

CLEAN HARBORS INC
Form 10-Q
August 07, 2014
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UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014
OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 001-34223

CLEAN HARBORS, INC.

(Exact name of registrant as specified in its charter)

Massachusetts

04-2997780

(State or Other Jurisdiction of Incorporation or
Organization)

(IRS Employer Identification No.)

42 Longwater Drive, Norwell, MA

02061-9149

(Address of Principal Executive Offices)

(Zip Code)

(781) 792-5000

(Registrant's Telephone Number, Including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$.01 par value (Class)	60,640,103 (Outstanding as of August 4, 2014)
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CLEAN HARBORS, INC.

QUARTERLY REPORT ON FORM 10-Q

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CLEAN HARBORS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$278,644	\$310,073
Marketable securities	—	12,435
Accounts receivable, net of allowances aggregating \$21,446 and \$18,106, respectively	575,187	579,394
Unbilled accounts receivable	35,529	26,568
Deferred costs	17,909	16,134
Inventories and supplies	161,792	152,096
Prepaid expenses and other current assets	48,991	41,962
Deferred tax assets	32,239	32,517
Total current assets	1,150,291	1,171,179
Property, plant and equipment, net	1,611,298	1,602,170
Other assets:		
Deferred financing costs	19,284	20,860
Goodwill	578,974	570,960
Permits and other intangibles, net	553,658	569,973
Other	18,938	18,536
Total other assets	1,170,854	1,180,329
Total assets	\$3,932,443	\$3,953,678
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	\$709	\$1,329
Accounts payable	262,553	316,462
Deferred revenue	61,593	55,454
Accrued expenses	245,368	236,829
Current portion of closure, post-closure and remedial liabilities	36,043	29,471
Total current liabilities	606,266	639,545
Other liabilities:		
Closure and post-closure liabilities, less current portion of \$6,252 and \$5,884, respectively	43,630	41,201
Remedial liabilities, less current portion of \$29,791 and \$23,587, respectively	138,036	148,911
Long-term obligations	1,395,000	1,400,000
Capital lease obligations, less current portion	827	1,435
Deferred taxes, unrecognized tax benefits and other long-term liabilities	249,968	246,947
Total other liabilities	1,827,461	1,838,494
Stockholders' equity:		
Common stock, \$.01 par value:		

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Authorized 80,000,000; shares issued and outstanding 60,579,425 and 60,672,180 shares, respectively	606	607
Shares held under employee participation plan	(469	) (469)
Additional paid-in capital	889,080	898,165
Accumulated other comprehensive loss	(25,025	) (19,556)
Accumulated earnings	634,524	596,892
Total stockholders' equity	1,498,716	1,475,639
Total liabilities and stockholders' equity	\$3,932,443	\$3,953,678

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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CLEAN HARBORS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenues:				
Service revenues	\$665,275	\$673,872	\$1,325,370	\$1,346,494
Product revenues	193,205	186,656	379,777	376,197
Total revenues	858,480	860,528	1,705,147	1,722,691
Cost of revenues (exclusive of items shown separately below)				
Service revenues	445,757	455,603	912,556	923,975
Product revenues	161,193	158,723	320,113	326,375
Total cost of revenues	606,950	614,326	1,232,669	1,250,350
Selling, general and administrative expenses	115,731	122,612	234,693	251,082
Accretion of environmental liabilities	2,609	2,879	5,333	5,714
Depreciation and amortization	66,075	67,468	135,431	127,474
Income from operations	67,115	53,243	97,021	88,071
Other (expense) income	(655	) 1,655	3,523	2,180
Interest expense, net of interest income of \$211, \$155, \$416 and \$266, respectively	(19,382	) (19,585	) (38,936	) (39,458
Income before provision for income taxes	47,078	35,313	61,608	50,793
Provision for income taxes	18,406	12,411	23,976	17,389
Net income	\$28,672	\$22,902	\$37,632	\$33,404
Earnings per share:				
Basic	\$0.47	\$0.38	\$0.62	\$0.55
Diluted	\$0.47	\$0.38	\$0.62	\$0.55
Shares used to compute earnings per share - Basic	60,665	60,550	60,695	60,507
Shares used to compute earnings per share - Diluted	60,778	60,687	60,822	60,658

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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CLEAN HARBORS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2014	2013	2014	2013	
Net income	\$28,672	\$22,902	\$37,632	\$33,404	
Other comprehensive income (loss):					
Unrealized (losses) gains on available-for-sale securities (net of taxes of \$11, \$22, \$141 and \$92 respectively)	(61	) (166	) 799	(715)
Reclassification adjustment for gains on available-for-sale securities included in net income (net of taxes of \$8, \$0, \$504 and \$0 respectively)	(45	) —	(2,857) —	
Foreign currency translation adjustments	36,162	(35,340	) (3,411	) (58,652)
Other comprehensive income (loss)	36,056	(35,506	) (5,469	) (59,367)
Comprehensive income (loss)	\$64,728	\$(12,604	) \$32,163	\$(25,963)

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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CLEAN HARBORS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended	
	June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$37,632	\$33,404
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	135,431	127,474
Pre-tax, non-cash acquisition accounting inventory adjustments	—	13,559
Allowance for doubtful accounts	4,605	3,618
Amortization of deferred financing costs and debt discount	1,576	1,692
Accretion of environmental liabilities	5,333	5,714
Changes in environmental liability estimates	(1,429	) (393
Deferred income taxes	(1	) (8
Stock-based compensation	4,340	3,924
Excess tax benefit of stock-based compensation	(644	) (1,326
Income tax benefit related to stock option exercises	644	1,316
Other expense (income)	(3,523	) (2,180
Environmental expenditures	(7,443	) (9,793
Changes in assets and liabilities, net of acquisitions		
Accounts receivable	(689	) (20,783
Inventories and supplies	(9,556	) 1,128
Other current assets	(17,574	) 5,027
Accounts payable	(46,421	) (33,426
Other current and long-term liabilities	12,663	8,665
Net cash from operating activities	114,944	137,612
Cash flows from investing activities:		
Additions to property, plant and equipment	(138,186	) (141,466
Proceeds from sales of fixed assets	2,986	2,194
Proceeds from sales of marketable securities	12,947	—
Acquisitions, net of cash acquired	(6,150) —
Additions to intangible assets, including costs to obtain or renew permits	(2,891	) (2,169
Net cash used in investing activities	(131,294	) (141,441
Cash flows from financing activities:		
Change in uncashed checks	3,162	40,356
Proceeds from exercise of stock options	—	399
Remittance of shares, net	(2,215	) (169
Repurchases of common stock	(14,657) —
Proceeds from employee stock purchase plan	4,364	3,391
Deferred financing costs paid	—	(2,446
Repayment of long-term obligations	(5,000) —
Payments on capital leases	(1,190	) (2,588
Issuance costs related to 2012 issuance of common stock	—	(250
Excess tax benefit of stock-based compensation	644	1,326
Net cash from financing activities	(14,892) 40,019

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Effect of exchange rate change on cash	(187) (2,548)
(Decrease) increase in cash and cash equivalents	(31,429) 33,642	
Cash and cash equivalents, beginning of period	310,073	229,836	
Cash and cash equivalents, end of period	\$278,644	\$263,478	
Supplemental information:			
Cash payments for interest and income taxes:			
Interest paid	\$37,070	\$36,841	
Income taxes paid	14,304	7,275	
Non-cash investing and financing activities:			
Payable for repurchased shares	1,562	—	
Property, plant and equipment accrued	21,934	38,650	
Transfer of inventory to property, plant and equipment	—	11,369	

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CLEAN HARBORS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Common Stock		Shares Held		Accumulated		Accumulated Earnings	Total Stockholders' Equity
	Number of Shares	\$ 0.01 Par Value	Under Employee Participation Plan	Additional Paid-in Capital	Other Comprehensive Loss			
Balance at January 1, 2014	60,672	\$607	\$ (469)	\$898,165	\$ (19,556)	\$ 596,892	\$ 1,475,639	
Net income	—	—	—	—	—	37,632	37,632	
Other comprehensive loss	—	—	—	—	(5,469)	—	(5,469)	
Stock-based compensation	—	—	—	4,340	—	—	4,340	
Issuance of restricted shares, net of shares remitted	89	1	—	(2,216)	—	—	(2,215)	
Repurchases of common stock	(273)	(3)	—	(16,216)	—	—	(16,219)	
Net tax benefit on exercise of stock-based awards	—	—	—	644	—	—	644	
Employee stock purchase plan	91	1	—	4,363	—	—	4,364	
Balance at June 30, 2014	60,579	\$606	\$ (469)	\$889,080	\$ (25,025)	\$ 634,524	\$ 1,498,716	

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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CLEAN HARBORS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

The accompanying consolidated interim financial statements are unaudited and include the accounts of Clean Harbors, Inc. and its subsidiaries (collectively, "Clean Harbors," the "Company" or "we") and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and, in the opinion of management, include all adjustments which are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. Management has made estimates and assumptions affecting the amounts reported in the Company's consolidated interim financial statements and accompanying footnotes, actual results could differ from those estimates and judgments. The results for interim periods are not necessarily indicative of results for the entire year or any other interim periods. The financial statements presented herein should be read in connection with the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Reclassifications

During the second quarter of 2014, the Company made changes to the manner in which it manages its business, makes operating decisions and assesses performance. These changes included the reassignment of certain departments among its operating segments consistent with management reporting changes as well as the identification of Lodging Services as an additional segment. Under the new structure, the Company's operations are managed in six reportable segments: Technical Services, Industrial and Field Services, Oil Re-refining and Recycling, SK Environmental Services, Lodging Services and Oil and Gas Field Services. The prior year segment information has been recast to conform to the current year presentation. See Note 17, "Segment Reporting."

(2) SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2, "Significant Accounting Policies," in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. There have been no material changes in these policies or their application.

Recent Accounting Pronouncements

Standards implemented

On January 1, 2014, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standard Update ("ASU") 2013-11 Income Taxes (Topic 740) - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This standard provides guidance regarding when an unrecognized tax benefit should be classified as a reduction to a deferred tax asset or when it should be classified as a liability in the consolidated balance sheet. The adoption of ASU 2013-11 did not have an impact on the Company's consolidated balance sheets.

Standards to be implemented

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016.

In April 2014, FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360). The amendments in ASU 2014-08 provide guidance for the recognition and disclosure of discontinued operations. ASU 2014-08 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014.

The Company is currently evaluating the impact that the above standards to be implemented will have on the Company's consolidated financial statements.

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Evergreen

On September 13, 2013, the Company acquired 100% of the outstanding common shares of Evergreen Oil, Inc. (“Evergreen”) for a final purchase price of \$56.3 million in cash, net of cash acquired. Evergreen, headquartered in Irvine, California, specializes in the recovery and re-refining of used oil. Evergreen owns and operates one of the only oil re-refining operations in the western United States and also offers other ancillary environmental services, including parts cleaning and containerized waste services, vacuum services and hazardous waste management services. The acquisition of Evergreen enables the Company to further penetrate the small quantity waste generator market and further expand its oil re-refining, oil recycling and waste treatment capabilities. Financial information and results of Evergreen have been recorded in our consolidated financial statements since acquisition and are primarily included in the Oil Re-refining and Recycling segment.

Management determined the purchase price allocations based on estimates of the fair values of all tangible and intangible assets acquired and liabilities assumed. The Company believes that such information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed. As of June 30, 2014, the Company has finalized the purchase accounting for the acquisition of Evergreen, except for environmental liabilities and taxes. The impact of the purchase price measurement period adjustments and related tax impacts recorded in the current period was not material to the consolidated financial statements and accordingly, the effects have not been retrospectively applied.

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at September 13, 2013 (in thousands):

	At acquisition date as reported at December 31, 2013	Measurement Period Adjustments	At acquisition date as reported at June 30, 2014	
Inventories and supplies	\$1,089	\$—	\$1,089	
Prepaid and other current assets	1,291	(273	) 1,018
Property, plant and equipment	40,563	—	40,563	
Permits and other intangibles	17,100	—	17,100	
Deferred tax assets, less current portion	2,368	(2,368) —	
Other assets	3,607	(239	) 3,368
Current liabilities	(6,198) 218	(5,980)
Closure and post-closure liabilities	(659) —	(659)
Remedial liabilities, less current portion	(2,103) 463	(1,640)
Deferred taxes, unrecognized tax benefits and other long-term liabilities	(1,139) (920) (2,059)
Total identifiable net assets	55,919	(3,119	) 52,800
Goodwill	—	3,518	3,518	
Total	\$55,919	\$399	\$56,318	

2014 Acquisitions

On May 30, 2014 the Company acquired certain assets of a privately owned U.S. company which provides carbon treatment systems and rental remediation equipment for approximately \$6.2 million in cash. The purchase price is subject to customary post-closing adjustments based upon finalized working capital amounts. The acquired company has been integrated into the Technical Services segment.

(4) MARKETABLE SECURITIES

The Company classifies its marketable securities as available-for-sale and, accordingly, carries such securities at fair value based upon readily available quoted market prices of the securities. Unrealized gains and losses are reported, net of tax, as a component of other comprehensive income. On June 30, 2014 the Company did not hold any marketable securities. On December 31, 2013, marketable securities held by the Company were recorded at \$12.4 million.

Marketable securities were classified as Level 1 in the fair value hierarchy.

During the three and six months ended June 30, 2014 the Company sold marketable securities and recognized a gain of \$0.1 million and \$3.4 million, respectively, recorded as other income in the consolidated statement of income.

There were no realized gains or losses from the sale of marketable securities in the three and six months ended June 30, 2013.

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(5) INVENTORIES AND SUPPLIES

Inventories and supplies consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Oil and oil products	\$62,563	\$59,639
Supplies and drums	72,172	64,471
Solvent and solutions	9,639	10,100
Other	17,418	17,886
Total inventories and supplies	\$161,792	\$152,096

(6) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Land	\$100,194	\$99,794
Asset retirement costs (non-landfill)	10,936	10,938
Landfill assets	105,569	100,983
Buildings and improvements	333,930	