

CLEAN HARBORS INC
Form 10-Q
August 09, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

OR

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

FOR THE TRANSTION PERIOD FROM TO

Commission File Number 001-34223

CLEAN HARBORS, INC.

(Exact name of registrant as specified in its charter)

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Massachusetts
(State of Incorporation)

04-2997780
(IRS Employer Identification No.)

42 Longwater Drive, Norwell, MA
(Address of Principal Executive Offices)

02061-9149
(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 twelve 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 ☐
(Do not check if a smaller reporting company)

Smaller reporting company ☐

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)

26,317,521
(Outstanding at August 4, 2010)

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CLEAN HARBORS, INC.

QUARTERLY REPORT ON FORM 10-Q

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[Table of Contents](#)**CLEAN HARBORS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****ASSETS****(in thousands)**

	June 30, 2010 (unaudited)	December 31, 2009
Current assets:		
Cash and cash equivalents	\$ 295,300	\$ 233,546
Marketable securities	1,331	2,072
Accounts receivable, net of allowances aggregating \$17,194 and \$8,255, respectively	337,636	274,918
Unbilled accounts receivable	31,951	12,331
Deferred costs	6,844	5,192
Prepaid expenses and other current assets	18,708	18,348
Supplies inventories	40,962	41,417
Deferred tax assets	18,748	18,865
Assets held for sale		13,561
Total current assets	751,480	620,250
Property, plant and equipment:		
Land	29,255	29,294
Asset retirement costs (non-landfill)	2,229	1,853
Landfill assets	48,849	48,646
Buildings and improvements	141,874	141,685
Camp equipment	56,775	52,753
Vehicles	136,761	120,587
Equipment	495,484	492,831
Furniture and fixtures	1,705	1,695
Construction in progress	20,186	14,413
	933,118	903,757
Less accumulated depreciation and amortization	333,898	313,813
Total property, plant and equipment, net	599,220	589,944
Other assets:		
Long-term investments	5,315	6,503
Deferred financing costs	9,175	10,156
Goodwill	56,997	56,085
Permits and other intangibles, net of accumulated amortization of \$54,009 and \$48,981, respectively	113,737	114,188
Other	8,304	3,942
Total other assets	193,528	190,874
Total assets	\$ 1,544,228	\$ 1,401,068

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

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (Continued)****LIABILITIES AND STOCKHOLDERS' EQUITY**

(in thousands)

	June 30, 2010 (unaudited)	December 31, 2009
Current liabilities:		
Current portion of capital lease obligations	\$ 5,136	\$ 1,923
Accounts payable	145,672	97,923
Deferred revenue	28,090	21,156
Accrued expenses	120,644	90,707
Current portion of closure, post-closure and remedial liabilities	21,308	18,412
Liabilities held for sale		3,199
Total current liabilities	320,850	233,320
Other liabilities:		
Closure and post-closure liabilities, less current portion of \$9,069 and \$7,305, respectively	27,923	28,505
Remedial liabilities, less current portion of \$12,239 and \$11,107, respectively	128,893	134,379
Long-term obligations	292,874	292,433
Capital lease obligations, less current portion	11,274	6,915
Unrecognized tax benefits and other long-term liabilities	82,250	91,691
Total other liabilities	543,214	553,923
Stockholders' equity:		
Common stock, \$.01 par value:		
Authorized 40,000,000 shares; issued and outstanding 26,306,089 and 26,230,803 shares, respectively	263	262
Treasury stock	(2,181)	(2,068)
Shares held under employee participation plan	(1,150)	(1,150)
Additional paid-in capital	482,377	476,067
Accumulated other comprehensive income	18,611	26,829
Accumulated earnings	182,244	113,885
Total stockholders' equity	680,164	613,825
Total liabilities and stockholders' equity	\$ 1,544,228	\$ 1,401,068

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

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	\$ 471,639	\$ 215,337	\$ 826,535	\$ 421,643
Cost of revenues (exclusive of items shown separately below)	324,280	146,254	584,697	289,767
Selling, general and administrative expenses	50,729	37,778	96,213	75,147
Accretion of environmental liabilities	2,602	2,634	5,304	5,284
Depreciation and amortization	22,105	12,241	44,779	24,302
Income from operations	71,923	16,430	95,542	27,143
Other income	2,708	11	3,154	44
Interest expense, net of interest income of \$165 and \$267 for the quarter and year-to-date ending 2010 and \$233 and \$623 for the quarter and year-to-date ending 2009, respectively	(7,646)	(1,609)	(14,574)	(2,989)
Income from continuing operations, before provision for income taxes	66,985	14,832	84,122	24,198
Provision for income taxes	11,468	6,208	18,557	10,619
Income from continuing operations	55,517	8,624	65,565	13,579
Income from discontinued operations, net of tax	2,412		2,794	
Net income	\$ 57,929	\$ 8,624	\$ 68,359	\$ 13,579
Earnings per share:				
Basic	\$ 2.20	\$ 0.36	\$ 2.60	\$ 0.57
Diluted	\$ 2.19	\$ 0.36	\$ 2.59	\$ 0.57
Weighted average common shares outstanding	26,291	23,777	26,271	23,763
Weighted average common shares outstanding plus potentially dilutive common shares	26,425	23,889	26,398	23,876

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,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 68,359	\$ 13,579
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	44,779	24,302
Allowance for doubtful accounts	833	669
Amortization of deferred financing costs and debt discount	1,475	790
Accretion of environmental liabilities	5,304	5,284
Changes in environmental liability estimates	(3,893)	(635)
Deferred income taxes	388	(390)
Stock-based compensation	3,107	(376)
Excess tax benefit of stock-based compensation	(782)	(65)
Income tax benefit related to stock option exercises	777	59
Gains on sales of businesses	(2,678)	
Other income	(3,154)	(44)
Environmental expenditures	(4,717)	(4,077)
Changes in assets and liabilities, net of acquisitions		
Accounts receivable	(61,294)	28,109
Other current assets	(20,868)	4,487
Accounts payable	48,411	(8,635)
Other current liabilities	21,270	(14,000)
Net cash from operating activities	97,317	49,057
Cash flows from investing activities:		
Additions to property, plant and equipment	(35,490)	(33,910)
Acquisitions, net of cash acquired	(13,751)	(6,501)
Costs to obtain or renew permits	(2,192)	(741)
Proceeds from sale of marketable securities	2,575	
Proceeds from sales of fixed assets and assets held for sale	15,594	138
Proceeds from insurance settlement	1,336	
Proceeds from sale of long-term investments	1,300	
Net cash used in investing activities	(30,628)	(41,014)
Cash flows from financing activities:		
Change in uncashed checks	(3,600)	(2,761)
Proceeds from exercise of stock options	318	137
Remittance of shares, net	(113)	(240)
Proceeds from employee stock purchase plan	1,187	1,257
Deferred financing costs paid	(53)	(35)
Payments on capital leases	(1,752)	(329)
Payment on acquired debt		(2,499)
Distribution of cash earned on employee participation plan	(148)	
Excess tax benefit of stock-based compensation	782	65

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Net cash used in financing activities	(3,379)	(4,405)
Effect of exchange rate change on cash	(1,556)	2,245
Increase in cash and cash equivalents	61,754	5,883
Cash and cash equivalents, beginning of period	233,546	249,524
Cash and cash equivalents, end of period	\$ 295,300	\$ 255,407

Supplemental information:

Cash payments for interest and income taxes:

Interest paid	\$ 13,572	\$ 2,973
Income taxes paid	10,845	4,909
Non-cash investing and financing activities:		
Property, plant and equipment accrued	\$ 4,738	4,762
New capital lease additions	9,418	
Issuance of common stock, net	1,015	

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

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(in thousands)

	Common Stock Number of Shares	\$ 0.01 Par Value	Treasury Stock	Shares Held Under Employee Participation Plan	Additional Paid-in Capital	Comprehensive Income	Accumulated Other Comprehensive Income	Accumulated Earnings	Total Stockholders Equity
Balance at January 1, 2010	26,231	\$ 262	\$ (2,068)	\$ (1,150)	\$ 476,067		\$ 26,829	\$ 113,885	\$ 613,825
Net income						\$ 68,359		68,359	68,359
Change in fair value of available for sale securities, net of taxes						(273)	(273)		(273)
Foreign currency translation						(7,945)	(7,945)		(7,945)
Comprehensive income						\$ 60,141			
Stock-based compensation	8				3,014				3,014
Issuance of restricted shares, net of shares remitted	(2)		(113)						(113)
Exercise of stock options	28	1			317				318
Issuance of common stock, net of issuance costs	16				1,015				1,015
Net tax benefit on exercise of stock options					777				777
Employee stock purchase plan	25				1,187				1,187
Balance at June 30, 2010	26,306	\$ 263	\$ (2,181)	\$ (1,150)	\$ 482,377		\$ 18,611	\$ 182,244	\$ 680,164

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 include the accounts of Clean Harbors, Inc. and its subsidiaries (collectively, "Clean Harbors" or the "Company") 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, except as described elsewhere herein, 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. The results for interim periods are not necessarily indicative of results for the entire year. 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, 2009.

In connection with the July 2009 acquisition of Eveready Inc. ("Eveready"), the Company re-aligned and expanded its reportable operating segments. Under the new structure, the Company's operations are managed in four segments: Technical Services, Field Services, Industrial Services and Exploration Services. During the quarter ended March 31, 2010, the Company made further changes to the composition of its reportable segments. These changes consisted primarily of re-assigning certain departments from the Field Services segment to the Industrial Services segment to align with management reporting changes. The Company has recast the segment information for the three- and six-month periods ended June 30, 2009 to conform to the current year presentation. See Note 15, "Segment Reporting."

In preparing the accompanying unaudited consolidated financial statements, the Company has reviewed, as determined necessary by the Company's management, events that have occurred after June 30, 2010, until the issuance of the financial statements.

(2) SIGNIFICANT ACCOUNTING POLICIES

Concentration of Credit Risk

As a result of the work performed in responding to the Gulf oil spill, as of June 30, 2010, one customer represented greater than 10% of accounts receivable, net of allowances at 13%. At December 31, 2009, no customer represented more than 10% of accounts receivable, net. One customer individually accounted for greater than 10% of net revenues for the three months ended June 30, 2010, at 14%. No single customer accounted for greater than 10% of net revenues for the six months ended June 30, 2010. For the three-and-six month periods ended June 30, 2009, no customers accounted for greater than 10% of net revenues.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board and are adopted by the Company as of the specified effective dates. Unless otherwise discussed, management believes that the impact of recently issued accounting pronouncements will not have a material impact on the Company's financial position, results of operations and cash flows, or do not apply to the Company's operations.

(3) BUSINESS COMBINATIONS

Eveready

On July 31, 2009, the Company acquired 100% of the outstanding common shares of Eveready, an Alberta corporation headquartered in Edmonton, Alberta. Eveready provides industrial maintenance and production, lodging, and exploration services to the oil and gas, chemical, pulp and paper, manufacturing and power generation industries.

During the three months ended June 30, 2010, the Company finalized the purchase accounting for the acquisition of Eveready. The following table summarizes the recognized amounts of identifiable assets acquired and liabilities assumed at July 31, 2009 (in thousands).

	July 31, 2009 (As reported at December 31, 2009)	Measurement Period Adjustments	July 31, 2009 (As adjusted)
Current assets(i)(ii)	\$ 118,034		