SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Vertex Energy Inc.

Form: 10-K

Date Filed: 2014-03-25

Corporate Issuer CIK:	890447
Symbol:	VTNR
SIC Code:	4953

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

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

FOR THE TRANSITION PERIOD FROM _____________ TO _____________

Commission File Number **001-11476**

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

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

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

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

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

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

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

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

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 ý 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 ý No ❑

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

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

The issuer's revenues for the most recent fiscal year ended December 31, 2013 were $161,967,252.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $20,374,847.

State the number of shares of the issuer's common stock outstanding, as of the latest practicable dae: 21,238,531 shares of common stock issued and outstanding as of March 19, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2014 annual meeting of shareholders (the "2014 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2014 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013
TABLE OF CONTENTS

Part I

Part II

Part III

Part IV

PART I

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:

- the level of competition in our industry and our ability to compete;
- our ability to respond to changes in our industry;
- the loss of key personnel or failure to attract, integrate and retain additional personnel;
- our ability to protect our intellectual property and not infringe on others' intellectual property;
- our ability to scale our business;
- our ability to maintain supplier relationships and obtain adequate supplies of feedstocks;
- our ability to obtain and retain customers;
- our ability to produce our products at competitive rates;
- our ability to execute our business strategy in a very competitive environment;
- trends in, and the market for, the price of oil and gas and alternative energy sources;
- our ability to maintain our relationship with KMTEX, Ltd.;
- the impact of competitive services and products;
- 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, successfully negotiate acquisition terms or effectively integrate acquired companies or businesses;
- interruptions at our facilities;
- unexpected changes in our anticipated capital expenditures resulting from unforeseen required maintenance, repairs, or upgrades;
- our ability to effectively manage our growth;
- the lack of capital available on acceptable terms to finance our continued growth; and
- other risk factors included under "Risk Factors" in this Report.

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

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

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

ITEM 1. Business

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 cancelled and exchanged for 0.10 shares of our common stock; (ii) each outstanding share of World Waste Series A preferred stock was cancelled and exchanged for 0.4062 shares of our Series A preferred stock; and (iii) each outstanding share of World Waste Series B preferred stock was cancelled and exchanged for 11.651 shares of our Series A preferred stock.

Additionally, as a result of the Merger, as the successor entity of World Waste, we assumed World Waste's filing obligations with the Securities and Exchange Commission and our common stock began trading on the Over-The-Counter Bulletin Board under the symbol "VTNR.OB" effective May 4, 2009. Subsequently, effective February 13, 2013, our common stock began trading on the NASDAQ Capital Market under the symbol "VTNR". Finally, as a result of the Merger, the common stock of World Waste was effectively reversed one for ten (10) as a result of the exchange ratios set forth in the Merger, and unless otherwise noted, the impact of such effective reverse stock split, created by the exchange ratio set forth above, is retroactively reflected throughout this Report.

Material Acquisition

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.*** 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 the Thermal Chemical Extraction Process ("TCEP") (described below).
- ***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.*** 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.

We paid the following consideration for 100% of the equity interests in Acquisition Sub (i) to Holdings, (a) $14.8 million in cash and assumed debt; and (b) 4,545,455 million restricted shares of our common stock; and (ii) to B&S LP, $1.7 million cash consideration, representing the appraised value of certain real estate contributed by B&S LP to Acquisition Sub. Additionally, for each of the three one-year periods following September 11, 2012, Holdings will be eligible to receive earn-out payments of $2.23 million, up to $6.7 million in the aggregate, contingent on the combined company achieving adjusted EBITDA targets of $10.75 million, $12.0 million and $13.5 million, respectively, in those periods. The first earn-out target for the one year period ending September 11, 2013 was not met and as such no earn-out payment was paid for such period.

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.

The consideration paid for the acquisition of E-Source was approximately $900,000 and the right of one of the sellers (the "Earn-Out Seller") to earn additional earn-out payments of up to 15% of E-Source's net income before taxes, in the event certain calendar year net income thresholds are met, in calendar years 2014 through 2017, as well as a commission of 20% of the net income before taxes associated with certain future planned projects of E-Source required to be completed prior to December 31, 2014, as long as such applicable seller remains an employee of E-Source during such applicable periods.

Effective on March 14, 2014, we entered into an amendment to our acquisition agreement with the Earn-Out Seller, and mutually agreed that the lesser of (a) 20% and (b) $100,000, per calendar year of earn-out payments due the Earn-Out Seller, if any, will be payable in shares of our restricted common stock, based on the average of the five closing sales prices of the Company's common stock on the first five trading days of each applicable calendar year (each a "Valuation") for which the earn-out consideration relates, provided that the parties mutually agreed to use a valuation of $3.2922 per share (the "2014 Valuation Price") for any earn-out payments relating to the 2014 calendar year and further agreed that in no event will any future calendar year Valuation be less than the 2014 Valuation Price.

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. 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. Our Recovery division is a generator solutions company for the proper recovery and management of hydrocarbon streams. We operate a refining facility that uses our proprietary TCEP and we also utilize third-party processing facilities.

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 13 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 7 transportation trucks and more than 90 aboveground storage tanks with over 4.5 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. At Cedar Marine Terminal we use our proprietary TCEP technology to re-refine used oil into marine fuel cutterstock and a higher-value feedstock for further processing.

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, Ltd. ("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.

We currently provide our services in 13 states, primarily in the Gulf Coast and Central Midwest regions of the United States. During the twelve month period ending December 31, 2013, we aggregated approximately 72.5 million gallons of used motor oil and other petroleum by-product feedstocks and managed the re-refining of approximately 24.2 million gallons of used motor oil with our proprietary TCEP.

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.

Our Industry

The used oil recycling industry is comprised of multiple participants including generators, collectors, aggregators, processors, and end users. Generators are entities that generate used oil through their daily operations such as automotive businesses conducting oil changes on consumer and commercial vehicles and industrial users changing lubricants on machinery and heavy equipment. Collectors are typically local businesses that purchase used oil from generators and provide on-site collection services. The collection market is highly fragmented and we believe there are more than 700 used oil collectors in the United States. Aggregators are specialized businesses that purchase used oil and petroleum by-products from multiple collectors and sell and deliver it as feedstock to processors. Processors, or re-refineries, utilize a processing technology to convert the used oil or petroleum by-product into a higher-value feedstock or end-product.

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

The petroleum by-products industry is driven by the financial and environmental benefits of recycling, as well as by the amount of petroleum by-product generated each year. Used oil is usually recovered and recycled in one of two ways: (i) by burning it as an industrial fuel; or (ii) by re-refining it into higher value end products, such as lubricating base oils, fuel oil cutterstock, or transportation fuels (pursuant to the U.S. Department of Energy, July 2006 Report entitled "Used Oil Re-refining Study to Address Energy Policy Act of 2005 Section 1838"). The market value of recycled oil is based, in large part, on its end use. In general, the market price for used motor oil that is burned as an industrial fuel is driven by the cost of competing fuels, including natural gas, while the market value of re-refined used motor oil is driven by competing petroleum products. The extent to which the financial benefits of recycling used oil are realized is driven by operating efficiency in aggregating, storing and transporting used oil supply; the extent to which the used oil is re-refined; and the price spread between natural gas and crude oil.

In the U.S., we believe that of the 1.3 billion gallons of used oil generated annually approximately 200 million gallons are improperly disposed, 200 – 250 million gallons are re-refined into lubricating base oils, 150 - 200 million gallons are re-refined into intermediate products with grades slightly lower than base oil, and 650 – 750 million gallons are burned as an industrial fuel source. We believe that the amount of used oil being re-refined into base oils and intermediate products in the U.S. will increase in 2014 as additional re-refining capacity comes on-line. As of the date of this Report, the approximate market price for used oil is $1.80 per gallon, the approximate market price of intermediate re-refined products ranges from $2.00 to $3.00, and the approximate price for lubricating base oil ranges from $3.50 to $4.50 per gallon, representing a U.S. market size of $2.4 - $2.8 billion for recycled oil.

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

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

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

Our Competitive Strengths

Large, Diversified Feedstock Supply Network.

We obtain our feedstock supply through a combination of direct collection activities and purchases from third-party suppliers. We believe our balanced direct and indirect approach to obtaining feedstock is highly advantageous because it enables us to maximize total supply and reduce our reliance on any single supplier and the risk of not fulfilling our minimum feedstock sale quotas. We collect feedstock directly from over 2,500 generators including oil change service stations, automotive repair shops, manufacturing facilities, petroleum refineries and petrochemical manufacturing operations, as well as brokers. We aggregate used oil from a diverse network of approximately 50 suppliers who operate similar collection businesses to ours.

Strategic Relationships.

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

Proprietary Technology.

Our proprietary TCEP technology produces a fuel oil cutterstock for the fuel oil market or a refining feedstock. We are able to build TCEP re-refining facilities at a significantly lower cost than conventional re-refineries. We estimate the cost to build a TCEP plant with capacity of up to 50 million gallons at approximately $10 - $15 million, whereas a similar sized base oil plant with vacuum distillation towers and a hydrotreater can cost in excess of $50 million. We believe this cost differential is a significant competitive advantage because it will enable us to economically expand our geographic footprint and move closer to new feedstock sources and end-customers, which will lower our transportation costs.

Logistics Capabilities.

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

Scale of Operations.

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

Diversified End Product Sales.

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

Management Team.

We are led by a management team with expertise in petroleum recycling, finance, operations, and re-refinement technology. Each member of our senior management team has more than 15 years of industry experience. We believe the strength of our management team will help our success in the marketplace.

Our Business Strategy

The principle elements of our strategy include:

Pursue Strategic Acquisitions and Partnerships

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

Expand Feedstock Supply Volume

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

Broaden Existing Customer Relationships and Secure New Large Accounts

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

Re-Refine Higher Value End Products

We intend to develop, lease, or acquire technologies to re-refine our feedstock supply into higher value end products, including assets or technologies which complement TCEP. Currently, we are using TCEP to re-refine used oil feedstock into cutter stock for use in the marine fuel market. We believe that continued improvements to our TCEP technology and investments in additional technologies will enable us to upgrade feedstock into higher value end products, such as fuels and lubricating base oil, that command higher market prices than the current re-refined products we produce.

Expand TCEP Re-Refining Capacity

We intend to expand our TCEP capacity by building additional TCEP facilities to re-refine feedstock. We believe the TCEP technology has a distinct competitive advantage over conventional re-refining technology because it produces a high-quality fuel oil product, and the capital expenditures required to build a TCEP processing plant are significantly lower than a comparable conventional re-refining facility. By continuing the transition from our historical role as a value-added logistics provider to operating as a re-refiner, we believe we will be able to leverage our feedstock supply network and aggregation capabilities to upgrade a larger percentage of our feedstock inventory into higher value end products, which we believe should lead to increased revenue and gross margins. We intend to build TCEP facilities near the geographic location of substantial feedstock sources that we have relationships with through our existing operations or from an acquisition. By establishing TCEP facilities near proven feedstock sources, we will seek to lower our transportation costs and lower the risk of operating plants at low capacity.

Products and Services

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

Suppliers

We conduct business with a number of used oil generators, as well as a large network of suppliers that collect used oil from used oil generators. In our capacity as a collector of used oil, we purchase feedstock from approximately 2,500 businesses, such as oil change service stations, automotive repair shops, manufacturing facilities, petroleum refineries, and petrochemical manufacturing operations, which generate used oil through their operations.

In our capacity as a broker of used oil, we work with approximately 50 suppliers that collect used oil from businesses such as those mentioned above. We are party to four feedstock purchase agreements with separate third parties, pursuant to which such third parties have agreed to supply us with feedstock. These agreements provide for us to purchase a range of volumes from the seller in the normal course of business up to approximately 1.5 million gallons per month. These agreements operate on a month-to-month basis, and certain agreements provide for a month-to-month extension after the termination date. The purchase price per gallon for each agreement is based on a discount to the market price of certain average weekly oil prices listed on the "Platts Oilgram Price Report." These feedstock purchase agreements represented approximately 40% of the 45 million gallons of feedstock we aggregated during the twelve month period ending December 31, 2013.

Customers

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

We are party to a supply agreement which requires us to provide between 40,000 and 60,000 barrels of marine fuel cutterstock per month to a separate buyer pursuant to a 24 month contract which expires in August 2014, which provides that the buyer pay us a price per gallon based on a premium to the market price of certain average weekly oil prices listed on the "Platts Oilgram Price Report".

The Recovery division does not rely solely on contracts, but mainly on the spot market as well as a strategic network of customers and vendors to support the purchase and sale of its products which are commodities. It also relies on project based work which it bids on from time to time of which there is no guarantee or assurance of repeat business. The E-Source business which is part of the Recovery division relies heavily on numerous Master Service Agreements which it has in place with large facilities, such as power plants, petroleum refineries and major industrial clients.

KMTEX Tolling Agreement

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

Pursuant to the Tolling Agreement, KMTEX agreed to process feedstock of certain petroleum distillates, which we provide to KMTEX, into more valuable feedstocks, including pygas, gasoline blend stock and MDO/cutter stock. The Tolling Agreement expires on June 30, 2014 (the "Initial Term"), provided that if not terminated by either party by written notice to the other, received within ninety (90) days prior to the expiration of the Initial Term (or any Extension Term, defined below), the agreement automatically renews for a successive one (1) year period (an "Extension Term"). The Tolling Agreement can be automatically extended for up to six (6) Extension Terms. However, either party can terminate the Tolling Agreement at any time with ninety (90) days prior written notice for any reason and with thirty (30) days written notice upon the occurrence of certain material termination events as described in greater detail in the agreement. In connection with and pursuant to the Tolling Agreement, we pay KMTEX certain monthly tank rental fees, truck and rail car fees, and processing fees based on the weight of the material processed by KMTEX, as well as certain disposal fees and other fees. Each year of the agreement, beginning on the 12 month anniversary of the effective date, the parties agreed to review and increase the fees provided for in the agreement in accordance with among other things, various consumer price index benchmarks, as mutually agreed.

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

Competition

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

Employees

We and our wholly and majority owned subsidiaries have 154 full-time employees. We believe that our relations with our employees are good.

Seasonality

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

Regulation

We operate in a highly regulated and competitive environment that is subject to change, particularly in the area of environmental compliance. Our operations are regulated by federal, state, county and, in some jurisdictions, city regulations.

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

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

For example, changes in federal regulations relating to the use of methyl tertiary butyl ether and new sulfur limitations for product shipped in domestic pipelines resulted in tightened specifications of gasoline blendstock that we were refining, causing a corresponding decrease in revenue and gross margin growth during 2006, as compared to prior years. This change in regulation, as well as other emission-related regulations, had a material impact on the entire petroleum industry, and we adapted and managed our operations by finding materials better suited to comply with these regulations. As such, it is possible that future changes in federal regulations could have a material adverse effect on our results from operations.

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

Inflation and Commodity Price Risk

To date, our business has not been significantly affected by inflation. We purchase petroleum and petroleum by-products for consolidation and delivery, as well as for our own refining operations. By virtue of constant changes in the market value of petroleum products, we are exposed to fluctuations in both revenues and expenses. We do not currently engage in an active hedging program, as the inventory/finished product turnover occurs within approximately four to six weeks, thereby limiting the timeline of potential exposure. The purchase of our used motor oil feedstock tends to track with natural gas pricing due to the market's typical practice of substituting used motor oil for natural gas as a fuel source for various industrial processes. On the other hand, the prices of the products that may in the future be generated through the re-refining processes that we hope to develop are expected to track with market pricing for marine diesel and vacuum-gas oil. The recent rise in oil prices has increased the spread between the price of used motor oil, feedstock and re-refining end-products.

Recent Events

On March 17, 2014, we entered into anAsset Purchase Agreement (the "Purchase Agreement") by and among the Company, Vertex Refining LA, LLC and Vertex Refining NV, LLC, both newly-formed wholly-owned subsidiaries of the Company, 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 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 include 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 operates Golden State Lubricants Works, LLC (“Golden State”), a strategic blending and storage facility located in Bakersfield, California, which is included in the acquisition. In connection with the acquisition, we will also be acquiring certain of Omega’s prepaid assets and inventory.

The acquisition is planned to close in two separate closings, the first of which relating to the acquisition of Omega Refining and ownership of Golden State, is expected to close by April 15, 2014 (the “Initial Closing”), and the second of which relating to the acquisition of Bango Refining, is expected to close on or around August 2014, subject to certain closing conditions being met (the “Final Closing“). Our obligation to consummate the Final Closing is subject to among other things, that the Bango plant operated by Bango Refining be fully restored and operational, as well as the plant meeting certain used motor oil proceeding run rates and that there is no adverse claims or legal proceedings related to an accident that occurred at the Bango plant in December 2013.

The purchase price payable at the Initial Closing is $30,750,000 in cash and the issuance of 500,000 shares of our common stock, subject to adjustment in the event minimum inventory levels are not met at closing. Additionally, we have agreed to assume certain capital lease obligations and other liabilities relating to contracts and leases of Omega Refining.

The amount due at the Final Closing, in consideration for the acquisition of Bango Refining, will be the assumption of the Bango Note (defined below), the issuance of 1,500,000 shares of our common stock of which 1,000,000 shares (with an agreed value of $3.2301 per share or $3,230,100) will be held in escrow and used to satisfy indemnification claims, and are further subject to adjustment in the event minimum inventory levels are not delivered at the Final Closing, and the assumption of certain capital lease obligations and other liabilities relating to contracts and leases of Bango Refining. A portion of the Escrow Shares will be released from escrow, subject to outstanding claims, on September 15, 2015, and the remainder will be released on the 18 month anniversary of the Final Closing. Subject to certain negotiated exceptions for excluded liabilities, taxes and other fundamental items, the sellers’ indemnification obligations are capped at $5 million.

We are also obligated to provide the sellers with a $1.6 million short term line of credit, bearing 9.5% interest per year, to fund the operations of Bango Refining between the Initial Closing and Final Closing. The line of credit must be paid down to a maximum balance of $600,000 at the Final Closing and must be fully repaid on or before March 31, 2015. Additionally, we are to receive a secured promissory note jointly issued by Omega Refining and Bango Refining, equal to the amount that the consideration paid by us at the Initial Closing exceeds 2/3rds of the total enterprise value of Omega (estimated to be in the amount of approximately $5.7 million to $5.8 million), which will not accrue any interest for six months and will accrue interest at the rate of 9.5% thereafter and will be due on the Final Closing date (the “Bango Note”). Finally, we will provide an interim loan of up to $1.25 million between the Initial Closing and Final Closing to Bango Refining in order for that entity to complete certain capital expenditures, which will increase the outstanding Bango Note amount which will be satisfied at the Final Closing.

The consideration payable in connection with the acquisition is subject to customary adjustments prior to the closings depending on certain criteria, including the amount of inventory delivered by the sellers at the closings.

The sellers also have the right to earn additional earn-out consideration in the event certain EBITDA targets are met by (a) Bango Refining during the years ended December 31, 2015 and 2016 (which targets begin at $3.5 million of EBITDA per year), of up to an aggregate of $9 million (payable in shares of the Company’s common stock equal to the volume-weighted average of the regular session closing prices per share of the Company’s common stock on the NASDAQ Capital Market for the ten (10) consecutive trading days prior to the applicable due date of such payments, provided, however, in no event shall the VWAP be less than $3.15 per share or more than $10.00 per share, as adjusted for any stock splits or recapitalizations) and (b) Omega Refining during any twelve month period during the eighteen month period commencing on the first day of the first full calendar month following the Initial Closing date (which targets begin at $8 million of EBITDA during such twelve month period) of up to 940,995 shares of common stock of the Company, in each case subject to adjustment for certain capital expenditures. Notwithstanding the above, the maximum number of shares of common stock to be issued pursuant to the Purchase Agreement cannot (i) exceed 19.9% of the outstanding shares of common stock outstanding on March 17, 2014, (ii) exceed 19.9% of the combined voting power of the Company on March 17, 2014, or (iii) otherwise exceed such number of shares of common stock that would violate applicable listing rules of the NASDAQ Stock Market in the event the Company’s stockholders do not approve the issuance of such shares (the “Share Cap”). In the event the number of shares to be issued under the Purchase Agreement exceeds the Share Cap, then the Company is required to instead pay any such additional consideration in cash or obtain the approval of the Company’s stockholders under applicable rules and requirements of the NASDAQ Capital Market for the additional issuance of shares.

Finally, pursuant to the acquisition, (a) the sellers will agree to enter into a non-competition agreement whereby they will agree not to compete against us in connection with the acquired businesses, or to solicit active customers of the acquired businesses for a period of five years and (b) certain of the employees of the sellers will agree to enter into three year employment agreements with our newly formed subsidiaries.

Additionally, we are required to file a registration statement within thirty days of the Initial Closing and obtain effectiveness of the registration statement within ninety days of the filing date, registering the shares of common stock issuable to Omega in connection with the acquisition. In the event we fail to file the registration statement or obtain effectiveness of the registration within the time periods set forth in the Purchase Agreement, we are required to pay damages for each thirty (30) day period until cured, equal to that number of shares of common stock as equals 1% of the aggregate number of shares of common stock issued to Omega, however, we are not obligated to pay any liquidated damages if we are unable to fulfill our registration obligations as a result of rules, regulations, positions or releases or actions taken by the Securities and Exchange Commission.

The Purchase Agreement may be terminated at any time prior to the Initial Closing by mutual written agreement of the parties; by us or Omega (provided the terminating party is not in breach of the Purchase Agreement), if the Initial Closing has not been consummated by April 15, 2014; by any party if the transactions contemplated by the Purchase Agreement become illegal or are prohibited by law; by the non-breaching party if either the Company or Omega materially breaches their obligations under the Purchase Agreement, and if capable of being cured, is not cured within the time periods set forth in the Purchase Agreement.

The closings are subject to the satisfaction of certain customary closing conditions, including, but not limited to us raising the funds required to complete the acquisition, which may not be available on favorable terms, if at all. The Purchase Agreement contains customary representations, warranties, covenants and indemnities by the parties thereto. Craig-Hallum Capital Group LLC is acting as exclusive financial advisor to us in connection with the acquisition and has provided a fairness opinion to the Board of Directors in connection with the transaction.

Intellectual Property

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

We have two patents registered with the U.S. Patent and Trademark Office relating to our TCEP technology:

- "System For Making A Usable Hydrocarbon Product From Used Oil" (#8,613,838), which was granted on December 24, 2013; and

- “Method for making a usable hydrocarbon product from used oil” (#8,398,847), which was granted on March 19, 2013.

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

ITEM 1A. Risk Factors

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

GENERAL RISKS RELATING TO OUR COMPANY

We face risks associated with the integration of the businesses, assets and operations recently acquired from E-Source Holdings, LLC and Vertex Holdings, L.P.

As described above under "Business" – "Material Acquisition", we previously acquired substantially all of the assets and operations of Holdings in September 2012. Those assets and operations included CMT, which operates a 19-acre bulk liquid storage facility on the Houston Ship Channel; Crossroad, which is a transportation carrier that provides transportation and logistical services for liquid petroleum products, as well as other hazardous materials and waste streams; Vertex Recovery which collects and recycles used oil and residual materials from large regional and national customers throughout the U.S. and Canada; and H&H Oil, which collects and recycles used oil and residual materials from customers based in Austin, Baytown, and Corpus Christi, Texas. These represented new business lines and operations for us and while our management has significant prior experience in connection with the operations and management of these acquired businesses, we cannot assure you that we will be able to successfully integrate the acquisitions into our operations or that such acquisitions will positively affect our operations and cash flow. Acquisitions such as these involve numerous risks, including difficulties in the assimilation of the acquired businesses. The consolidation of our operations with the operations of the acquired companies, including the consolidation of systems, procedures, personnel and facilities and the achievement of anticipated cost savings, economies of scale and other business efficiencies presents significant challenges to our management. The acquisition of the acquired businesses and/or our failure to successfully integrate the acquired businesses could have an adverse effect on our liquidity, financial condition and results of operations.

We may be required to pay substantial additional amounts of consideration to Holdings in the event certain adjusted EBITDA targets are met by us. There may also be actual or perceived conflicts of interest with management regarding such targets and amounts due in connection therewith.

We acquired substantially all of the assets and liabilities of Holdings on September 11, 2012 pursuant to the Acquisition. Concurrent with the closing of the transactions contemplated in the Acquisition, we paid the following purchase price (the "Purchase Price") to Holdings, (a) $14.8 million in cash and assumed debt; and (b) 4,545,455 restricted shares of our common stock; and to B&S LP, approximately $1.7 million in cash, representing the appraised value of certain owned real property. Additionally, for each of the three one-year periods following the closing date, Holdings will be eligible to receive earn-out payments of $2.23 million, up to $6.7 million in the aggregate (the "Earn-Out Payments"), contingent on the combined company achieving adjusted EBITDA targets of $10.75 million, $12.0 million and $13.5 million, respectively, in those periods, provided that the Company failed to meet the targeted EBITDA for the first year's Earn-Out Payment, and as such, there are $4.4 million of potential Earn-Out Payments currently remaining. In the event we meet the required adjusted EBITDA targets and are required to pay Holdings the Earn-Out Payments, it could have a material adverse effect on our liquidity, the funds we have available for future expansion and our results of operations. As of December 31, 2013, it has been determined that the 2013 earnings target will not be met and the contingent consideration has been reduced by $1,850,000, which represents the discounted cash flow for year one. It has also been determined that there is a 25% probability that the 2014 earnings target will not be met and the contingent consideration has been reduced by $388,750, which represents 25% of the discounted cash flows for year two. As part of the consideration paid in connection with the acquisition of E-Source, if certain targets are met, the Company has to pay the seller approximately $260,000 annually in 2014, 2015, 2016 and 2017. The Company has recorded contingent consideration of $748,000, which is the discounted cash flows of the earn-out payments.

Holdings was a related party controlled by Benjamin P. Cowart, our President, Chairman and largest shareholder, who owned directly or indirectly a 77% interest in Holdings. Additionally, Chris Carlson, our Chief Financial Officer, owned a 10% interest in Holdings and certain other of our employees (including Greg Wallace, our Vice President of Refining and Marketing) had a beneficial ownership interest in Holdings. Due to the structure of the earn-out payments, Mr. Cowart, Mr. Carlson and the other employees who will receive these payments have an incentive to increase our EBITDA in the periods covered in order to facilitate earn-out payments. They may therefore have an incentive to take steps to increase our EBITDA in the relevant periods at the expense of our future growth and long-term expansion. Consequently, the earn-out payments and/or the structure thereof may cause actual or perceived conflicts of interest between Mr. Cowart, Mr. Carlson and certain of our other employees, our company and our other shareholders.

We have substantial indebtedness which could adversely affect our financial flexibility and our competitive position.

We have a significant amount of outstanding indebtedness. As of December 31, 2013, we owed approximately $14.1 million in accounts payable. Additionally, on September 11, 2012, we entered into a Credit Agreement with Bank of America, N.A. (the "Lender") effective as of August 31, 2012 pursuant to which we borrowed a total of $8.5 million under a Term Note (the "Term Note") and $8.75 million under a Revolving Note, the majority of which funds were immediately used to pay Holdings the acquisition price and other expenses associated with the Acquisition in September 2012. As of December 31, 2013, we owed $6.2 million under the Term Note and nothing under the Revolving Note. Amounts borrowed under the Term Note and Revolving Note (the "Revolving Note", and together with the Term Note, the 'Notes") bear interest at our option at the lesser of the Lender's prime commercial lending rate then in effect or the LIBOR rate in effect plus 2.75%. Accrued and unpaid interest on the Term Note is due and payable monthly in arrears and all amounts outstanding under the Term Note are due and payable on August 31, 2015. Additionally, payments of principal in the amount of $141,667 are due and payable on the Term Note, monthly in arrears on the last day of each month beginning September 30, 2012, and continuing thereafter until the maturity date. Accrued and unpaid interest on the Revolving Note is due and payable monthly in arrears and all amounts outstanding under the Revolving Note are due and payable on August 31, 2014.

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

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

We may need to raise additional funding in the future to repay or refinance the Term Note and Revolving Note and our accounts payable, and as such may need to seek additional debt or equity financing. Such additional financing may not be available on favorable terms, if at all. If debt financing is available and obtained, our interest expense may increase and we may be subject to the risk of default, depending on the terms of such financing. If equity financing is available and obtained it may result in our shareholders experiencing significant dilution. If such financing is unavailable, we may be forced to curtail our operations, which may cause the value of our securities to decline in value and/or become worthless.

We will need additional capital to complete our pending acquisition and future acquisitions and our ability to obtain the necessary funding is uncertain.

We will need to raise additional funding to complete our pending acquisition of Omega's assets and may need to raise additional funds through public or private debt or equity financing or other various means to fund our operations, or acquire assets and business in the future. In such a case, adequate funds may not be available when needed or may not be available on favorable terms. If we need to raise additional funds in the future, by issuing equity securities, dilution to existing stockholders will result, and such securities may have rights, preferences and privileges senior to those of our common stock. If funding is insufficient at any time in the future and we are unable to generate sufficient revenue from new business arrangements, to complete planned acquisitions or operations, our results of operations and the value of our securities could be adversely affected.

There is no guarantee that the proposed acquisition of Omega's assets will be completed; the failure to acquire the Omega assets could adversely affect our business and results of operations; and we could owe significant earn-out payments or registration penalties in connection with such acquisition, if completed, in the future.

We entered into the Purchase Agreement pursuant to which we have agreed to purchase substantially all of the assets of Omega (as described in greater detail above under "Item 1. Business" - "Recent Events"). The acquisition is planned to close in two separate closings, with the Initial Closing occurring on April 15, 2014 and the Final Closing occurring in or around August 2014, subject to certain closing conditions being met. Our obligation to consummate the Final Closing is subject to among other things, that the Bango plant operated by Bango Refining be fully restored and operational, as well as the plant meeting certain used motor oil proceeding run rates and that there is no adverse claims or legal proceedings related to an accident that occurred at the Bango plant in December 2013. The purchase price payable at the Initial Closing is $30,750,000 in cash and the issuance of 500,000 shares of our common stock, subject to adjustment in the event minimum inventory levels are not met at closing. Additionally, we have agreed to assume certain capital lease obligations and other liabilities relating to contracts and leases of Omega Refining. The amount due at the Final Closing, in consideration for the acquisition of Bango Refining, will be the assumption of an outstanding note payable by Bango, the issuance of 1,500,000 shares of our common stock of which 1,000,000 shares (with an agreed value of $3.2301 per share or $3,230,100) will be held in escrow and used to satisfy indemnification claims, and are further subject to adjustment in the event minimum inventory levels are not delivered at the Final Closing, and the assumption of certain capital lease obligations and other liabilities relating to contracts and leases of Bango Refining. A portion of the Escrow Shares will be released from escrow, subject to outstanding claims, on September 15, 2015, and the remainder will be released on the 18 month anniversary of the Final Closing. Subject to certain negotiated exceptions for excluded liabilities, taxes and other fundamental items, the sellers' indemnification obligations are capped at $5 million.

The sellers also have the right to earn additional earn-out consideration in the event certain EBITDA targets are met by (a) Bango Refining during the years ended December 31, 2015 and 2016 (which targets begin at $3.5 million of EBITDA per year), of up to an aggregate of $9 million (payable in shares of the Company's common stock equal to the volume-weighted average of the regular session closing prices per share of the Company's common stock on the NASDAQ Capital Market for the ten (10) consecutive trading days prior to the applicable due date of such payments, provided, however, in no event shall the VWAP be less than $3.15 per share or more than $10.00 per share, as adjusted for any stock splits or recapitalizations) and (b) Omega Refining during any twelve month period during the eighteen month period commencing on the first day of the first full calendar month following the Initial Closing date (which targets begin at $8 million of EBITDA during such twelve month period) of up to 940,995 shares of common stock of the Company, in each case subject to adjustment for certain capital expenditures, in each case subject to the Share Cap.

Finally, we are required to file a registration statement within thirty days of the Initial Closing and obtain effectiveness of the registration statement within ninety days of the filing date, registering the shares of common stock issuable to Omega in connection with the acquisition. In the event we fail to file the registration statement or obtain effectiveness of the registration within the time periods set forth in the Purchase Agreement, we are required to pay damages for each thirty (30) day period until cured, equal to that number of shares of common stock as equals 1% of the aggregate number of shares of common stock issued to Omega, however, we are not obligated to pay any liquidated damages if we are unable to fulfill our registration obligations as a result of rules, regulations, positions or releases or actions taken by the Securities and Exchange Commission.

The completion of the acquisition is subject to customary closing conditions and other requirements as summarized above which are required to be completed prior to the Final Closing. Such conditions to closing may not be met. We may not be able to raise the required funds to close the acquisition, such funds may not be available on favorable terms, if at all, or the acquisition or the Final Closing associated therewith may not be completed. This acquisition represents a significant business opportunity for us. If the acquisition is completed, we could be forced to pay significant earn-out payments to the sellers if the required EBITDA targets are met, which could decrease the amount of funds we have available for working capital. Additionally, if the acquisition closes and we fail to meet the registration requirements and time line associated with the shares issuable in connection with the acquisition, we could be forced to pay significant penalties to the sellers. If we fail to complete the acquisition (or any part thereof) or the acquisition is not successful, our anticipated business and results of operations could be adversely affected.

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

In connection with the Credit Agreement evidencing the Term Note and Revolving Note, we agreed to comply with certain standard affirmative and negative covenants and agreed to meet the following financial covenants at such time as any loans or other obligations are outstanding under the Credit Agreement, commencing with the quarter ending September 30, 2012: (1) the ratio of (a) our EBITDA minus cash taxes, minus distributions, minus unfinanced capital expenditures, in each case for the immediately preceding four fiscal-quarter periods, to (b) the sum of our interest expense for the immediately preceding four fiscal-quarter period plus our current maturities of long-term debt, in each case, as of the last day of such four fiscal-quarter period, all as determined in accordance with GAAP, may not at any time be less than 1.25 to 1.00 (calculated and tested quarterly); (2) the ratio of total debt funded under the Credit Agreement to our EBITDA cannot be greater than 2.00 to 1.00 (calculated and tested quarterly); and (3) the sum of our tangible net worth cannot be less than $10,000,000 as of the last day of each fiscal quarter. While we were not in compliance with the tangible net worth requirement of the Credit Agreement as of September 30, 2012 and December 31, 2012; the tangible net worth requirement was included in the Credit Agreement in error and we and the Lender entered into a waiver and amendment agreement in January 2013, pursuant to which the Lender agreed to waive such prior non-compliance with the tangible net worth requirement and to amend the Credit Agreement to remove such net tangible worth requirement moving forward.

The Credit Agreement also includes customary events of default for facilities of similar nature and size as the Credit Agreement and also provides that an event of default occurs if (a) Benjamin P. Cowart, our Chief Executive Officer, Chairman of the Board and largest shareholder, ceases to be actively involved in our day-to-day management or operations or if Mr. Cowart ceases to own and control at least 25% of our equity interests ; (b) we cease at any time to own and control 100% of the assets acquired from Holdings or Vertex II GP, LLC ("Vertex GP"), our wholly-owned subsidiary formed for the purpose of the transaction, ceases to be the sole general partner of the partnerships acquired; (c) an agreement, letter of intent, or agreement in principle is executed with respect to any proposed transaction or event or series of transactions or events which, individually or in the aggregate, could reasonably be expected to result in either (a) or (b), above; or (d) a default occurs under the lease agreement for certain premises leased by CMT.

A breach of any of the covenants above or covenants in future agreements, if uncured, could lead to an event of default under any such document, which in some circumstances could give our creditors the right to demand that we accelerate repayment of amounts due. This would likely in turn trigger cross-acceleration or cross-default rights in other documents governing our indebtedness. Therefore, in the event of any such breach, we may need to seek covenant waivers or amendments from our creditors or seek alternative or additional sources of financing, and we cannot assure you that we would be able to obtain any such waivers or amendments or alternative or additional financing on acceptable terms, if at all. In addition, any covenant breach or event of default could harm our credit rating and our ability to obtain additional financing on acceptable terms. The occurrence of any of these events could have a material adverse effect on our financial condition and liquidity.

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

Our obligations under the Credit Agreement and Notes are secured by a first priority security interest in substantially all of our assets, including those assets and properties acquired in connection with the closing of the Acquisition, which was granted pursuant to our and certain of our subsidiaries' entry into security agreements with the Lender. Additionally, substantially all of our subsidiaries agreed to guarantee our obligations under the Credit Agreement. As such, if an event of default occurs under the Credit Agreement, the Lender may enforce its security interest over our assets and/or our subsidiaries which secure the repayment of such obligation, and we could be forced to curtail or abandon our current business plans and operations. If that were to happen, any investment in the company could become worthless.

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

We have historically been able to maintain lines of credit and other credit facilities similar to the Credit Agreement with the Lender and other lenders. We rely heavily on the availability and utilization of these lines of credit and credit facilities for our operations and for the purchase of inventory. If we are unable to renew or replace our facility or are unable to borrow funds under such facility or any future facility), for any reason, either due to having no available funds remaining under the facility and/or upon any default of the facility, we may be forced to curtail or abandon our current and/or future planned business operations.

We may be required to pay significant bonuses to our material employees.

Pursuant to our employment agreement, as amended, with Greg Wallace, our Vice President of Refining and Marketing, in the event we earn "Adjusted Gross Margin" (equal to gross margin minus general and administrative overhead directly related to the segments of our Refining and Marketing divisions which relate to business conducted in Port Arthur, Texas, and which are managed by Mr. Wallace and excluding TCEP), for the years ended December 31, 2011, 2012, 2013 or 2014, we agreed to pay Mr. Wallace a bonus equal to 10% of such Adjusted Gross Margin for each applicable year. For the year ended December 31, 2011, a total of $247,739 was due to Mr. Wallace which bonus was paid during 2012. Additionally, in the event that year-end Adjusted Gross Margin exceeds certain pre-approved thresholds ($2,477,393 in the 2012 year and $3,116,663 in the 2013 year), Mr. Wallace is able to earn an additional bonus equal to 5% of Adjusted Gross Margin. For the year ended December 31, 2012, a total of $343,630 was due to Mr. Wallace, which was paid throughout fiscal 2013 pursuant to the agreement terms. For the year ended December 31, 2013, a total of $284,958 was due to Mr. Wallace, which will be paid throughout fiscal 2014 pursuant to the agreement terms. We also agreed to pay Mr. Wallace a bonus of 15% of any Adjusted Gross Margin for the year ended December 31, 2015. Mr. Wallace ceases to earn any bonuses upon such time as his employment with us is terminated. As such, Mr. Wallace may have an incentive to take steps to increase Adjusted Gross Margin at the expense of our future growth and long-term expansion. Consequently, Mr. Wallace's bonus structure may cause actual or perceived conflicts of interest between Mr. Wallace, us and our other shareholders. Payment of the bonuses to Mr. Wallace could have a material adverse effect on our liquidity, the funds we have available for future expansion and our results of operations.

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

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

RISKS RELATING TO OUR BUSINESS

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

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

This is exacerbated by the fact that four companies represented approximately 40%, 10%, 9%, and 8% of our revenues. As a result, if we were to lose any of our largest revenue producing relationships, we may be forced to expend additional resources attempting to secure replacement relationships, which may not be on as favorable terms as our current relationships, if such relationships can be secured at all.

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

We have an agreement in place with KMTEX, which specializes in the custom processing of petrochemicals and other chemicals. Our services include terminal storage and expert project management in materials handling, distillation, filtration, molecular sieve, and reaction chemistry, pursuant to which KMTEX agreed to process feedstock of certain petroleum distillates, which we provide to KMTEX to process into more valuable feedstocks, including pygas, gasoline blendstock and cutterstock, which agreement expires on June 30, 2014, subject to automatic renewals in the event neither party provides notice of termination of the agreement. If KMTEX were to terminate our relationship and/or not agree to renew our agreement with it, we would be forced to spend resources attempting to locate another party which we could supply our feedstock which could take substantial time, if such alternative party is even available. If we are able to find another contracting party, the terms of the understanding or agreement with such contracting party may be on terms less favorable to us and/or may force us to transport our feedstock a greater distance. As a result of the above, if we were to lose our relationship with KMTEX our expenses may increase, our results of operations may decrease and/or it may cause us to curtail or abandon our business plans, all of which would likely cause the value of our securities to decrease in value.

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

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

Disruptions in the supply of feedstock could have an adverse effect on our business.

We depend on the continuing availability of raw materials, including feedstock, to remain in production. A serious disruption in supply of feedstock, or significant increases in the prices of feedstock, could significantly reduce the availability of raw materials at our plant and which are available to be processed by our third-party processors. Additionally, increases in production costs could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

Environmental risks and regulations may adversely affect our business.

All phases of designing, constructing and operating our refining and planned re-refining plant present environmental risks and hazards. We are subject to environmental regulation implemented or imposed by a variety of federal, state and municipal laws and regulations as well as international conventions. Among other things, environmental legislation provides for restrictions and prohibitions on spills and discharges, as well as emissions of various substances produced in association with our operations. Legislation also requires that facility sites be operated, maintained, abandoned and reclaimed in such a way that would satisfy applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach could result in the imposition of fines and penalties, some of which could be material. Environmental legislation is evolving in a manner we expect may result in stricter standards and enforcement, larger fines and liability, as well as potentially increased capital expenditures and operating costs. The presence or discharge of pollutants in or into the air, soil or water may give rise to liabilities to governments and third parties and may require us to incur costs to remedy such presence or discharge. If we are unable to remediate such conditions economically or obtain reimbursement or indemnification from third parties, our financial condition and results of operations could be adversely affected. We cannot assure you that the application of environmental laws to our business will not cause us to limit our production, to significantly increase the costs of our operations and activities, to reduce the market for our products or to otherwise adversely affect our financial condition, results of operations or prospects.

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

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

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

Penalties we may incur could impair our business.

Failure to comply with government regulations could subject us to civil and criminal penalties and may negatively affect the value of our assets or our ability to conduct our business. We may also be required to take corrective actions, including, but not limited to, installing additional equipment, which could require us to make substantial capital expenditures. We could also be required to indemnify our employees in connection with any expenses or liabilities that they may incur individually in connection with regulatory action against us. These could result in a material adverse effect on our prospects, business, financial condition and our results of operations.

Our Recovery division participates from time to time in one-time projects, which could create fluctuations in revenue and gross profit from quarter to quarter.

Our Recovery division periodically participates in one-time, non-ongoing projects and therefore we expect to see fluctuations in revenue and gross profit from this division from quarter to quarter and period to period. Consequently, the results of operations, net income, revenue and gross profit for our Recovery division for any quarter or period may not be indicative of the results of operations, net income, revenue and gross profit for any subsequent quarter or period.

The dismantling, demolition, decommission and marine salvage operations of our Recovery division subjects us to operational and safety risks.

Our Recovery division provides dismantling, demolition, decommission and marine salvage services at industrial facilities throughout the Gulf Coast. The division also owns and operates a fleet of trucks and other vehicles used for shipping and handling equipment and scrap materials. Such operations could potentially result in releases of hazardous materials, injury or death of our employees or third parties, environmental contamination claims, and claims for damage to property both from third parties and our customers and clients. These risks expose us to potential liability for pollution and other environmental damages, personal injury, loss of life, business interruption, and property damage or destruction. While we seek to minimize and obtain insurance to limit our exposure to such risks, such actions and insurance may not be adequate to cover all of our potential liabilities and such insurance may not in the future be available at commercially reasonable rates. If we were to incur substantial liabilities in excess of policy limits or at a time when we were not able to obtain adequate liability insurance on commercially reasonable terms, our business, results of operations and financial condition could be adversely affected to a material extent. Furthermore, should our safety record deteriorate, we could be subject to a potential reduction of revenues from our Recovery division.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- loss of key personnel of the acquired business or facility;
- exposure to unanticipated liabilities; and
- the failure to realize efficiencies, synergies and cost savings.

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

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

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

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

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

Our success depends heavily upon the personal efforts and abilities of Benjamin P. Cowart, our Chief Executive Officer and Chairman, who is employed by us under a five-year employment contract expiring on April 16, 2014. We do not currently have any "key man" life insurance policy in place for Mr. Cowart. The loss of Mr. Cowart or other key employees could have a material adverse effect on our business, results of operations or financial condition. In addition, the absence of Mr. Cowart may force us to seek a replacement who may have less experience or who may not understand our business as well, or we may not be able to find a suitable replacement.

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

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

Strategic relationships on which we rely are subject to change.

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

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

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

Additionally, we have occasionally had to take our TCEP facility offline to refurbish and upgrade such facility. Any prolonged period during which the TCEP facility or any facilities we acquire in the future are non-operational or operational on a limited basis due to the decision to refurbish or upgrade such facilities, or any other reason, including problems with the facilities, could adversely affect our revenues and results of operations. Furthermore, any period during which KMTEX's facilities or our future facilities (if any) are offline could have an adverse effect on our revenues, force us to seek alternative re-refining facilities (which may be more expensive or require us to transport our feedstock over longer distances) and may increase our expenses, decreasing our operating margins.

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

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

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

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

Competition may impair our success.

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

Potential competition from our existing employees could negatively impact our profitability.

Although Mr. Cowart and other employees of ours are prohibited from competing with us (i) while they are employed with us and for six months thereafter, and (ii) in the business of transporting, storing, processing and refining petroleum products, crudes and lubricants in the states of Alabama, Arkansas, Arizona, California, Florida, Georgia, Iowa, Illinois, Kentucky, Louisiana, Michigan, North Carolina, Nevada, New York, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee and Texas, until August 31, 2017, none of such individuals will be prohibited from competing with us after such six-month period ends, subject to the non-competition restriction expiring August 31, 2017. Accordingly, any of these individuals could be in a position to use industry experience gained while working with us to compete with us. Such competition could increase our costs to obtain feedstock, and increase our costs for contracting use of operating assets and services such as third-party refining capacity, trucking services or terminal access. Furthermore, such competition could distract or confuse customers, reduce the value of our intellectual property and trade secrets, or result in a reduction in the prices we are able to obtain for our finished products. Any of the foregoing could reduce our future revenues, earnings or growth prospects.

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

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

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

We will be required to continually enhance and update our technology to maintain our efficiency and to avoid obsolescence. Our TCEP is currently commercially unproven and may not work over the long term in a profitable manner. Currently TCEP is producing at expected levels and producing the quality of product we originally planned to produce. However, the total revenues year to date generated by the process have been below our expectations, and we anticipate that TCEP will be able to continue producing the level and quality of product we originally hoped and that our results of operations will reflect such levels of production as we move forward.

Additionally, the costs moving forward of enhancing and updating and/or replicating our technology or creating new technology may be substantial and may be higher than the costs that we anticipated for technology maintenance and development. If we are unable to maintain the efficiency of our technology, replicate our technology, or create new technologies our ability to manage our business and to compete may be impaired. Even if we are able to maintain technical effectiveness, our technology may not be the most efficient means of reaching our objectives, in which case we may incur higher operating costs than we would if our technology was more effective. The impact of technical shortcomings, including but not limited to the failure of TCEP, and/

or the costs associated with enhancing or replicating TCEP could have a material adverse effect on our prospects, business, financial condition, and results of operations.

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

If we were not able to use our currently operational TCEP facility moving forward, our ability to compete in the marketplace would be negatively affected. We believe we need the use of the TCEP facility to produce higher valued products from black oil streams and to compete with competitors who may bring new technologies to the marketplace to create new and higher value finished products, which will in turn enable them to pay more for feedstock (i.e., as their margins increase, they are able to increase the prices they are willing to pay for feedstock). If we are unable to use the TCEP facility for any reason, we will not be able 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, and cause our cost of sales to increase, respectively. Additionally, if we are forced to pay more for feedstock, our cash flows will be negatively impacted and our margins will decrease.

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

We believe that the current political environment for construction of our planned additional re-refining facilities is sufficiently supportive to enable us to plan and implement the construction of such additional re-refining facilities, funding permitting, of which there can be no assurance. However, there are risks that conditions will change in an adverse manner. These risks include, but are not limited to, environmental issues, land use, air emissions, water use, zoning, workplace safety, restrictions imposed on the re-refining industry such as restrictions on production, substantial changes in product quality standards, restrictions on feedstock supply, price controls and export controls. Any changes in financial incentives, investment regulations, policies or a shift in political attitudes are beyond our control and may adversely affect our business, plans for future re-refining facilities, and future financial results.

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

Our business may be harmed by anti-terrorism measures.

In the aftermath of the terrorist attacks on the United States and increased concerns regarding future terrorist attacks, federal, state and municipal authorities have implemented and are implementing various security measures, including checkpoints and travel restrictions on large trucks. Although many companies will be adversely affected by any slowdown in the availability of freight transportation, the negative impact could affect our business disproportionately. For example, if the security measures disrupt or impede the timing of our deliveries of feedstock, we may not have sufficient feedstock to run our re-refining process at full capacity, or may incur increased expenses to do so. We cannot assure you that these measures will not significantly increase our costs and reduce our operating margins and income.

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

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

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

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

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

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

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

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

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

We currently employ 40 full-time drivers. From time to time, some of these employee drivers are involved in automobile accidents. We currently carry liability insurance of $1,000,000 for our drivers, subject to applicable deductibles, and carry umbrella coverage up to $10,000,000. However, claims against us may exceed the amounts of available insurance coverage. If we were to experience a material increase in the frequency or severity of accidents, liability claims or workers' compensation claims or unfavorable resolutions of claims, our operating results could be materially affected.

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

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

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

We operate a fleet of transportation, collection and aggregation trucks to collect and transport used oil and re-refined oil products, among other things. The price and supply of fuel is unpredictable and fluctuates based on events beyond our control, including, among others, geopolitical developments, supply and demand for oil and gas, actions by the Organization of the Petroleum Exporting Countries and other oil and gas producers, war and unrest in oil producing countries and regional production patterns. We have experienced increases in the cost of fuel over the past several years. Although in the past, we have been able to pass-through some of these costs to our customers, we cannot assure you that we will be able to continue to do so in the future. Fuel or other transportation costs may continue to increase significantly in fiscal year 2014 and beyond. A significant increase in our fuel or other transportation costs could lower our operating margins and negatively impact our profitability.

We face competition from other common carriers and transportation providers.

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

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

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

RISKS RELATED TO OUR SECURITIES

Our Chief Executive Officer has significant voting control over us, including the appointment of Directors.

Benjamin P. Cowart, our Chairman, President and Chief Executive Officer beneficially owns approximately 36.0% of our common stock (not including shares issuable upon exercise of options and warrants held by Mr. Cowart) and 35.2% of our total voting stock, and as such, Mr. Cowart exercises significant control in determining the outcome of corporate transactions or other matters, including the election of directors, mergers, consolidations, the sale of all or substantially all of our assets, and also the power to prevent or cause a change in control. The interests of Mr. Cowart may differ from the interests of the other stockholders and thus result in corporate decisions that are adverse to other shareholders.

Our obligation to make earn-out payments in connection with our acquisition of Vertex Acquisition Sub, LLC in August 2012 may prevent a change of control of us.

Part of the consideration paid by us in connection with our acquisition of Vertex Merger Sub, LLC, included the right for the partners of Vertex Holdings, L.P. (which is majority owned and controlled by Mr. Cowart and is minority owned by certain other of our officers and employees and other third parties) to receive earn-out payments for each of the three one-year periods following September 11, 2012, of $2.23 million, up to $6.7 million in the aggregate, contingent on the combined company achieving adjusted EBITDA targets of $10.75 million, $12.0 million and $13.5 million, respectively, in those periods, provided that the Company failed to meet the targeted EBITDA for the first year's Earn-Out Payment, and as such, there are $4.4 million of potential Earn-Out Payments currently remaining.

Our obligations regarding the earn-out payments could also prevent a change of control of us since a possible buyer may not be interested in making these earn-out payments. The existence of the requirement to pay the earn-out payments could also cause the value of our common stock to decline and/or be valued at less than a similarly sized company that does not have a required earn-out payment structure in place.

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

The trading market for our common stock will depend, in part, on the research and reports that securities or industry analysts publish about us or our business. We currently have limited research coverage by securities and industry analysts. If one or more of the analysts who covers us downgrades our common stock, changes their opinion of our shares or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our common stock could decrease and we could lose visibility in the financial markets, which could cause our stock price and trading volume to decline.

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

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

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

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

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

Our common stock is currently listed on the NASDAQ Capital Markets. 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. Due to the limited volume of our shares which trade, we believe that our stock prices (bid, ask and closing prices) may not be related to our actual value, and 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 us, and should not rely solely on the publicly quoted or traded stock prices in determining our common stock value, but should instead determine the value of our common stock based on the information contained in our public reports, industry information, and those business valuation methods commonly used to value private companies.

The market price of our common stock historically has been volatile.

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

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

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

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

We have established preferred stock which can be designated by the Board of Directors without shareholder approval and have established Series A preferred stock, which gives the holders 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 1.3 million shares are issued and outstanding as of March 19, 2014, and 2,000,000 designated shares of Series B preferred stock, of which no shares are outstanding as of the date of this Report. The Series A preferred stock has a liquidation preference of $1.49 per share. 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 $1.9 million in proceeds from any such transaction. Consequently, holders of our common stock may receive less consideration or no consideration in connection with such a transaction. Furthermore, the conversion of Series A preferred stock into common stock may cause substantial dilution to our common shareholders. Additionally, 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.

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

Among the conditions required for continued listing on the Nasdaq Capital Market, Nasdaq requires us to maintain at least $2.5 million in stockholders' equity or $500,000 in net income over the prior two years or two of the prior three years and to have a majority of independent directors. There can be no assurance that our stockholders' equity will remain above Nasdaq's $2.5 million minimum, that we will generate over $500,000 of yearly net income moving forward, or that we will be able to maintain independent directors. If we fail to timely comply with the applicable requirements, our stock may be delisted. In addition, even if we demonstrate compliance with the requirements above, we will have to continue to meet other objective and subjective listing requirements to continue to be listed on the Nasdaq Capital Market. Delisting from the Nasdaq Capital Market could make trading our common stock more difficult for investors, potentially leading to declines in our share price and liquidity. Without a Nasdaq Capital Market listing, stockholders may have a difficult time getting a quote for the sale or purchase of our stock, the sale or purchase of our stock would likely be made more difficult and the trading volume and liquidity of our stock could decline. Delisting from the Nasdaq Capital Market could also result in negative publicity and could also make it more difficult for us to raise additional capital. The absence of such a listing may adversely affect the acceptance of our common stock as currency or the value accorded by other parties. Further, if we are delisted, we would also incur additional costs under state blue sky laws in connection with any sales of our securities. These requirements could severely limit the market liquidity of our common stock and the ability of our stockholders to sell our common stock in the secondary market. If our common stock is delisted by Nasdaq, our common stock may be eligible to trade on an over-the-counter quotation system, such as the OTCQB market, where an investor may find it more difficult to sell our stock or obtain accurate quotations as to the market value of our common stock. We cannot assure you that our common stock, if delisted from the Nasdaq Capital Market, will be listed on another national securities exchange or quoted on an over-the counter quotation system.

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

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

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

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

There may be future sales of our common stock, which could adversely affect the market price of our common stock and dilute a shareholder's ownership of common stock.

The exercise of any options granted to executive officers and other employees under our equity compensation plans, and other issuances of our common stock could have an adverse effect on the market price of the shares of our common stock. We are not restricted from issuing additional shares of common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive shares of common stock, provided that we are subject to the requirements of the Nasdaq

Capital Market (which generally require shareholder approval for any transactions which would result in the issuance of more than 20% of our then outstanding shares of common stock or voting rights representing over 20% of our then outstanding shares of stock). Sales of a substantial number of shares of our common stock in the public market or the perception that such sales might occur could materially adversely affect the market price of the shares of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. We cannot assure you that we will be able to sell shares or other securities in any other offering or other transactions at a price per share that is equal to or greater than the price per share paid by investors in this offering. The price per share at which we sell additional shares of our common stock or other securities convertible into or exchangeable for our common stock in future transactions may be higher or lower than the price per share in this offering. Accordingly, our shareholders bear the risk that our future offerings will reduce the market price of our common stock and dilute their stock holdings in us.

ITEM 1B. Unresolved Staff Comments

Not applicable.

ITEM 2. Properties

Properties and Facilities

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

In addition, the Company leases three smaller facilities, one located in San Antonio, one in Mission, Texas, and one in Dallas, Texas each with a small yard for the parking of trucks, small storage tanks and an office. The San Antonio facility is leased under a thirty-six month lease which expired in June 2013 (subject to our right to renew the lease for an additional twelve months and/or purchase the property at the end of the lease term), which has a rental cost of $1,500 per month, and which we are currently in the process of extending. The Mission, Texas lease has a term expiring on June 1, 2016, and a rental cost of $400 per month. The Dallas lease has a term expiring August 31, 2015 and a rental cost of $3,000 per month.

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

We also lease approximately 5,893 square feet of office space at our current principal executive office located at 1331 Gemini St., Suite 250, Houston, Texas 77058, pursuant to a lease we acquired from Holdings as part of the Acquisition. The office rent is $9,723 per month from July 1, 2012 to June 30, 2013; $10,067 per month from July 1, 2013 to June 30, 2015; and $10,411 from July 1, 2015 to June 30, 2017, and the lease expires on June 30, 2017.

E-Source leases office space at 1055 Gemini St., Houston, Texas 77058 pursuant to a lease with BBP Landtex. which is the 49% minority owner of E Source, rental payments under the lease were $3,500 per month from November 1, 2014 to October 31, 2017. E-Source also leases a process yard located on Beamer Rd. in Friendswood, Texas, 77546 for $4,000 per month.

We believe that our current facilities are suitable and adequate to meet our current needs, and that suitable additional or substitute space will be available as needed.

ITEM 3. Legal Proceedings

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

We are not currently involved in legal proceedings, that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future.

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Effective on May 4, 2009, our common stock began trading on the OTC Bulletin Board over-the-counter market (the "OTCBB") under the symbol "VTNR.OB". On March 1, 2011, we were automatically delisted from the OTCBB due to the failure of a market maker to quote our common stock on the OTCBB for the time period required under FINRA rules and regulations and began trading on the OTCQB market maintained by OTC Markets. Our common stock was requoted on the OTCBB on May 12, 2011. On July 23, 2012, our common stock was again automatically delisted from the OTCBB due to the failure of a market maker to quote our common stock and once again began trading on the OTCQB market. On February 13, 2013, our common stock began trading on the NASDAQ Capital Market ("NASDAQ") under the symbol "VTNR".

The following table sets forth, for the periods indicated, the high and low sales prices for our common stock on the OTCBB, OTCQB or NASDAQ (as applicable), for the quarters presented. Prices represent inter-dealer quotations without adjustments for markups, markdowns, and commissions, and may not represent actual transactions.

QUARTER ENDING	HIGH	LOW
FISCAL 2013		
December 31, 2013	$ 3.45	$ 2.79
September 30, 2013	$ 3.5	$ 2.35
June 30, 2013	$ 3.46	$ 2.75
March 31, 2013	$ 4.2	$ 2.87
FISCAL 2012		
December 31, 2012	$ 3.6	$ 2.01
September 30, 2012	$ 2.52	$ 1.25
June 30, 2012	$ 2.35	$ 1.3
March 31, 2012	$ 2.49	$ 1.8

HOLDERS

As of March 19, 2014, there were approximately 639 holders of record of our common stock, not including holders who hold their shares in street name, and 21,238,531 shares of common stock issued and outstanding. As of March 19, 2014, 129 holders held 1,308,469 shares of our Series A Preferred Stock and there were no shares of our Series B Preferred Stock issued and outstanding.

DIVIDENDS

We have not paid any dividends on our common stock to date and do not anticipate that we will be paying dividends in the foreseeable future. Any payment of cash dividends on our common stock in the future will be dependent upon the amount of funds legally available, our earnings, if any, our financial condition, our anticipated capital requirements and other factors that our Board of Directors may think are relevant. However, we currently intend for the foreseeable future to follow a policy of retaining all of our earnings, if any, to finance the development and expansion of our business and, therefore, do not expect to pay any dividends on our common stock in the foreseeable future. Additionally, the terms of our preferred stock impose restrictions on our ability to pay dividends.

Description of Capital Stock

Common Stock

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

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

Preferred Stock

The total number of "blank check" authorized shares of our preferred stock is 50,000,000 shares, $0.001 par value per share. The total number of authorized shares of our Series A Convertible Preferred Stock ("Series A Preferred") is 5,000,000 and the total number of authorized shares of Vertex's Series B Convertible Preferred Stock is 2,000,000 ("Series B Preferred", provided that no shares of Series B Preferred are currently outstanding).

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 Vertex Series A Preferred vote together as a single class.

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

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

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

Series B Preferred Stock

The Series B Preferred Stock have the following rights, preferences and limitations:

- The Series B Preferred Stock includes a liquidation preference which is junior to the Company's previously outstanding shares of preferred stock, senior securities and other security holders as provided in further detail in the Designation;
- The Series B Preferred Stock is convertible into shares of the Company's common stock on a one for one basis at a conversion price of $1.00 per share, provided that the Series B Preferred Stock automatically converts into shares of the Company's common stock on a one for one basis if the Company's common stock trades above $2.00 per share for a period of 10 consecutive trading days;
- The Series B Preferred Stock has no voting rights (other than on matters concerning the Series B Preferred Stock as further described in the Designation); and
- The Company was obligated to redeem any unconverted shares of Series B Preferred Stock in cash at $1.00 per share on the third anniversary date of the original issuance date of each share of Vertex Series B Preferred Stock.

From June 2nd to June 15th 2011 (ten (10) consecutive trading days), the trading price of the Company's common stock on the Over-The-Counter Bulletin Board closed at equal to or greater than $2.00 per share, which triggered the automatic conversion provision of the 600,000 outstanding shares of Series B Preferred Stock. As a result, effective June 15, 2011, all 600,000 previously outstanding shares of Series B Preferred Stock automatically converted, without any required action by any holder thereof, into 600,000 shares of the Company's common stock.

Options and Warrants

We assumed (i) warrants to purchase approximately 94,084 shares of our common stock, each at a nominal exercise price; (ii) warrants to purchase an aggregate of 542,916 shares of common stock with exercise prices ranging from between $10.00 and $27.50 per share; and (iii) options to purchase 659,300 shares of common stock with exercise prices ranging from between $1.55 to $37.00 per share in connection with the Merger (of which options to purchase 680,970 shares had expired unexercised as of December 31, 2013 and options to purchase an additional 113,530 shares had been exercised). We also granted warrants to purchase an aggregate of 774,478 shares of our common stock to the partners of Holdings, which warrants had various exercise prices ranging from $1.55 to $37.00 per share, and had various expiration dates from between April 28, 2010 and February 26, 2018, and which warrants represented 40% of the total outstanding warrants and options of World Waste (not taking into account the warrants with a nominal exercise price, as described above) on the effective date of the Merger (of which warrants to purchase 361,111 shares had expired unexercised as of December 31, 2013).

We have also granted options to purchase an aggregate of 2,841,500 shares (of which options to purchase 270,000 shares have been forfeited, options to purchase 5,000 shares have expired and options to purchase 420,000 shares have been exercised) with exercise prices ranging between $0.45 and $3.26 per share, all of which are held by our employees, directors, and consultants as of December 31, 2013. Additionally, we have warrants to purchase 833 shares of our common stock outstanding, which were issued in connection with the Merger, which have an exercise price of $10.00 per share and an expiration date of January 1, 2014 and options to purchase 914,334 shares of our common stock outstanding, which were either assumed in connection with or issued in connection with the Merger, which have exercise prices from between $1.55 and $37.00 per share and expiration dates from between May 1, 2014 and February 26, 2018 as of December 31, 2013. Finally, we have warrants to purchase 6,250 shares of our common stock outstanding at an exercise price of $1.75 per share and an expiration date of May 10, 2015 as of December 31, 2013.

EQUITY COMPENSATION PLAN INFORMATION

The Company previously assumed World Waste's 2004 Incentive Stock Option Plan (the "2004 Plan"), which was approved by shareholders, and provided for the issuance of a total of up to 200,000 shares of common stock and options to acquire common stock to employees, directors and consultants.

The Company also previously assumed World Waste's 2007 Incentive Stock Plan (the "2007 Plan"), which was not shareholder-approved. The 2007 Plan provided for the issuance of a total of up to 600,000 shares of common stock and options to acquire common stock to employees, Directors and consultants.

Effective May 16, 2008, our Board of Directors approved our 2008 Stock Incentive Plan, which was subsequently approved by a majority of our shareholders on December 3, 2008, which allows the Board of Directors to grant up to an aggregate of 600,000 qualified and non-qualified stock options, restricted stock and performance based awards of securities to our officers, Directors and consultants to help attract and retain our qualified personnel (the "2008 Plan").

Effective July 15, 2009, our Board of Directors approved our 2009 Stock Incentive Plan, which was subsequently approved by a majority of our shareholders on July 14, 2010, which allows the Board of Directors to grant up to an aggregate of 1,575,000 qualified and non-qualified stock options, restricted stock and performance based awards of securities to our officers, Directors and consultants to help attract and retain qualified personnel (the "2009 Plan" and collectively with the 2008 Plan, the "Plans").

The following table provides information as of December 31, 2013 regarding the 2004 Plan, the 2007 Plan and the Plans (including individual compensation arrangements) under which equity securities are authorized for issuance:

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights***	**Weighted-average exercise price of outstanding options, warrants and rights***	**Number of securities available for future issuance under equity compensation plans (excluding those in first column)***
Equity compensation plans approved by the security holders	2,442,050	$5.04	1,575,746
Equity compensation plans not approved by the security holders	207,083	$0.58	0
Total	2,649,133		1,575,746

* Does not include (a) certain outstanding options and warrants granted by the Company's predecessor, World Waste, prior to the Merger, totaling approximately 315,867 shares of common stock issuable upon exercise of outstanding options, warrants and rights to purchase shares of common stock of the Company with a weighted-average exercise price of $17.28 per share; and (b) securities available for future issuance under equity compensation plans approved by security holders and not approved by security holders of World Waste, assumed in the Merger, which the Company does not plan to issue any additional securities in connection which.

Recent Sales Of Unregistered Securities

During the year ending December 31, 2013, 193,889 shares of the Company's Series A Preferred Stock were converted into 193,889 shares of our common stock on a one-for-one basis. Additionally, warrants to purchase 631,250 shares of the Company's common stock were exercised for a net of 310,013 shares of common stock (when adjusting for a cashless exercise of certain of such warrants and the payment, in shares of common stock ($993,750) and cash ($48,436), of an aggregate exercise price of $1,042,188 in connection with such exercises) and 310,013 shares of common stock were issued to the warrant holders in connection with such exercises; and options to purchase 405,000 shares of common stock were exercised for a net of 330,050 shares of common stock (when adjusting for a cashless exercise of certain of such options and the payment, in shares of common stock ($235,500) and cash ($12,500), of an aggregate exercise price of $248,000 in connection with such exercises) and 330,050 shares of common stock were issued to the option holders in connection with such exercises.

Subsequent to December 31, 2013, (a) 10,533 shares of the Company's Series A Preferred Stock were converted into 10,533 shares of our common stock on a one-for-one basis; (b) an option holder exercised options to purchase 6,250 shares of the Company's common stock at an exercise price of $2.10 per share and surrendered 3,860 shares (equal in value to the exercise price) in a cashless exercise of such option and was issued a net of 2,390 shares of our common stock; and (c) an option holder exercised options to purchase 20,000 shares of the Company's common stock at an exercise price of $1.20 per share for an aggregate exercise price of $24,000 and was issued 20,000 shares of our common stock.

We claim an exemption from registration afforded by Section 3(a)(9) of the Securities Act of 1933, as amended (the Act”), for the above conversions and cashless exercises (provided that certain of the securities issued in cashless exercises of the warrants and options described above were registered on Form S-8 and did not constitute unregistered securities), as the securities were exchanged by the Company with its existing security holders exclusively in transactions where no commission or other remuneration was paid or given directly or indirectly for soliciting such exchange and Section 4(2) of the Act for the cash exercises (provided that certain of the securities issued in cashless exercises of the warrants and options described above were registered on Form S-8 and did not constitute unregistered securities), since the issuances did not involve a public offering, the recipients took the securities for investment and not resale and we took appropriate measures to restrict transfer.

Use of Proceeds From Sale of Registered Securities

Our Registration Statement on Form S-3 (Reg. No. 333-189107) in connection with the sale by us of up to $25 million in securities (common stock, preferred stock, warrants and units) was declared effective by the Securities and Exchange Commission on July 10, 2013.

On November 11, 2013, we filed a preliminary Rule 424(b)(5) prospectus supplement and on November 21, 2013, we filed a final Rule 424(b)(5) prospectus supplement relating to the primary offering by us in a fully-underwritten offering of 3,392,800 shares of common stock (when including the underwriter's overallotment option, described below) at a public offering price per share of $2.80. The underwriter of the offering (Craig-Hallum Capital Group) was also provided an option to purchase an additional 442,539 shares from us, at the public offering price less the underwriting discount, within 30 days of the offering to cover over-allotments, if any, which overallotment option was exercised in full by the underwriter. The offering (including the sale of the underwriters' overallotment shares) closed on November 26, 2013. The net proceeds to us from our sale of the common stock (including the shares sold in connection with the exercise of the underwriters' overallotment) was approximately $8.61 million (after deducting the underwriting discount and commissions and offering expenses payable by us). No further shares will be sold under the prospectus supplement.

No payments for our expenses were made in either offering described above directly or indirectly to (i) any of our directors, officers or their associates, (ii) any person(s) owning 10% or more of any class of our equity securities or (iii) any of our affiliates. We used the net proceeds from the offerings as described in our final prospectuses filed with the SEC pursuant to Rule 424(b).

There has been no material change in the planned use of proceeds from our offerings as described in our final prospectuses filed with the SEC pursuant to Rule 424(b).

Issuer Purchases of Equity Securities

None.

ITEM 6. Selected Financial Data

Not applicable.

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

Strategy and Plan of Operations

The Principal elements of our strategy include:

- *Expand Feedstock Supply Volume.* We intend to expand our feedstock supply volume by growing our collection and aggregation operations. We plan to increase the volume of feedstock we collect directly by developing new relationships with generators and working to displace incumbent collectors; increasing the number of collection personnel, vehicles, equipment, and geographical areas we serve; and acquiring collectors in new or existing territories. We intend to increase the volume of feedstock we aggregate from third-party collectors by expanding our existing relationships and developing new vendor relationships. We believe that our ability to acquire large feedstock volumes will help to cultivate new vendor relationships because collectors often prefer to work with a single, reliable customer rather than manage multiple relationships and the uncertainty of excess inventory.
- *Broaden Existing Customer Relationships and Secure New Large Accounts* We intend to broaden our existing customer relationships by increasing sales of used motor oil and re-refined products to these accounts. In some cases, we may also seek to serve as our customers' primary or exclusive supplier. We also believe that as we increase our supply of feedstock and re-refined products that we will secure larger customer accounts that require a partner who can consistently deliver high volumes.
- *Re-Refine Higher Value End Products.* We intend to develop, lease, or acquire technologies to re-refine our feedstock supply into higher-value end products, including assets or technologies which complement TCEP. Currently, we are using TCEP to re-refine used oil feedstock into cutterstock for use in the marine fuel market. We believe that the expansion of our TCEP facilities and our technology, and investments in additional technologies (including the acquisition of the Omega assets), will enable us to upgrade feedstock into end products, such as lubricating base oil, that command higher market prices than the current re-refined products we produce.
- *Expand TCEP Re-Refinement Capacity.* We intend to expand our TCEP capacity by building additional TCEP facilities to re-refine feedstock. We believe the TCEP technology has a distinct competitive advantage over conventional re-refining technology because it produces a high-quality fuel oil product, and the capital expenditures required to build a TCEP plant are significantly lower than a comparable conventional re-refining facility. By continuing the transition from our historical role as a value-added logistics provider to operating as a re-refiner, we believe we will be able to leverage our feedstock supply network and aggregation capabilities to upgrade a larger percentage of our feedstock inventory into higher value end products which we believe should lead to increased revenue and gross margins. We intend to build TCEP facilities near the geographic location of substantial feedstock sources that we have relationships with through our existing operations or from an acquisition. By establishing TCEP facilities near proven feedstock sources, we seek to lower our transportation costs and lower the risk of operating plants at low capacity.
- *Pursue Selective Strategic Relationships or Acquisitions.* We plan to grow market share by consolidating feedstock supply through partnering with or acquiring collection and aggregation assets, such as the planned acquisition of Omega's assets (as described in greater detail above under "Item 1. Business" - "Recent Events"), which there can be no assurance will be completed. Such acquisitions and/or partnerships could increase our revenue and provide better control over the quality and quantity of feedstock available for resale and/or upgrading as well as providing additional locations for the implementation of TCEP. In addition, we intend to pursue further vertical integration opportunities by acquiring complementary recycling and processing technologies where we can realize synergies by leveraging our customer and vendor relationships, infrastructure, and personnel, and by eliminating duplicative overhead costs.
- *Alternative Energy Project Development.* We will continue to evaluate and potentially pursue various alternative energy project development opportunities. These opportunities may be a continuation of the projects sourced originally by World Waste Technologies, Inc., a development stage municipal solid waste conversion company we merged with in April 2009, and/or may include new projects initiated by us.

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 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 through TCEP. The finished product is then sold by barge as a fuel oil cutterstock and a feedstock component for major refineries.

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.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2013 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2012

Set forth below are our results of operations for the three months ended December 31, 2013, as compared to the same period in 2012; in the comparative tables below, increases in revenue/income or decreases in expense (favorable variances) are shown without parentheses while decreases in revenue/income or increases in expense (unfavorable variances) are shown with parentheses in the "$ Change" and "% Change" columns.

	Three Months Ended December 31,			
	2013	2012	$ Change	% Change
Revenues	$46,770,402	$32,256,541	$14,513,861	45 %
Cost of Revenues	41,340,555	29,290,855	(12,049,700)	(41)%
Gross Profit	5,429,847	2,965,686	2,464,161	83 %
Reduction of contingent liability	(388,750)	—	(388,750)	(100)%
Selling, general and administrative expenses (exclusive of merger related expenses)	4,359,859	2,413,181	(1,946,678)	(81)%
Acquisition related expenses	17,150	101,964	84,814	83 %
Total selling, general and administrative expenses	3,988,259	2,515,145	(1,473,114)	(59)%
Income from operations	1,441,588	450,541	991,047	220 %
Other Income	4,809	—	4,809	100 %
Other Income (expense)	(9,838)	158	(9,996)	(6,327)%
Interest Expense	(108,327)	(106,348)	(1,979)	2 %
Total other income (expense)	(113,356)	(106,190)	(7,166)	7 %
Income before income tax	1,328,232	344,351	983,881	286 %
Income tax (expense) benefit	1,678,540	(207,000)	1,885,540	911 %
Net income	3,006,772	137,351	2,869,421	2,089 %
Net income attributable to non-controlling interest	(431,962)	—	(431,962)	100 %
Net income attributable to Vertex Energy, Inc.	$ 2,574,810	$ 137,351	$ 2,437,459	1,775 %

Each of our segments' gross profit during the three months ended December 31, 2013 and 2012 was as follows (increases in revenue and/or decreases in cost of revenues are shown without parentheses while decreases in revenue and/or increases in cost of revenues are shown with parentheses in the "$ Change" and "% Change" columns):

	Three Months Ended December 31,			
	2013	2012	$ Change	% Change
Black Oil Segment				
Total revenue	$ 23,660,574	$ 19,959,930	$ 3,700,644	19 %
Total cost of revenue	21,717,508	18,063,709	(3,653,799)	(20)%
Gross profit	$ 1,943,066	$ 1,896,221	$ 46,845	2 %

	Three Months Ended December 31,			
	2013	2012	$ Change	% Change
Refining & Marketing				
Total revenue	$ 16,749,930	$ 11,595,766	$ 5,154,164	44 %
Total cost of revenue	15,207,097	10,569,315	(4,637,782)	(44)%
Gross profit	$ 1,542,833	$ 1,026,451	$ 516,382	50 %

	Three Months Ended December 31,			
	2013	2012	$ Change	% Change
Recovery				
Total revenue	$ 6,359,898	$ 700,845	$ 5,659,053	807 %
Total cost of revenue	4,415,950	657,831	(3,758,119)	(571)%
Gross profit	$ 1,943,948	$ 43,014	$ 1,900,934	4,419 %

Total revenues increased 45% for the fourth quarter of 2013, compared to the same period in 2012, due primarily to an increase in overall volume of product sold during the fourth quarter of 2013, compared to the third quarter of 2012. Total volume increased 32% and gross profit increased 83% for the three months ended December 31, 2013 compared to 2012. Additionally, our per barrel margin increased 38% relative to the three months ended December 31, 2012. Part of this increase was a result of the E-Source business being added during the fourth quarter of 2013, which is part of our Recovery division.

Our Black Oil division’s volume increased approximately 12% during the three months ended December 31, 2013 compared to the same period in 2012. This increase was due to the increased volume handled by our TCEP process during the period. Overall volume for the Refining and Marketing division increased 65% during the three month period ended December 31, 2013 as compared to the same period in 2012. This division experienced an increase in production of 134% for its gasoline blendstock for the three months ended December 31, 2013, compared to the same period in 2012. Our fuel oil cutter volumes increased 64% for the three months ended December 31, 2013, compared to the same period in 2012. Our pygas volumes increased 32% for the three months ended December 31, 2013 as compared to the same period in 2012.

We experienced a 13% increase in the volume of our TCEP refined product during the three months ended December 31, 2013, compared to the same period in 2012. In addition, commodity prices decreased approximately 4% for the three months ended December 31, 2013, compared to the same period in 2012. The average posting (U.S. Gulfcoast Residual Fuel No. 6 3%) for the three months ended December 31, 2013 decreased $3.05 per barrel from a three month average of $94.23 per barrel during the three months ended December 31, 2012 to $91.17 per barrel during the three months ended December 31, 2013.

Overall gross profit increased 83% and our margin per barrel increased approximately 38% for the three months ended December 31, 2013, compared to the same period in 2012. This improvement was a result of increased volumes, as well as cost benefits and savings created in connection with the Acquisition and the various new subsidiary companies which increased our margins.

Our TCEP technology generated revenues of $17,048,667 during the three months ended December 31, 2013, with cost of revenues of $15,250,867, producing a gross profit of $1,797,800. The per barrel margin for our TCEP product decreased 18% as compared to the same period during 2012. This decrease was a result of increased operating costs during the fourth quarter of 2013 as well as a slight reduction in market pricing during the fourth quarter of 2013.

RESULTS OF OPERATIONS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013 COMPARED TO THE FISCAL YEAR ENDED DECEMBER 31, 2012

Set forth below are our results of operations for the year ended December 31, 2013, as compared to the same period in 2012; in the comparative tables below, increases in revenue/income or decreases in expense (favorable variances) are shown without parentheses while decreases in revenue/income or increases in expense (unfavorable variances) are shown with parentheses in the "$ Change" and "% Change" columns.

	Year Ended December 31,			
	2013	2012	$ Change	% Change
Revenues	$ 161,967,252	$ 134,573,243	$ 27,394,009	20 %
Cost of revenues	145,628,215	124,788,116	(20,840,099)	(17)%
Gross profit	16,339,037	9,785,127	6,553,910	67 %
Reduction of contingent liability	(2,238,750)	—	(2,238,750)	(100)%
Selling, general and administrative expenses (exclusive of merger related expenses)	11,472,842	6,137,301	(5,335,541)	(87)%
Acquisition related expenses	53,742	1,256,576	1,202,834	96 %
Total selling, general and administrative expenses	9,287,834	7,393,877	(1,893,957)	(26)%
Income from operations	7,051,203	2,391,250	4,659,953	195 %
Other Income (expense)				
Other income	37,696	1,740	35,956	2,066 %
Other expense	(54,513)	—	(54,513)	(100)%
Interest expense	(422,954)	(135,364)	(287,590)	(212)%
Total other income (expense)	(439,771)	(133,624)	(306,147)	(229)%
Income before income tax	6,611,432	2,257,626	4,353,806	193 %
Income tax benefit	1,700,000	1,400,641	299,359	21 %
Net income	8,311,432	3,658,267	4,653,165	127 %
Net income attributable to non-controlling interest	(431,962)	—	(431,962)	(100)%
Net income attributable to Vertex Energy, Inc.	$ 7,879,470	$ 3,658,267	$ 4,221,203	115 %

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

	Year Ended December 31, 2013	Year Ended December 31, 2012	$ Change	% Change
Black Oil Segment				
Total revenue	$ 89,120,218	$ 89,132,373	$ (12,155)	— %
Total cost of revenue	82,229,131	84,167,768	1,938,637	2 %
Gross profit	$ 6,891,087	$ 4,964,605	$ 1,926,482	39 %
Refining Segment				
Total revenue	$ 55,729,434	$ 44,335,551	$ 11,393,883	26 %
Total cost of revenue	50,500,209	39,581,947	(10,918,262)	(28)%
Gross profit	$ 5,229,225	$ 4,753,604	$ 475,621	10 %
Recovery Segment				
Total revenue	$ 17,117,600	$ 1,105,319	$ 16,012,281	1,449 %
Total cost of revenue	12,898,875	1,038,401	(11,860,474)	(1,142)%
Gross profit	$ 4,218,725	$ 66,918	$ 4,151,807	6,204 %

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 increased 20% for the year ended December 31, 2013, compared to the year ended December 31, 2012, due primarily to increased volume. The average posting (U.S. Gulfcoast Residual Fuel No. 6 3%) for 2013 decreased $6.29 per barrel from a 2012 average of $99.33 per barrel to an average of $93.04 per barrel during 2013. On average, prices we received for our products decreased 4% for the year ended December 31, 2013, compared to the year ended December 31, 2012. The increases in our volumes resulted in a $27 million increase in revenue.

Volume for our Black Oil division increased 7% during fiscal 2013 compared to 2012, respectively. This volume increase is attributable to the increased amount of product being processed through TCEP, as well as increased volume being delivered and sourced to third party re-refiners and fuel blending companies. Our per barrel margin in the Black Oil division increased approximately 28% for the year ended December 31, 2013 from the same period in 2012. The increase in margins was due to the increase in volume of product being managed along with decreased pricing for feedstock related to the oil that H&H Oil is able to collect and increased processing costs during 2013 for TCEP. As volumes and production increase in our Black Oil division it often takes a few quarters to recognize increased additional per barrel margin, this is because of the fact that when we move into a new geographic location it takes us a period of time before we are able to create and benefit from economies of scale.

Our Black Oil business, through the use of the TCEP, generated revenues of $89,120,218 for the year ended December 31, 2013, with cost of revenues of $82,229,131, producing a gross profit of $6,891,087. During the year ended December 31, 2012, these revenues were $89,132,373 with cost of revenues of $84,167,768, producing gross profit of $4,964,605. Due to the Company now owning the TCEP technology as of December 31, 2013 and 2012, compared with only having a license to the technology during the majority of 2012 (which technology was acquired as part of the Acquisition, described above under "Business" – "Material Acquisition"), our income from operations has been positively affected for the year ended December 31, 2013. Prior to September 1, 2012, we operated this technology from CMT pursuant to a perpetual license agreement. Gross profit increased for the year ended December 31, 2013, compared to 2012, as a result of increased volumes processed through our TCEP operation reduced feedstock costs through our H&H Oil operations as well as improved market conditions for the year ended December 31, 2013.

Total volume company-wide increased 20% during fiscal 2013 compared to 2012, and our per barrel margin increased approximately 39% for fiscal 2013, compared to 2012. This improvement was a result of increased volumes, as well as cost benefits and savings created in connection with the Acquisition and the various new subsidiary companies which increased our margins.

Our Refining and Marketing division experienced an increase in production of 33% for its fuel oil cutter product for the year ended December 31, 2013, compared to the same period in 2012, and commodity prices decreased approximately 4% over the same period. The average posting (U.S. Gulfcoast No. 2 Waterborne) during 2013 decreased $4.46 per barrel from $126.18 per barrel for 2012 to $121.72 per barrel for 2013.

Our pygas production decreased 7% for the year ended December 31, 2013, compared to the same period in 2012 and commodity prices decreased approximately 4% for our finished product for 2013, compared to the same period in 2012.

Our gasoline blendstock volumes increased 84% for the year ended December 31, 2013 as compared to 2012. The average posting (U.S. Gulfcoast Unleaded 87 Waterborne) during 2013 decreased $0.13 per gallon from $2.90 per gallon for 2012 to $2.77 per gallon during 2013. The overall increase in revenues associated with our Refining and Marketing division was due to increases in volumes for the year ended December 31, 2013.

Overall volume for the Refining and Marketing division increased 32% during the year ended December 31, 2013, compared to the year ended December 31, 2012. Margins per barrel decreased in the Refining and Marketing division as a result of market conditions as well as increased volumes from our fuel oil cutter product which does not carry as high a margin as the gasoline blendstock or pygas products.

Our TCEP technology generated revenues of $56,538,657 during the year ended December 31, 2013, with cost of revenues of $50,484,253, producing a gross profit of $6,054,404. The per barrel margin for our TCEP product increased 32% as compared to same period during 2012. This increase was a result of decreased operating costs during the fourth quarter of 2013, we also received a slight reduction in market pricing during the fourth quarter of 2013 which put some pressure on our margins. The overall margin improvement is a result of improved feedstock costs delivered into the Baytown facility during 2013.

Our Recovery division includes the business operations of Vertex Recovery as well as the recently acquired business of E-Source. This is a newly formed Segment as of the fourth quarter of 2013. Revenues for this division increased substantially as a result of the E-Source business only being part of our operations during the fourth quarter of 2013. A large part of the increase was also a result of a one-time increase associated with a large distressed diesel project that Vertex Recovery participated in during the third quarter of 2013. This division periodically participates in project works that are not ongoing thus we expect to see fluctuations in revenue and gross profit from period to period. These projects are typically bid related and can take time to line out and get going; however we believe these are very good projects for the Company and we anticipate more in the upcoming periods.

Prevailing prices of certain commodity products can significantly impact our revenues and cash flows., As noted above the revenue variances from fiscal 2012 to 2013 were impacted slightly due to the changes in commodity pricing between the two periods as detailed below.

The following table sets forth the high and low spot prices during 2012 for our key benchmarks.

2012

Benchmark	**High**	**Date**	**Low**	**Date**
U.S. Gulfcoast No. 2 Waterborne (dollars per gallon)	$ 3.25	Feb. 22	$ 2.54	June 28
U.S. Gulfcoast Unleaded 87 Waterborne (dollars per gallon)	$ 3.42	Mar. 28	$ 2.38	Dec. 13
U.S. Gulfcoast Residual Fuel No. 6 3% (dollars per barrel)	$ 114.35	Mar. 1	$ 82.60	June 21
NYMEX Crude oil (Dollars per barrel)	$ 109.77	Feb. 24	$ 77.69	June 28
Reported in Platt's US Marketscan (Gulf Coast)				

The following table sets forth the high and low spot prices during 2013 for our key benchmarks.

2013 Benchmark	High	Date	Low	Date
U.S. Gulfcoast No. 2 Waterborne (dollars per gallon)	$ 3.25	Feb. 12	$ 2.60	May 31
U.S. Gulfcoast Unleaded 87 Waterborne (dollars per gallon)	$ 3.21	Feb. 15	$ 2.32	Nov. 4
U.S. Gulfcoast Residual Fuel No. 6 3% (dollars per barrel)	$ 101.02	Feb. 14	$ 87.49	April 17
NYMEX Crude oil (Dollars per barrel)	$ 110.53	Sep. 6	$ 86.68	April 17
Reported in Platt's US Marketscan (Gulf Coast)				

We have seen on average a fairly stable market in each of the benchmark commodities we track during 2012 and 2013.

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

Gross profit increased 67% from $9,785,127 for the year ended December 31, 2012 to $16,339,037 for the year ended December 31, 2013, primarily due to increases in volumes sold or re-refined, and more stabilized pricing.

We had selling, general and administrative expenses (exclusive of acquisition related expenses) of $11,472,842 for the year ended December 31, 2013, compared to $6,137,301 from the prior year's period, an increase of $5,335,541 or 87% from the prior period, due to an increase in overall administrative expenses generated by the new business lines and additional compensation expenses associated with employees acquired as a result of the Acquisition. The Company incurred an additional $53,742 of one-time legal, accounting, auditing and investment banking expenses during the year ended December 31, 2013 related to the acquisition of E-Source and other miscellaneous matters.

We had income before income taxes of $6,611,432 for the year ended December 31, 2013 compared to income before income taxes of $2,257,626 for the year ended December 31, 2012, an increase in net income before taxes of $4,353,806 or 193% from the prior year's period. The increase in net income before taxes was largely due to increased gross profit related to the increases in volumes sold, improved margins and the reduction of the contingent liability related to the Acquisition contributed $2,238,750 to income from operations. We had an income tax benefit of $1,700,000 for the year ended December 31, 2013, compared to an income tax benefit of $1,400,641 for the same period ended December 31, 2012 The benefit for income taxes, for which for the Company has recorded a net deferred asset based on reducing our valuation allowance related to our approximately $30.75 million of net operating losses that may be used to offset taxable income generated by the Company in future periods.

We had net income of $8,311,432 for the year ended December 31, 2013 and $3,658,267 for the same period of 2012 due to the E-Source acquisition. We had net income of $431,962 relating to the 49% minority interest of E-Source. We had net income attributable to the Company of $7,879,470 compared to net income of $3,658,267 for the year ended December 31, 2012, an increase in net income of $4,221,203 or 115% from the prior year's period.

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

Set forth below, we have disclosed a quarter-by-quarter summary of our statements of operations and statements of operations by segment information for the quarters ended December 31, September 30, June 30, and March 31, 2013 and 2012, respectively.

Statements of Operations by Quarter								
	Fiscal 2013				Fiscal 2012			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	$46,770,402	$46,830,647	$35,111,402	$33,254,801	$32,256,541	$36,195,570	$31,293,193	$34,827,939
Cost of Revenues	41,340,555	41,945,879	32,556,738	29,785,043	29,290,855	33,011,934	30,542,452	31,942,875
Gross Profit	5,429,847	4,884,768	2,554,664	3,469,758	2,965,686	3,183,636	750,741	2,885,064
Reduction of contingent liability	(388,750)	—	(1,850,000)	—	—	—	—	—
Selling, general and administrative expenses	4,359,857	2,495,748	2,395,745	2,221,492	2,413,181	1,610,146	919,227	1,194,747
Acquisition related expenses	17,150	—	—	36,592	101,964	1,154,612	—	—
Total selling, general and administrative expenses	3,988,257	2,495,748	545,745	2,258,084	2,515,145	2,764,758	919,227	1,194,747
Income (loss) from operations	1,441,590	2,389,020	2,008,919	1,211,674	450,541	418,878	(168,486)	1,690,317
Other income (expense)								
Other income	4,809	—	7,598	25,289				
Other expense	(9,838)	(3,949)	—	(40,726)	158	949	633	—
Interest expense	(108,327)	(95,488)	(112,999)	(106,140)	(106,348)	(28,972)	—	(44)
Total other income (expense)	(113,356)	(99,437)	(105,401)	(121,577)	(106,190)	(28,023)	633	(44)
Income (loss) before income taxes	1,328,234	2,289,583	1,903,518	1,090,097	344,351	390,855	(167,853)	1,690,273
Income tax benefit (expense)	1,678,539	40,211	(12,248)	(6,502)	(207,000)	1,714,813	8,828	(116,000)
Net income (loss)	3,006,773	2,329,794	1,891,270	1,083,595	137,351	2,105,668	(159,025)	1,574,273
Net income attributable to non-controlling interest	(431,962)	—	—	—	—	—	—	—
Net income attributable to Vertex Energy, Inc.	$ 2,574,811	$ 2,329,794	$ 1,891,270	$ 1,083,595	$ 137,351	$ 2,105,668	$ (159,025)	$ 1,574,273
Number of weighted average common shares outstanding								
Basic	17,830,194	17,715,786	17,409,034	17,079,242	12,138,229	12,255,372	10,136,941	9,434,094
Diluted	20,182,829	19,997,257	19,887,288	20,139,182	14,866,134	16,484,023	10,136,941	15,473,017

	Statements of Operations by Segments							
	Fiscal 2013				Fiscal 2012			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Black Oil								
Revenues	$23,660,574	$22,766,929	$19,493,407	$23,199,308	$19,959,930	$22,703,429	$22,308,780	$24,160,235
Cost of revenues	21,717,508	21,632,211	18,463,098	20,416,314	18,063,709	21,632,753	22,103,561	22,367,745
Gross profit	$ 1,943,066	$ 1,134,718	$ 1,030,309	$ 2,782,994	$ 1,896,221	$ 1,070,676	$ 205,219	$ 1,792,490
Refining & Marketing								
Revenues	$16,749,930	$15,913,554	$14,234,204	$ 8,831,746	$11,595,766	$13,087,667	$ 8,984,413	$10,667,704
Cost of revenues	15,207,097	14,244,023	12,824,955	8,224,134	10,569,315	10,998,611	8,438,891	9,575,130
Gross profit	$ 1,542,833	$ 1,669,531	$ 1,409,249	$ 607,612	$ 1,026,451	$ 2,089,056	$ 545,522	$ 1,092,574
Recovery								
Revenues	$ 6,359,898	$ 8,150,164	$ 1,383,791	$ 1,223,747	$ 700,845	$ 404,474	$ —	$ —
Cost of revenues	4,415,950	6,069,645	1,268,685	1,144,595	657,831	380,570	—	—
Gross profit	$ 1,943,948	$ 2,080,519	$ 115,106	$ 79,152	$ 43,014	$ 23,904	$ —	$ —

Liquidity and Capital Resources

The success of our current business operations is not dependent on extensive capital expenditures (although we plan to construct additional TCEP facilities in the future, which will require substantial capital expenditures), but rather on relationships with feedstock suppliers and end-product customers, and on 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 $64,546,356 as of December 31, 2013 compared to $49,102,377 at December 31, 2012. This significant increase was partly due to the acquisition of E-Source which increased our fixed assets by $2,564,000, consisting of trucks and equipment. The Acquisition which was completed in September 2012, also added $15,172,816 of intangible assets which represented the value of the purchase of the patents and technology related to the TCEP operation. The increase was also due to the $8,311,432 of net income which was generated during the year ended December 31, 2013; a $1,870,688 increase in cash and cash equivalents as of December 31, 2013 compared to the year ended December 31, 2012, as well as a $4,554,033 increase in accounts receivable, net, as of December 31, 2013, compared to December 31, 2012. The increase in assets was offset by the $2,238,750 contingent liability reduction. Total current assets as of December 31, 2013 of $24,095,621 consisted of cash and cash equivalents of $2,678,628, accounts receivable, net of $11,714,813, inventory of $8,540,459, and prepaid expenses of $1,161,721. Long term assets consisted of fixed assets, net of $15,091,176, a net intangible asset in the amount of $15,172,816, which primarily represents the value of the Company's TCEP patent, and $4,502,743 of goodwill (booked in connection with the Acquisition of Holdings).

As of December 31, 2013 and 2012, as a result of the Acquisition, the Company owns outright and no longer licenses the TCEP technology. In addition, mainly as a result of the approximately $30.75 million of net operating losses that may be used to offset taxable income generated by the Company in future periods, the Company has recorded a deferred federal income tax asset of $5,684,000 as of December 31, 2013 and $3,703,000 as of December 31, 2012. Our cash, accounts receivable, inventory and accounts payable fluctuate and are somewhat tied to one another based on the timing of our inventory cycles and sales.

We had total current liabilities of $16,053,032 as of December 31, 2013, compared to $10,618,563 at December 31, 2012. This increase was largely due to the increase in our accounts payable during the year ended December 31, 2013 of $5,226,951, in addition and in connection with the Acquisition, the Company obtained a term loan with Bank of America of which the current portion outstanding at December 31, 2013 was $1,700,000. In addition, we had $256,847 of current liabilities related to the E-Source acquisition.

We had total liabilities of $26,210,133 as of December 31, 2013, including current liabilities of $16,053,032 and long-term liabilities of $10,157,101, which included $6,558,851 of long-term debt representing amounts due on the Term Note, $3,220,250 of contingent consideration relating to the Earn-Out Payments associated with the Acquisitions, and $378,000 of deferred federal income tax.

We had working capital of $8,042,589 as of December 31, 2013, compared to working capital of $3,712,745 as of December 31, 2012. The increase in working capital from December 31, 2012 to December 31, 2013 is mainly due to an increase in inventory of $2,670,338 and an increase in accounts receivables of $4,554,033 which was offset by an increase in accounts payable of $5,226,951.

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

In September 2010, we entered into a loan agreement with Bank of America Merrill Lynch. Pursuant to the loan agreement, Bank of America Merrill Lynch agreed to loan up to $3,500,000 in the form of a revolving line of credit. The line of credit accrued interest at the bank's LIBOR rate plus 3%, adjusted daily, and was originally due on September 16, 2011 (provided that the parties subsequently entered into various extensions of the line of credit, extending the due date to March 31, 2014). The loan agreement was terminated pursuant to our entry into the Credit Agreement described below. We had not borrowed any funds under the loan agreement at the time it was terminated, and as such $3,500,000 was available under such loan agreement.

On September 11, 2012, we entered into a Credit Agreement with the Lender effective as of August 31, 2012, pursuant to which we borrowed $8,500,000 in the form of a term loan, which is evidenced by a Term Note, and the Lender agreed to provide us with an additional $10,000,000 revolving credit facility (the "Credit Facility"), which is evidenced by a Revolving Note (the "Revolving Note", and together with the Term Note, the "Notes").

Pursuant to the Credit Agreement, we can request loans from time to time under the Credit Facility, subject to the terms and conditions of the Credit Agreement, provided that the total amount loaned pursuant to the Credit Facility cannot exceed the lesser of (a) $10,000,000 and (b) an amount equal to the total of (i) 80% of our accounts in which Lender has a first-priority perfected security interest; and (ii) 80% of our finished-goods inventory in which Lender holds a first-priority perfected security interest, in each case subject to the terms and conditions of the Credit Agreement, plus (iii) $1,500,000 through December 31, 2012, and $0 thereafter.

Amounts borrowed under the Revolving Note bear interest at our option at the lesser of the Lender's prime commercial lending rate then in effect or the LIBOR rate in effect plus 2.75%. Accrued and unpaid interest on the Revolving Note is due and payable monthly in arrears and all amounts outstanding under the Revolving Note are due and payable on August 31, 2014.

Amounts borrowed under the Term Note bear interest at our option at the lesser of the Lender's prime commercial lending rate then in effect or the LIBOR rate in effect plus 2.75%. Accrued and unpaid interest on the Term Note is due and payable monthly in arrears and all amounts outstanding under the Term Note are due and payable on August 31, 2015. Additionally, payments of principal in the amount of $141,667 are due and payable on the Term Note, monthly in arrears on the last day of each month beginning September 30, 2012, and continuing thereafter until the maturity date.

We agreed to comply with certain standard affirmative and negative covenants in connection with the Credit Agreement and agreed to meet the following financial covenants at such time as any loans or other obligations are outstanding under the Credit Agreement, commencing with the quarter ending September 30, 2012: (i) the ratio of (a) our EBITDA minus cash taxes, minus distributions, minus unfinanced capital expenditures, in each case for the immediately preceding four fiscal-quarter period, to (b) the sum of our interest expense for the immediately preceding four fiscal-quarter period, plus our current maturities of long-term debt, in each case, as of the last day of such four fiscal-quarter period, all as determined in accordance with GAAP, may not at any time be less than 1.25 to 1.00 (calculated and tested quarterly); (ii) the ratio of total debt funded under the Credit Agreement to our EBITDA cannot be greater than 2.00 to 1.00 (calculated and tested quarterly); and (iii) the sum of our tangible net worth cannot be less than $10,000,000 as of the last day of each fiscal quarter. While we were not in compliance with the tangible net worth requirement of the Credit Agreement as of September 30, 2012 and December 31, 2012; the tangible net worth requirement was included in the Credit Agreement in error and we and the Lender entered into a waiver and amendment agreement in January 2013, pursuant to which the Lender agreed to waive such prior non-compliance with the tangible net worth requirement and to amend the Credit Agreement to remove such net tangible worth requirement moving forward. The Company was in compliance with all aspects of the agreement at December 31, 2013.

The Credit Agreement includes customary events of default for facilities of similar nature and size as the Credit Agreement and also provides that an event of default occurs if (i) Benjamin P. Cowart, our Chief Executive Officer, President, Chairman of the Board and largest shareholder, ceases to be actively involved in our day-to-day management or operation or if Mr. Cowart ceases to own and control at least 25% of our equity interests; (ii) we cease at any time to own and control 100% of the Transferred Partnerships acquired pursuant to the closing of the Acquisition; Vertex II GP, LLC ("Vertex GP"), a wholly-owned subsidiary of the Company, formed for the purpose of the transaction, ceases to be the sole general partner of the Transferred Partnerships; (iii) an agreement, letter of intent, or agreement in principle is executed with respect to any proposed transaction or event or series of transactions or events which, individually or in the aggregate, could reasonably be expected to result in either (i) or (ii), above; or (iv) a default occurs under the lease agreement for certain premises leased by CMT.

We agreed to pay the Lender the following fees in connection with the Credit Agreement: (i) a fee equal to 0.25% of the actual daily amount by which (a) the committed amount of the Credit Facility exceeds (b) the amount outstanding under the Credit Facility plus the amount of any lines of credit issued by Lender to us, so long as the average daily amount drawn on the Credit Facility is less than $5,000,000, for the calendar quarter then-ended, payable quarterly in arrears beginning September 30, 2012; (ii) a closing fee in connection with the closing of the Credit Facility; and (iii) certain fees associated with lines of credit issued by Lender as described in greater detail in the Credit Agreement.

Our obligations under the Credit Agreement and Notes are secured by a first priority security interest in substantially all of our assets, including those assets and properties acquired in connection with the closing of the Acquisition, which was granted pursuant to our, and certain of our subsidiaries, entry into security agreements with the Lender. Additionally, the Transferred Partnerships, Vertex GP and Acquisition guaranteed our obligations under the Credit Agreement and Notes pursuant to guarantees entered into in favor of the Lender.

On September 11, 2012, we borrowed a total of $8.5 million under the Term Note and $8.75 million under the Revolving Note, the majority of which funds were used to pay Holdings the cash portion of the Purchase Price due in connection with the closing of the Acquisition, as described in greater detail above under "Business" – "Material Acquisition," and to pay fees and costs associated with the closing of the Acquisition.

As of December 31, 2013, we owed $6.2 million under the Term Note and nothing under the Revolving Note. As of December 31, 2012, the Revolving Note had a balance of $6,750,000 and the Term Note had a balance of $7,933,333.

In February 2013, the Lender agreed to lease the Company up to $1,025,000 of equipment to enhance the TCEP operation. Monthly payments are fixed for the sixty month duration of the lease at $13,328 per month. The lease also provides an early buy-out right for the Company and a right for the Company to extend the lease at the end of its term.

The Company has notes payable to various financial institutions, bearing interest at rates ranging from 6% to 6.35%, maturing from November, 2015 to April, 2023. The balance of the notes payable is $2,282,365 at December 31, 2013.

Management believes that our financing arrangements, 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 development in the future and will be required to obtain additional funding in connection with our planned acquisition of Omega as described above under "Business" - "Recent Events".

Our re-refining business will require significant capital to design and construct any new facilities other than the existing facility in Baytown, Texas. We currently estimate that the cost to construct a new, fully functional full-scale commercial process at another location would be approximately $2.5 to $5.0 million, based on throughput capacity. 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.

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. We cannot assure you, however, that future financing will be available in amounts or on terms acceptable to us, or at all.

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) our ability or inability to generate new revenues; and

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

Cash flows for the fiscal year ended December 31, 2013 compared to the fiscal year ended December 31, 2012 were:

	Twelve Months Ended December 31,	
	2013	**2012**
Beginning cash and cash equivalents	$ 807,940	$ 675,188
Net cash provided by (used in):		
Operating activities	4,392,630	3,000,114
Investing activities	(2,467,136)	(3,148,025)
Financing activities	(54,806)	280,663
Net increase in cash and cash equivalents	1,870,688	132,752
Ending cash and cash equivalents	$ 2,678,628	$ 807,940

Operating activities provided cash of $4,392,630 for the year ended December 31, 2013 as compared to $3,000,114 of cash during the corresponding period in 2012. Our primary sources of liquidity are cash flows from our operations and the availability to borrow funds under the Term Note. The primary reasons for the increase in cash provided by operating activities are related to the net income of $8,311,432 generated during the year ended December 31, 2013 and the increase in accounts payable of $4,220,957 offset by an increase of $3,468,033 of accounts receivable, and a decrease of $256,729 in deposits. Additionally, non-cash items increasing net income included stock compensation, which provided $175,152 of liquidity and depreciation and amortization which contributed $2,320,735.

Investing activities used cash of $2,467,136 for the year ended December 31, 2013 as compared to having used $3,148,025 during the corresponding period in 2012. Investing activities for the twelve months ended December 31, 2013, was mainly comprised of $3,142,694 in cash payments used to purchase miscellaneous operating assets, the E-Source business and a used oil collection customer base offset by a $675,558 refund associated with the purchase of fixed assets which we subsequently financed through a capital lease.

Financing activities used cash of $54,806 of cash during the twelve months ended December 31, 2013, as compared to providing cash of $280,663 during the corresponding period in 2012. Financing activities in 2013 included $60,936 of proceeds from the exercise of common stock warrants and $8,628,346 of net proceeds from an underwritten public offering of our common stock during the fourth quarter of 2013 (pursuant to which we sold 3,392,800 shares of common stock (when including the underwriter's overallotment option, described below) at a public offering price per share of $2.80), offset by $6,750,000 paid against amounts borrowed under the line of credit, and further offset by payments towards the Term Note and other notes payable of $1,994,088.

Net Operating Losses

We intend to take advantage of any potential tax benefits related to net operating losses (NOLs") acquired as part of the World Waste merger. As a result of the merger we acquired approximately $41.2 million of net operating losses that may be used to offset taxable income generated by the Company in future periods.

It is possible that the Company may be unable to use these NOLs in their entirety. The extent to which the Company will be able to utilize these carry-forwards in future periods is subject to limitations based on a number of factors, including the number of shares issued within a three-year look-back period, whether the merger is deemed to be a change in control, whether there is deemed to be a continuity of World Waste's historical business, and the extent of the Company's subsequent income. As of December 31, 2012, the Company had utilized approximately $7.6 million of these NOLs leaving approximately $33.6 million of potential NOLs of which we expect to utilize approximately $2.85 million for the year ended December 31, 2013, leaving approximately $30.75 million of potential NOLs.

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 2 to the financial statements included herein).

We evaluate the carrying value and recoverability of our long-lived assets within 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.

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.

Legal Matters. Accruals are established for legal matters when, in our opinion, it is probable that a liability exists and the liability can be reasonably estimated. Actual expenses incurred in future periods can differ materially from accruals established.

Stock Based Compensation

We account for share-based expense and activity in accordance with FASB ASC Topic 718, which establishes accounting for equity instruments exchanged for services. Under this provision share-based compensation costs are measured at the grant date, based on the calculated fair value of the award, and are recognized as an expense over the employee's requisite service period, generally the vesting period of the equity grant.

Share-based payments to non-employees are measured at the grant date, based on the calculated fair value of the award, and are recognized as an expense over the service period, generally the vesting period of the equity grant. We estimate the fair value of stock options using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, expected option term, expected volatility of the stock over the option's expected term, risk-free interest rate over the option's expected term, and the expected annual dividend yield. We believe that the valuation technique and approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the stock options granted.

Basic and Diluted Income/Loss per Share

Basic and diluted income/loss per share has been calculated based on the weighted average number of shares of common stock outstanding during the period.

Income Taxes

We account for income taxes in accordance with the FASB ASC Topic 740. We record 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. We consider, 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.

Recently Issued Accounting Pronouncements

In May 2011, the provisions of ASC Topic 820, "Fair Value Measurement," were amended to clarify the application of existing fair value measurements and to change certain fair value measurement and disclosure requirements. Amendments that change measurement and disclosure requirements relate to (i) fair value measurement of financial instruments that are managed within a portfolio, (ii) application of premiums and discounts in a fair value measurement, and (iii) additional disclosures about fair value measurements categorized with Level 3 of the fair value hierarchy. These provisions are effective for the first interim or annual period beginning after December 31, 2011. The adoption of this guidance effective January 1, 2012, did not affect our financial position or results of operations, but may result in additional disclosure.

In December 2011, the provisions of ASC Topic 210, "Balance Sheet," were amended to require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of these arrangements on its financial position. The guidance requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. These provisions are effective for interim and annual reporting periods beginning on January 1, 2013. The adoption of this guidance effective January 1, 2013 did not affect our financial position or results of operations, but may result in additional disclosures.

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. 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.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Pursuant to Item 305(e) of Regulation S-K (§ 229.305(e)), the Company is not required to provide the information required by this Item as it is a "smaller reporting company," as defined by Rule 229.10(f)(1).

ITEM 8. Financial Statements and Supplementary Data

VERTEX ENERGY, INC.

CONTENTS TO FINANCIAL STATEMENTS

LBB & ASSOCIATES LTD., LLP
10260 Westheimer Road, Suite 310
Houston, TX 77042
Phone: (713) 800-4343 Fax: (713) 456-2408

Report of Independent Registered Public Accounting Firm

To the Board of Directors of
Vertex Energy, Inc.
Houston, TX

We have audited the accompanying consolidated balance sheets of Vertex Energy, Inc. (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, equity, and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vertex Energy, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ LBB & Associates Ltd., LLP
LBB & Associates Ltd., LLP

Houston, Texas
March 24, 2014

VERTEX ENERGY, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,678,628	$ 807,940
Accounts receivable, net	11,714,813	7,160,780
Inventory	8,540,459	5,870,121
Prepaid expenses	1,161,721	492,467
Total current assets	24,095,621	14,331,308
Noncurrent assets		
Fixed assets, net	15,091,176	11,617,368
Intangible assets, net	15,172,816	15,934,724
Goodwill	4,502,743	3,515,977
Deferred tax assets	5,684,000	3,703,000
Total noncurrent assets	40,450,735	34,771,069
TOTAL ASSETS	$ 64,546,356	$ 49,102,377
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 14,096,185	$ 8,869,234
Current portion of long-term debt	1,956,847	1,749,329
Total current liabilities	16,053,032	10,618,563
Long-term liabilities		
Long-term debt	6,558,851	6,281,457
Contingent consideration	3,220,250	4,711,000
Line of credit	—	6,750,000
Deferred tax liabilities	378,000	341,000
Total liabilities	26,210,133	28,702,020
Commitments and contingencies		
EQUITY		
Preferred stock, $0.001 par value per share:		
50,000,000 shares authorized		
Series A Convertible Preferred stock, $0.001 par value, 5,000,000 authorized and 1,319,002 and 1,512,891 issued and outstanding at December 31, 2013 and December 31, 2012, respectively	1,319	1,513
Common stock, $0.001 par value per share; 750,000,000 shares authorized; 21,205,609 and 16,965,464 issued and outstanding at December 31, 2013 and December 31, 2012, respectively	21,206	16,965
Additional paid-in capital	19,579,732	10,719,345
Retained earnings	17,542,004	9,662,534
Total Vertex Energy, Inc. stockholders' equity	37,144,261	20,400,357
Non-controlling interest	1,191,962	—
Total equity	38,336,223	20,400,357
TOTAL LIABILITIES AND EQUITY	$ 64,546,356	$ 49,102,377

See accompanying notes to the consolidated financial statements

VERTEX ENERGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Revenues	$ 161,967,252	$ 134,573,243
Cost of revenues	145,628,215	124,788,116
Gross profit	16,339,037	9,785,127
Reduction of contingent liability	(2,238,750)	—
Selling, general and administrative expenses	11,472,842	6,137,301
Acquisition related expenses	53,742	1,256,576
Total selling, general and administrative expenses	9,287,834	7,393,877
Income from operations	7,051,203	2,391,250
Other income (expense)		
Other income	37,696	1,740
Other expense	(54,513)	—
Interest expense	(422,954)	(135,364)
Total other income (expense)	(439,771)	(133,624)
Income before income taxes	6,611,432	2,257,626
Income tax benefit	1,700,000	1,400,641
Net income	8,311,432	3,658,267
Net income attributable to non-controlling interest	(431,962)	—
Net income attributable to Vertex Energy, Inc.	$ 7,879,470	$ 3,658,267
Earnings per common share		
Basic	$ 0.44	$ 0.30
Diluted	$ 0.39	$ 0.25
Shares used in computing earnings per share		
Basic	17,830,194	12,138,229
Diluted	20,182,829	14,866,134

See accompanying notes to the consolidated financial statements

VERTEX ENERGY, INC.
STATEMENTS OF EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Common Stock Shares	Common Stock $.001 Par	Preferred Stock Shares	Preferred Stock $.001 Par	Additional Paid-in Capital	Retained Earnings	Non-controlling Interest	Total Equity
Balance on December 31, 2011	9,414,926	$ 9,415	4,426,639	$ 4,427	$ 3,319,388	$ 6,004,267	$ —	$ 9,337,497
Exercise of stock options and warrants	91,335	91	—	—	112,534	—	—	112,625
Issuance of stock options and warrants	—	—	—	—	178,968	—	—	178,968
Issuance of restricted common stock	4,545,455	4,545	—	—	7,108,455	—	—	7,113,000
Conversion of preferred A stock to common	2,913,748	2,914	(2,913,748)	(2,914)	—	—	—	—
Net income	—	—	—	—	—	3,658,267	—	3,658,267
Balance on December 31, 2012	16,965,464	16,965	1,512,891	1,513	10,719,345	9,662,534	—	20,400,357
Exercise of stock options and warrants	653,456	654	—	—	60,282	—	—	60,936
Issuance of stock options and warrants	—	—	—	—	175,152	—	—	175,152
Issuance of restricted common stock	3,392,800	3,393	—	—	8,624,953	—	—	8,628,346
Conversion of preferred A stock to common	193,889	194	(193,889)	(194)	—	—	—	—
Non-controlling interest related to acquisition	—	—	—	—	—		760,000	760,000
Net income	—	—	—	—	—	7,879,470	431,962	8,311,432
Balance on December 31, 2013	21,205,609	$ 21,206	1,319,002	$ 1,319	$19,579,732	$17,542,004	$ 1,191,962	$ 38,336,223

See accompanying notes to the consolidated financial statements

VERTEX ENERGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash flows operating activities		
Net income	$ 8,311,432	$ 3,658,267
Adjustments to reconcile net income to cash provided by (used in) operating activities		
Stock based compensation expense	175,152	178,968
Depreciation and amortization	2,320,735	711,555
Deferred federal income tax	(1,944,000)	(1,432,000)
Reduction of contingent consideration	(2,238,750)	—
Changes in operating assets and liabilities		
Accounts receivable	(3,468,033)	128,184
Accounts receivable- related parties	—	2,459
Inventory	(2,670,338)	551,438
Prepaid expenses	(571,254)	(247,337)
Accounts payable and accrued expenses	4,220,957	304,861
Accounts payable-related parties	—	(620,724)
Other deposits	256,729	(235,557)
Net cash provided by operating activities	4,392,630	3,000,114
Cash flows from investing activities		
Purchase of intangible assets	—	(209,061)
Refund of asset acquisition	675,558	—
Acquisition, net	(539,325)	(1,804,389)
Purchase of fixed assets	(2,603,369)	(1,134,575)
Net cash used in investing activities	(2,467,136)	(3,148,025)
Cash flows from financing activities		
Line of credit (payments) proceeds, net	(6,750,000)	750,000
Proceeds from exercise of common stock options and warrants	60,936	112,625
Proceeds from primary stock offering	8,628,346	—
Payments made to note payable	(1,994,088)	(581,962)
Net cash provided by (used in) financing activities	(54,806)	280,663
Net change in cash and cash equivalents	1,870,688	132,752
Cash and cash equivalents at beginning of the period	807,940	675,188
Cash and cash equivalents at end of period	$ 2,678,628	$ 807,940
SUPPLEMENTAL INFORMATION		
Cash paid for interest during the year	$ 396,440	$ 128,838
Cash paid for income taxes during the year	$ 136,334	$ 23,359
NON-CASH TRANSACTIONS		
Conversion of Series A Preferred Stock into common stock	$ 194	$ 2,914
Conversion of Series B Preferred Stock into common stock	$ —	$ —

See accompanying notes to the consolidated financial statements

NOTE 1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

Vertex Energy, Inc. ("Vertex Energy" or the "Company"), provides a range of services designed to aggregate, process and recycle industrial and commercial waste systems. Vertex Energy currently provides these services in 13 states, primarily in the Gulf Coast and Central Midwest Region of the United States. Effective October 1, 2013, the Company acquired a 51% interest in E Source Holdings, LLC ("E-Source") a company that leases and operates a facility in Houston, Texas, and provides dismantling, demolition, decommission and marine salvage services at industrial facilities throughout the Gulf Coast. See Note 14 for additional details on this acquisition.

RELATED PARTIES

Prior to the Company's September 11, 2012 (effective August 31, 2012) acquisition of a special purpose entity which owned substantially all of the assets and liabilities of Vertex Holdings, L.P., formerly Vertex Energy, L.P. (also defined herein as the "Partnership" or "Vertex LP" relating to the business of transporting, storing, processing and re-refining petroleum products, crudes and used lubricants and certain real-estate properties owned by a related party associated with such operations (the "Acquisition"), the Company had numerous transactions with the Partnership, including the lease of the Partnership's storage facility, subletting of office space, transportation of feedstock to re-refiners and the Company's storage facility, and delivery from the Company's re-refinery to end customers. The pricing under these contracts was with certain wholly-owned subsidiaries of the Partnership and was priced at market, and reviewed periodically from time to time by the Board of Director's Related Party Transaction committee. The Related Party Transaction committee included at least two independent directors and reviewed and pre-approved any and all related party transactions.

COMPANY OPERATIONS

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

Black Oil

Through its Black Oil division, which has been operational since 2001, Vertex Energy aggregates and sells used motor oil. The Company has a network of approximately 50 suppliers that collect used oil from businesses such as oil change service stations, automotive repair shops, manufacturing facilities, petroleum refineries, and petrochemical manufacturing operations. The Company purchases the used oil from collectors and manages the logistics of transport, storage and delivery to our customers. Typically, the used oil is sold in bulk to ensure the efficient delivery by truck, rail, or barge. In many cases, there are contractual purchase and sale agreements with the suppliers and customers, respectively. These contracts are beneficial to all parties involved because they ensure a minimum volume is purchased from collectors, a minimum volume is sold to the customers, and the Company is insulated from inventory risk by a spread between the costs to acquire used oil and the revenues received from the sale and delivery of used oil. In addition, the Company operates its own re-refining operations at the Cedar Marine Terminal which uses the proprietary Thermal Chemical Extraction Process ("TCEP") technology to re-refine the used oil into marine fuel cutterstock and a higher-value feedstock for further processing.

Refining and Marketing

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

Recovery

Through its Recovery division, which has been operational since 2002, Vertex Energy generates solutions for the proper recovery and management of hydrocarbon streams. The Company also provides industrial dismantling, demolition, decommissioning, investment recovery, and marine salvage services in industrial facilities. The Company owns and operates a fleet of trucks and heavy equipment used for processing, shipping and handling of reusable process equipment and other scrap.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reclassifications

Certain amounts previously reported in our annual report on Form 10-K for the year ended December 31, 2012 have been reclassified to conform to the 2013 presentation. These reclassifications have no impact on net income.

Principles of consolidation

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

- Cedar Marine Terminals, L.P. ("CMT") operates a 19-acre bulk liquid storage facility on the Houston Ship Channel. The terminal serves as a truck-in, barge-out facility and provides throughput terminal operations. CMT is also the site of the TCEP.
- Crossroad Carriers, L.P. ("Crossroad") is a 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 collections of used oil and oil-related residual materials from large regional and national customers throughout the U.S. It facilitates its services through a network of independent recyclers and franchise collectors.
- H&H Oil, L.P. ("H&H Oil") collects and recycles used oil and residual materials from customers based in Austin, Baytown, San Antonio and Corpus Christi, Texas.
- E-Source Holdings, LLC ("E-Source") provides dismantling and demolition services at industrial facilities throughout the Gulf Coast.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers all short-term investments purchased with original maturities of three months or less at the date of purchase to be cash equivalents.

Accounts receivable

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. The allowance was $0 at December 31, 2013 and 2012.

Inventory

Inventories of products consist of feedstocks and refined petroleum products and are reported at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method.

Fixed assets

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

Intangible assets

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

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair value of their net assets at the dates of acquisition. Goodwill is reviewed at least annually to assess the carrying value of goodwill associated with each of its distinct business units that comprise its business segments of the Company to determine if impairment in value has occurred.

Revenue recognition

Revenue for each of the Company's 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 its re-refining customers and upon product leaving the Company's terminal facilities and third party processing facility via barge. Revenue is also recognized as recovered scrap materials are sold and projects are completed.

Leases

The Company recognizes lease expense on a straight-line basis over the minimum lease terms which expire at various dates through 2032. These leases are for office and storage tank facilities and are classified as operating leases. For leases that contain predetermined, fixed escalations of the minimum rentals, the Company recognizes the rent expense on a straight-line basis and records the difference between the rent expense and the rental amount payable in liabilities.

Leasehold improvements made at the inception of the lease are amortized over the shorter of the asset life or the initial lease term as described above. Leasehold improvements made during the lease term are also amortized over the shorter of the asset life or the remaining lease term.

Fair value of financial instruments

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

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

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

Our Level 1 assets primarily include our cash and cash equivalents. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. The carrying amounts of accounts receivable, accounts payable and accrued liabilities and accounts payable to related party amounts approximate their fair values due to the immediate or short-term maturities of these financial instruments. We do not have any financial instruments for which estimates of fair value disclosures utilize Level 2 and 3 inputs.

Use of estimates

These consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States. Certain amounts included in or affecting the financial statements and related disclosures must be estimated by management, requiring certain assumptions with respect to values or conditions which cannot be known with certainty at the time the financial statements are prepared. These estimates and assumptions affect the amounts reported for assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Any effects on the business, financial position or results of operations from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

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 has determined that no impairment existed for the years ended December 2013 and 2012.

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.

Stock based compensation

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

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

Earnings per share

The Company has adopted FASB ASC Topic 260, which provides for the calculation of basic and diluted earnings per share. Basic and diluted loss per share has been calculated based on the weighted average number of shares of common stock outstanding during the period.

NOTE 3. RELATED PARTIES

As a result of the acquisition of E-Source (described below in Note 14), the Company had one related party transaction. E-Source subleased office and building space from BBP Landtex, which is the 49% minority owner of E Source Holdings, LLC. Rental payments under the lease were $3,500 per month. In addition, they pay a monthly fee for miscellaneous services and 75% of the utilities.

NOTE 4. CONCENTRATIONS, SIGNIFICANT CUSTOMERS, COMMITMENTS AND CONTINGENCIES

The Company has concentrated credit risk for cash by maintaining deposits in one bank. These balances are insured by the Federal Deposit Insurance Corporation up to $250,000. From time to time during the year ended December 31, 2013 the Company's cash balances exceeded the federally insured limits. No losses have been incurred relating to this concentration.

At December 31, 2013 and 2012 and for the years then ended, the Company's revenues and receivables were comprised of the following customer concentrations:

	2013		2012	
	% of Revenues	% of Receivables	% of Revenues	% of Receivables
Customer 1	40%	21%	25%	54%
Customer 2	10%	—%	—%	—%
Customer 3	9%	—%	13%	—%
Customer 4	8%	20%	12%	15%
Customer 5	4%	23%	—%	—%
Customer 6	1%	—%	4%	12%
Customer 7	—%	—%	31%	—%

The Company purchases goods and services from two companies that represented 11% and 10% of total purchases for the year ended December 31, 2012.

The Company has had various debt facilities available for use, of which there was $8,515,698 and $14,780,786 outstanding as of December 31, 2013 and December 31, 2012, respectively. See Note 8 for further details.

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.

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 intend to take advantage of any potential tax benefits related to net operating losses (NOLs") acquired as part of the Company's April 2009 merger with World Waste Technologies, Inc. ("World Waste"). As a result of the merger we acquired approximately $41.2 million of net operating losses that may be used to offset taxable income generated by the Company in future periods.

It is possible that the Company may be unable to use these NOLs in their entirety. The extent to which the Company will be able to utilize these carry-forwards in future periods is subject to limitations based on a number of factors, including the number of shares issued within a three-year look-back period, whether the merger is deemed to be a change in control, whether there is deemed to be a continuity of World Waste's historical business, and the extent of the Company's subsequent income. As of December 31, 2012, the Company had utilized approximately $7.6 million of these NOLs leaving approximately $33.6 million of potential NOLs of which we expect to utilize approximately $2.85 million for the year ended December 31, 2013.

Leases

The Company has various leases for office facilities and vehicles which are classified as operating leases, and which expire at various times through 2032. Related party leases include office facilities. Total rent expense for all operating leases for 2013 and 2012, is summarized as follows:

	2013	2012
Related party leases	$ 10,500	$ 629,904
Office leases	466,415	100,405
Vehicle leases	375,646	33,012
	$ 852,561	$ 763,321

Minimum future lease commitments as of December 31, 2013, are summarized as follows:

Year ending December 31	Related Party	Office Facilities	Vehicles
2014	$ 45,000	$ 507,544	$ 425,026
2015	60,000	461,607	400,276
2016	60,000	425,269	454,301
2017	50,000	424,932	175,216
2018	—	362,466	57,710
Thereafter	—	4,475,000	—
	$ 215,000	$ 6,656,818	$ 1,512,529

NOTE 5. FIXED ASSETS, NET

Fixed assets consist of the following:

	Useful Life (in years)	December 31, 2013	December 31, 2012
Equipment	7-20	$ 7,372,306	$ 4,423,133
Furniture and fixtures	7	110,926	83,887
Leasehold improvements	15	1,894,776	1,866,702
Office equipment	5	440,260	302,668
Vehicles	5	3,548,294	2,250,300
Construction in progress		1,064,784	1,030,845
Land		2,013,000	1,995,000
Total fixed assets		16,444,346	11,952,535
Less accumulated depreciation		(1,353,170)	(335,167)
Net fixed assets		$ 15,091,176	$ 11,617,368

Depreciation expense was $1,018,003 and $295,801 for the years ended December 31, 2013 and 2012, respectively.

Equipment under construction in progress is related to TCEP technology improvements.

NOTE 6. GOODWILL

At December 31, 2013 and 2012, goodwill totaled $4,502,743 and $3,515,977, respectively. The increase in goodwill during 2013 is attributable to the acquisition of E-Source (as described in Note 14) and is allocated to the Recovery reporting segment. The excess purchase price over the value of the net tangible assets and intangible assets was recorded to goodwill.

NOTE 7. INTANGIBLE ASSETS

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

		December 31, 2013			December 31, 2012		
	Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relations	5-8	$ 659,000	$ 95,625	$ 563,375	$ 343,000	$ 17,150	$ 325,850
Vendor relations	10	4,131,973	514,797	3,617,176	4,064,000	101,600	3,962,400
H&H Oil Trademark/Trade name	6-16	856,000	63,922	792,078	775,000	12,110	762,890
TCEP Technology/Patent	15	11,000,000	916,667	10,083,333	11,000,000	183,333	10,816,667
Loan origination costs	10	75,851	1,580	74,271	—	—	—
Non-compete agreements	3	73,000	30,417	42,583	73,000	6,083	66,917
		$ 16,795,824	$ 1,623,008	$ 15,172,816	$ 16,255,000	$ 320,276	$ 15,934,724

Intangible assets are amortized on a straight-line basis. We continually evaluate the amortization period and carrying basis of intangible assets to determine whether subsequent events and circumstances warrant a revised estimated useful life or reduction in value.

Total amortization expense of intangibles was $1,302,732 and $320,276 for the year ended December 31, 2013 and2012, respectively.

Estimated future amortization expense is as follows:

2014	$	1,340,902
2015		1,334,818
2016		1,316,568
2017		1,299,418
2018		1,247,968
Thereafter		8,633,142
	$	15,172,816

NOTE 8. LINE OF CREDIT AND LONG-TERM DEBT

In September 2010, the Company entered into a loan agreement and obtained a line of credit with Bank of America Merrill Lynch. On March 30, 2012, Bank of America renewed the line of credit through March 31, 2014. The loan agreement was guaranteed by CMT, a former related party of the Company, which was acquired as part of the Acquisition. The most restrictive covenants of the loan required an interest coverage ratio of at least 1.5 to 1 and a funded debt to EBITDA ratio not to exceed2 to 1. This line of credit was replaced with a new agreement in September 2012, as described below.

In September 2012, the Company entered into a credit agreement with Bank of America. Pursuant to the agreement, Bank of America agreed to loan the Company $8,500,000 in the form of a term loan and to provide the Company with an additional $10,000,000 in the form of a revolving line of credit, to be used for feedstock purchases and general corporate purposes. The line of credit bears interest at the option of the Company of either the lender's prime commercial lending rate in effect or the Bank of America LIBOR rate plus 2.75%. Accrued and unpaid interest on the revolving note is due and payable monthly in arrears and all amounts outstanding under the revolving note are due and payable on August 31, 2014. The balance on the revolving line of credit is $0 and $6,750,000 at December 31, 2013 and 2012, respectively.

Amounts borrowed under the term note bear interest at the option of the Company of either the lender's prime commercial lending rate then in effect or the Bank of America LIBOR rate plus 2.75%. Accrued and unpaid interest on the term note is due and payable monthly in arrears and all amounts outstanding under the term note are due and payable on August 31, 2015. Additionally, payments of principal in the amount of $141,667 are due and payable on the term note monthly in arrears on the last day of each month and continuing until the maturity date. The balance of the term loan is $6,233,333 and $7,933,333 at December 31, 2013 and 2012, respectively.

The financing arrangement discussed above is secured by all of the assets of the Company. The loan contains certain restrictive covenants including a Fixed Charge Coverage Ratio, as defined in the agreement, of at least 1.25 to 1.00, and a Senior Funded Debt to EBITDA Ratio, as defined in the agreement, not to exceed 2.00 to 1.00. A tangible net worth requirement was included in the credit agreement in error. This requirement was waived and the credit agreement was amended in January 2013. The Company believes it was in compliance with all aspects of the agreement at December 31, 2013.

The Company has notes payable to various financial institutions, bearing interest at rates ranging from6% to 6.35%, maturing from November, 2015 to April, 2023. The balance of the notes payable is $2,282,365 at December 31, 2013.

Future maturities of long term debt as of December 31, 2013 were as follows:

Year Ending December 31,		
2014	$	1,956,847
2015		4,763,682
2016		244,619
2017		259,773
2018		229,104
Thereafter		1,061,673
Total debt	$	8,515,698
Less current maturities		(1,956,847)
Long-term debt	$	6,558,851

NOTE 9. 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:

	December 31, 2013	December 31, 2012
Statutory tax on book income	$ 2,136,000	$ 768,000
Permanent differences	(746,000)	44,000
Net operating loss utilization	(969,000)	(812,000)
Reduction in valuation allowance	(1,700,000)	(1,408,000)
Other	(421,000)	7,359
Income tax benefit	$ (1,700,000)	$ (1,400,641)

The components of income tax (benefit) expense for the years endedDecember 31, 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Current federal tax expense	$ 244,000	$ 31,359
Deferred federal tax benefit	(1,944,000)	(1,432,000)
Total federal tax benefit	$ (1,700,000)	$ (1,400,641)

The cumulative tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2013 and 2012, are presented below:

	December 31, 2013	December 31, 2012
Deferred tax assets:		
Alternative minimum tax credits	$ 220,000	$ 130,000
Accrued compensation	233,000	173,000
Net operating loss carry forwards	10,482,000	11,536,000
Less valuation allowance	(5,251,000)	(8,136,000)
Net deferred tax assets	$ 5,684,000	$ 3,703,000

	December 31, 2013	December 31, 2012
Deferred tax liabilities:		
Accelerated tax depreciation	$ (378,000)	$ (341,000)
Net deferred tax liabilities	$ (378,000)	$ (341,000)

The Company has determined that a valuation allowance of approximately$5,251,000 at December 31, 2013 is necessary to reduce the deferred tax assets to the amount that will more than likely not be realized. The change in the valuation allowance for 2013 was approximately $2,885,000. Net operating losses utilized in 2013 were approximately$2,850,000.

At December 31, 2013, the Company had federal net operating loss carry-forwards ("NOLs") of approximately$30.75 million acquired as part of the Merger between World Waste and the Company's wholly-owned subsidiary Vertex Merger Sub, LLC. It is possible that the Company may be unable to use these NOLs in their entirety. The history of these NOLs and the related tax laws are complex and the Company is researching the facts and circumstances as to whether the Company will ultimately be able to utilize the benefit from these NOLs. The extent to which the Company will be able to utilize these carry-forwards in future periods is subject to limitations based on a number of factors, including the number of shares issued within a three-year look-back period, whether the merger is deemed to be a change in control, whether there is deemed to be a continuity of World Waste's historical business, and the extent of the Company's subsequent income. The net operating loss carryforward will begin to expire in 2026.

The Company has not been audited by the Internal Revenue Service, but is subject to audit for the years 2010 through 2013.

NOTE 10. STOCK BASED COMPENSATION

The stock based compensation cost that has been charged against income by the Company was $175,152 and $178,968 for the years ended December 31, 2013 and 2012, respectively, for options previously awarded by the Company.

Stock option activity for the years ended December 31, 2013 and 2012 are summarized as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Grant Date Fair Value
Outstanding at December 31, 2012	2,939,167	$ 5.70	6.50	$ 1,144,024
Options granted	711,667	2.46	8.78	420,796
Options exercised	(405,000)	(1.19)	—	(89,080)
Options cancelled/forfeited/expired	(185,000)	(0.68)	—	(148,577)
Outstanding at December 31, 2013	3,060,834	$ 5.89	6.07	$ 1,327,163
Vested at December 31, 2013	2,268,334	$ 6.97	5.20	$ 722,143
Exercisable at December 31, 2013	2,268,334	$ 6.97	5.20	$ 722,143

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Grant Date Fair Value
Outstanding at December 31, 2011	3,073,334	$ 5.46	7.00	$ 990,995
Options granted	225,000	1.91	10.00	197,146
Options exercised	(65,000)	(1.47)	—	(5,239)
Options cancelled/forfeited/expired	(294,167)	(1.21)	—	(38,878)
Outstanding at December 31, 2012	2,939,167	$ 5.70	6.50	$ 1,144,024
Vested at December 31, 2012	2,283,237	$ 6.89	6.41	$ 709,902
Exercisable at December 31, 2012	2,283,237	$ 6.89	6.41	$ 709,902

A summary of the Company's stock warrant activity and related information for the years ended December 31, 2013 and 2012 are as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Grant Date Fair Value
Outstanding at December 31, 2012	1,163,308	$ 12.37	0.40	$ 128,889
Warrants exercised	(631,250)	(1.65)	—	(30,029)
Warrants cancelled/forfeited/expired	(524,975)	(25.38)	—	(95,960)
Warrants at December 31, 2013	7,083	$ 2.72	1.57	$ 2,900
Vested at December 31, 2013	833	$ 10.00	0.25	$ 100
Exercisable at December 31, 2013	833	$ 10.00	0.25	$ 100

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Grant Date Fair Value
Outstanding at December 31, 2011	1,245,311	$ 12.48	1.41	$ 142,065
Warrants granted	—	—	—	—
Warrants exercised	(37,500)	(1.08)	—	(10,626)
Warrants cancelled/forfeited/expired	(44,503)	(25.00)	—	(2,550)
Warrants at December 31, 2012	1,163,308	$ 12.37	0.40	$ 128,889
Vested at December 31, 2012	1,150,808	$ 12.50	0.41	$ 123,289
Exercisable at December 31, 2012	1,150,808	$ 12.50	0.41	$ 123,289

The following table summarizes the assumptions used in assessing the above described option and warrant valuations:

	YEAR ENDED DECEMBER 31, 2013	YEAR ENDED DECEMBER 31, 2012
Expected volatility	20%	35-39%
Expected dividends	—%	—%
Expected term (in years)	5-10	10
Risk-free rate	0.64%	0.35-0.39%

NOTE 11. 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 year ended December 31, 2013 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. The calculation of diluted earnings per share for the year ended December 31, 2013 does not include options to purchase 917,667 shares and warrants to purchase 833 shares due to their anti-dilutive effect.

The following is a reconciliation of the numerator and denominator for basic and diluted earnings per share for the year ended December 31, 2013 and 2012:

	2013	2012
Basic Earnings per Share		
Numerator:		
Net income available to common shareholders	$ 7,879,470	$ 3,658,267
Denominator:		
Weighted-average common shares outstanding	17,830,194	12,138,229
Basic earnings per share	$ 0.44	$ 0.30
Diluted Earnings per Share		
Numerator:		
Net income available to common shareholders	$ 7,879,470	$ 3,658,267
Denominator:		
Weighted-average shares outstanding	17,830,194	12,138,229
Effect of dilutive securities		
Stock options and warrants	1,033,633	1,215,014
Preferred stock	1,319,002	1,512,891
Diluted weighted-average shares outstanding	20,182,829	14,866,134
Diluted earnings per share	$ 0.39	$ 0.25

NOTE 12. COMMON STOCK

The total number of authorized shares of the Company’s common stock is 750,000,000 shares, $0.001 par value per share. As of December 31, 2013, there were 21,205,609 common shares issued and outstanding.

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

During the twelve months ending December 31, 2013,193,889 shares of the Company's Series A Preferred Stock were converted into 193,889 shares of our common stock on aone-for-one basis. Additionally, warrants to purchase 631,250 shares of the Company's common stock were exercised for a net of 310,013 shares of common stock (when adjusting for a cashless exercise of certain of such warrants and the payment, in shares of common stock ($993,750) and cash ($48,436), of an aggregate exercise price of $1,042,188 in connection with such exercises) and310,013 shares of common stock were issued to the warrant holders in connection with such exercises; and options to purchase 405,000 shares of common stock were exercised for a net of330,050 shares of common stock (when adjusting for a cashless exercise of such certain of such options and the payment, in shares of common stock ($235,500) and cash ($12,500), of an aggregate exercise price of$248,000 in connection with such exercises) and330,050 shares of common stock were issued to the option holders in connection with such exercises. Additionally in November 2013, 3,392,800 shares were sold in connection with a primary underwritten offering of the Company's common stock for a net amount of $8,628,346. The shares have a par value per share of $0.001.

NOTE 13. PREFERRED STOCK

The total number of authorized shares of the Company's preferred stock is 50,000,000 shares, $0.001 par value per share. The total number of designated shares of the Company's Series A Preferred Stock is 5,000,000 ("Series A Preferred"). The total number of designated shares of the Company's Series B Preferred Stock is 2,000,000. As of December 31, 2013, there were 1,319,002 shares of Series A Preferred Stock issued and outstanding and no Series B Preferred shares issued and outstanding.

Series A Preferred

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

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

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

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

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

Series B Preferred Stock

The Series B Preferred Stock have the following rights, preferences and limitations:

- The Series B Preferred Stock includes a liquidation preference which is junior to the Company's previously outstanding shares of preferred stock, senior securities and other security holders as provided in further detail in the Designation;
- The Series B Preferred Stock is convertible into shares of the Company's common stock on a one for one basis at a conversion price of $1.00 per share, provided that the Series B Preferred Stock automatically converts into shares of the Company's common stock on a one for one basis if the Company's common stock trades above $2.00 per share for a period of 10 consecutive trading days;
- The Series B Preferred Stock has no voting rights (other than on matters concerning the Series B Preferred Stock as further described in the Designation); and
- The Company was obligated to redeem any unconverted shares of Series B Preferred Stock in cash at $1.00 per share on the third anniversary date of the original issuance date of each share of Series B Preferred Stock.

NOTE 14. ACQUISITION

In January, 2013, the Company purchased two trucks, miscellaneous operating assets and a used oil collection customer base from a used oil collection company in the Houston, Texas area. The Company paid $123,845 for the business and had consideration of $33,850 due contingent on this customer base producing a specified number of gallons per month for three months. On April 17, 2013, $26,258 was paid for the collected gallons and all obligations in connection with the acquisition were satisfied. The portion of the acquired company was immediately integrated into the Company's operations.

In October 2013, the Company acquired a 51% membership interest in E-Source for$903,065 and contingent consideration of $748,000.

The acquisition was accounted for under the purchase method of accounting, with the Company identified as the acquirer, and the operating results of E-Source have been included in the Company's consolidated financial statements as of the effective date of the acquisition. Under the purchase method of accounting, the aggregate amount of consideration paid by the Company was allocated to E-Source's net tangible assets and intangible assets based on their estimated fair values as of October 1, 2013. The excess purchase price over the value of the net tangible assets and intangible assets was recorded to goodwill. The Company retained an independent third-party appraiser to assist management in its valuation. The allocation of the purchase price is based on the best estimates of management.

The following information summarizes the allocation of the fair values assigned to the assets at the purchase date. The allocation of fair values are preliminary and are subject to change in the future during the measurement period.

		(in thousands)
Cash and cash equivalents	$	473
Accounts receivable		1,086
Inventory		—
Prepaid expenses		98
Property, plant and equipment		2,564
Land		—
Other assets		331
Intangible assets		397
Goodwill		947
Total identifiable net assets	$	5,896
Less liabilities assumed, including contingent consideration		(4,993)
Total purchase price	$	903

The Company incurred approximately $27,150 in costs associated with the E-Source acquisition. These included legal, accounting, environmental, investment banking, and related party transaction committee costs.

The following table summarizes the cost of amortizable intangible assets related to the E-Source acquisition :

		Estimated Cost (in thousands)	Useful life (years)
Customer relations	$	316	8
E-Source trade name		81	6
Total	$	397	

The following unaudited pro-forma consolidated results of operations for the years endedDecember 31, 2013 and 2012 assume the E-Source acquisition occurred as of January 1, 2012. The pro forma results of operations are presented for informational purposes only and are not indicative of the results of operations that would have been achieved if the Acquisition had taken place on January 1, 2012 or of results that may occur in the future (amounts in thousands other than earnings per share):

	Twelve Months Ended December	
	2013	2012
Revenue	$ 167,672,880	$ 143,466,487
Cost of goods sold	148,587,313	130,749,167
Gross profit	19,085,567	12,717,320
Selling, general and administrative expenses	11,788,426	9,815,119
Income from operations	7,297,141	2,902,201
Other income and expense	1,281,585	741,743
Non-controlling interest	(562,939)	7,019
Net income	$ 8,015,787	$ 3,650,963
Earnings per common share-Basic	$ 0.45	$ 0.30
Earnings per common share-Diluted	$ 0.40	$ 0.25

NOTE 15. CONTINGENT CONSIDERATION

As part of the consideration paid in connection with the acquisition of Vertex LP as discussed in Note 1, if certain earning targets are met, the Company has to pay the seller approximately $2,233,000 annually in 2013, 2014 and 2015. As of December 31, 2013, it has been determined that the 2013 earnings target will not be met and the contingent consideration has been reduced by $1,850,000, which represents the discounted cash flow for year one. It has also been determined that there is a 25% probability that the 2014 earnings target will not be met and the contingent consideration has been reduced by $388,750, which represents 25% of the discounted cash flows for year two.

As part of the consideration paid in connection with the acquisition of E-Source as discussed in Note 14, if certain targets are met, the Company has to pay the seller approximately $260,000 annually in 2014, 2015, 2016 and 2017. The Company has recorded contingent consideration of $748,000, which is the discounted cash flows of the earn-out payments.

NOTE 16. SEGMENT REPORTING

The Company's reportable segments include the Black Oil, Refining & Marketing and Recovery divisions. Segment information for the years ended December 31, 2013 and 2012, are as follows:

YEAR ENDED DECEMBER 31, 2013

	Black Oil	Refining & Marketing	Recovery	Total
Revenues	$ 89,120,218	$ 55,729,434	$ 17,117,600	$ 161,967,252
Net income from operations	$ 1,057,254	$ 3,044,773	$ 2,949,176	$ 7,051,203
Total Assets	$ 48,172,680	$ 8,817,544	$ 7,556,132	$ 64,546,356

YEAR ENDED DECEMBER 31, 2012

	Black Oil	Refining & Marketing	Recovery	Total
Revenues	$ 89,132,373	$ 44,335,551	$ 1,105,319	$ 134,573,243
Net income (loss) from operations	$ (764,246)	$ 3,162,150	$ (6,654)	$ 2,391,250
Total Assets	$ 44,581,361	$ 4,254,082	$ 266,934	$ 49,102,377

NOTE 17. SUBSEQUENT EVENTS

Subsequent to December 31, 2013, the available credit on the Line of Credit is$10,000,000. As of March 20, 2014, the outstanding balance drawn on the line of credit is $0 leaving an available balance for draw downs of$10,000,000.

Subsequent to December 31, 2013, (a) 10,533 shares of the Company's Series A Preferred Stock were converted into 10,533 shares of our common stock on a one-for-one basis; (b) an option holder exercised options to purchase6,250 shares of the Company's common stock at an exercise price of $2.10 per share and surrendered 3,860 shares (equal in value to the exercise price) in a cashless exercise of such option and was issued a net of 2,390 shares of our common stock; (c) an option holder exercised options to purchase 20,000 shares of the Company's common stock at an exercise price of$1.20 per share for $24,000 and was issued 20,000 shares of our common stock; and (d)one share of the Company's common stock was returned to the Company by a shareholder.

On March 17, 2014, we entered into an Asset Purchase Agreement (the "Purchase Agreement") by and among the Company, Vertex Refining LA, LLC and Vertex Refining NV, LLC, both newly-formed wholly-owned subsidiaries of the Company, 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 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 include 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 operates Golden State Lubricants Works, LLC ("Golden State"), a strategic blending and storage facility located in Bakersfield, California, which is included in the acquisition. In connection with the acquisition, we will also be acquiring certain of Omega's prepaid assets and inventory.

The acquisition is planned to close in two separate closings, the first of which relating to the acquisition of Omega Refining and ownership of Golden State, is expected to close by April 1, 2014 (the "Initial Closing"), and the second of which relating to the acquisition of Bango Refining, is expected to close on or around August 2014, subject to certain closing conditions being met (the "Final Closing"). Our obligation to consummate the Final Closing is subject to among other things, that the Bango plant operated by Bango Refining be fully restored and operational, as well as the plant meeting certain used motor oil proceeding run rates and that there is no adverse claims or legal proceedings related to an accident that occurred at the Bango plant in December 2013.

The purchase price payable at the Initial Closing is $30,750,000 in cash and the issuance of 500,000 shares of our common stock, subject to adjustment in the event minimum inventory levels are not met at closing. Additionally, we have agreed to assume certain capital lease obligations and other liabilities relating to contracts and leases of Omega Refining.

The amount due at the Final Closing, in consideration for the acquisition of Bango Refining, will be the assumption of the Bango Note (defined below), the issuance of 1,500,000 shares of our common stock of which 1,000,000 shares (with an agreed value of $3.2301 per share or $3,230,100) will be held in escrow and used to satisfy indemnification claims, and are further subject to adjustment in the event minimum inventory levels are not delivered at the Final Closing, and the assumption of certain capital lease obligations and other liabilities relating to contracts and leases of Bango Refining. A portion of the Escrow Shares will be released from escrow, subject to outstanding claims, on September 15, 2015, and the remainder will be released on the 18 month anniversary of the Final Closing. Subject to certain negotiated exceptions for excluded liabilities, taxes and other fundamental items, the sellers' indemnification obligations are capped at $5 million.

We are also obligated to provide the sellers with a $1.6 million short term line of credit, bearing 9.5% interest per year, to fund the operations of Bango Refining between the Initial Closing and Final Closing. The line of credit must be paid down to a maximum balance of $600,000 at the Final Closing and must be fully repaid on or before March 31, 2015. Additionally, we are to receive a secured promissory note jointly issued by Omega Refining and Bango Refining, equal to the amount that the consideration paid by us at the Initial Closing exceeds 2/3rd of the total enterprise value of Omega (estimated to be in the amount of approximately $5.7 million to $5.8 million), which will not accrue any interest for six months and will accrue interest at the rate of 9.5% thereafter and will be due on the Final Closing date (the "Bango Note"). Finally, we will provide an interim loan of up to $1.25 million between the Initial Closing and Final Closing to Bango Refining in order for that entity to complete certain capital expenditures, which will increase the outstanding Bango Note amount which will be satisfied at the Final Closing.

The consideration payable in connection with the acquisition is subject to customary adjustments prior to the closings depending on certain criteria, including the amount of inventory delivered by the sellers at the closings.

The sellers also have the right to earn additional earn-out consideration in the event certain EBITDA targets are met by (a) Bango Refining during the years ended December 31, 2015 and 2016 (which targets begin at $3.5 million of EBITDA per year), of up to an aggregate of $9 million (payable in shares of the Company's common stock equal to the volume-weighted average of the regular session closing prices per share of the Company's common stock on the NASDAQ Capital Market for the ten (10) consecutive trading days prior to the applicable due date of such payments, provided, however, in no event shall the VWAP be less than $3.15 per share or more than $10.00 per share, as adjusted for any stock splits or recapitalizations) and (b) Omega Refining during any twelve month period during the eighteen month period commencing on the first day of the first full calendar month following the Initial Closing date (which targets begin at $8 million of EBITDA during such twelve month period) of up to 940,995 shares of common stock of the Company, in each case subject to adjustment for certain capital expenditures. Notwithstanding the above, the maximum number of shares of common stock to be issued pursuant to the Purchase Agreement cannot (i) exceed 19.9% of the outstanding shares of common stock outstanding on March 17, 2014, (ii) exceed 19.9% of the combined voting power of the Company on March 17, 2014, or (iii) otherwise exceed such number of shares of common stock that would violate applicable listing rules of the NASDAQ Stock Market in the event the the Company's stockholders do not approve the issuance of such shares (the "Share Cap"). In the event the number of shares to be issued under the Purchase Agreement exceeds the Share Cap, then the Company is required to instead pay any such additional consideration in cash or obtain the approval of the Company's stockholders under applicable rules and requirements of the NASDAQ Capital Market for the additional issuance of shares.

Finally, pursuant to the acquisition, (a) the sellers will agree to enter into a non-competition agreement whereby they will agree not to compete against us in connection with the acquired businesses, or to solicit active customers of the acquired businesses for a period of five years and (b) certain of the employees of the sellers will agree to enter into three year employment agreements with our newly formed subsidiaries.

Additionally, we are required to file a registration statement within thirty days of the Initial Closing and obtain effectiveness of the registration statement within ninety days of the filing date, registering the shares of common stock issuable to Omega in connection with the acquisition. In the event we fail to file the registration statement or obtain effectiveness of the registration within the time periods set forth in the Purchase Agreement, we are required to pay damages for each thirty (30) day period until cured, equal to that number of shares of common stock as equals 1% of the aggregate number of shares of common stock issued to Omega, however, we are not obligated to pay any liquidated damages if we are unable to fulfill our registration obligations as a result of rules, regulations, positions or releases or actions taken by the Securities and Exchange Commission.

The Purchase Agreement may be terminated at any time prior to the Initial Closing by mutual written agreement of the parties; by us or Omega (provided the terminating party is not in breach of the Purchase Agreement), if the Initial Closing has not been consummated by April 15, 2014; by any party if the transactions contemplated by the Purchase Agreement become illegal or are prohibited by law; by the non-breaching party if either the Company or Omega materially breaches their obligations under the Purchase Agreement, and if capable of being cured, is not cured within the time periods set forth in the Purchase Agreement.

The closings are subject to the satisfaction of certain customary closing conditions, including, but not limited to us raising the funds required to complete the acquisition, which may not be available on favorable terms, if at all. The Purchase Agreement contains customary representations, warranties, covenants and indemnities by the parties thereto. Craig-Hallum Capital Group LLC is acting as exclusive financial advisor to us in connection with the acquisition and has provided a fairness opinion to the Board of Directors in connection with the transaction.

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this Annual Report on Form 10-K. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Annual Report on 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 Annual Report on Form 10-K that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

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

Management, including our principal executive officer and principal financial officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control over Financial Reporting - Guidance for Smaller Public Companies.

There were no changes in our internal controls over financial reporting during the quarter ended December 31, 2013. Based on our assessment and those criteria, our management believes that we maintained effective internal control over financial reporting as of December 31, 2013.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be set forth under the headings "Election of Directors", "Executive Officers", "Corporate Governance", and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's 2014 Proxy Statement to be filed with the U.S. Securities and Exchange Commission ("SEC") within 120 days after December 31, 2013 in connection with the solicitation of proxies for the Company's 2014 annual meeting of shareholders and is incorporated herein by reference.

ITEM 11. Executive Compensation

The information required by this Item will be set forth under the headings "Executive Compensation", "Board of Directors Compensation" and "Outstanding Equity Awards at Fiscal Year-End" in the Company's 2014 Proxy Statement to be filed with the SEC within 120 days after December 31, 2013 and is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be set forth under the headings "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in the Company's 2014 Proxy Statement to be filed with the SEC within 120 days after December 31, 2013 and is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be set forth under the headings "Certain Relationships and Related Transactions" and "Director Independence" in the Company's 2014 Proxy Statement to be filed with the SEC within 120 days after December 31, 2013 and is incorporated herein by reference.

ITEM 14. Principal Accounting Fees and Services

The Company appointed LBB & Associates Ltd., LLP as independent auditors to audit the consolidated financial statements of the Company for the fiscal years ended December 31, 2013 and December 31, 2012.

Following is a summary of the fees expensed relating to professional services rendered by the principal accountants for the fiscal years ended December 31, 2013 and December 31, 2012:

Fee Category	2013 Fees	2012 Fees
Audit Related Fees	$ 130,129	$ 96,639
All Other Fees	32,924	14,035
Total Fees	$ 163,053	$ 110,674

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report

(1) All financial statements

(2) Financial Statement Schedules

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto included in this Form 10-K.

(3) Exhibits required by Item 601 of Regulation S-K

The information required by this Section (a)(3) of Item 15 is set forth on the exhibit index that follows the Signatures page of this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VERTEX ENERGY, INC.

Date: March 24, 2014	*By: /s/ Benjamin P. Cowart* Benjamin P. Cowart Chief Executive Officer (Principal Executive Officer)
Date: March 24, 2014	*By: /s/ Chris Carlson* Chris Carlson Chief Financial Officer (Principal Accounting/Financial Officer)

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

By:	*/s/ Benjamin P. Cowart* Benjamin P. Cowart Chief Executive Officer (Principal Executive Officer) and Chairman	By:	*/s/ Chris Carlson* Chris Carlson Chief Financial Officer (Principal Accounting/Financial Officer)
Date:	March 24, 2014	Date:	March 24, 2014
By:	*/s/ Christopher Stratton* Christopher Stratton Director	By:	*/s/ Dan Borgen* Dan Borgen Director
Date:	March 24, 2014	Date:	March 24, 2014
By:	*/s/ Timothy C. Harvey* Timothy C. Harvey Director	By:	*/s/ David Phillips* David Phillips Director
Date:	March 24, 2014	Date:	March 24, 2014

EXHIBIT INDEX

Exhibit Number	Description of Exhibit	Filed or Furnished Herewith	Incorporated by Reference			
			Form	Exhibit	Filing Date/Period End Date	File No.
1.1	Underwriting Agreement, dated November 20, 2013, by and among Vertex Energy, Inc. and Craig-Hallum Capital Group LLC		8-K	1.1	11/21/2013	001-11476
2.1	Unit Purchase Agreement by and among Vertex Energy, Inc., Vertex Acquisition Sub, LLC, Vertex Holdings, L.P. and B & S Cowart Family L.P. dated as of August 14, 2012		8-K	2.1	8/15/2012	000-53619
2.2	First Amendment to Unit Purchase Agreement by and among Vertex Energy, Inc., Vertex Acquisition Sub, LLC, Vertex Holdings, L.P. and B & S Cowart Family L.P. dated as of September 11, 2012		8-K	2.2	9/12/2012	000-53619
2.3	Asset Purchase Agreement by and among Vertex Energy, Inc., Vertex Refining LA. LLC., Vertex Refining NV., LLC, Omega Refining, LLC, Bango Refining NV, LLC and Omega Holdings Company LLC (March 17, 2014)		8-K	2.1	3/19/2014	001-11476
3.1	Articles of Incorporation (and amendments thereto) of Vertex Energy, Inc.		8-K/A	3.1	6/26/2009	000-53619
3.2	Amended and Restated Certificate of Designation of Rights, Preferences and Privileges of Vertex Energy, Inc.'s Series A Convertible Preferred Stock.		8-K	3.1	7/16/2010	000-53619
3.3	Amended and Restated Bylaws of Vertex Energy, Inc.		8-K	3.1	1/15/2014	001-11476
10.1	Employment Agreement with Benjamin P. Cowart effective April 16, 2009 ***		8-K/A	10.5	6/26/2009	000-53619
10.2	Employment Agreement with Matthew Lieb effective April 16, 2009 ***		8-K/A	10.7	6/26/2009	000-53619
10.3	Loan Agreement with Bank of America dated September 16, 2010		8-K	10.1	9/24/2010	000-53619
10.4	Security Agreement with Bank of America dated September 16, 2010		8-K	10.2	9/24/2010	000-53619
10.5(+)	Tolling Agreement between KMTEX, Ltd. and Vertex Energy, Inc. dated April 17, 2013		8-K	10.1	11/12/2013	001-11476
10.6	Amended and Restated Employment Agreement with Chris Carlson dated March 29, 2011 and effective April 1, 2010***		10-K	10.18	12/31/2004	000-53619
10.7	First Amendment to Employment Agreement with Benjamin P. Cowart dated March 25, 2011 and effective as of December 15, 2010***		10-K	10.19	12/31/2004	000-53619
10.8	First Amendment to Employment Agreement with Matt Lieb dated February 1, 2011 and effective March 28, 2011***		10-K	10.20	12/31/2010	000-53619

10.9	Addendum to The Employment Agreement Between Vertex Energy, Inc. and Greg Wallace dated July 5, 2011***		10-Q	10.21	9/30/2011	000-53619
10.10	Second Addendum to The Employment Agreement Between Vertex Energy, Inc. and Greg Wallace dated June 15, 2012***		10-Q	10.11	9/30/2012	000-53619
10.11	Employment Agreement with John Strickland - July 2012**		10-Q	10.12	9/30/2012	000-53619
10.12	Credit Agreement between Vertex Energy, Inc. and Bank of America, N.A. dated August 31, 2012		8-K	10.1	9/12/2012	000-53619
10.13	$10,000,000 Revolving Note by Vertex Energy, Inc. in favor of Bank of America, N.A. dated August 31, 2012		8-K	10.2	9/12/2012	000-53619
10.14	$8,500,000 Term Note by Vertex Energy, Inc. in favor of Bank of America, N.A. dated August 31, 2012		8-K	10.3	9/12/2012	000-53619
10.15	Security Agreement with Bank of America, N.A. dated August 31, 2012		8-K	10.4	9/12/2012	000-53619
10.16	Corporate Guaranty in favor of Bank of America, N.A. dated August 31, 2012		8-K	10.5	9/12/2012	000-53619
10.17	First Amendment to Credit Agreement between Vertex Energy, Inc. and Bank of America, N.A. dated August 31, 2012		10-Q	10.18	9/30/2012	000-53619
10.18	Non-Competition and Non-Solicitation Agreement by Vertex Holdings, L.P., B & S Cowart Family L.P., Benjamin P. Cowart, Chris Carlson and Greg Wallace in favor of Vertex Energy, Inc., dated August 31, 2012***		10-Q	10.19	9/30/2012	000-53619
10.19	Second Addendum to Employment Agreement with Benjamin P. Cowart, dated August 31, 2012***		10-Q	10.20	9/30/2012	000-53619
10.20	First Addendum to Amended and Restated Employment Agreement with Chris Carlson, dated August 31, 2012***		10-Q	10.21	9/30/2012	000-53619
10.21	2004 Stock Option Plan - World Waste Technologies, Inc.***		10-KSB	10.3	12/31/2004	001-11476
10.22	Form of Stock Option Agreement, pursuant to 2004 Stock Option Plan***		10-KSB	10.4	12/31/2004	001-11476
10.23	2007 Stock Plan - World Waste Technologies, Inc.***		8-K	10.2	5/21/2007	001-11476
10.24	Form of Stock Option Agreement, pursuant to 2007 Stock Option Plan***		8-K	10.3	5/21/2007	001-11476
10.25	Vertex Energy, Inc., 2008 Stock Incentive Plan***		8-K/A	4.1	6/26/2009	000-53619
10.26	2008 Stock Incentive Plan - Form of Stock Option Agreement***		10-K	10.27	12/31/2012	001-11476
10.27	Vertex Energy, Inc., 2009 Stock Incentive Plan***		8-K	4.1	7/31/2009	000-53619
10.28	2009 Stock Incentive Plan - Form of Stock Option Agreement***		10-K	10.29	12/31/2012	001-11476
10.29	Waiver and Second Amendment to Credit Agreement with Bank of America, N.A. (January 2013)		10-K	10.30	12/31/2012	001-11476
10.30	Vertex Energy, Inc. 2013 Stock Incentive Plan***	X				

10.31	Vertex Energy, Inc.-Form of 2013 Stock Incentive Plan Stock Option Award***		8-K	10.1	9/30/2013	001-11476
10.32	Vertex Energy, Inc.-Form of 2013 Stock Incentive Plan Restricted Stock Grant Agreement***		S-8	4.3	1/28/2014	333-193586
14.1	Code of Ethical Business Conduct and Whistleblower Protection Policy		8-K/A	14.1	2/13/2013	001-11476
21.1	Subsidiaries	X				
23.1	Consent of LBB & Associates Ltd., LLP	X				
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act	X				
31.2	Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act	X				
32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act**	X				
32.2	Certification of Principal Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act**	X				
99.1	Glossary of Selected Terms		10-K	99.1	12/31/2012	001-11476
99.2	Charters Of The Compensation Committee; Audit Committee; Nominating And Corporate Governance Committee; and Related Party Transaction Committee		8-K/A	99.2	2/13/2013	001-11476
99.3	Charter of Risk Committee		10-Q	99.2	9/30/2013	001-11476
101.INS++	XBRL Instance Document	X				
101.SCH++	XBRL Taxonomy Extension Schema Document	X				
101.CAL++	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF++	XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB++	XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE++	XBRL Taxonomy Extension Presentation Linkbase Document	X				

* Filed herewith.

** Furnished herewith.

*** Indicates management contract or compensatory plan or arrangement.

+ Certain portions of this document as (which portions have been replaced by "X's") have been omitted in connection with a request for Confidential Treatment which was granted by the Commission. This entire exhibit including the omitted confidential information has been filed separately with the Commission.

++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.

Exhibit 10.30

VERTEX ENERGY, INC.
2013 STOCK INCENTIVE PLAN

ARTICLE I -- PREAMBLE

1.1 This 2013 Stock Incentive Plan of Vertex Energy, Inc. (the '**Company**") is intended to secure for the Company and its Affiliates the benefits arising from ownership of the Company's Common Stock by the Employees, Officers, Directors and Consultants of the Company and its Affiliates, all of whom are and will be responsible for the Company's future growth. The Plan is designed to help attract and retain for the Company and its Affiliates personnel of superior ability for positions of exceptional responsibility, to reward Employees, Officers, Directors and Consultants for their services and to motivate such individuals through added incentives to further contribute to the success of the Company and its Affiliates. With respect to persons subject to Section 16 of the Act, transactions under this Plan are intended to satisfy the requirements of Rule 16b-3 of the Act.

1.2 Awards under the Plan may be made to an Eligible Person in the form of (i) Incentive Stock Options (to Eligible Employees only); (ii) Nonqualified Stock Options; (iii) Restricted Stock; (iv) Stock Awards; (v) Performance Shares; or (vi) any combination of the foregoing.

1.3 The Company's board of directors adopted the Plan effective on April 25, 2013 (the **Effective Date**"), subject to approval by the shareholders of the Company to the extent necessary to satisfy the requirements of the Code, the Act, or other applicable federal or state law. Unless sooner terminated as provided elsewhere in this Plan, this Plan shall terminate upon the close of business on the day next preceding the tenth (10th) anniversary of the Effective Date. Award Agreements outstanding on such date shall continue to have force and effect in accordance with the provisions thereof.

1.4 The Plan shall be governed by, and construed in accordance with, the laws of the State of Texas (except its choice-of-law provisions).

1.5 Capitalized terms shall have the meaning provided in Article II unless otherwise provided in this Plan or any related Award Agreement.

ARTICLE II -- DEFINITIONS

DEFINITIONS. Except where the context otherwise indicates, the following definitions apply:

2.1 "**Act**" means the Securities Exchange Act of 1934, as now in effect or as hereafter amended.

2.2 "**Affiliate**" means any parent corporation or subsidiary corporation of the Company, whether now or hereinafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

2.3 "**Award**" means an award granted to a Participant in accordance with the provisions of the Plan, including, but not limited to, Stock Options, Restricted Stock, Stock Awards, Performance Shares, or any combination of the foregoing.

2.4 "**Award Agreement**" means the separate written agreement evidencing each Award granted to a Participant under the Plan.

2.5 "**Board of Directors**" or "**Board**" means the Board of Directors of the Company, as constituted from time to time.

2.6 "**Bylaws**" means the Company's bylaws as amended from time to time.

2.7 "**Change of Control**" means (i) the adoption of a plan of merger or consolidation of the Company with any other corporation or association as a result of which the holders of the voting capital stock of the Company as a group would receive less than 50% of the voting capital stock of the surviving or resulting corporation; (ii) the approval by the Board of Directors of an agreement providing for the sale or transfer (other than as security for obligations of the Company) of substantially all the assets of the Company; or (iii) in the absence of a prior expression of approval by the Board of Directors, the acquisition of more than 20% of the Company's voting capital stock by any person within the meaning of Rule 13d-3 under the Act (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company).

2.8 "**Code**" means the Internal Revenue Code of 1986, as amended, and the regulations and interpretations promulgated thereunder.

2.9 "**Committee**" means a committee of two or more members of the Board appointed by the Board in accordance with Section 3.2 of the Plan.

2.10 "**Common Stock**" means the Company's common stock.

2.11 "**Company**" means Vertex Energy, Inc., a Nevada corporation.

2.12 "**Consultant**" means any person, including an advisor engaged by the Company or an Affiliate to render bona fide consulting or advisory services to the Company or an Affiliate, other than as an Employee, Director or Non-Employee Director.

2.13 "**Director**" means a member of the Board of Directors of the Company.

2.14 "**Disability**" means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

2.15 "**Effective Date**" shall be the date set forth in Section 1.3 of the Plan.

2.16 "**Eligible Employee**" means an Eligible Person who is an Employee of the Company or any Affiliate.

2.17 "**Eligible Person**" means any Employee, Officer, Director, Non-Employee Director or Consultant of the Company or any Affiliate, except for instances where services are in connection with the offer or sale of securities in a capital-raising transaction, or they directly or indirectly promote or maintain a market for the Company's securities, subject to any other limitations as may be provided by the Code, the Act, or the Board. In making such determinations, the Board may take into account the nature of the services rendered by such person, his or her present and potential contribution to the Company's success, and such other factors as the Board in its discretion shall deem relevant.

2.19 "**Employee**" means an individual who is a common-law employee of the Company or an Affiliate including employment as an Officer. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "**employment**" by the Company or an Affiliate.

2.20 "**ERISA**" means the Employee Retirement Income Security Act of 1974, as now in effect or as hereafter amended.

2.21 "**Fair Market Value**" means:

(a) for purposes of an Incentive Stock Option, if there is a market for the Company's stock, on a stock exchange or in an over-the-counter market, or otherwise, the Fair Market Value shall be the mean between the highest and lowest quoted selling prices on the valuation date of the Incentive Stock Option, or if there were no sales of the Company's

Common Stock on the valuation date, the Fair Market Value shall be the weighted average of the means between the highest and lowest sales on the nearest date before and the nearest date after the valuation date. If a valuation pursuant to this paragraph is not available, the appropriate method described in Section 20.2031-2 of the Treasury Regulations adopted under the Code shall be used for the Fair Market Value, and

(b) for all other purposes, the mean between the highest and lowest quoted selling prices of the Common Stock (if actual sales price information on such trading day is not available, the mean between the bona fide bid and asked prices on such trading day shall be used) on the trading day immediately prior to the date on which a determination is being made pursuant to this Section 2.21 (the "**Mean Selling Price**"), as reported by the National Association of Securities Dealers Automated Quotation System (**NASDAQ**"), or if the Common Stock is not traded on NASDAQ, the Mean Selling Price in the over-the-counter market; provided, however, that if the Common Stock is listed on a stock exchange, the Fair Market Value shall be the Mean Selling Price on such exchange; and, provided further, that if the Common Stock is not quoted or listed by any organization, the fair value of the Common Stock, as determined by the Board, whose determination shall be conclusive, shall be used. In no event shall the Fair Market Value of any share of Common Stock be less than its par value.

2.22 "**Grant Date**" means, as to any Award, the latest of:

(a) the date on which the Board authorizes the grant of the Award; or

(b) the date the Participant receiving the Award becomes an Employee or a Director of the Company or its Affiliate, to the extent employment status is a condition of the grant or a requirement of the Code or the Act; or

(c) such other date (later than the dates described in (a) and (b) above) as the Board may designate and as set forth in the Participant's Award Agreement.

2.23 "**Immediate Family**" means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law and shall include adoptive relationships.

2.24 "**Incentive Stock Option**" means a Stock Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and is granted under Article IV of the Plan and designated as an Incentive Stock Option in a Participant's Award Agreement.

2.25 "**Non-Employee Director**" shall have the meaning set forth in Rule 16b-3 under the Act.

2.26 "**Nonqualified Stock Option**" means a Stock Option not intended to qualify as an Incentive Stock Option and is not so designated in the Participant's Award Agreement.

2.27 "**Officer**" means a person who is an officer of the Company within the meaning of Section 16 of the Act.

2.28 "**Option Period**" means the period during which a Stock Option may be exercised from time to time, as established by the Board and set forth in the Award Agreement for each Participant who is granted a Stock Option.

2.29 "**Option Price**" means the purchase price for a share of Common Stock subject to purchase pursuant to a Stock Option, as established by the Board and set forth in the Award Agreement for each Participant who is granted a Stock Option.

2.30 "**Outside Director**" means a Director who either (i) is not a current employee of the Company or an **affiliated corporation**" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "**affiliated corporation**" receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an "**affiliated corporation**" at any time and is not currently receiving direct or indirect remuneration from the Company or an "**affiliated corporation**" for services in any capacity other than as a Director or (ii) is otherwise considered an**outside director**" for purposes of Section 162(m) of the Code.

2.31 "**Participant**" means an Eligible Person to whom an Award has been granted and who has entered into an Award Agreement evidencing the Award or, if applicable, such other person who holds an outstanding Award.

2.32 "**Performance Objectives**" shall have the meaning set forth in Article IX of the Plan.

2.33 "**Performance Period**" shall have the meaning set forth in Article IX of the Plan.

2.34 "**Performance Share**" means an Award under Article IX of the Plan of a unit valued by reference to the Common Stock, the payout of which is subject to achievement of such Performance Objectives, measured during one or more Performance Periods, as the Board, in its sole discretion, shall establish at the time of such Award and set forth in a Participant's Award Agreement.

2.35 "**Plan**" means this Vertex Energy, Inc. 2013 Stock Incentive Plan, as it may be amended from time to time.

2.36 "**Reporting Person**" means a person required to file reports under Section 16(a) of the Act.

2.37 "**Restricted Stock**" means an Award under Article VII of the Plan of shares of Common Stock that are at the time of the Award subject to restrictions or limitations as to the Participant's ability to sell, transfer, pledge or assign such shares, which restrictions or limitations may lapse separately or in combination at such time or times, in installments or otherwise, as the Board, in its sole discretion, shall determine at the time of such Award and set forth in a Participant's Award Agreement.

2.38 "**Restriction Period**" means the period commencing on the Grant Date with respect to such shares of Restricted Stock and ending on such date as the Board, in its sole discretion, shall establish and set forth in a Participant's Award Agreement.

2.39 "**Retirement**" means retirement as determined under procedures established by the Board or in any Award, as set forth in a Participant's Award Agreement.

2.40 "**Rule 16b-3**" means Rule 16b-3 promulgated under the Act or any successor to Rule 16b-3, as in effect from time to time. Those provisions of the Plan which make express reference to Rule 16b-3, or which are required in order for certain option transactions to qualify for exemption under Rule 16b-3, shall apply only to a Reporting Person.

2.41 "**Stock Award**" means an Award of shares of Common Stock under Article VIII of the Plan.

2.42 "**Stock Option**" means an Award under Article IV or Article V of the Plan of an option to purchase Common Stock. A Stock Option may be either an Incentive Stock Option or a Nonqualified Stock Option.

2.43 "**Ten Percent Stockholder**" means an individual who owns (or is deemed to own pursuant to Section 424(d) of the Code), at the time of grant, stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any of its Affiliates.

2.44 "**Termination of Service**" means (i) in the case of an Eligible Employee, the discontinuance of employment of such Participant with the Company or its Subsidiaries for any reason other than a transfer to another member of the group consisting of the Company and its Affiliates and (ii) in the case of a Director who is not an Employee of the Company or any Affiliate, the date such Participant ceases to serve as a Director. The determination of whether a Participant has discontinued service shall be made by the Board in its sole discretion. In determining whether a Termination of Service has occurred, the Board may provide that service as a Consultant or service with a business enterprise in which the Company has a significant ownership interest shall be treated as employment with the Company.

ARTICLE III – ADMINISTRATION

3.1 The Plan shall be administered by the Board of Directors of the Company. The Board shall have the exclusive right to interpret and construe the Plan, to select the Eligible Persons who shall receive an Award, and to act in all matters pertaining to the grant of an Award and the determination and interpretation of the provisions of the related Award Agreement, including, without limitation, the determination of the number of shares subject to Stock Options and the Option Period(s) and Option Price(s) thereof, the number of shares of Restricted Stock or shares subject to Stock Awards or Performance Shares subject to an Award, the vesting periods (if any) and the form, terms, conditions and duration of each Award, and any amendment thereof consistent with the provisions of the Plan. The Board may adopt, establish, amend and rescind such rules, regulations and procedures as it may deem appropriate for the proper administration of the Plan, make all other determinations which are, in the Board's judgment, necessary or desirable for the proper administration of the Plan, amend the Plan or a Stock Award as provided in Article XI, and terminate or suspend the Plan as provided in Article XI. All acts, determinations and decisions of the Board made or taken pursuant to the Plan or with respect to any questions arising in connection with the administration and interpretation of the Plan or any Award Agreement, including the severability of any and all of the provisions thereof, shall be conclusive, final and binding upon all persons.

3.2 The Board may, to the full extent permitted by and consistent with applicable law and the Company's Bylaws, and subject to Subparagraph 3.2(b) hereinbelow, delegate any or all of its powers with respect to the administration of the Plan to a Committee consisting of not fewer than two members of the Board each of whom shall qualify (at the time of appointment to the Committee and during all periods of service on the Committee) in all respects as a Non-Employee Director and as an Outside Director.

(a) If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in the Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not consistent with the provisions of the Plan, as may be adopted from time to time by the Board.

(b) The Board may abolish the Committee at any time and reassume all powers and authority previously delegated to the Committee.

(c) In addition to, and not in limitation of, the right of any Committee so designated by the Board to administer this Plan to grant Awards to Eligible Persons under this Plan, the full Board of Directors may from time to time grant Awards to Eligible Persons pursuant to the terms and conditions of this Plan, subject to the requirements of the Code, Rule 16b-3 under the Act or any other applicable law, rule or regulation. In connection with any such grants, the Board of Directors shall have all of the power and authority of the Committee to determine the Eligible Persons to whom such Awards shall be granted and the other terms and conditions of such Awards.

3.3 Without limiting the provisions of this Article III, and subject to the provisions of Article X, the Board is authorized to take such action as it determines to be necessary or advisable, and fair and equitable to Participants and to the Company, with respect to an outstanding Award in the event of a Change of Control as described in Article X or other similar event. Such action may include, but shall not be limited to, establishing, amending or waiving the form, terms, conditions and duration of an Award and the related Award Agreement, so as to provide for earlier, later, extended or additional times for exercise or payments, differing methods for calculating payments, alternate forms and amounts of payment, an accelerated release of restrictions or other modifications. The Board may take such actions pursuant to this Section 3.3 by adopting rules and regulations of general applicability to all Participants or to certain categories of Participants, by including, amending or waiving terms and conditions in an Award and the related Award Agreement, or by taking action with respect to individual Participants from time to time.

3.4 Subject to the provisions of Section 3.9, the maximum aggregate number of shares of Common Stock which may be issued pursuant to Awards under the Plan shall be **1,575,000** shares. Such shares of Common Stock shall be made available from authorized and unissued shares of the Company.

(a) For all purposes under the Plan, each Performance Share awarded shall be counted as one share of Common Stock subject to an Award.

(b) If, for any reason, any shares of Common Stock (including shares of Common Stock subject to Performance Shares) that have been awarded or are subject to issuance or purchase pursuant to Awards outstanding under the Plan are not delivered or purchased, or are reacquired by the Company, for any reason, including but not limited to a forfeiture of Restricted Stock or failure to earn Performance Shares or the termination, expiration or cancellation of a Stock Option, or any other termination of an Award without payment being made in the form of shares of Common Stock (whether or not Restricted Stock), such shares of Common Stock shall not be charged against the aggregate number of shares of Common Stock available for Award under the Plan and shall again be available for Awards under the Plan. In no event, however, may Common Stock that is surrendered or withheld to pay the exercise price of a Stock Option or to satisfy tax withholding requirements be available for future grants under the Plan.

(c) The foregoing subsections (a) and (b) of this Section 3.4 shall be subject to any limitations provided by the Code or by Rule 16b-3 under the Act or by any other applicable law, rule or regulation.

3.5 Each Award granted under the Plan shall be evidenced by a written Award Agreement, which shall be subject to and shall incorporate (by reference or otherwise) the applicable terms and conditions of the Plan and shall include any other terms and conditions (not inconsistent with the Plan) required by the Board.

3.6 The Company shall not be required to issue or deliver any certificates for shares of Common Stock under the Plan prior to:

(a) any required approval of the Plan by the shareholders of the Company; and

(b) the completion of any registration or qualification of such shares of Common Stock under any federal or state law, or any ruling or regulation of any governmental body that the Company shall, in its sole discretion, determine to be necessary or advisable.

3.7 The Board may require any Participant acquiring shares of Common Stock pursuant to any Award under the Plan to represent to and agree with the Company in writing that such person is acquiring the shares of Common Stock for investment purposes and without a view to resale or distribution thereof. Shares of Common Stock issued and delivered under the Plan shall also be subject to such stop-transfer orders and other restrictions as the Board may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed and any applicable federal or state laws, and the Board may cause a legend or legends to be placed on the certificate or certificates representing any such shares to make appropriate reference to any such restrictions. In making such determination, the Board may rely upon an opinion of counsel for the Company.

3.8 Except as otherwise expressly provided in the Plan or in an Award Agreement with respect to an Award, no Participant shall have any right as a shareholder of the Company with respect to any shares of Common Stock subject to such Participant's Award except to the extent that, and until, one or more certificates representing such shares of Common Stock shall have been delivered to the Participant. No shares shall be required to be issued, and no certificates shall be required to be delivered, under the Plan unless and until all of the terms and conditions applicable to such Award shall have, in the sole discretion of the Board, been satisfied in full and any restrictions shall have lapsed in full, and unless and until all of the requirements of law and of all regulatory bodies having jurisdiction over the offer and sale, or issuance and delivery, of the shares shall have been fully complied with.

3.9 The total amount of shares with respect to which Awards may be granted under the Plan and rights of outstanding Awards (both as to the number of shares subject to the outstanding Awards and the Option Price(s) or other purchase price(s) of such shares, as applicable) shall be appropriately adjusted for any increase or decrease in the number of outstanding shares of Common Stock of the Company resulting from payment of a stock dividend on the Common Stock, a stock split or subdivision or combination of shares of the Common Stock, or a reorganization or reclassification of the Common Stock, or any other change in the structure of shares of the Common Stock. The foregoing adjustments and the manner of application of the foregoing provisions shall be determined by the Board in its sole discretion. Any such adjustment may provide for the elimination of any fractional shares which might otherwise become subject to an Award. All adjustments made as the result of the foregoing in respect of each Incentive Stock Option shall be made so that such Incentive Stock Option shall continue to be an Incentive Stock Option, as defined in Section 422 of the Code.

3.10 No director or person acting pursuant to authority delegated by the Board shall be liable for any action or determination under the Plan made in good faith. The members of the Board shall be entitled to indemnification by the Company in the manner and to the extent set forth in the Company's Articles of Incorporation, as amended, Bylaws or as otherwise provided from time to time regarding indemnification of Directors.

3.11 The Board shall be authorized to make adjustments in any performance based criteria or in the other terms and conditions of outstanding Awards in recognition of unusual or nonrecurring events affecting the Company (or any Affiliate, if applicable) or its financial statements or changes in applicable laws, regulations or accounting principles. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement in the manner and to the extent it shall deem necessary or desirable to reflect any such adjustment. In the event the Company (or any Affiliate, if applicable) shall assume outstanding employee benefit awards or the right or obligation to make future such awards in connection with the acquisition of another corporation or business entity, the Board may, in its sole discretion, make such adjustments in the terms of outstanding Awards under the Plan as it shall deem appropriate.

3.12 Subject to the express provisions of the Plan, the Board shall have full power and authority to determine whether, to what extent and under what circumstances any outstanding Award shall be terminated, canceled, forfeited or suspended. Notwithstanding the foregoing or any other provision of the Plan or an Award Agreement, all Awards to any Participant that are subject to any restriction or have not been earned or exercised in full by the Participant shall be terminated and canceled if the Participant is terminated for cause, as determined by the Board in its sole discretion.

ARTICLE IV -- INCENTIVE STOCK OPTIONS

4.1 The Board, in its sole discretion, may from time to time on or after the Effective Date grant Incentive Stock Options to Eligible Employees, subject to the provisions of this Article IV and Articles III and VI and subject to the following conditions:

(a) Incentive Stock Options shall be granted only to Eligible Employees, each of whom may be granted one or more of such Incentive Stock Options at such time or times determined by the Board.

(b) The Option Price per share of Common Stock for an Incentive Stock Option shall be set in the Award Agreement, but shall not be less than (i) one hundred percent (100%) of the Fair Market Value of the Common Stock at the Grant Date, or (ii) in the case of an Incentive Stock Option granted to a Ten Percent Stockholder, one hundred ten percent (110%) of the Fair Market Value of the Common Stock at the Grant Date.

(c) An Incentive Stock Option may be exercised in full or in part from time to time within ten (10) years from the Grant Date, or such shorter period as may be specified by the Board as the Option Period and set forth in the Award Agreement; provided, however, that, in the case of an Incentive Stock Option granted to a Ten Percent Stockholder, such period shall not exceed five (5) years from the Grant Date; and further, provided that, in any event, the Incentive Stock Option shall lapse and cease to be exercisable upon a Termination of Service or within such period following a Termination of Service as shall have been determined by the Board and set forth in the related Award Agreement; and provided, further, that such period shall not exceed the period of time ending on the date three (3) months following a Termination of Service, unless employment shall have terminated:

(i) as a result of Disability, in which event such period shall not exceed the period of time ending on the date twelve (12) months following a Termination of Service; or

(ii) as a result of death, or if death shall have occurred following a Termination of Service (other than as a result of Disability) and during the period that the Incentive Stock Option was still exercisable, in which event such period may not exceed the period of time ending on the earlier of the date twelve (12) months after the date of death;

and provided, further, that such period following a Termination of Service or death shall in no event extend beyond the original Option Period of the Incentive Stock Option.

(d) The aggregate Fair Market Value of the shares of Common Stock with respect to which any Incentive Stock Options (whether under this Plan or any other plan established by the Company) are first exercisable during any calendar year by any Eligible Employee shall not exceed one hundred thousand dollars ($100,000), determined based on the Fair Market Value(s) of such shares as of their respective Grant Dates; provided, however, that to the extent permitted under Section 422 of the Code, if the aggregate Fair Market Values of the shares of Common Stock with respect to which Stock Options intended to be Incentive Stock Options are first exercisable by any Eligible Employee during any calendar year (whether such Stock Options are granted under this Plan or any other plan established by the Company) exceed one hundred thousand dollars ($100,000), the Stock Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonqualified Stock Options.

(e) No Incentive Stock Options may be granted more than ten (10) years from the Effective Date.

(f) The Award Agreement for each Incentive Stock Option shall provide that the Participant shall notify the Company if such Participant sells or otherwise transfers any shares of Common Stock acquired upon exercise of the Incentive Stock Option within two (2) years of the Grant Date of such Incentive Stock Option or within one (1) year of the date such shares were acquired upon the exercise of such Incentive Stock Option.

4.2 Subject to the limitations of Section 3.4, the maximum aggregate number of shares of Common Stock subject to Incentive Stock Option Awards shall be the maximum aggregate number of shares available for Awards under the Plan.

4.3 The Board may provide for any other terms and conditions which it determines should be imposed for an Incentive Stock Option to qualify under Section 422 of the Code, as well as any other terms and conditions not inconsistent with this Article IV or Articles III or VI, as determined in its sole discretion and set forth in the Award Agreement for such Incentive Stock Option.

4.4 Each provision of this Article IV and of each Incentive Stock Option granted hereunder shall be construed in accordance with the provisions of Section 422 of the Code, and any provision hereof that cannot be so construed shall be disregarded.

ARTICLE V -- NONQUALIFIED STOCK OPTIONS

5.1 The Board, in its sole discretion, may from time to time on or after the Effective Date grant Nonqualified Stock Options to Eligible Persons, subject to the provisions of this Article V and Articles III and VI and subject to the following conditions:

(a) Nonqualified Stock Options may be granted to any Eligible Person, each of whom may be granted one or more of such Nonqualified Stock Options, at such time or times determined by the Board.

(b) The Option Price per share of Common Stock for a Nonqualified Stock Option shall be set in the Award Agreement and may be less than one hundred percent (100%) of the Fair Market Value of the Common Stock at the Grant Date; provided, however, that the exercise price of each Nonqualified Stock Option granted under the Plan shall in no event be less than the par value per share of the Company's Common Stock.

(c) A Nonqualified Stock Option may be exercised in full or in part from time to time within the Option Period specified by the Board and set forth in the Award Agreement; provided, however, that, in any event, the

Nonqualified Stock Option shall lapse and cease to be exercisable upon a Termination of Service or within such period following a Termination of Service as shall have been determined by the Board and set forth in the related Award Agreement.

5.2 The Board may provide for any other terms and conditions for a Nonqualified Stock Option not inconsistent with this Article V or Articles III or VI, as determined in its sole discretion and set forth in the Award Agreement for such Nonqualified Stock Option.

ARTICLE VI -- INCIDENTS OF STOCK OPTIONS

6.1 Each Stock Option shall be granted subject to such terms and conditions, if any, not inconsistent with this Plan, as shall be determined by the Board and set forth in the related Award Agreement, including any provisions as to continued employment as consideration for the grant or exercise of such Stock Option and any provisions which may be advisable to comply with applicable laws, regulations or rulings of any governmental authority.

6.2 Except as hereinafter described, a Stock Option shall not be transferable by the Participant other than by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the Participant only by the Participant or the Participant's guardian or legal representative. In the event of the death of a Participant, any unexercised Stock Options may be exercised to the extent otherwise provided herein or in such Participant's Award Agreement by the executor or personal representative of such Participant's estate or by any person who acquired the right to exercise such Stock Options by bequest under the Participant's will or by inheritance. The Board, in its sole discretion, may at any time permit a Participant to transfer a Nonqualified Stock Option for no consideration to or for the benefit of one or more members of the Participant's Immediate Family (including, without limitation, to a trust for the benefit of the Participant and/or one or more members of such Participant's Immediate Family or a corporation, partnership or limited liability company established and controlled by the Participant and/or one or more members of such Participant's Immediate Family), subject to such limits as the Board may establish. The transferee of such Nonqualified Stock Option shall remain subject to all terms and conditions applicable to such Nonqualified Stock Option prior to such transfer. The foregoing right to transfer the Nonqualified Stock Option, if granted by the Board shall apply to the right to consent to amendments to the Award Agreement.

6.3 Shares of Common Stock purchased upon exercise of a Stock Option shall be paid for in such amounts, at such times and upon such terms as shall be determined by the Board, subject to limitations set forth in the Stock Option Award Agreement. The Board may, in its sole discretion, permit the exercise of a Stock Option by payment in cash or by tendering shares of Common Stock (either by actual delivery of such shares or by attestation), or any combination thereof, as determined by the Board. In the sole discretion of the Board, payment in shares of Common Stock also may be made with shares received upon the exercise or partial exercise of the Stock Option, whether or not involving a series of exercises or partial exercises and whether or not share certificates for such shares surrendered have been delivered to the Participant. The Board also may, in its sole discretion, permit the payment of the exercise price of a Stock Option by the voluntary surrender of all or a portion of the Stock Option. Shares of Common Stock previously held by the Participant and surrendered in payment of the Option Price of a Stock Option shall be valued for such purpose at the Fair Market Value thereof on the date the Stock Option is exercised.

6.4 The holder of a Stock Option shall have no rights as a shareholder with respect to any shares covered by the Stock Option (including, without limitation, any voting rights, the right to inspect or receive the Company’s balance sheets or financial statements or any rights to receive dividends or non-cash distributions with respect to such shares) until such time as the holder has exercised the Stock Option and then only with respect to the number of shares which are the subject of the exercise. No adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

6.5 The Board may permit the voluntary surrender of all or a portion of any Stock Option granted under the Plan to be conditioned upon the granting to the Participant of a new Stock Option for the same or a different number of shares of Common Stock as the Stock Option surrendered, or may require such voluntary surrender as a condition precedent to a grant of a new Stock Option to such Participant. Subject to the provisions of the Plan, such new Stock Option shall be exercisable at such Option Price, during such Option Period and on such other terms and conditions as are specified by the Board at the time the new Stock Option is granted. Upon surrender, the Stock Options surrendered shall be canceled and the shares of Common Stock previously subject to them shall be available for the grant of other Stock Options.

6.6 The Board may at any time offer to purchase a Participant's outstanding Stock Option for a payment equal to the value of such Stock Option payable in cash, shares of Common Stock or Restricted Stock or other property upon surrender of the Participant's Stock Option, based on such terms and conditions as the Board shall establish and communicate to the Participant at the time that such offer is made.

6.7 The Board shall have the discretion, exercisable either at the time the Award is granted or at the time the Participant discontinues employment, to establish as a provision applicable to the exercise of one or more Stock Options that, during a limited period of exercisability following a Termination of Service, the Stock Option may be exercised not only with respect to the number of shares of Common Stock for which it is exercisable at the time of the Termination of Service but also with respect to one or more subsequent installments for which the Stock Option would have become exercisable had the Termination of Service not occurred.

ARTICLE VII -- RESTRICTED STOCK

7.1 The Board, in its sole discretion, may from time to time on or after the Effective Date award shares of Restricted Stock to Eligible Persons as a reward for past service and an incentive for the performance of future services that will contribute materially to the successful operation of the Company an its Affiliates, subject to the terms and conditions set forth in this Article VII.

7.2 The Board shall determine the terms and conditions of any Award of Restricted Stock, which shall be set forth in the related Award Agreement, including without limitation:

(a) the purchase price, if any, to be paid for such Restricted Stock, which may be zero, subject to such minimum consideration as may be required by applicable law;

(b) the duration of the Restriction Period or Restriction Periods with respect to such Restricted Stock and whether any events may accelerate or delay the end of such Restriction Period(s);

(c) the circumstances upon which the restrictions or limitations shall lapse, and whether such restrictions or limitations shall lapse as to all shares of Restricted Stock at the end of the Restriction Period or as to a portion of the shares of Restricted Stock in installments during the Restriction Period by means of one or more vesting schedules;

(d) whether such Restricted Stock is subject to repurchase by the Company or to a right of first refusal at a predetermined price or if the Restricted Stock may be forfeited entirely under certain conditions;

(e) whether any performance goals may apply to a Restriction Period to shorten or lengthen such period; and

(f) whether dividends and other distributions with respect to such Restricted Stock are to be paid currently to the Participant or withheld by the Company for the account of the Participant.

7.3 Awards of Restricted Stock must be accepted within a period of thirty (30) days after the Grant Date (or such shorter or longer period as the Board may specify at such time) by executing an Award Agreement with respect to such Restricted Stock and tendering the purchase price, if any. A prospective recipient of an Award of Restricted Stock shall not have any rights with respect to such Award, unless such recipient has executed an Award Agreement with respect to such Restricted Stock, has delivered a fully executed copy thereof to the Board and has otherwise complied with the applicable terms and conditions of such Award.

7.4 In the sole discretion of the Board and as set forth in the Award Agreement for an Award of Restricted Stock, all shares of Restricted Stock held by a Participant and still subject to restrictions shall be forfeited by the Participant upon the Participant's Termination of Service and shall be reacquired, canceled and retired by the

Company. Notwithstanding the foregoing, unless otherwise provided in an Award Agreement with respect to an Award of Restricted Stock, in the event of the death, Disability or Retirement of a Participant during the Restriction Period, or in other cases of special circumstances (including hardship or other special circumstances of a Participant whose employment is involuntarily terminated), the Board may elect to waive in whole or in part any remaining restrictions with respect to all or any part of such Participant's Restricted Stock, if it finds that a waiver would be appropriate.

7.5 Except as otherwise provided in this Article VII, no shares of Restricted Stock received by a Participant shall be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of during the Restriction Period.

7.6 Upon an Award of Restricted Stock to a Participant, a certificate or certificates representing the shares of such Restricted Stock will be issued to and registered in the name of the Participant. Unless otherwise determined by the Board, such certificate or certificates will be held in custody by the Company until (i) the Restriction Period expires and the restrictions or limitations lapse, in which case one or more certificates representing such shares of Restricted Stock that do not bear a restrictive legend (other than any legend as required under applicable federal or state securities laws) shall be delivered to the Participant, or (ii) a prior forfeiture by the Participant of the shares of Restricted Stock subject to such Restriction Period, in which case the Company shall cause such certificate or certificates to be canceled and the shares represented thereby to be retired, all as set forth in the Participant's Award Agreement. It shall be a condition of an Award of Restricted Stock that the Participant deliver to the Company a stock power endorsed in blank relating to the shares of Restricted Stock to be held in custody by the Company.

7.7 Except as provided in this Article VII or in the related Award Agreement, a Participant receiving an Award of shares of Restricted Stock Award shall have, with respect to such shares, all rights of a shareholder of the Company, including the right to vote the shares and the right to receive any distributions, unless and until such shares are otherwise forfeited by such Participant; provided, however, the Board may require that any cash dividends with respect to such shares of Restricted Stock be automatically reinvested in additional shares of Restricted Stock subject to the same restrictions as the underlying Award, or may require that cash dividends and other distributions on Restricted Stock be withheld by the Company or its Affiliates for the account of the Participant. The Board shall determine whether interest shall be paid on amounts withheld, the rate of any such interest, and the other terms applicable to such withheld amounts.

ARTICLE VIII -- STOCK AWARDS

8.1 The Board, in its sole discretion, may from time to time on or after the Effective Date grant Stock Awards to Eligible Persons in payment of compensation that has been earned or as compensation to be earned, including without limitation compensation awarded or earned concurrently with or prior to the grant of the Stock Award, subject to the terms and conditions set forth in this Article VIII.

8.2 For the purposes of this Plan, in determining the value of a Stock Award, all shares of Common Stock subject to such Stock Award shall be set in the Award Agreement and may be less than one hundred percent (100%) of the Fair Market Value of the Common Stock at the Grant Date.

8.3 Unless otherwise determined by the Board and set forth in the related Award Agreement, shares of Common Stock subject to a Stock Award will be issued, and one or more certificates representing such shares will be delivered, to the Participant as soon as practicable following the Grant Date of such Stock Award. Upon the issuance of such shares and the delivery of one or more certificates representing such shares to the Participant, such Participant shall be and become a shareholder of the Company fully entitled to receive dividends, to vote and to exercise all other rights of a shareholder of the Company. Notwithstanding any other provision of this Plan, unless the Board expressly provides otherwise with respect to a Stock Award, as set forth in the related Award Agreement, no Stock Award shall be deemed to be an outstanding Award for purposes of the Plan.

ARTICLE IX -- PERFORMANCE SHARES

9.1 The Board, in its sole discretion, may from time to time on or after the Effective Date award Performance Shares to Eligible Persons as an incentive for the performance of future services that will contribute materially to the successful operation of the Company and its Affiliates, subject to the terms and conditions set forth in this Article IX.

9.2 The Board shall determine the terms and conditions of any Award of Performance Shares, which shall be set forth in the related Award Agreement, including without limitation:

(a) the purchase price, if any, to be paid for such Performance Shares, which may be zero, subject to such minimum consideration as may be required by applicable law;

(b) the performance period (the '**Performance Period**") and/or performance objectives (the '**Performance Objectives**") applicable to such Awards;

(c) the number of Performance Shares that shall be paid to the Participant if the applicable Performance Objectives are exceeded or met in whole or in part; and

(d) the form of settlement of a Performance Share.

9.3 At any date, each Performance Share shall have a value equal to the Fair Market Value of a share of Common Stock.

9.4 Performance Periods may overlap, and Participants may participate simultaneously with respect to Performance Shares for which different Performance Periods are prescribed.

9.5 Performance Objectives may vary from Participant to Participant and between Awards and shall be based upon such performance criteria or combination of factors as the Board may deem appropriate, including, but not limited to, minimum earnings per share or return on equity. If during the course of a Performance Period there shall occur significant events which the Board expects to have a substantial effect on the applicable Performance Objectives during such period, the Board may revise such Performance Objectives.

9.6 In the sole discretion of the Board and as set forth in the Award Agreement for an Award of Performance Shares, all Performance Shares held by a Participant and not earned shall be forfeited by the Participant upon the Participant's Termination of Service. Notwithstanding the foregoing, unless otherwise provided in an Award Agreement with respect to an Award of Performance Shares, in the event of the death, Disability or Retirement of a Participant during the applicable Performance Period, or in other cases of special circumstances (including hardship or other special circumstances of a Participant whose employment is involuntarily terminated), the Board may determine to make a payment in settlement of such Performance Shares at the end of the Performance Period, based upon the extent to which the Performance Objectives were satisfied at the end of such period and pro rated for the portion of the Performance Period during which the Participant was employed by the Company or an Affiliate; provided, however, that the Board may provide for an earlier payment in settlement of such Performance Shares in such amount and under such terms and conditions as the Board deems appropriate or desirable.

9.7 The settlement of a Performance Share shall be made in cash, whole shares of Common Stock or a combination thereof and shall be made as soon as practicable after the end of the applicable Performance Period. Notwithstanding the foregoing, the Board in its sole discretion may allow a Participant to defer payment in settlement of Performance Shares on terms and conditions approved by the Board and set forth in the related Award Agreement entered into in advance of the time of receipt or constructive receipt of payment by the Participant.

9.8 Performance Shares shall not be transferable by the Participant. The Board shall have the authority to place additional restrictions on the Performance Shares including, but not limited to, restrictions on transfer of any shares of Common Stock that are delivered to a Participant in settlement of any Performance Shares.

ARTICLE X -- CHANGES OF CONTROL OR OTHER FUNDAMENTAL CHANGES

10.1 Upon the occurrence of a Change of Control and unless otherwise provided in the Award Agreement with respect to a particular Award:

(a) all outstanding Stock Options shall become immediately exercisable in full, subject to any appropriate adjustments in the number of shares subject to the Stock Option and the Option Price, and shall remain exercisable for the remaining Option Period, regardless of any provision in the related Award Agreement limiting the exercisability of such Stock Option or any portion thereof for any length of time;

(b) all outstanding Performance Shares with respect to which the applicable Performance Period has not been completed shall be paid out as soon as practicable as follows:

(i) all Performance Objectives applicable to the Award of Performance Shares shall be deemed to have been satisfied to the extent necessary to earn one hundred percent (100%) of the Performance Shares covered by the Award;

(ii) the applicable Performance Period shall be deemed to have been completed upon occurrence of the Change of Control;

(iii) the payment to the Participant in settlement of the Performance Shares shall be the amount determined by the Board, in its sole discretion, or in the manner stated in the Award Agreement, as multiplied by a fraction, the numerator of which is the number of full calendar months of the applicable Performance Period that have elapsed prior to occurrence of the Change of Control, and the denominator of which is the total number of months in the original Performance Period; and

(iv) upon the making of any such payment, the Award Agreement as to which it relates shall be deemed terminated and of no further force and effect.

(c) all outstanding shares of Restricted Stock with respect to which the restrictions have not lapsed shall be deemed vested, and all such restrictions shall be deemed lapsed and the Restriction Period ended.

10.2 Anything contained herein to the contrary notwithstanding, upon the dissolution or liquidation of the Company, each Award granted under the Plan and then outstanding shall terminate; provided, however, that following the adoption of a plan of dissolution or liquidation, and in any event prior to the effective date of such dissolution or liquidation, each such outstanding Award granted hereunder shall be exercisable in full and all restrictions shall lapse, to the extent set forth in Section 10.1(a), (b) and (c) above.

10.3 After the merger of one or more corporations into the Company or any Affiliate, any merger of the Company into another corporation, any consolidation of the Company or any Affiliate of the Company and one or more corporations, or any other corporate reorganization of any form involving the Company as a party thereto and involving any exchange, conversion, adjustment or other modification of the outstanding shares of the Common Stock, each Participant shall, at no additional cost, be entitled, upon any exercise of such Participant's Stock Option, to receive, in lieu of the number of shares as to which such Stock Option shall then be so exercised, the number and class of shares of stock or other securities or such other property to which such Participant would have been entitled to pursuant to the terms of the agreement of merger or consolidation or reorganization, if at the time of such merger or consolidation or reorganization, such Participant had been a holder of record of a number of shares of Common Stock equal to the number of shares as to which such Stock Option shall then be so exercised. Comparable rights shall accrue to each Participant in the event of successive mergers, consolidations or reorganizations of the character described above. The Board may, in its sole discretion, provide for similar adjustments upon the occurrence of such events with regard to other outstanding Awards under this Plan. The foregoing adjustments and the manner of application of the foregoing provisions shall be determined by the Board in its sole discretion. Any such adjustment may provide for the elimination of any fractional shares which might otherwise become subject to an Award. All adjustments made as the result of the foregoing in respect of each Incentive Stock Option shall be made so that such Incentive Stock Option shall continue to be an Incentive Stock Option, as defined in Section 422 of the Code.

ARTICLE XI -- AMENDMENT AND TERMINATION

11.1 Subject to the provisions of Section 11.2, the Board of Directors at any time and from time to time may amend or terminate the Plan as may be necessary or desirable to implement or discontinue the Plan or any provision hereof. To the extent required by the Act or the Code, however, no amendment, without approval by the Company's shareholders, shall:

(a) materially alter the group of persons eligible to participate in the Plan;

(b) except as provided in Section 3.4, change the maximum aggregate number of shares of Common Stock that are available for Awards under the Plan;

(c) alter the class of individuals eligible to receive an Incentive Stock Option or increase the limit on Incentive Stock Options set forth in Section 4.1(d) or the value of shares of Common Stock for which an Eligible Employee may be granted an Incentive Stock Option.

11.2 No amendment to or discontinuance of the Plan or any provision hereof by the Board of Directors or the shareholders of the Company shall, without the written consent of the Participant, adversely affect (in the sole discretion of the Board) any Award theretofore granted to such Participant under this Plan; provided, however, that the Board retains the right and power to:

(a) annul any Award if the Participant is terminated for cause as determined by the Board; and

(b) convert any outstanding Incentive Stock Option to a Nonqualified Stock Option.

11.3 If a Change of Control has occurred, no amendment or termination shall impair the rights of any person with respect to an outstanding Award as provided in Article X.

ARTICLE XII -- MISCELLANEOUS PROVISIONS

12.1 Nothing in the Plan or any Award granted hereunder shall confer upon any Participant any right to continue in the employ of the Company or its Affiliates or to serve as a Director or shall interfere in any way with the right of the Company or its Affiliates or the shareholders of the Company, as applicable, to terminate the employment of a Participant or to release or remove a Director at any time. Unless specifically provided otherwise, no Award granted under the Plan shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of the Company or its Affiliates for the benefit of their respective employees unless the Company shall determine otherwise. No Participant shall have any claim to an Award until it is actually granted under the Plan and an Award Agreement has been executed and delivered to the Company. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall, except as otherwise provided by the Board, be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company, and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts, except as provided in Article VII with respect to Restricted Stock and except as otherwise provided by the Board.

12.2 The Plan and the grant of Awards shall be subject to all applicable federal and state laws, rules, and regulations and to such approvals by any government or regulatory agency as may be required. Any provision herein relating to compliance with Rule 16b-3 under the Act shall not be applicable with respect to participation in the Plan by Participants who are not subject to Section 16 of the Act.

12.3 The terms of the Plan shall be binding upon the Company, its successors and assigns.

12.4 Neither a Stock Option nor any other type of equity-based compensation provided for hereunder shall be transferable except as provided for in Section 6.2. In addition to the transfer restrictions otherwise contained herein, additional transfer restrictions shall apply to the extent required by federal or state securities laws. If any Participant makes such a transfer in violation hereof, any obligation hereunder of the Company to such Participant shall terminate immediately.

12.5 This Plan and all actions taken hereunder shall be governed by the laws of the State of Texas.

12.6 Each Participant exercising an Award hereunder agrees to give the Board prompt written notice of any election made by such Participant under Section 83(b) of the Code, or any similar provision thereof.

12.7 If any provision of this Plan or an Award Agreement is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award Agreement under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board, materially altering the intent of the Plan or the Award Agreement, it shall be stricken, and the remainder of the Plan or the Award Agreement shall remain in full force and effect.

12.8 The grant of an Award pursuant to this Plan shall not affect in any way the right or power of the Company or any of its Affiliates to make adjustments, reclassification, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or to dissolve, liquidate or sell, or to transfer all or part of its business or assets.

12.9 The Plan is not subject to the provisions of ERISA or qualified under Section 401(a) of the Code.

12.10 If a Participant is required to pay to the Company an amount with respect to income and employment tax withholding obligations in connection with (i) the exercise of a Nonqualified Stock Option, (ii) certain dispositions of Common Stock acquired upon the exercise of an Incentive Stock Option, or (iii) the receipt of Common Stock pursuant to any other Award, then the issuance of Common Stock to such Participant shall not be made (or the transfer of shares by such Participant shall not be required to be effected, as applicable) unless such withholding tax or other withholding liabilities shall have been satisfied in a manner acceptable to the Company. To the extent provided by the terms of an Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under an Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock under the Award, provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (iii) delivering to the Company owned and unencumbered shares of Common Stock.

EXHIBIT 21.1

Subsidiaries

- Vertex Merger Sub, LLC, a California Limited Liability Company (wholly-owned)
- E-Source Holdings, LLC, a Texas Limited Liability Company (51% owned)
- Vertex Refining NV, LLC, a Nevada Limited Liability Company (wholly-owned)
- Vertex Refining LA, LLC, a Louisiana Limited Liability Company (wholly-owned)
- Vertex II, GP, LLC, a Nevada Limited Liability Company (wholly-owned)
- Vertex Acquisition Sub, LLC, a Nevada Limited Liability Company (‘Vertex Acquisition”)(wholly-owned)

  Wholly-owned subsidiaries of Vertex Acquisition:

  - Cedar Marine Terminals, L.P., a Texas limited partnership
  - Crossroad Carriers, L.P., a Texas limited partnership
  - Vertex Recovery L.P., a Texas limited partnership
  - H&H Oil, L.P., a Texas limited partnership

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Vertex Energy, Inc.

We consent to incorporation by reference in (a) Registration Statement No. 333-162290 (as amended) on Form S-8 of Vertex Energy, Inc. (the “Company”); (b) Registration Statement No. 333-193586 on Form S-8 of the Company; and (c) Registration Statement No. 333-189107 on Form S-3 of the Company, of our report dated March 24, 2014, relating to the consolidated financial statements of the Company appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2013.

/s/ LBB & Associates Ltd., LLP
LBB & Associates Ltd., LLP

Houston, Texas
March 24, 2014

EXHIBIT 31.1

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

I, Benjamin P. Cowart, certify that:

1. I have reviewed this Annual Report on Form 10-K 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2014

By: *<u>/s/ Benjamin P. Cowart</u>*
Benjamin P. Cowart
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

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

I, Chris Carlson, certify that:

1. I have reviewed this Annual Report on Form 10-K 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2014

By: */s/ Chris Carlson*
Chris Carlson
Chief Financial Officer
(Principal 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 Annual Report of Vertex Energy, Inc. (the "Company") on Form 10-K for the period ended December 31, 2013, 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: March 25, 2014

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 Annual Report of Vertex Energy, Inc. (the "Company") on Form 10-K for the period ended December 31, 2013, 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: March 25, 2014

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