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Creating Feedstock for other Re-Refineries and Fuel Blenders from used Motor Oil With their Proprietary Thermal Chemical Extraction Process ("TCEP")

Clean Technology

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Benjamin P. Cowart
Chairman and CEO

BIO: Benjamin P. Cowart is the Chief Executive Officer and Chairman of the Board of Vertex Energy, Inc., and has been involved in the petroleum recycling industry for nearly 27 years. Mr. Cowart is the founder of the Vertex group of companies and has served such companies since 2001. As a leader in this field, Mr. Cowart helped pioneer the reclamation industry by developing recycling options for many residual materials once managed as a hazardous waste.

In 2003, Mr. Cowart was awarded the Business Man of the Year Award from

The National Republican Congressional Committee, and served on the National Oil Recyclers Association Board of Directors and as its President in 2008. Mr. Cowart has taken an active role in the petroleum industry with his involvement in speaking, consulting, chairing, and serving on various committees and industry associations. Mr. Cowart is a graduate of Harvard Business School's Advanced Management Program.

About Vertex Energy Inc. (NASDAQ: VTNR)

Vertex Energy, Inc. is a leading environmental services company that recycles industrial waste streams and off-specification commercial chemical products. Its primary focus is recycling used motor oil and other petroleum by-product streams. Vertex Energy purchases these streams from an established network of local and regional collectors and generators. The company also manages the transport, storage and delivery of the aggregated feedstock and product streams to end users, and manages the re-refining of a portion of its aggregated petroleum streams in order to sell them as higher-value end products. Vertex Energy sells its aggregated petroleum streams as feedstock to other re-refineries and fuel blenders or as replacement fuel for use in industrial burners. The re-refining of used motor oil that Vertex Energy manages takes place at a facility operated by a related party that uses a proprietary Thermal Chemical Extraction Process ("TCEP") technology. Based in Houston, Texas, Vertex Energy also has offices in Georgia and California.

Interview conducted by: Lynn Fosse, Senior Editor CEOFCO Magazine

CEOFCO: Mr. Cowart, it has been over a year since we have spoken with you about Vertex. What have been the biggest changes over that time?

Mr. Cowart: The biggest change is the progress we have made in growing the business and expanding both in territory and volume as well as in our overall profitability of the company. We have completed one key merger with some companies that we have held privately that are now merged into the public company, giving us a bigger growth platform, and we have been very successful in building on that merger so far this year.

CEOFCO: What is the focus at Vertex?

Mr. Cowart: We are a hydrocarbon recovery company, so we are primarily producing alternative fuels from petroleum residual materials, some of which are even regulated as waste. We take these materials that are distressed and process them; in most cases we use our proprietary two-step process which converts these residual materials into high-value commodity products that replace the virgin petroleum that is consumed in the US.

CEOFCO: Alternative energy may have somewhat of a less than stellar reputation these days overall. What makes the Vertex program so good?

Mr. Cowart: That is a good question. I would like to say this is a new and innovative business model but I have been recycling petroleum waste for 27 years -- long before it became a cool

business to be in -- so it has always been there. Much of the stigma around alternative energy comes from many new innovations and new ideas that maybe did not make it off the ground. We look at our business as alternative fuel, which is the same way we looked at it 27 years ago.

For instance, motor oil that has been used in an automobile for lubrication now is being removed from the automobile because it has been contaminated. We take that material which has been processed historically at a low level and used in low-cost BTU for industrial manufacturing facilities. Today natural gas has come in to most of those domestic industrial BTU markets and replaced recycled fuel, so we are actually looking at this material as a feedstock for technology that can upgrade the oil to a much higher value than it has ever been used for in the past. That is where our company comes into play.

In 2009 we pioneered and developed a proprietary refining technology for this used oil that converts it by removing all the impurities from the oil. We then take the clean oil and supplement it in place of number-two diesel fuel when residual fuels are being manufactured mainly for export use. These residual fuels are heavy black oils that come from the refinery that had to be blended for viscosity, gravity and sulphur and then sold to the residual fuel market. Our product that has been recovered from used motor oil is now a replacement for that diesel fuel and we call it a cutter stock, which is the technical term.

CEO CFO: What is the differentiator about TCEP and what makes this process better, faster and cheaper?

Mr. Cowart: We have a much lower capital cost to build our technology, so that is good compared to other used oil refining technologies. We have a very high yield of finished product, so we produce on a hydrocarbon molecule basis about 97% to

98% finished product from the raw material. Most other technologies produce much lower yield of high-value finished product so that is the big benefit. We have a very low operating cost, so our operating cost is probably half of what these other technologies run. In some cases, in fairness to other technologies, they produce a lubricating base stock which gives higher values than our diesel replacement product. When you add it all up and look at the yield, operating cost and capital efficiency of our technology, we believe it is the most competitive form of processing used in the market. We have enjoyed strong growth on the back of our technology and we are looking to expand that on an ongoing basis.

"Our company is proven. We have been in business fourteen years and we have been public now for almost five years. We just up-listed in February to the NASDAQ market, so we have proven ourselves at an OTC Bulletin Board level and not many companies have navigated from the bottom of the BB, out of the BB and onto NASDAQ. I think from a fiduciary standpoint we have proven to be able and capable of managing a company in the public markets. I think our track record of growth in revenue, gross profit, EBITDA, net income and volume demonstrates that we are a growth company."- Benjamin P. Cowart

CEO CFO: What is it about your process that allows it to be more efficient?

Mr. Cowart: The other technologies that we look at or compete with are using hot temperature distillation to recover the clean product, so it is actually heating the raw material up at high temperature to fractionate the clean product overhead. Obviously it still leaves much of the good product behind in a dirty bottom that has all the impurities in it. That is what the other technologies do. Our technology is unique because we extract the impurities from the bottom of the process so we are not going up to high temperatures. If you looked at our carbon footprint and our environmental cost to process this oil, it's much less because we have low tempera-

ture and then we use a chemical extraction that bonds with the impurities and pulls it out the bottom of the process leaving clean hydrocarbon behind for recovery.

CEO CFO: Where are you getting the fuel from?

Mr. Cowart: The used motor oil is gathered all over the US. We have aggregation in California, Alabama and Texas. We aggregate in the Midwest and Columbus Ohio. We reach into all the markets from the East Coast and from Iowa all the way to Nevada and the Rockies. We have a fleet of rail cars that go out to markets and collection companies that collect the oil from that geographic area and put their oil onto our rail cars. We will

then ship it to one of these distribution hubs where the oil gets aggregated in large volumes and then, in most cases, we will barge that material to our facility for processing. In some cases we actually sell the material as-is right into the export market, depending on the supply and demand for export.

CEO CFO: What is the key to the logistics of having this all run smoothly?

Mr. Cowart: I believe that is a real foundation for our company. We have been moving these oils around the country now for fourteen years so it is a well-oiled system. We have scheduling professionals at our corporate office who are scheduling all the deliveries into each facility and scheduling the rail cars from point-to-point. Our supply team is led by John Strickland. He has 27 years of logistics experience, so he deals with the railroads and he understands the proper routing of these cars in order to maximize how to keep the transportation cost down. There is a ton that is involved in moving this material. It is detailed work and our team is very good at what they do.

CEO CFO: Do the people who are selling the oil initially care who buys it or is it strictly that you are able to give them a better price?

Mr. Cowart: It is a commodity at the level that we are buying the oil. Price is a main driver in the decision. There are other factors that I think these collection companies look at. One is reliability; they want to make sure that the market they are selling the product to is reliable. We have passed that test and have very good credentials in the industry as a company that has been there for fourteen years and has consistently held up our obligations and delivered on our commitments. There are many companies out there that may not have that high standard, so these collection companies are very concerned about those issues. The second thing is ratability. These companies do not have much infrastructure and they have to collect the oil off the street, so if they need to go to market, they do not have a place to store much of the oil. Having someone who needs the oil on a 24/7 basis, that is always buying the product, is very good for cash flow for each of these small companies. It is still a local business that has now moved to a regional platform but there are not many companies that operate regionally like Vertex and can be a market for all these small companies, and that is part of the value proposition we offer the industry.

CEO CFO: Do you see new facilities in the future?

Mr. Cowart: Yes, we continue to expand our volume. We have operated in the last three years with 20% or better on average volume growth across the company. We are developing new markets to expand our aggregate supply and grow our volumes in those markets. Our third quarter will represent another strong growth period year over year, so we are constantly growing and looking to build those volumes at the locations we are in, as well as additional locations in the future.

CEO CFO: Is there a consolidation of collectors and acquirers in general?

Mr. Cowart: Yes, I think there is a settling that is starting to take place in the industry. I would say there has not been much rollup activity in the last two or three years. The market has broken up some, but now I believe the

market is coming back together and there is a consolidation opportunity underway. We should start to see that over the next two to three years. Part of our strategy in our company, and the reason we did this merger in September last year, was that we wanted to access what I call this lower tier collection market. We buy the majority of oil from that lower tier as part of the company's business strategy but in our acquisition in September, we acquired our own collection operation in Texas. Now, we have our own trucks that service the car dealers, the lube shops and industrial facilities. We are growing that layer of our model. Our collection footprint today operates in six major metropolitan markets in Texas, but we do see expansion of that very strategically in the region of our refining asset. So, in some way, we are pursuing a rollup strategy of collectors for our company.

CEO CFO: What if any challenges are you on the lookout for?

Mr. Cowart: The biggest challenge is understanding the new model of business for our industry. Because, natural gas has disrupted the whole landscape and this oil is now having to be looked at as a feedstock and it is has to be shipped in large volumes across different regions. It is no longer a local business where you collect it locally and sell it as a fuel to an industrial plant on a local basis. The model for everyone has changed and Vertex is one of the few companies that has created this market for all these small collectors to sell into. One of the problems this industry has is that there seems to be difficulty in managing the pay-for-oil spread from what the collector is paying the car dealer or the lube shop versus what we are able to pay them for the oil. As car prices change daily, the collector is having a difficult time going back and changing the price at a street level with all their generators. That is putting many of these small collection companies in distress because the new model is a challenge for them where they no longer have control over the pricing of the finished product. The commodity markets are now dictating what the value of the product is. They used to

be able to collect it at a price and sell it to their own customers for fuel, and they could raise it or lower it on that side and that small collector had a lot more control. Today, the sales side of their product is out of their control and they are having a hard time making adjustments at the street level. They do not know where the prices are going and that is one of the challenges.

CEO CFO: Why should the business and investment community pay attention to Vertex Energy?

Mr. Cowart: Our company is proven. We have been in business fourteen years and we have been public now for almost five years. We just up-listed in February to the NASDAQ market, so we have proven ourselves at an OTC Bulletin Board level and not many companies have navigated from the bottom of the BB, out of the BB and onto NASDAQ. I think from a fiduciary standpoint we have proven to be able and capable of managing a company in the public markets. I think our track record of growth in revenue, gross profit, EBITDA, net income and volume demonstrates that we are a growth company. We have four years of operating history where we have been able to grow and develop the business.

As a strong second, we have also developed inside our company proprietary processing technology that has proven to add tremendous value to the organization, and we have been able to do that with our own internal engineering and expertise. That creates additional value. The technology is held by several patents, which gives us a competitive advantage. I think most of all, we have a very seasoned and talented team that operates across the country. We are connected with all the key companies and people that are in this industry and we are active in the industry, putting things together that makes sense for both our companies and our counterparts that we are working with. We continue to put our roots deep in our space and prove ourselves on a quarter by quarter basis.

CEO CFO: Final thoughts?

Mr. Cowart: Vertex Energy is just

getting started. We see tremendous opportunity in our business. We are not confined strictly to used motor oil. We also have an off-spec commercial chemical product recovery business that focuses on other residual materials that are not waste but have the same challenges that need refining. We have a business in Port Arthur where we refine those products and produce other finished products like

gasoline, cutter stock, and in technical terms, a product call "Pygas". We are more of a hydrocarbon recovery company, and that gives us a larger addressable market. We are focused on multiple hydrocarbon streams where we can apply our core competency and expertise. That is going to be very interesting as we move forward. We believe our people, our processing capability, our knowledge

of multiple streams and our access to many streams primarily in the gulf region -- where the chemical and refining industry lies -- will give us long term growth opportunities. We are moving ahead and, as these quarters roll out, I believe people will see that we understand our business and we know how to make money even as we grow the business. I think that should be very interesting to the investor.



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