,644,657)	(7,605,437)
Investing activities	15,204,194	(1,691,740)
Financing activities	(351,270)	8,997,644
Net increase (decrease) in cash and cash equivalents	3,208,267	(299,533)
Ending cash and cash equivalents	\$ 3,973,631	\$ 5,717,543

Net cash used in operating activities was \$ 11,644,657 for the six months ended June 30, 2016 as compared to \$7,605,437 of net cash used in operating activities during the corresponding period in 2015. Our primary sources of liquidity are cash flows from our operations and the availability to borrow funds under our Credit Agreement, notes payable, and the MidCap Loan Agreement. The primary reason for the increase in cash used in operating activities for the six month period ended June 30, 2016 compared to the same period in 2015 is our reduction in accounts payable and accrued expenses.

Investing activities provided cash of \$15,204,194 for the six months ended June 30, 2016 as compared to having used \$1,691,740 of cash during the corresponding period in 2015 due mainly to the net proceeds from our sale of our Nevada facility ("Bango Plant") of \$19 million offset by operating asset purchases of \$2.3 million.

Financing activities used cash of \$351,270 for the six months ended June 30, 2016 as compared to providing \$8,997,644 of cash during the corresponding period in 2015. The financing activities for the six months ended June 30, 2016 were comprised of net proceeds of approximately \$8 million from our May 2016 Offering, \$4 million from the sale of our Series C Preferred Stock and the Fox Note proceeds of approximately \$5 million, offset by an approximate \$18 million pay down of our long-term debt.

Critical Accounting Policies and Use of Estimates

Our financial statements are prepared in accordance with 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 1. Going Concern" to the financial statements included herein).

Revenue Recognition.

Revenue for each of our divisions is recognized when persuasive evidence of an arrangement exists, goods are delivered, sales price is determinable, and collection is reasonably assured. Revenue is recognized upon delivery by truck and railcar of feedstock to our re-refining customers and upon product leaving our terminal facilities via barge. Revenue is also recognized as recovered scrap materials are sold.

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 purchase price for 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 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.

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 June 30, 2016 but in 2015 the Company did recognize a long-lived asset impairment related to the Recovery division.

Derivative liabilities.

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 requires the Company to redeem such preferred stock on the fifth anniversary of the issuance of the Series B Preferred stock if the redemption would not be subject to then existing restrictions under the Company's senior credit agreement that prohibits redemption. 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.

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 3. Quantitative and Qualitative Disclosures about Market 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.

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. We believe that the current downward trend in natural gas prices coupled with increasing crude oil prices provides an attractive margin opportunity for our TCEP finished product.

Item 4. 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 Securities Exchange Act of 1934, as amended, 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 Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. As of June 30, 2016, based on the evaluation of these disclosure controls and procedures, and in light of the material weakness we found in our internal controls over financial reporting as of December 31, 2015 (as described in greater detail in our annual report on Form 10-K for the year ended December 31, 2015), 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 Securities Exchange Act of 1934, as amended, is recorded properly, 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.

In light of the material weaknesses described above, we have performed additional analysis and other post-quarter procedures to ensure our consolidated financial statements are prepared in accordance with generally accepted accounting principles and we have contracted with experts, where necessary, for assistance in analyzing and determining the proper accounting and financial reporting treatment for various of the Company's complicated business transactions. 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 period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. 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.

Vertex Refining LA, LLC, 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.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Commission on April 4, 2016, under the heading "Risk Factors", except as discussed below, and investors should review the risks provided in the Form 10-K, prior to making an investment in the Company. The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in the Form 10-K for the year ended December 31, 2015, under "Risk Factors", and below, any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, operating results and stock price.

RISKS RELATING TO THE MAY 2016 UNIT OFFERING

We face significant penalties and damages in the event our registration statement to register the securities issuable upon conversion/exercise of securities sold in the May 2016 Offering is not declared effective within required time limits or such registration statement is subsequently suspended or terminated.

Under the May 2016 Purchase Agreement, the Company has 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, for resale by the 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 (June 12, 2016), which filing date was met, and to cause the registration statement to become effective by the 90th day following the closing (August 11, 2016)(or, in the event of a "full review" by the Securities and Exchange Commission, the 120th day following the closing (September 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 an 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 year. 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 is not declared effective within the required time limits set forth above, or such registration statement is subsequently suspended or terminated, or we otherwise fail to meet certain requirements set forth in the May 2016 Purchase Agreement, 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

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, Series B1 Preferred Stock and Series C Preferred Stock, which give the holders thereof a liquidation preference and the ability to convert such shares into our common stock.

We have 50,000,000 shares of preferred stock authorized, which includes 5,000,000 shares of designated Series A Preferred Stock of which approximately 0.5 million shares are issued and outstanding as of the date of this filing, 10 million designated shares of Series B Preferred Stock, of which 4,832,422 shares are issued and outstanding as of the date of this filing, 17 million designated shares of Series B1 Preferred Stock, of which 12,403,683 shares are issued and outstanding as of the date of this filing and 44,000 designated shares of Series C Preferred Stock, of which 31,568 are issued and outstanding as of the date of this filing. 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 and amounts owed to our senior creditors are satisfied. The Series C Preferred Stock has a liquidation preference of \$100.00 per share, payable only after the liquidation preference on the Series A Preferred Stock, Series B Preferred Stock and Series B1 Preferred Stock and amounts owed to our senior creditor 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 \$0.7 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 \$34.7 million of the remaining proceeds from any such transaction, and the holders of our Series C Preferred Stock would have the right to receive up to \$3.2 million of the remaining proceeds from any such transaction, after the payment of amounts owed to certain other of our creditors, but before any amount is paid to the holders of our common stock. 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. Furthermore, the conversion of Series A Preferred Stock, Series B Preferred Stock and Series B1 Preferred Stock (each of which convert on a one-for-one basis (subject to adjustments for stock splits and recapitalizations)) into common stock and the conversion of Series C Preferred Stock into common stock (each of which convert into 100 shares of common stock (subject to adjustments for stock splits and recapitalizations)) may cause substantial dilution to our common shareholders. 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.

In addition to the above, 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 \$15.2 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 \$19.5 million in aggregate as of the date of this filing), subject to the terms of our senior loan documents, which funds we may not have, or which may not be available on favorable terms, if at all.

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

As of the date of this filing, there were (i) 2,958,582 outstanding stock options at a weighted average exercise price of \$4.69 per share; (ii) 7,353,061 outstanding warrants to purchase 7,353,061 shares of common stock at a weighted average exercise price of \$2.34 per share; (iii) 492,716 shares of common stock issuable upon the conversion of our 492,716 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) 4,832,422 shares of common stock issuable upon conversion of our 4,832,422 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); (v) 12,403,683 shares of common stock issuable upon conversion of our 12,403,683 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); and (vi) 3,156,800 shares of common stock issuable upon conversion of our 31,568 outstanding shares of Series C Convertible Preferred Stock (each of which convert into 100 shares of common stock (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.

The issuance and sale of common stock upon exercise of the May 2016 Warrants may cause substantial dilution to existing stockholders and may also depress the market price of our common stock.

The May 2016 Warrants have an exercise price of \$1.53 per share. The May 2016 Warrants are exercisable beginning 185 days after the date of the closing of the Offering (November 14, 2016) and have a term of 5.5 years. The May 2016 Warrants contain a cashless exercise provision in connection with any shares that are not then registered by the Company. Although the May 2016 Warrants may not be exercised by the holders thereof if such exercise would cause such holder to own more than 9.999% of our outstanding common stock (or 4.999% in connection with certain holders), this restriction does not prevent such holder from exercising some of the May 2016 Warrants, selling those shares, and then exercising the rest of the May 2016 Warrants, while still staying below the 9.999% limit (or 4.999% limit as applicable). In this way, the holders of the May 2016 Warrants could sell more than this limit while never actually holding more shares than this limit allows. If the holders of the May 2016 Warrants choose to do this, it will cause substantial dilution to the then holders of our common stock.

If exercises of the May 2016 Warrants and sales of such shares issuable upon exercise thereof take place, the price of our common stock may decline. In addition, the common stock issuable upon exercise of the May 2016 Warrants 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 the Warrant holders, then the value of our common stock will likely decrease.

RISKS RELATED TO OUR SERIES B1 PREFERRED STOCK

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

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 following the earlier of (a) the effective date of a resale registration statement which we are required to file to register the resale of the shares of common stock underlying the Series B1 Preferred Stock and May 2016 Warrants pursuant to the May 2016 Purchase Agreement, or (b) November 13, 2016, 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 B1 Preferred Stock will result in immediate and substantial dilution to the interests of other stockholders since the holders of the Series B1 Preferred Stock may ultimately receive and sell the full amount of shares issuable in connection with the conversion of such Series B1 Preferred Stock. Although the Series B1 Preferred Stock may not be converted by holder if such conversion would cause the holder to own more than 9.999% of our outstanding common stock (or 4.999% in connection with certain holders), this restriction does not prevent such holder from converting some of its holdings, selling those shares, and then converting the rest of its holdings, while still staying below the 9.999% limit (or 4.999% in connection with certain holders). In this way, the holders of the Series B1 Preferred Stock could sell more than this limit while never actually holding more shares than this limit allows. If the holders of the Series B1 Preferred Stock choose to do this, it will cause substantial dilution to the then holders of our common stock.

Our Series B1 Preferred Stock accrues a cash dividend.

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 \$19.3 million in aggregate), provided that such dividend increases to 9% if certain Consolidated Adjusted EBITDA targets are not met during 2016-2017, until the earlier of (a) the date the next target is met, or (b) 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, 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 "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 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 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. 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 B1 Preferred Stock in lieu of cash dividends (and the subsequent conversion of such Series B1 Preferred Stock into common stock pursuant to the terms of such 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 B1 Preferred Stock upon the occurrence of certain events.

As described above, in the event we do not have available cash to pay the dividends which accrue on the Series B1 Preferred Stock in cash, we are prohibited from paying such dividends in cash, and we do not have sufficient registered shares of common stock available to allow for the payment of such dividends in common stock or are otherwise prohibited from paying such dividends on shares of common stock pursuant to the terms of the Series B1 Preferred Stock designation, we are required to pay such dividends in-kind in Series B1 Preferred Stock shares at \$1.56 per share, which will also include a \$1.56 per share liquidation preference and the right to convert into common stock on a one-for-one basis.

The issuance and sale of common stock upon conversion of the Series B1 Preferred Stock may depress the market price of our common stock.

If conversions of the Series B1 Preferred Stock and sales of such converted shares take place, the price of our common stock may decline. In addition, the common stock issuable upon conversion of the Series B1 Preferred Stock 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 converted shares sold by the Series B1 Preferred Stock holders, then the value of our common stock will likely decrease.

Item 2. Recent Sales of Unregistered Securities

For the period from December 31, 2015 to March 31, 2016, a total of approximately \$373,500 of dividends accrued on our outstanding Series B Preferred Stock. We were prohibited from paying such dividends in shares of common stock because the applicable Dividend Stock Payment Price was below \$2.91. The "Dividend Stock Payment Price" is calculated by dividing (a) the accrued dividends 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. In the event the applicable Dividend Stock Payment Price is below \$2.91, we are required to pay such dividend in cash or in-kind in additional shares of Series B Preferred Stock. Pursuant to the terms of our Credit Agreement with our senior lender, we are prohibited from paying the dividend in cash and therefore we paid the accrued dividends in-kind by way of the issuance of 124,258 restricted shares of Series B Preferred Stock pro rata to each of the then holders of our Series B Preferred Stock in April 2016. If converted in full, the 124,258 shares of restricted Series B Preferred Stock would convert into 124,258 shares of our common stock. As the issuance of the Series B 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 and are further subject to the terms of the escrow agreement. 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.

In May 2016, we sold the May 2016 Units (including the shares of Series B1 Preferred Stock and the May 2016 Warrants) to the May 2016 Investors under the May 2016 Purchase Agreement in transactions exempt from registration under the Securities Act, in reliance on Section 4(a)(2) thereof and Rule 506(b) of Regulation D of the Securities Act. Each of the Investors represented that it is an accredited investor within the meaning of Rule 501(a) of Regulation D, and acquired the May 2016 Units for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof. The Units were offered without any general solicitation by the Company or its representatives. The Units 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. If converted in full, the 12,403,683 shares of Series B1 Preferred Stock would convert into 12,403,683 shares of our common stock. If exercised in full, the holders of the warrants to purchase 3,100,926 shares of common stock would be due 3,100,926 shares of common stock upon such exercise.

For the period from April 1, 2016 to June 30, 2016, a total of approximately \$264,074 of dividends accrued on our outstanding Series B Preferred Stock and for the period from May 13, 2016 to June 30, 2016, a total of approximately \$145,123 of dividends accrued on our outstanding Series B1 Preferred Stock. We were prohibited from paying such dividends in shares of common stock and in cash and therefore we paid the accrued dividends in-kind by way of the issuance of 62,822 restricted shares of Series B Preferred Stock pro rata to each of the then holders of our Series B Preferred Stock in July 2016 and the issuance of 97,875 restricted shares of Series B1 Preferred Stock pro rata to each of the then holders of our Series B1 Preferred Stock in July 2016. If converted in full, the 62,822 shares of Series B Preferred Stock would convert into 62,822 shares of common stock and the 97,875 shares of Series B1 Preferred Stock would convert into 97,875 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 and are further subject to the terms of the escrow agreement. 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.

Use of Proceeds From Sale of Registered Securities

None.

Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

On June 5, 2016, we and Penthol C.V. ("Penthol") of the Netherlands aka Penthol LLC (a Penthol subsidiary in the United States) reached an agreement for us 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, and the product will ship via truck, rail and barge.

Item 6. Exhibits

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, hereunto duly authorized.

VERTEX ENERGY, INC.

Date: August 10, 2016

By: /s/ Benjamin P. Cowart

Benjamin P. Cowart
Chief Executive Officer
(Principal Executive Officer)

Date: August 10, 2016

By: /s/ Chris Carlson

Chris Carlson
Chief Financial Officer
(Principal Financial/Accounting Officer)

EXHIBIT INDEX
Incorporated by Reference

Exhibit Number	Description of Exhibit	Filed or Furnished Herewith	Form	Exhibit	Filing Date/Period End Date	File No.
3.1	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
3.2	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
3.3	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
10.1	Amendment No. 1 to Amended and Restated Credit and Guaranty Agreement dated May 9, 2016 by and among Vertex Energy Operating, LLC, Vertex, Energy, Inc., the other credit parties party thereto, Goldman Sachs Specialty Lending Holdings, Inc., as a lender and Goldman Sachs Bank USA, as administrative agent		8-K	10.1	5/10/2016	001-11476
10.2	Form of Unit Purchase Agreement dated May 10, 2016 by and between Vertex Energy, Inc. and the purchasers named therein		8-K	10.2	5/10/2016	001-11476
10.3	Form of Warrant		8-K	10.2	5/13/2016	001-11476
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
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.

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 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.

++ XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Benjamin P. Cowart, certify that:

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

Date: August 10, 2016

By: /s/ Benjamin P. Cowart
Benjamin P. Cowart
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Chris Carlson, certify that:

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

Date: August 10, 2016

By: /s/ Chris Carlson
Chris Carlson
Chief Financial Officer
(Principal Financial/Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SS. 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Vertex Energy, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2016, as filed with the Securities and Exchange Commission (the "Report"), I, Benjamin P. Cowart, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: August 10, 2016

By: /s/ Benjamin P. Cowart
Benjamin P. Cowart
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SS. 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Vertex Energy, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2016, as filed with the Securities and Exchange Commission (the "Report"), I, Chris Carlson, Principal Accounting Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: August 10, 2016

By: /s/ Chris Carlson
Chris Carlson
Chief Financial Officer
(Principal Financial/Accounting Officer)