

Heritage-Crystal Clean, Inc.  
Form 10-K  
March 16, 2016

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

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the fiscal year ended January 2, 2016  
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 001-33987

HERITAGE-CRYSTAL CLEAN, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
State or other jurisdiction of  
Incorporation

26-0351454  
(I.R.S. Employer  
Identification No.)

2175 Point Boulevard  
Suite 375  
Elgin, IL 60123  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (847) 836-5670

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of Class	Name of each exchange on which registered
Common Stock, \$0.01 par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

None

Edgar Filing: Heritage-Crystal Clean, Inc. - Form 10-K

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

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

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

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

Indicate by check mark 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, an accelerated filer, or a non-accelerated filer. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

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

On June 19, 2015 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the common stock of the registrant held by non-affiliates of the registrant was approximately \$200.4 million, based on the closing price of such common stock as of that date on the NASDAQ Global Select Market.

On March 14, 2016, there were outstanding 22,317,066 shares of Common Stock, \$0.01 par value, of Heritage-Crystal Clean, Inc.

Table of Contents

PART I

<u>ITEM 1. BUSINESS</u>	<u>4</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>16</u>
<u>ITEM 1B. UNRESOLVED STAFF COMMENTS</u>	<u>30</u>
<u>ITEM 2. PROPERTIES</u>	<u>30</u>
<u>ITEM 3. LEGAL PROCEEDINGS</u>	<u>31</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>32</u>

PART II

<u>ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	<u>33</u>
<u>ITEM 6. SELECTED FINANCIAL DATA</u>	<u>34</u>
<u>ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>36</u>
<u>ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>49</u>
<u>ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	<u>50</u>
<u>ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	<u>77</u>
<u>ITEM 9 A. CONTROL AND PROCEDURES</u>	<u>77</u>
<u>ITEM 9 B. OTHER INFORMATION</u>	<u>78</u>

PART III

<u>ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	<u>78</u>
<u>ITEM 11. EXECUTIVE COMPENSATION</u>	<u>78</u>
<u>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	<u>79</u>
<u>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE</u>	<u>79</u>
<u>ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	<u>79</u>

PART IV

<u>ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	<u>79</u>
<u>SIGNATURES</u>	<u>81</u>

## Disclosure Regarding Forward-Looking Statements

In addition to historical information, this annual report contains forward-looking statements that are based on current management expectations and that involve substantial risks and uncertainties, which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as “aim,” “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “should,” “will be,” “will continue,” “would,” and other words and terms of similar meaning in conjunction with a discussion of future or estimated operating or financial performance. You should read statements that contain these words carefully, because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other “forward-looking” information.

The factors listed under “Risk Factors,” as well as any cautionary language in this annual report, provide examples of risks, uncertainties, and events that may cause our actual results to differ materially from the expectations or estimates we describe in our forward-looking statements. Although we believe that our expectations are based on reasonable assumptions, actual results may differ materially from those in the forward-looking statements as a result of various factors, including, but not limited to, those described under the heading “Risk Factors” and elsewhere in this annual report.

Forward-looking statements speak only as of the date of this annual report. We do not have any intention, and do not undertake, to update any forward-looking statements. As a result of these risks and uncertainties, readers are cautioned not to place undue reliance on the forward-looking statements included in this annual report or that may be made elsewhere from time to time by, or on behalf of, us. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

## PART I

### ITEM 1. BUSINESS

#### Overview

Heritage-Crystal Clean, Inc. (herein collectively referred to as “we,” “us,” “our,” “HCCI,” or “the Company”) provides full-service parts cleaning, containerized waste management, used oil collection, vacuum truck services, antifreeze recycling, and owns and operates a used oil re-refinery. We believe that we are the second largest provider of parts cleaning and hazardous and non-hazardous waste services to small and mid-sized customers in both the manufacturing and vehicle maintenance sectors in North America, and we are the second largest used oil re-refiner by capacity in North America. We operate our business through our Environmental Services and Oil Business segments.

On October 16, 2014, we acquired the outstanding stock of FCC Environmental LLC and International Petroleum Corp. of Delaware (together, “FCC Environmental” or “FCCE”) from Dédalo Patrimonial S.L.U. for \$88.8 million in cash, subject to customary post-closing adjustments (the “Acquisition” or the “FCC Environmental Acquisition”). In 2013, FCC Environmental was a significant collector of used oil by volume in the United States and offered oily water disposal and treatment, parts cleaning, vacuum services, antifreeze recycling, oil filter recycling, on-site cleaning, and waste management services in the Southern and Eastern United States.

#### Environmental Services Segment

Our Environmental Services segment consists of our parts cleaning, containerized waste management, vacuum truck, antifreeze, and field services. These services allow our customers to outsource their handling and disposal of parts

cleaning solvents as well as other hazardous and non-hazardous waste. Many of these substances are subject to extensive and complex regulations, and mismanagement can result in citations, penalties, and substantial direct costs both to the service provider and also to the generator. We allow our customers to focus more on their core business and devote fewer resources to industrial and hazardous waste management and its related administrative burdens.

We have adopted innovative approaches in our Environmental Services segment to minimize the regulatory burdens for our customers and have made “ease of use” of our services and products a priority. Our company has pioneered two different programs whereby our customers' used solvent may be excluded from the U.S. Environmental Protection Agency's ("EPA") definition of hazardous waste. These two programs not only simplify the management of used solvent generated by our customers, but also reduce the total volume of hazardous waste generated at many of our customers' locations. This can allow

the customer to achieve a lower “generator status” with the EPA and thereby reduce their overall regulatory burden, including reduced reporting obligations and inspections.

Our focus on providing ease of use for our customers is also part of our containerized waste management, vacuum services, antifreeze services, and field services offerings. As part of our containerized waste and vacuum service programs, we assist our customers in identifying and characterizing their regulated wastes as well as providing the proper labeling and shipping documentation for their regulated materials. Our antifreeze recycling services offer our customers a fully-compliant method to safely manage their used antifreeze while providing a high quality, environmentally friendly, remanufactured product. Similarly, our field services allow our customers to focus on their core business activities while we manage non-core activities such as tank cleanings and spill clean-up.

### Oil Business Segment

The Oil Business segment consists of used oil collection activities, sale of recycled fuel oil, and re-refining activities. Through our re-refining process, we recycle used oil into high quality lubricant base oil and by-products, and we are a supplier to firms that produce and market finished lubricants. We operate a used oil re-refinery with an annual nameplate capacity of 75 million gallons, which was achieved at the end of fiscal 2015, up from 65 million gallons as previously disclosed. We are currently feeding the re-refinery with a combination of used oil collected from our customers and used oil that we purchase from third parties.

### Industry

We operate within markets for industrial and hazardous waste services in the U.S. and parts of Canada. Specifically, we focus on the parts cleaning, containerized waste management, used oil collection and re-refining, vacuum truck services, antifreeze recycling, and field services areas of the industrial and hazardous waste services markets for small to mid-sized establishments. These establishments have a need to remove grease and dirt from machine and engine parts and include businesses involved in vehicle maintenance operations, such as car dealerships, automotive repair shops, and trucking firms, as well as small manufacturers, such as metal product fabricators and printers. These businesses also generate waste materials such as used oil, waste paint, or antifreeze that generally cannot be legally discarded as municipal trash or poured down a standard drain.

### Environmental Services Segment

Parts cleaning machines and solvent are used by mechanics in industrial plants and automotive technicians in garages to clean dirty machine parts. Through use, the solvent becomes contaminated with oil and sediment and must be replaced regularly. This replacement of solvent is subject to environmental regulations prohibiting disposal with municipal trash or by pouring down the drain. Vehicle maintenance facilities as well as small to medium sized manufacturers generate other regulated materials which cannot be legally disposed of in the municipal trash or poured down the drain, such as used oil, waste paint, antifreeze, used oil filters, discarded fluorescent light tubes, spent batteries, etc. Because the management of these wastes is subject to changing regulatory requirements, most businesses need specialized knowledge to prepare required paperwork, maintain records, and ensure compliance with environmental laws. Large businesses, which generate substantial volumes of industrial and hazardous wastes, may find it more efficient to employ highly trained employees to manage this waste. Small and mid-sized businesses that generate lesser quantities of waste often cannot justify such personnel investments and typically prefer to outsource these services to providers that can assist them in their disposal of used solvent and other wastes subject to environmental regulations.

## Oil Business Segment

Through our used oil collection services, we compete in the used oil collection market. Automotive shops generate used oil as a result of performing oil changes on passenger cars and trucks. Industrial plants also generate used oil, often as a result of changing lubricants used in heavy machinery. Environmental regulations prohibit the disposal of used oil into sewers or landfills, so most commercial generators arrange to have their used oil picked up periodically by a used oil collector.

Since fiscal 2012, we have produced and sold lubricating base oil from our re-refinery. Most lubricating base oil is produced at refineries that process crude oil, and lubricating base oil is just one of the many products of the refining process along with gasoline, diesel fuel, jet fuel, asphalt, and other hydrocarbon products. Major refining companies such as Chevron, ExxonMobil, and Shell produce a significant share of the total U.S. base oil output. They use some of this material in producing their own branded lubricant products and also sell base oil to other firms that focus on the blending and packaging of

lubricants. Historically, base oil has been sold for prices based on the market price of the crude oil feedstock plus a premium. However, the level of supply and demand for base oil can also affect the market price.

As of January 2, 2016, we operate 13 oil processing operations. Certain locations remove excess water from the used oil and separate oil from oily water mixtures using thermal treatment, gravity separation, and mechanical filtration. The finished product from this process is called Recycled Fuel Oil ("RFO"). The RFO we produce is sold to industrial burners and used oil processors, such as Vacuum Gas Oil ("VGO") producers and used oil re-refiners, or sold as a blend or cutter stock. We also operate five wastewater treatment operations that service our Environmental Services segment. These facilities allow us to remove oil from some of the wastewater we collect, treat the wastewater, and then discharge it according to the standards in the applicable discharge permits. Some of the oil removed in the wastewater treatment process may become RFO.

### The Crystal Clean Solution

Through our network of 82 branches, as of January 2, 2016, we provided parts cleaning, used oil collection, industrial waste removal, vacuum services, antifreeze recycling services, and field services to approximately 108,000 active customer locations.

### Environmental Services Segment

During fiscal 2015, we performed more than 300,000 parts cleaning services. We believe our services are highly attractive to our customers, who value features such as assistance in preparing waste manifests and drum labels, regularly-scheduled service visits to check inventories and remove accumulated waste, and minimizing the number of vendors they must deal with related to the management of these materials. Our focus is to meet the service requirements of small and mid-sized clients, which we define as firms that generally spend less than \$50,000 per year on industrial and hazardous waste services. Small and mid-sized clients have needs that are often highly differentiated from the needs of larger accounts. We believe that our company is structured to meet these particular needs. Revenues in our Environmental Services segment accounted for approximately 64.7% of our revenues for fiscal 2015 and are generated primarily from providing parts cleaning services, industrial waste removal, vacuum services, and antifreeze recycling for our clients.

In the parts cleaning industry, used solvent generated by parts cleaning customers is often classified as a "hazardous waste" (a term defined in the regulations of the EPA), but our company has implemented two different programs whereby our customers' used solvent may be excluded from the definition of hazardous waste. In our non-hazardous program, we provide our customers with an alternative solvent not included in the EPA's definition of hazardous waste due to its higher flashpoint (the minimum temperature at which vapors from the solvent will ignite when tested under specified laboratory conditions), and then we recycle that solvent to be used again in our parts cleaning services. In our product reuse program, we sell used solvent as an ingredient for use in the manufacture of asphalt roofing materials. These two programs not only simplify the management of used solvent generated by our customers but also reduce the total volume of hazardous waste generated at many of our customers' locations. This can allow the client to achieve a lower "generator status" with the EPA and thereby reduce its overall regulatory burden.

In addition to the solvent-based parts cleaning programs described above, at each of our branch locations we also offer a water-based (aqueous) cleaning program. In our aqueous parts cleaning program, instead of using solvent to clean and degrease parts, our customers use water soluble cleaning chemicals mixed in a solution with water. This type of solution is typically used in parts cleaning machines designed with features such as heaters or high pressure to enhance the cleaning capabilities of the aqueous solution. After our customer is finished using the solution, we remove the used solution and almost exclusively manage it as a non-hazardous waste. Similar to the two solvent-based



programs described above, our customers' used cleaning material is typically not classified as a hazardous waste, which helps reduce our customers' generation of hazardous waste and their corresponding regulatory burden.

#### Oil Business Segment

Through our used oil collection service, we collect the used oil generated by our customers when they replace used lubricating oil in vehicles and machinery. Most customers store the used oil that they generate in tanks, which must be emptied regularly to mitigate the risk of overflow or termination of their oil change activities. As a result, these customers have a strong need for timely used oil service. We have designed our services to deliver regularly-scheduled pickups, and we also have the capability to respond to unscheduled requests on short notice. The used oil we collect is either transported to our used oil re-refinery or processed into RFO. When we re-refine or recycle their used oil, we are able to provide our customers with the

satisfaction that their used oil is re-refined into high quality lubricants, using the approach cited as preferred by the EPA, or recycled by being used in the production of RFO.

We operate our used oil re-refinery in Indianapolis, Indiana where we re-refine used oil, which we collect from our customers or purchase from other oil collection service providers, into lubricating base oil, which we sell to firms who then blend, package, and market lubricants. At the end of fiscal 2015, we completed an expansion of the re-refinery and the nameplate capacity of our re-refinery is now 75 million gallons of annual input capacity of used oil feedstock. The nameplate capacity includes the impact of periodic shutdowns to perform routine maintenance. In fiscal 2015, we collected 72.7 million gallons of used oil from our customers. Revenues in our Oil Business segment accounted for 35.3% of our total revenues in fiscal 2015.

## Services

Across our full range of services, we focus on reducing our customers' burdens associated with their generation of hard-to-handle wastes. Many of these wastes are subject to extensive and complex regulations, and mismanagement can result in citations, penalties, and substantial direct costs, both to the service provider and the generator. Many customers are familiar with "Superfund liability" and the possibility that they will be required to pay for future cleanups if their waste is mismanaged in a way that leads to environmental damage. Our services allow customers to focus more on their core business and devote fewer resources to industrial and hazardous waste management. A majority of our customers use our parts cleaning, waste management, and/or used oil collection services, and these services are offered at most of our branches.

## Environmental Services Segment

In our full-service parts cleaning business, we provide customers with parts cleaning equipment and chemicals to remove oil, grease, and other contaminants from engine parts and machine parts. Most commonly, we provide a parts cleaning machine that contains a petroleum-based solvent in a reservoir. The customer activates a pump that circulates the solvent through a nozzle where it is used to clean parts. The solvent can be reused for a period of time, after which it becomes too dirty and requires replacement. We typically visit our customers every 4 to 12 weeks to remove the used solvent and replace it with clean solvent, while at the same time cleaning and inspecting the customers' parts cleaning equipment to ensure that it is functioning properly and assisting our customers with relevant regulatory paperwork. We believe that many of the parts cleaning services performed in the U.S. are structured as hazardous waste services, meaning that when the solvent has been used, it is managed as a regulated hazardous waste subject to numerous laws and regulatory filings. We reduce this burden for our customers by offering three alternative parts cleaning programs (our non-hazardous and reuse programs for solvent parts cleaning and our aqueous parts cleaning program) that do not subject the customer to the same hazardous waste regulations. These low-burden approaches help our customers achieve regulatory compliance while minimizing the paperwork and bureaucracy associated with hazardous waste management - ultimately saving them time and money. For example, these programs currently enable many of our customers to reduce their generation of hazardous wastes below the 220 pounds per month maximum threshold for retaining the EPA generator status of Conditionally Exempt Small Quantity Generator ("CESQG"). For our customers, maintaining a CESQG status provides significant savings associated with not having to maintain an EPA identification number; prepare, track, and file transportation manifests; or produce other reports related to the use, storage, and disposal of used solvents. We offer more than a dozen different models of parts cleaning machines from which our customers may choose the machine that best fits their specific parts cleaning needs. While the majority of our customers are provided or sold machines directly from us, we also offer parts cleaning services for customers who purchase their parts cleaning machines from other sources. We offer a variety of petroleum solvents and aqueous chemicals for use in parts cleaning machines. We also have a wide range of service schedules from

weekly service visits to triannual service visits.

In our containerized waste services, we collect drums, pails, boxes, and other containers of hazardous and non-hazardous waste materials from our customers. Typical wastes from vehicle maintenance include used antifreeze, used oil filters, waste paint, and used absorbent material. Typical wastes from manufacturing operations include waste paint and solvents, oily water wastes, used absorbents, and discarded fluorescent lighting tubes. We endeavor to find the lowest burden regulatory approach for managing each of these materials for our clients. In some cases, we can develop lower burden alternatives based on recycling materials for component recovery, such as with oil filters, or by following the less onerous universal waste regulations, such as with fluorescent tubes and waste paint. In other cases, the hazardous waste regulations may apply, in which case we assist customers with the complete hazardous waste disposal process, including performing analysis to characterize their waste, preparing manifests and drum labels, and selecting the appropriate destination facility. As part of our full-service approach, we visit our customers periodically to check their inventory of used or waste materials and remove full containers as appropriate. Because there are statutory limits on the amount of time that customers can store these waste materials, these service visits are valuable to help customers stay in compliance. To the extent that we can coordinate these

7

---

service visits together with a regularly scheduled parts cleaning service, we are able to perform both tasks during the same visit, with the same truck and service employee.

In selected branch locations, we provide vacuum truck services for the removal of mixtures of oil, water, and sediment from wastewater pretreatment devices and other sources. Many shops and plants have floor drain systems that lead to pits, sumps, or separators that are designed to separate and retain oil and dirt, but allow clear water to flow out to a municipal sewer. Periodically, these drains and collection points accumulate excess oil or sediment that needs to be removed. Because some of the material is very thick, a specialized vacuum truck is utilized for efficient removal of the material. Our vacuum truck service includes the removal of the oil, water, and sediment so that the customer's equipment operates as intended. We also offer bulk oily water removal. These services are scheduled on a regular basis. Because our efforts to expand vacuum truck services have started more recently than some of our other offerings in the Environmental Services segment, these services are currently offered at 49 of our branches. We operate five waste water treatment facilities that allow us to remove oil from some of the wastewater we collect, treat the wastewater, and discharge it according to the standards in the applicable discharge permits.

Through our antifreeze recycling service, we offer customers a legally-compliant method to safely manage their used antifreeze while providing a high quality, environmentally friendly, remanufactured product. We offer responsive, on-time scheduled or on-demand collection and transportation of used automotive antifreeze to our three antifreeze recycling facilities, where it is recycled into high quality clean antifreeze. We then sell a variety of formulations of this antifreeze to our vehicle maintenance customers.

We offer a variety of Field Services to assist customers with on-site equipment cleaning and the removal and proper management of fluid waste. Typical projects include the cleaning of above ground storage tanks, sumps, separators, ship-to-shore fluid transfers, and other environmental remediation services. We typically serve as contractor and engage contract labor or outsourced labor to provide our field services.

#### Oil Business Segment

As of the end of fiscal year 2015, we offered bulk used oil collection services in 74 of our branch locations. Although we manage some used oil through our containerized waste program, most customers who generate used oil (typically from vehicle engine oil changes) produce large quantities that are stored in bulk tanks, and these volumes are handled more efficiently via bulk tank trucks such as those that we utilize. We pump the customer's material into our tank truck for proper management. We transfer a majority of the used oil we collect to our re-refinery to be recycled into lubricating base oil. We recycle the remaining used oil into RFO, some of which is sold to industrial burners, such as asphalt plants that use the RFO as a less expensive substitute for other fuels, and some of which is sold to used oil processors such as VGO producers and used oil re-refiners and some of it is sold for use as blend or cutter stock. As with our other services, we offer to visit customers on a regularly scheduled basis to arrange for the removal of their accumulated oil.

#### Competitive Strengths

We believe that we are the second largest provider of full-service parts cleaning services and used oil collection services in the U.S., and a leading provider of containerized waste services to small and medium sized customers. From our base of 82 branch locations, we implement an organized and disciplined approach to increasing our market share, taking advantage of the following competitive strengths:

**Excellent Customer Service.** Since our founding, we have instilled a standardized, sales-oriented approach to our customers across our branch network. Our branch personnel are focused on local sales and service delivery, and a significant portion of their compensation is linked to sales growth and new business development. In order to achieve this sales growth, our personnel understand that they must retain existing business, which is best achieved by

providing a very high level of customer service which can lead to cross-selling opportunities and referrals to new prospects. During fiscal 2015, approximately 89% of our Environmental Services revenues were generated from customers that we also served during fiscal 2014.

**Cost-Efficient Branch Rollout Model.** Our branch model allows us to consolidate operational and administrative functions not critical to sales and service at either a regional hub or at our headquarters. This model has been the foundation for our new branch rollout as we have expanded from 14 branches in 1999, and we expect to extend this model to new locations. Furthermore, as we grow within each branch, we improve our route density, which is an important contribution to profitability in our business.

**Large Branch Network.** We have spent over sixteen years building up and developing a large network of branches that has enabled us to rapidly grow our environmental services and used oil collection services efficiently and cost effectively. Our investments in this network help us to rapidly open new branches and cross sell products and services through existing branches.

**Large and Highly Diverse Customer Base.** Our focus on small and mid-sized businesses has enabled us to attract a variety of customers engaged in a range of businesses spread across the spectrum of the manufacturing, vehicle service, and transportation industries which helps insulate us from disruption caused by the possible loss of a single large account. Our customer base consists of over 108,000 active customer locations. In fiscal 2015, our largest single customer in our Environmental Services segment represented 0.7% of our consolidated revenues, and our largest ten customers represented approximately 2.8% of our consolidated revenues. In the Oil Business segment, revenues from one customer accounted for 3.8% of our consolidated revenues for fiscal 2015, and our largest ten customers represented 19.0% of our consolidated revenues for fiscal 2015.

**Experience in Re-Refining Technology.** Our management team has substantial experience in the development and operation of used oil re-refineries, as several members of our management team were significant contributors to the development of approximately 65% of the used oil re-refining capacity in North America. Our team is able to design and construct re-refining capacity for a comparatively low capital cost. In 2012 we began operating our re-refinery which had an original nameplate capacity of 50 million gallons of used oil. We were able to construct the original re-refining capacity for approximately \$54 million, or approximately \$1 per gallon of capacity. We completed the re-refinery expansion from 50 million to 75 million gallons of annual capacity for approximately \$1 of capital cost per gallon of annual capacity. We believe other re-refineries recently constructed in the United States have had a capital cost of substantially more than \$1 per gallon of capacity.

**Innovative Services that Reduce Customers' Regulatory Burdens.** We have designed our service programs to meet the needs of our target customers. In particular, these customers desire to minimize their regulatory compliance burdens, and we have developed innovative methods to help our customers achieve this objective. For example, we have created parts-cleaning service programs which exempt our customers from certain hazardous waste regulations and filing requirements:

**Non-hazardous Program for Parts Cleaning.** In our non-hazardous program for parts cleaning, we provide our customers with an alternative solvent that is not included in the EPA's definition of hazardous waste due to its increased flashpoint, and we educate each participating customer to prevent harmful contaminants from being added to the solvent during use. Because of the reduced solvent flammability, as long as the customer does not add toxic or flammable contaminants during use, neither the clean solvent that we supply nor the resulting used solvent generated by customers participating in the program is classified as hazardous waste by the EPA and as a result can be managed as non-hazardous waste. To participate in this program, our customers must provide certification that no hazardous wastes have been added to the parts cleaning solvent. After we collect the used solvent from customers participating in our non-hazardous program for parts cleaning, we recycle it via distillation for re-delivery to our parts cleaning customers. The recycling process removes oil, water, and other impurities, resulting in solvent suitable to be re-used by our customers for parts cleaning. At the same time, this process minimizes the burdensome hazardous waste

regulations faced by our customers and allows us to minimize our virgin solvent purchases. Our solvent recycling system located in Indianapolis is capable of recycling up to six million gallons per year of used solvent generated by customers participating in our non-hazardous program. This provides significant capacity in excess of our current requirements.

Product Reuse Program for Parts Cleaning. Rather than managing used solvent as a waste, we have developed a program that uses the solvent as an ingredient in the manufacture of asphalt roofing materials. Used solvent generated by customers participating in our product reuse program for parts cleaning is sold as a direct substitute for virgin solvent that is otherwise used in the asphalt manufacturing process. Because the used solvent is destined for reuse, it is not deemed a waste, and therefore it is not subject to hazardous waste regulations. To enhance the marketing of these programs, in the past 20 years we and our predecessor Heritage Environmental Services have voluntarily obtained concurrence letters from more than 30 state environmental agencies to validate this approach.

**Aqueous Program.** In addition to our petroleum-based solvent, we offer a full suite of proprietary aqueous-based parts cleaning solutions, including our patented aqueous parts cleaning equipment and patented filtration technology for water-based fluids, which we believe is the most comprehensive aqueous-based solutions offering in the industry. After our customer is finished using the solution, we remove the used solution and almost exclusively manage it as non-hazardous waste. Similar to the two solvent-based programs described above, our customers' used cleaning material will not be included in the EPA's definition of a hazardous waste, which helps reduce our customers' regulatory burdens. In addition, our patented Aqua Filtration Unit provides our customers with an innovative method to remove contaminants from their water-based fluids.

**Experienced Management Team.** Our management team has substantial experience in the industry and possesses particular expertise in the small to mid-sized customer segment. Our senior managers have on average more than 30 years of industry experience and our middle managers have on average more than 20 years of industry experience. Many of our managers held key positions with Safety-Kleen between 1986 and 1998, during which time Safety-Kleen grew from \$255 million to over \$1.0 billion in annual revenue.

#### Growth Strategies

We intend to grow by providing environmental solutions that meet the needs of our customers. We have several different strategies to accomplish this and they include:

**Same-Branch Sales Growth.** We seek to generate year-over-year growth in existing markets by obtaining new customers and by cross-selling multiple services to existing customers, including customers newly acquired through our acquisition of FCC Environmental. Our sales and marketing strategy includes providing significant incentives to our field sales and service personnel to find and secure new business. These incentives include commission compensation for individuals and managers as well as prize awards and contests at the individual and team level. Our company culture is designed to consistently emphasize the importance of sales and service excellence and to build and maintain enthusiasm that supports continued sales success. Additionally, we intend to drive profitability by leveraging fixed costs against incremental sales growth at our existing branches.

**Expanded Service Offerings.** Of our 82 branches, all branches currently offer parts cleaning and containerized waste management services, 74 offer used oil collection services, and 49 offer vacuum truck services. As our business grows and we achieve sufficient market penetration, we have the opportunity to expand our vacuum truck services to each branch location. We also have other new business programs in various stages of development which have the potential to be offered through our branch locations in the future.

**Geographic Expansion.** We currently operate from 82 branch locations that offer all or portions of our service menu to customers in 43 states, the District of Columbia, and parts of Ontario, Canada. We have historically been able to install new branches at a relatively low cost, although installation of branches in the Western U.S. is relatively more costly. Within the contiguous United States, we believe that there are opportunities to open more branches and provide convenient local service to additional markets.



**Selectively Pursue Acquisition Opportunities.** Our management team has significant experience in identifying and integrating acquisition targets. Given the number of small competitors in our business, there are generally multiple acquisition opportunities available to us at any given time. In fiscal 2013, we made various strategic acquisitions to help grow our used oil collection business and to enter the antifreeze recycling business, and in fiscal 2014, we acquired Sav-Tech in order to enter into business in Canada. In October 2014, we acquired FCC Environmental, a significant collector of used oil and provider of environmental services in the United States, for total consideration of \$88.8 million, our largest acquisition to date. Our growth plan is not dependent on acquisitions, but we will continue to pursue acquisitions that leverage our established infrastructure.

### Sales and Marketing

Our mission and culture emphasize sales and service excellence and entrepreneurship, and our sales philosophy starts with the principle of “sales through service.” We assign a territory to each of our Sales & Service Representatives (“SSRs”), and require and encourage them to grow their business on their routes by delivering excellent service to existing customers. This helps our SSRs retain business, sell more services to satisfied customers, and obtain valued referrals to potential new customers. In addition to the efforts of our SSRs, we employ a branch manager at each of our branches, and we also employ branch sales managers, all of whom have dedicated sales territories and responsibilities.

### Suppliers and Recycling/Disposal Facilities

We purchase goods such as parts cleaning machines, solvent (petroleum naphtha mineral spirits), cleaning chemicals, bulk used oil, bulk antifreeze (ethylene glycol), and absorbent from a limited group of suppliers. We also have arrangements with various firms that can recycle, burn, or dispose of the waste materials we collect from customers. These suppliers and disposal facilities are important to our business, and we have identified backup suppliers in the event that our current suppliers and disposal facilities cannot satisfy our supply or disposal needs. Heritage Environmental Services, an affiliate of The Heritage Group, Fred Fehsenfeld and the Fehsenfeld family trusts, which collectively beneficially owned 33.9% of our common stock as of January 2, 2016, operates one of the largest privately-owned hazardous waste treatment businesses in the U.S. We have used their hazardous waste services in the past, and it is likely that we will continue some level of use in the future.

We operate five waste water treatment facilities. These facilities allow us to remove oil from some of the waste water we collect, treat the waste water, and then discharge it according to the standards in the applicable discharge permits. These facilities allow us the flexibility to dispose of our oily water and vacuum services waste water collected from certain branches internally.

### Competition

The markets for parts cleaning, containerized waste management, used oil collection, vacuum truck services, antifreeze recycling, and field services in which we participate are intensely competitive. While numerous small companies provide these services, our largest competitor, Safety-Kleen (a wholly-owned subsidiary of Clean Harbors, Inc.), has held substantial market



share in the full-service parts cleaning industry for the last four decades and has developed significant market share in used oil collection and containerized waste management. Safety-Kleen operates throughout the continental U.S., Puerto Rico, and Canada through a large branch network. We believe that Safety-Kleen has greater financial and other resources and greater name recognition than us. We estimate that in the full-service portion of the parts cleaning market, Safety-Kleen is significantly larger than us, and that we are substantially larger than the next largest competitor.

Many of our smaller competitors tend to be regional firms or parts cleaning companies that operate in a single city. Although many of these smaller competitors lack the resources to offer clients a full menu of services, they generally offer parts cleaning services ancillary to a primary line of business, such as used oil collection, in order to present a more complete menu to customers. In addition, companies involved in the waste management industry, including waste hauling, separation, recovery, and recycling, may have the expertise, access to customers, and financial resources that would encourage them to develop and market services and products competitive with those offered by us. We also face competition from alternative services that provide similar benefits to our customers as those provided by us.

Price, service quality and timeliness, breadth of service offering, reputation, financial strength, and compliance history are the principal competitive factors in the markets in which we compete. While we feel that most market competitors compete primarily on price, we believe that our competitive strength comes from our focus on customer service and our broad menu of services. Although we employ a pricing structure that controls discounts, we are able to deliver a sound value proposition through the reduced regulatory burden achieved through our programs. We could lose a significant number of customers if Safety-Kleen or other competitors materially lower their prices, improve service quality, develop more competitive product and service offerings, or offer a non-hazardous or reuse program for parts cleaning more appealing to customers than ours.

We have the second largest used oil re-refinery, by capacity, in North America. Our largest competitor, Safety-Kleen, currently controls approximately 56% of the used oil re-refining capacity in North America. Over the past several years, many of our competitors have announced their intentions to enter into the used oil re-refining or base oil business or expand their capacities.

#### Seasonality

Our operations may be affected by seasonal fluctuations due to weather cycles influencing the timing of customers' need for products and services. Typically during the first quarter and the end of the fourth quarter of each year there is less demand for our products and services due to the lower levels of activities by our customers as a result of the cold weather, particularly in the Northern and Midwestern regions of the United States. This lower level of activity also results in lower volumes of used oil generated for collection by us in the first quarter. In the winter months there is less construction activity, which reduces demand for certain re-refinery by-products. In addition, factory closings for the year-end holidays reduce the volume of industrial waste generated, which results in lower volumes of waste handled by us during the first quarter of the following year.

However, we generally experience the opposite seasonality (higher levels of activity in the first quarter and end of the fourth quarter) in our antifreeze business.

#### Information Technology

We believe that automation and technology can enhance customer convenience, lower labor costs, improve cash management, and increase overall profitability. We are constantly evaluating opportunities to develop technologies

that can improve our sales and service processes. Our commitment to the application of technology has resulted in the creation of a custom web-based application for scheduling, tracking, and management of customer services, billing, and collections. This system has been used as an integral part of our business operations for more than nine years. We believe that our standardized processes and controls enhance our ability to successfully add new branches and expand our operations into new markets. Mobile devices are used by our employees in the field to access customer service information. In the used oil collection portion of our Oil Business segment, these devices are also used to capture service transactions and inventory movements. Statistics are gathered and reported on a daily and weekly basis. These capabilities provide timely, automated data measurement and control for service activities to accelerate response to market and operational change.

#### Employees

As of January 2, 2016, we employed 1,183 full time and 68 part time employees. None of our employees are represented by a labor union or covered by a collective bargaining agreement. We believe that our employee relations are good.

#### Intellectual Property

12

---

We regard our intellectual property as important to our success and we rely on trademark, copyright, and other intellectual property laws in the United States to protect our proprietary rights. We have, in the past, successfully defended our patents against infringement, and we intend to continue to defend our intellectual property rights. In addition, we seek to protect our proprietary rights through the use of confidentiality agreements with employees, consultants, vendors, advisors, and others.

Our intellectual property includes the Crystal Clean brand and logo as well as our patented aqueous parts cleaning equipment, chemistry formulae, and filtration technology. Our patents expire at various times through 2034. Although we do not regard any single trade secret or component of our proprietary know-how to be material to our operations as a whole, if one or more of our competitors were to use or independently develop such know-how or trade secrets, our market share, sales volumes and profit margins could be adversely affected.

### Regulation

Substantially all of our services and products involve the collection, transportation, storage, recycling and/or disposal of industrial and hazardous waste or hazardous materials, including solvents used in parts cleaners; containerized waste including waste paint, inks, adhesives, used antifreeze, used oil, and used oil filters; and bulk waste including used oil, oily water, and antifreeze. Our services are highly regulated by various governmental agencies at the federal, state, and local levels, as described in more detail below. Regulations govern matters such as the disposal of residual chemical wastes, operating procedures, storm water and wastewater discharges, fire protection, worker and community right-to-know, and emergency response plans.

Our services and products require us to comply with these laws and regulations and to obtain federal, state, and local environmental permits or approvals for some of our operations. Some of these permits must be renewed periodically, and governmental authorities have the ability to revoke, deny, or modify these permits. Zoning and land use restrictions also apply to all of our facilities. Siting and other state-operating approvals also apply in some states.

We are subject to federal and state regulations governing hazardous and solid wastes. The Resource Conservation and Recovery Act ("RCRA") is the principal federal statute governing hazardous waste generation, treatment, transportation, storage, and disposal. Under RCRA, the EPA has established comprehensive "cradle-to-grave" regulations for the management of a wide range of materials identified as hazardous or solid waste. The regulations impose technical and operating requirements that must be met by facilities that generate, store, treat, transport, and dispose of these wastes. A number of states have regulatory programs governing the operations and permitting of hazardous and solid waste facilities. In addition, some states classify as hazardous some wastes that are not regulated under RCRA. Accordingly, we must comply with the state requirements for handling state regulated wastes.

In 2013, the EPA issued preliminary regulations regarding its plans to replace paper manifests with an electronic manifesting system and electronic database that will be developed and maintained by the EPA. Users of the system will pay transaction fees to the EPA for maintaining the system. Congress established a statutory deadline of October 2015 for the EPA to have a functioning "e-manifest" system. However, the EPA estimates that the availability of a functioning system has been delayed until approximately spring 2018. We intend to develop systems that will allow us to utilize the EPA's "e-manifest" system for shipments of hazardous wastes and other waste materials and that will be linked to the EPA's data management system once the designs, requirements, and schedules are finalized.

Our operations are governed by 10-day transfer requirements and do not typically require a hazardous waste facility permit. The majority of our branches in the U.S. are 10-day transfer sites. Under RCRA, states are delegated to

implement the regulatory programs through state regulations, which can be more stringent than those of the federal EPA. We have obtained a facility waste permit for our locations in Maryland and Connecticut and are currently pursuing a waste permit in New Hampshire because these states have more stringent programs that do not allow the typical 10-day transfer option. In 2014, we obtained authorization from New Jersey to provide solid and hazardous waste services within the state.

The Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended ("CERCLA") governs the cleanup of inactive hazardous waste sites and imposes liability for the cleanup on "responsible parties" generating or transporting waste to a site. CERCLA further provides for immediate response and removal actions coordinated by the EPA to releases of hazardous substances into the environment and authorizes the government to respond to the release or threatened release of hazardous substances or to order responsible persons to perform any necessary cleanup. CERCLA imposes strict liability on current or former owners and operators of facilities that release hazardous substances into the environment as well as on businesses that generate those substances or transport them to the facilities. Responsible parties may be liable for

substantial investigation and cleanup costs even if they operated their businesses properly and complied with applicable federal and state laws and regulations. Liability under CERCLA may be joint and several. Certain of our customers' and third-party contractors' facilities have been in operation for many years and, over time, the operators of these facilities may have generated, used, handled, and disposed of hazardous and other regulated wastes or other hazardous substances. Environmental liabilities could therefore exist under CERCLA, including cleanup obligations at these facilities or off-site locations where materials from our operations were disposed. In the past, we have been involved as a potentially responsible party ("PRP") at CERCLA cleanup sites, and it is possible that we may be involved at similar cleanup sites in the future.

In addition to regulations under RCRA and CERCLA, the EPA has adopted regulations under the Clean Air Act ("CAA") and the Clean Water Act ("CWA"). The CAA regulates emissions of pollutants into the air from mobile and stationary sources. CAA permits limit the emissions from parts cleaning units. One of our distribution hubs, our used oil re-refinery, and several of our oily water treatment operations are subject to facility based permits under the CAA. The used oil re-refinery was constructed and is operating under CAA New Source Performance Standards and an associated permit. This air permit was modified to accommodate the ongoing expansion of the re-refinery. Our transportation fleet of trucks is regulated for emissions as mobile sources. Regulations under the CWA govern the discharge of pollutants into surface waters and sewers and require discharge permits and sampling and monitoring requirements. The CWA also requires specific spill plans governing the storage of waste and product hydrocarbons. A more detailed spill plan is also required at the used oil re-refinery because of the large volume of certain storage tanks. Two of our legacy facilities and the majority of our newly acquired FCC Environmental facilities currently hold CWA National Pollution Discharge Elimination System ("NPDES") permits for stormwater runoff and water pollution prevention. Our operations are also regulated pursuant to state statutes and implementing regulations, including those addressing clean water and clean air.

Our transportation fleet, truck drivers, and the transportation of hazardous materials are regulated by the U.S. Department of Transportation ("DOT") Motor Carrier and the Federal Railroad Administration ("FRA"), as well as by the regulatory agencies of each state in which we operate or through which our vehicles pass. Governmental regulations apply to the vehicles used by us to transport the chemicals we distribute to customers and the waste and other residuals collected from customers. These vehicle requirements include the licensing requirements for the vehicles and the drivers, vehicle safety requirements, vehicle weight limitations, shipping papers, and vehicle placarding requirements.

The Department of Labor Occupational Safety & Health Administration ("OSHA") safety standards are applicable to all of our operations. The used oil re-refinery and mineral spirits distillation facility are also subject to OSHA Process Safety Management standards that govern the operation of the facilities.

In August 1997, the South Coast Air Quality Management District in California (the "SCAQMD"), enacted Rule 1171, which prohibits the use of certain types of solvents that we currently sell for parts cleaning operations. In the areas of California affected by this or similar regulations (including Los Angeles, San Francisco, and Sacramento), aqueous parts cleaning is the primary substitute. We currently have one branch located in Los Angeles, California. Although other states have not passed regulations similar to Rule 1171, we cannot predict if or when other state and/or local governments will promulgate similar regulations which may restrict or prevent the use of solvent for parts cleaning. Pending air regulation laws in the northeastern United States may restrict, or possibly eliminate, the use of our typical parts washer solvent in cold parts cleaners. Due to the size of the states in the northeastern U.S. and the transport of pollutants over state boundaries, the Ozone Transport Commission ("OTC") develops overarching air pollution programs for member states to adopt. While there has been some delay in implementation of the regulations throughout the northeastern OTC states, additional regulations limiting the use of certain solvents and other ozone

forming chemicals are expected to begin going into effect within the next five years. The OTC states include twelve states in the far northeastern U.S. as well as the District of Columbia. Among the OTC states, Maryland and Delaware have initiated development of rules to limit the use of ozone pollution forming compounds.

More specifically to our traditional parts cleaning services, federal and state laws and regulations dictate and restrict to varying degrees what types of cleaning solvents may be used, how a solvent may be stored, and the manner in which contaminated or used solvents may be handled, transported, disposed of, or recycled. These legal and regulatory mandates have been instrumental in shaping the parts cleaning industry. We have developed methods of managing solvent as non-hazardous so as to significantly reduce the regulatory burden on us and on our customers. Any changes to, relaxation of, or repeal of federal or state laws and regulations affecting the parts cleaning industry may significantly affect the demand for our products as well as our competitive position in the market.

The EPA has promulgated regulations that govern the management of used oils. Although used oil is not classified as a hazardous waste under federal law, certain states do regulate used oil as state-regulated waste. Our used oil collection services require compliance with both federal and state regulations. As with our parts cleaning services, we make use of various



programs to reduce the administrative burden associated with our customers' compliance with used oils regulations. Any used oil contaminated with polychlorinated biphenyls ("PCBs") is regulated under the Toxic Substances Control Act ("TSCA"). The rules set minimum requirements for storage, treatment, and disposal of PCB wastes. Used oil contaminated with a certain level of PCBs may require incineration or special TSCA authorization or permits. The EPA has recently proposed CAA regulations requiring more stringent air permits governing the burning of certain recyclable materials, including non-specification used oil. We do not anticipate any negative impacts to the Company from this pending court ordered regulation.

One of the by-products of the re-refinery process is Vacuum Tower Asphalt Extender ("VTAE"). VTAE is sold for use as an ingredient in asphalt used in the construction of roadways. State Departments of Transportation may regulate the characteristics of materials that are used as ingredients in roadway asphalt. A small number of states have banned the use of VTAE as an ingredient in asphalt used on roadways. We believe, when used in the proper proportion, the VTAE produced at our re-refinery can be used in a paving asphalt formulation that meets ALL relevant performance standards. Regulatory restrictions on the use of VTAE could potentially negatively impact the marketability of this product and the profitability of our oil business. To our knowledge, current restrictions on the use of VTAE in asphalt have not had a significant negative impact on our business.

Governmental authorities have the power to enforce compliance with these and other regulations, and violators are subject to civil and criminal penalties. Private individuals may also have the right to sue to enforce compliance with certain of the governmental requirements.

#### Available Information

We maintain a website at the following Internet address: <http://www.crystal-clean.com>. Through a link on this website to the SEC website, <http://www.sec.gov>, we provide free access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after electronic filing with the SEC. The public can obtain copies of these materials by visiting the SEC's Public Reference Room at 100 F Street, NE, Washington DC 20549 or by accessing the SEC's website at <http://www.sec.gov>. The public may obtain information on the operation of the SEC's Public Reference Room by calling 1-800-SEC-0330. Our guidelines on corporate governance, the charters for our Board Committees, and our code of ethics are also available on our website, and we will post on our website any waivers of, or amendments to, such code of ethics. Our website and the information contained therein or connected thereto are not incorporated by reference into this annual report.

#### Executive Officers of Registrant

The following table sets forth the names, ages and titles, as well as a brief account of the business experience of each person who is an executive officer of Heritage-Crystal Clean.

Name	Age	Position
Joseph Chalhoub	69	Founder, President, Chief Executive Officer, and Director
Gregory Ray	55	Chief Operating Officer and Secretary
John Lucks	62	Senior Vice President of Sales and Marketing
Mark DeVita	47	Chief Financial Officer
Ellie Bruce	52	Vice President of Business Management and Marketing

Tom Hillstrom

55 Vice President of Operations

Joseph Chalhoub

Founder, President, Chief Executive Officer, and Director

Mr. Chalhoub, founder of Heritage-Crystal Clean, LLC, has served as our President, Chief Executive Officer, and director since the formation of the Company in 1999. He started his career with Shell Canada as a process engineer, and he then worked for several years at SNC, an engineering firm. In 1977 he founded Breslube Enterprises and built this into the largest

15

---

used oil re-refiner in North America before selling a controlling interest to Safety-Kleen in 1987. Mr. Chalhoub then served as an executive of Safety-Kleen from 1987 to 1998, and he was President of Safety-Kleen from 1997 to 1998. Mr. Chalhoub holds a Chemical Engineering degree with high distinction from École Polytechnique, Montréal. Mr. Chalhoub has over 35 years of experience in the industrial and hazardous waste services industry.

Gregory Ray  
Chief Operating Officer

In 2012, Mr. Ray became Chief Operating Officer. Before that, Mr. Ray served as Chief Financial Officer since June 2007, and as Vice President, Business Management since 1999. In addition, Mr. Ray has served as our Secretary since 2004. From 1994 to 1999, Mr. Ray served in various roles at Safety-Kleen, including Vice President, Business Management, where he was in charge of and oversaw a \$700 million revenue business unit. While at Safety-Kleen, Mr. Ray was responsible for managing and expanding the used oil collection service and establishing the first nationwide used oil program, and he led the development of that firm's vacuum services business. From 1983 to 1993, Mr. Ray helped establish the used oil recycling business of Evergreen Oil. Mr. Ray has over 30 years of experience in the industrial and hazardous waste services industry, and he holds an A.B. in economics and an M.S. in industrial engineering from Stanford University.

John Lucks  
Senior Vice President of Sales and Marketing

In 2012, Mr. Lucks became Senior Vice President of Sales and Marketing. Before that, Mr. Lucks served as our Vice President of Sales and Marketing since 2010 and prior to that as our Vice President of Sales since 2000. From 1988 to 1997, Mr. Lucks served as the Vice President of Industrial Marketing and Business Management of Safety-Kleen, where he was in charge of and oversaw a \$300 million revenue business unit. Mr. Lucks also led the development of several lines of business, in particular the industrial parts cleaning and drum waste business which became the largest segment of Safety-Kleen. Mr. Lucks has over 30 years of experience in the industrial and hazardous waste services industry.

Mark DeVita  
Chief Financial Officer

Mr. DeVita became Chief Financial Officer in 2012. He served as Vice President, Business Management in 2011. Mr. DeVita has been with the Company since 2000 and has served in a variety of roles related to business management, finance, and acquisitions. He took the lead in developing multi-million dollar lines of business for the Company. Mr. DeVita has 20 years of experience in the industrial and hazardous waste services industry. Mr. DeVita earned his Bachelor of Science in Accountancy with honors from the University of Illinois and his MBA from Northern Illinois University. Mr. DeVita earned his CPA and worked in public accounting for four years.

Ellie Bruce  
Vice President Business Management and Marketing

Ms. Bruce became Vice President Business Management and Marketing in 2016. Prior to this, Ms. Bruce was Vice President of Sales from 2012 to 2015. She has also served as Vice President Oil from 2010 to 2015. She served as Chief Accounting Officer from June of 2007 to 2012. Ms. Bruce has been with the Company since March 2006. She began her career in the used oil collection and re-refining business in 1988 when she joined Safety-Kleen, working at the oil re-refinery in Breslau Canada and served in a number of positions, including Controller of Safety-Kleen Canada Inc., responsible for the accounting and business management for all of the branch lines of business.

Tom Hillstrom  
Vice President of Operations

Mr. Hillstrom has served in various capacities since joining Heritage-Crystal Clean, LLC in 2002. He is currently our Vice President of Operations. From 1983 to 2000, Mr. Hillstrom served in various functions at Safety-Kleen. He was a member of the planning and design team for the construction of Safety-Kleen's used oil re-refinery in East Chicago, Indiana and held the position of Facility Manager during the re-refinery's start-up and through its first years of operation. From 1996 to 1998, he was Director of Planning and Evaluation, where he was responsible for strategic planning and acquisitions. Mr. Hillstrom holds a Bachelor's degree in Chemical Engineering from the University of Notre Dame. Mr. Hillstrom has over 25 years of experience in the industrial and hazardous waste services industry.

## ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following factors, as well as other information contained or incorporated by reference in this report, before deciding to invest in shares of our common stock. The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of those risks actually occurs, our business, financial condition and results of operations would suffer. In that event, the trading price of our common stock could decline, and you may lose all or part of your investment. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. See “Cautionary Note Regarding Forward-Looking Statements” included elsewhere in this document.

### Risks Relating to Our Business

Our operating margins and profitability may be negatively impacted by the volatility in crude oil, solvent, fuel, energy, and commodity prices.

The price at which we sell oil-based products, such as re-refined base oil, re-refined base oil byproducts and RFO is affected by changes in certain oil indices, such as the price for crude oil. If the relevant oil indices rise or fall, we can typically expect a corresponding increase or decrease in prices for the oil products we sell to reflect the change in the relevant oil indices. However there may be a lag between the time an oil index increases or decreases and the time when we are able to increase or decrease the price of the oil products we sell. The cost to collect used oil, including the amounts we must pay or charge to obtain used oil and the fuel costs of our oil collection fleet, generally also increases or decreases when the relevant index increases or decreases. As with the prices for the oil products we sell there may be a time lag between when an oil index increases or decreases and when we are able to adjust the amounts we pay or charge to obtain used oil. Even though the prices we can charge for the oil products we sell and the costs to collect and re-refine used oil generally correlate, they do not always increase or decrease by the same magnitude, and we cannot assure you that any increased costs we experience can be passed through to the prices we charge for the oil products we sell or that the costs to collect and re-refine used oil will decline when re-refined oil prices decline. Because of the competitive nature of the oil collection industry, we may not be able to adjust the amounts we pay or charge for used oil in a timely manner or to fully compensate for decreases in the prices for the oil products we sell which could materially and negatively impacted our operating results and profitability. Any increases in our costs to collect used oil could adversely affect the profitability of our used oil re-refinery. In fiscal 2015, base oil prices decreased compared to prices in fiscal 2014, and our margins were adversely impacted.

Increased costs of crude oil can significantly increase our operating costs in our Environmental Services segment. Because solvent is a product of crude oil, we are also susceptible to increases in solvent costs when crude oil costs increase. During a period of rising crude oil costs, we typically experience increases in the cost of solvent, fuel, and other petroleum-based products. We have in the past been able to mitigate increased solvent and fuel costs through the imposition of price increases and energy surcharges to customers. However, because of the competitive nature of the industry, there can be no assurance that we will be able to pass on future price increases. Due to political instability in oil-producing countries, oil prices could increase significantly in the future. A significant or sudden increase in solvent or fuel costs could lower our operating margins and negatively impact our profitability. We currently do not use financial instruments to hedge against fluctuations in oil, solvent, or energy prices. If this volatility continues, our operating results could be volatile and adversely affected.

In addition, a significant portion of our inventory consists of new and used solvents and oil products. Volatility in the price of crude oil has impacted in the past and can significantly impact in the future the value of this inventory and our operating margins. Further, because we apply a first-in first-out accounting method, volatility in oil prices and solvent can significantly impact our operating margins.

Throughout 2015, the price of crude oil and related commodities continued to fall with significant declines in the fourth quarter of fiscal 2015. As a result, in fiscal 2015, we recorded non-cash inventory impairment charges of \$6.6 million on that portion of our oil inventory that was held for sale, reflecting the lower market value of such inventory. We also recorded a non-cash inventory impairment charge of \$2.6 million to reflect the lower value of the solvent inventory held for use in our service programs. If volatility in the price of crude oil continues, our operating results will be difficult to predict and could be adversely affected. If we do not increase how much we charge to generators to acquire their used oil as quickly as the price for our oil products declines, the profitability of our Oil Business segment would be negatively impacted.

Many small automotive repair shops and manufacturing companies burn used oil as a source of heat as an alternative to using natural gas. If the price of natural gas were to increase significantly, these potential customers may choose to retain their

used oil for fuel purposes rather than allowing us to collect their used oil. This could make it difficult to supply our re-refinery with internally collected feedstock at competitive prices. In addition, increases in the cost of natural gas may increase the cost to operate our used oil re-refinery.

The liabilities that we assumed as a result of our acquisition of FCC Environmental on October 16, 2014, may prove to be greater than anticipated and may negatively affect our operating results.

As a result of our acquisition of FCC Environmental (the "Acquisition"), we have assumed all of FCC Environmental's liabilities, except as provided in indemnifications and remedies in the Stock Purchase Agreement. We may learn additional information about FCC Environmental's business that adversely affects us, such as unknown or contingent liabilities, including environmental liabilities, issues relating to internal controls over financial reporting, and issues relating to compliance with the Sarbanes-Oxley Act of 2002 or other applicable laws. We are currently in a dispute with the seller of FCC Environmental with respect to indemnification amounts owed to us. If FCC Environmental's liabilities are greater than projected, or if we are not successful in our indemnification claims, our business could be materially adversely affected.

We incurred significant indebtedness in connection with our acquisition of FCC Environmental, which could harm our operating flexibility and competitive position as well as adversely affect our financial condition and ability to fulfill our obligations, and expose us to interest rate risk.

As of January 2, 2016, we had \$70.9 million outstanding under the Credit Agreement in the form of Term A Loans. Amounts borrowed under the Credit Agreement are secured by a security interest in substantially all of our tangible and intangible assets. The Credit Agreement requires us to maintain a specified total leverage ratio and has an excess cash flow provision that requires additional principal payments on the term loan if the excess EBITDA for the fiscal year exceeds the formula rate set forth in the facility. Our ability to comply with these ratios or tests may be affected by events beyond our control, including prevailing economic, financial, and industry conditions. A breach of any of these covenants, ratios, or tests could result in a default under the Credit Agreement. Our level of debt as a result of the FCC Environmental Acquisition and the limitations imposed on us by the debt agreements related to such indebtedness could adversely affect our operating flexibility and put us at a competitive disadvantage. Our substantial debt level may adversely affect our future performance, because, among other things:

- we may be placed at a competitive disadvantage relative to our competitors, some of which have lower debt service obligations and greater financial resources than we do;
- our ability to complete future acquisitions may be limited;
- we will have to use a portion of our cash flow for debt service rather than for operations;
- we may not be able to obtain further debt financing and may have to pay more for financing;
- we may not be able to take advantage of business opportunities;
- the indebtedness may bear interest at variable interest rates, making us vulnerable to increases in interest rates; and
- we will be more vulnerable to adverse economic conditions.

Our Credit Agreement also contains restrictions on the total amount of capital expenditures that we can incur in any year. While we were completing the expansion of our Indianapolis, Indiana re-refinery to 75 million gallons per year of input capacity, our credit agreement also included restrictions on the amount of capital expenditures we were

allowed to incur as part of the expansion project. Since we completed the expansion project during fiscal 2015, these additional restrictions are no longer applicable beginning in fiscal year 2016. If we plan to enter into capital-intensive projects, we may need to amend our credit facility to permit capital expenditures in excess of current limits. We cannot assure you that we will receive any waivers of our credit facility in the future to complete projects we may have.

The indebtedness will require significant interest and principal payments. Our ability to make scheduled payments of principal, to pay interest on, or to refinance our indebtedness and to satisfy our other debt obligations will depend upon our future operating performance, which may be affected by factors beyond our control. In addition, there can be no assurance that future borrowings or equity financing will be available to us on favorable terms or at all for the payment or refinancing of our indebtedness. If we are unable to service our indebtedness, our business, financial condition and results of operations would be materially adversely affected. Borrowings under our Credit Agreement are tied to the various stated interest rates. In the event



of an increase in interest rates or an increase in the amount of our indebtedness, our interest expense will increase and could have a material adverse effect on our net income.

Our acquisition of FCC Environmental involves several accounting risks which adversely affect an investor's ability to rely on the historical financial statements of FCC Environmental.

FCC Environmental prepared its carve-out combined financial statements for the year ended December 31, 2013 and for fiscal 2014 prior to the Acquisition in conformity with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("IFRS EU"). Because of the differences between IFRS EU and GAAP, FCC Environmental's historical financial results, when reconciled to GAAP, may show a material difference for the periods presented as compared to IFRS, which may have an adverse effect on our financial results and could negatively impact the market price of our common stock.

Our used oil re-refinery may not generate the operating results that we anticipate and may lead to greater volatility in our revenue and earnings.

There can be no assurance that unforeseen market conditions, such as the significant drop in crude oil prices, will not adversely impact the operation or profitability of our re-refinery. Our success in operating our re-refinery at capacity and realizing the anticipated benefits therefrom in a timely manner, or at all, may be affected by the following factors:

1 Operation of the Re-refinery - Operating at capacity depends on the ability of our employees and management to run the re-refinery at design rates safely and in compliance with all relevant regulations. Nameplate capacity includes the impact of periodic shutdowns for routine maintenance. Any extended or unscheduled shutdowns may inhibit our ability to operate the re-refinery at or near capacity.

1 Base Lube Oil Demand - Operating at capacity depends on the demand for base lube oil in general and specifically the base lube oil produced at our Indianapolis site. Additional capacity has been constructed by virgin lubricating base oil producers. Additional production capacity might depress the prices for the base oil that we produce. In addition, we may experience increased downward pricing pressure when compared to suppliers of virgin lubricating base oil, which has historically sold at a premium to re-refined lubricating base oil.

1 Logistics - Operating at capacity depends on our ability to efficiently transport used oil to our Indianapolis site and to transport base lube oil and related by-products out of our Indianapolis site as well as on our access to adequate storage facilities for raw materials and products.

1 Base Lube Oil Pricing - The price at which we sell oil-based products from our used oil re-refinery is affected by changes in certain oil indices. If the relevant oil indices decline, we would typically reduce prices for our re-refined lubricating base oil, even if our costs do not experience a similar decline. If we reduce prices for our products, we may not realize expected results, and our operating margins may be adversely impacted. In fiscal 2015, base oil prices decreased compared to prices in fiscal 2014, and our margins were adversely impacted.

1 Used Oil Feedstock - Operating at capacity depends on our ability to obtain the required volume from either Company customers or third party collectors and to acquire the feedstock at competitive rates.

Our operations are subject to numerous environmental, transportation, and other laws and regulations and, to the extent we are found to be in violation of any such laws and regulations, we may be subject to involuntary shutdowns and/or significant financial penalties.

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

- 1 regulate the collection, sale, transportation, handling, processing, and disposal of the hazardous and non-hazardous wastes that we collect from our customers;
- 1 regulate the treatment and processing of waste material that we collect from our customers and the discharge of treated material;
- 1 impose liability on persons involved in generating, handling, processing, transporting, or disposing hazardous materials; and
- 1 impose joint and several liability for the remediation and clean-up of environmental contamination

We are also subject to various transportation rules and regulations enforced by the DOT, Federal Railroad Administration (FRA), the Federal Motor Carrier Safety Administration, and the Department of Homeland Security. The breadth and complexity of these laws and regulations affecting our business make consistent compliance extremely difficult and often result

in increased operating and compliance costs. 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 (including the loss of certain licenses and permits that are required for our business), interruption of business operations, fines or other sanctions, and require expenditures for remedial work at our and third-party facilities. Under current law, we may be held liable for damage caused by conditions that existed before we acquired the assets or operations involved or if we arrange for the transportation, disposal, or treatment of hazardous substances that cause environmental contamination. We may also be held liable for the mishandling of waste streams resulting from the misrepresentations by a customer as to the nature of such waste streams. 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 we require to operate our facilities. We have in the past been subject to penalties and fines for noncompliance with environmental regulations and could be subject to penalties and fines in the future. For example, as described in “Legal Proceedings,” the Company learned in February 2015 that an investigation of FCC Environmental’s wastewater facility in Wilmington, Delaware (“Facility”) that was initiated by the EPA and Department of Justice (“DOJ”) in 2012 is continuing. Potential judgments, fines, or penalties arising from this investigation could have a material effect on our business, financial condition, and results of operations.

We are also 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 additional permits, licenses, and approvals which may be required as we expand our operations, we may not be able to grow our business.

In addition, the operation of our used oil re-refinery exposes us to risks related to the potential loss of permits, contamination of feedstock, adverse environmental impact of a spill or other release, the risk of explosion or fire or other hazards, the risk of injury to our employees or others, as well as the negative publicity due to public concerns regarding our operation. The occurrence of any of these events could result in reduced production rates, loss of inventory, operational inefficiencies, clean-up costs, or other items that might negatively affect the operating results of the Company. While these risks are in some respects similar to risks that we have experienced in our traditional service businesses, the magnitude of exposure may be greater due to the nature of the used oil re-refining industry and the greater volumes, temperatures, and pressures involved. While we may maintain some insurance that covers portions of these exposures, in many cases the risks are uninsurable or we will not choose to procure insurance at levels that will cover all potential exposure.

CERCLA and similar state laws impose strict liability 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 to the facilities. 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 were 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 customers 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 where materials from our operations were disposed of, which could result in future expenditures that cannot be currently quantified and which could materially reduce our profits. It is also possible that government officials responsible for enforcing environmental laws may view an environmental liability as more significant than we then currently estimate, or that we will fail to identify or fully appreciate an existing liability before we become legally responsible to address it.

Our pollution liability insurance excludes certain liabilities under CERCLA. Thus, if we were to incur liability under CERCLA that was not covered by our insurance, and if we could not identify other parties responsible under the law whom we are able to compel to contribute to the liabilities, the cost to us could be substantial and could impair our profitability, reduce our liquidity, and have a material adverse effect on our business. Although our customer service agreements typically provide that the customer is responsible for ensuring that only appropriate materials are disposed of, we could be exposed to third party claims if customers dispose of improper waste, and we might not be successful in recovering our damages from those customers. 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.

In addition, there currently exists a high level of public concern over hazardous waste operations, including with respect to the siting and operation of transfer, processing, storage, and disposal facilities. For example, under the DOT's Compliance, Safety, Accountability (CSA) initiative, a compliance and enforcement initiative designed to monitor commercial motor vehicle safety, the fleets and drivers in our network are evaluated and ranked based on certain safety-related standards. A poor fleet

ranking or a reduction in eligible drivers could impact our ability to service our customers and could cause our customers to use a competitor with higher fleet rankings than ours, which could have a material adverse effect on our business, financial condition and results of operations.

Part of our business strategy is to increase our re-refining capacity through the operation of our facility and by adding new branch operations. Each of these efforts requires us to undergo an intensive regulatory approval process that could be time consuming and impact the success of our business strategy. 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 have been, and may in the future be, subject to public opposition and publicity which may damage our reputation and delay or limit the expansion and development of our operating properties or impair our ability to renew existing permits which could prevent us from implementing our growth strategy and have a material adverse effect on our business, financial condition or results of operations.

If current environmental laws and regulations are changed, we may be forced to significantly alter our business model, which could have a material adverse effect on our financial performance.

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 manage waste more effectively without reliance on our service, which could decrease the need for our services and/or increase competition which could adversely affect our revenues and profitability.

For example, the EPA currently excludes waste used as an ingredient in the production of a product from being defined as hazardous waste. Our product reuse program for parts cleaning operates under this exclusion and provides an advantage by excluding our customers' used solvent from being regulated as hazardous waste. Similarly, under our non-hazardous program for parts cleaning, we provide our customers with a different solvent that has a higher flashpoint than traditional solvents. The resulting used solvent is not considered to be hazardous waste so long as our customers ensure that no inappropriate contaminants were contributed to the used solvent.

If the EPA were to broaden the definition of hazardous waste to include used solvents generated by our customers under our product reuse and/or non-hazardous programs for parts cleaning, the value of our offerings may be significantly reduced, which could have a material adverse effect on our financial performance. Examples of changes by the EPA that could adversely affect our services include, but are not limited to, the following:

- 1 elimination of the reuse exception to the definition of hazardous waste;
- 1 increase in the minimum flashpoint threshold at which solvent becomes included in the definition of hazardous waste;
- 1 increased requirements to test the used solvent that we pick up from our customers for the presence of toxic or more flammable contaminants; and
- 1 adoption of regulations similar to those enacted in some California air quality districts that prohibit the use of the solvents of the type that we sell for parts cleaning operations.

Similarly, if current environmental laws were changed so as to ban the use of mineral spirits in parts cleaning, we may be forced to discontinue offering mineral spirits-based parts cleaning services. This could lead to a write-down in the value of our inventory of mineral spirits and our parts cleaning machines designed to utilize mineral spirits, as well as our mineral spirits-based parts cleaning machines at our customers.

One of the by-products of the re-refinery process is Vacuum Tower Asphalt Extender ("VTAE"). VTAE is sold for use as an ingredient in asphalt used in the construction of roadways. State Departments of Transportation may regulate the characteristics of materials that are used as ingredients in roadway asphalt. A small number of states have banned the use of VTAE as an ingredient in asphalt used on roadways. We believe, when used in the proper proportion, the VTAE produced at our re-refinery can be used in a paving asphalt formulation that meets all relevant performance standards. Regulatory restrictions on the use of VTAE could potentially negatively impact the marketability of this product and the profitability of our oil business. To our knowledge, current restrictions on the use of VTAE in asphalt have not had a significant negative impact on our business.

In addition, new laws and regulations, new interpretations of existing laws and regulations, increased governmental enforcement, or other developments could require us to make additional unforeseen expenditures. We are not able to predict the impact of new or changed laws or regulations or changes in the ways that such laws or regulations are administered, interpreted, or enforced. The requirements to be met, as well as the technology and length of time available to meet those requirements, continue to develop and change. To the extent that our costs associated with meeting any of these requirements are substantial and cannot adequately be passed through to our customers, our earnings and cash flows could suffer.

A decline in expected profitability of the Company or individual reporting units of the Company could result in the impairment of assets, including goodwill, other long-lived assets, and deferred tax assets.

We hold material amounts of goodwill, other long-lived assets, and deferred tax assets on our balance sheet. A decline in expected profitability of one of our operating segments or a decline in the global economy, could call into question the recoverability of our related goodwill, other long-lived tangible and intangible assets, or deferred tax assets and require us to write down or write off these assets or, in the case of deferred tax assets, recognize a valuation allowance through a charge to income. Such an occurrence could have a material adverse effect on our annual results of operations and financial position. We incurred a write down of approximately \$4.0 million worth of goodwill in our oil business during the fourth quarter of fiscal 2015.

Expansion of our business may result in unanticipated adverse consequences.

In the future, we may seek to grow our business by investing in new or existing facilities, making acquisitions, entering into partnerships and joint ventures, or constructing or expanding facilities such as the used oil re-refinery. Acquisitions, partnerships, joint ventures, investments, or construction projects may require significant managerial attention, which may divert our management from our other activities and may impair the operation of our existing businesses. Any future acquisitions of businesses or facilities or the development of a new business line could entail a number of additional risks.

We may not be able to realize the expected benefits from any recent or future acquisitions, new facility developments, partnerships, joint ventures or other investments.

We operate our business through many locations, and if we are unable to effectively oversee all of these locations, our business reputation and operating results could be materially adversely affected.

Because we rely on our extended network of 82 branch locations to operate independently to carry out our business plan, we are subject to risks related to our ability to oversee these locations. If in the future we are unable to effectively oversee our branch locations, our results of operations could be materially adversely affected, we could fail to comply with environmental regulations, we could lose customers, we could lose control of inventory and other assets, and our business could be materially adversely affected.

We may be unable to manage our growth.

In our first fifteen years of operation, revenues increased at a compound annual growth rate of over 25%, although we experienced a 9% decrease in our revenues from fiscal 2008 to fiscal 2009. Our growth to date has placed and may continue to place significant strain on our management and operational and financial resources. We anticipate that

continued growth, including as a result of the FCC Environmental Acquisition and other acquisitions from time to time, will require us to recruit, hire, and retain new managerial, finance, sales, marketing, and operational personnel. We cannot be certain that we will be successful in recruiting, hiring, or retaining those personnel. Our ability to compete effectively and to manage our future growth, if any, will depend on our ability to maintain and improve operational, financial and management information systems on a timely basis and to expand, train, motivate, and manage our work force. If we continue to grow, we cannot be certain that our personnel, systems, procedures, and controls will be adequate to support our operations.

Our results of operations and financial condition have been and could in the future be materially adversely impacted by an economic downturn.

The overall levels of demand for our parts cleaning products and supplies and other services are influenced by fluctuations in levels of end-user demand, which depend in large part on general macroeconomic conditions in the U.S. and the regional economic conditions affecting our branches. Many of our customers are heavily dependent on general economic conditions, including the availability of affordable energy sources, employment levels, interest rates, financial credit availability, consumer confidence, and housing demand. Downturns in these general economic conditions can significantly affect the business of our



customers, which in turn affects demand, volumes, pricing, and operating margins for our services and products. Both our customers and suppliers felt the impact of the economic downturn in 2008-2009. In past economic downturns, our customers have sought ways to reduce their costs which in turn has reduced their demand for our services. Our customers and suppliers may face severe financial difficulties, causing them to cease some or all their business operations or to reduce the volume of products or services they purchase from us in the future. We may have accounts receivable from customers who may not be able to honor their obligations to us. Failure to collect a significant portion of amounts due on those receivables could have a material adverse effect on our results of operations and financial condition. During 2015 we felt the impact of a downturn in economic activity for businesses in, and doing business with, the oil industry due to the continued decline in the price of crude oil. As we have customers who operate in and around the oil industry this decrease in activity negatively impacted the growth in our Environmental Services segment.

Adverse economic and financial market conditions may cause our suppliers to be unable to provide materials and components to us or may cause suppliers to make changes in the credit terms they extend to us, such as shortening the required payment period for our amounts owing them or reducing the maximum amount of trade credit available to us. Such changes could adversely affect our liquidity and could have a material adverse effect on our results of operations and financial condition. If we are unable to successfully anticipate changing economic and financial market conditions, we could be adversely affected.

In addition, a substantial or prolonged material adverse impact on our results of operations and financial condition due to an economic downturn could affect our ability to satisfy the financial covenants in our bank credit facility, which could result in our having to seek amendments or waivers from our lenders to avoid the termination of commitments and/or the acceleration of the maturity of amounts that may be outstanding under our bank credit facility. The cost of obtaining an amendment or waiver could be significant, and could substantially increase our cost of borrowing over the remaining term of our bank credit facility. Further, there can be no assurance that we would be able to obtain an amendment or waiver. If our lenders were unwilling to enter into an amendment or provide a waiver, all amounts outstanding under our bank credit facility would become immediately due and payable.

We face intense competition in the industrial and hazardous waste services industries and from other used oil re-refiners.

The markets for parts cleaning, containerized waste management, used oil collection, vacuum truck services, antifreeze recycling, and field services are intensely competitive. Numerous small companies provide these services at a regional or local level and may be able to compete with lower overhead and operating costs. In addition, Safety-Kleen, a wholly-owned subsidiary of Clean Harbors, Inc. and our largest competitor, has held substantial market share in the full-service parts cleaning industry for the last four decades and has developed a significant market share in used oil services, including used oil collection and containerized waste management. Safety-Kleen has greater financial and other resources and greater name recognition than us. Our business growth, financial performance, and prospects may be adversely affected if we cannot gain market share from these competitors, or if any of our competitors develop products or services superior to those offered by us. We could lose a significant number of customers if Safety-Kleen or other competitors materially lower their prices, improve service quality, or develop more competitive product and service offerings.

In addition, companies involved in the waste management industry, including waste hauling, separation, recovery, and recycling, may have the expertise, access to customers, and financial resources that would encourage them to develop and market services and products competitive with those offered by us. We also face competition from alternative services that provide similar benefits to our customers as those provided by us. In addition, new technology regarding the treatment and recycling of used solvent may lead to functionally equivalent or superior products becoming available, which may decrease the demand for our services and products or cause our products and services to become obsolete.

In the past many of our competitors announced plans to enter the used oil re-refining or base oil production business or expand their existing used oil re-refining or base oil producing businesses by adding additional capacity. If crude oil price and the price for re-refined oil products increases, competitors may again consider these plans. The additional competition may make it harder for us to sell our re-refined base lube oil. In addition, extra competition in the collection of used oil feedstock may require us to pay more for our used oil or prevent us from collecting enough feedstock to operate the used oil re-refinery at capacity.

Consolidation and/or declines in the U.S. vehicle repair and U.S. manufacturing industries could cause us to experience lower sales volumes which could materially affect our growth and financial performance.

Our business relies on continued demand for our parts cleaning and waste management services in the U.S. vehicle repair and U.S. manufacturing industries, which may suffer from declining market size and number of locations, due in part to the uncertainty of economic conditions, international competition, and consolidation in U.S. markets. Industry trends affecting our customers have caused our customers' businesses to contract. Additional decline could reduce the demand for our parts cleaning and other services and products and have a material adverse impact on our business. As a result, we may not be able to continue to grow our business by increasing penetration into the industries which we serve, and our ability to retain our market share and base of sales could become more difficult.

Our focus on small business customers causes us to be subject to the trends and downturns impacting small businesses, which could adversely affect our business.

Our customer base is primarily composed of small companies in the vehicle repair and manufacturing industries. The high concentration of our customers that are small businesses exposes us to some of the broad characteristics of small businesses across the U.S. Small businesses start, close, relocate, and get purchased or sold frequently. In addition, small businesses tend to be more significantly affected by economic recessions than larger businesses. This leads to a certain amount of ongoing turnover in the market. As a result, we must continually identify new customers and expand our business with existing customers in order to sustain our growth. If we experience a rise in levels of customer turnover, it may have a negative impact on the profitability of our business.

We depend on the service of key individuals, the loss of whom could materially harm our business.

Our success will depend, in part, on the efforts of our executive officers and other key employees, including Joseph Chalhoub, our Founder, President, Chief Executive Officer, and Director; Gregory Ray, our Chief Operating Officer and Secretary; John Lucks, our Senior Vice President of Sales and Marketing; Tom Hillstrom, our Vice President of Operations; Mark DeVita, our Chief Financial Officer; Ellie Bruce, our Vice President of Business Management and Marketing; and Glenn Casbourne, our Vice President of Engineering. These individuals possess extensive experience in our markets and are critical to the operation and growth of our business. If we lose or suffer an extended interruption in the services of one or more of our executive officers or other key employees, our business, results of operations, and financial condition may be negatively impacted. Moreover, the market for qualified individuals is highly competitive and we may not be able to attract and retain qualified personnel to succeed members of our management team or other key employees, should the need arise. We do not maintain key man life insurance policies on any of our named executive officers. Given their past experience in the operation of used oil re-refinery facilities in North America, the retention of the members of our management team is particularly critical to our ability to operate the used oil re-refinery as planned. The loss of any of these individuals could adversely impact our ability to operate the re-refinery.

In addition, our operations and growth strategy rely on the expansion of our business through the creation and growth of new and existing branches. In order for us to create and grow new and existing branches properly, we must continually recruit and train a pool of hardworking and motivated sales and service representatives, or SSRs, to develop new customer leads as well as support our existing customer base. If we are not able to retain and recruit a sufficient number of SSRs, or if we experience an increase in the turnover of existing SSRs, we may not be able to support the continued growth of our business, which could have a material adverse impact on our financial performance.

We carry inventory of used solvents generated by customers participating in our product reuse program for parts cleaning.

Our inventory of used solvent has fluctuated and it may continue to fluctuate. If we are unable to sell our reuse inventory, we may be required to write down the value of the inventory, and we may incur additional costs for storage and/or disposal which would adversely impact our operating results. In addition, while we sold enough used solvent to satisfy speculative accumulation requirements of the EPA for fiscal 2015 and prior years, we may not in future years.

Our future capital needs are uncertain and our ability to access additional financing may be negatively impacted by the volatility and disruption of the capital and credit markets and adverse changes in the global economy.

Our capital requirements in the future will depend on many factors, including:

- acceptance of and demand for and pricing of our products and services;
- the extent to which we invest in new technology and product development;

- the costs of developing new products, services or technologies;
- our interest and principal payment obligations under the additional indebtedness that we incurred in connection with acquisition of FCC Environmental; and
- the costs associated with the growth of our business, if any.

If global economic conditions worsen, we could experience a decrease in cash flows from operations and may need additional financing to fund operations and access to additional debt or equity may not be available on acceptable terms or at all. In addition, the terms of the Credit Agreement restrict our ability to incur additional indebtedness. If we cannot raise funds on acceptable terms when necessary, we may not be able to develop or enhance products and services, execute our business plan, take advantage of future opportunities or respond to competitive pressures or unanticipated customer requirements.

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. For example, our pollution legal liability insurance excludes costs related to fines, penalties, or assessments. 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 could be materially and adversely affected.

We are subject to potential liability claims relating to our services and products.

We offer our customers specific guarantees that we will be responsible for all expenses resulting from any spill that occurs while we are transporting, processing, or disposing of customers' used solvent and other waste. Accordingly, we may be required to indemnify our customers for any liability under CERCLA or other environmental, employment, health and safety laws and regulations. We may also be exposed to product liability claims by our customers, users of our parts cleaning products, or third parties claiming damages stemming from the mechanical failure of parts cleaned with solvents and/or equipment provided by us. Although we maintain product liability insurance coverage, if our insurance coverage proves inadequate or adequate insurance becomes unreasonably costly or otherwise unavailable, future claims may not be fully insured. An uninsured or partially insured successful claim against us could have a material adverse effect on our business, financial condition, and results of operations.

Litigation related to personal injury from exposure to solvents and the operation of our business may result in significant liabilities and affect our profitability.

We have been and in the future may be involved in claims and litigation filed on behalf of persons alleging injury predominantly as a result of exposure to hazardous chemicals that are a part of the solvents that we provide. In addition, the hazards and risks associated with the use, transport, storage, handling, and disposal of our customers' waste by us and our customers (such as fires, natural disasters, explosions, and accidents) and our customers' improper

or negligent use or misuse of solvent to clean parts may also expose us to personal injury claims, property damage claims, and/or products liability claims from our customers or third parties. As protection against such claims and operating hazards, we maintain insurance coverage against some, but not all, potential losses. However, we could sustain losses for uninsurable or uninsured risks, or in amounts in excess of existing insurance coverage. Due to the unpredictable nature of personal injury litigation, it is not possible to predict the ultimate outcome of these claims and lawsuits, and we may be held liable for significant personal injury or damage to property or third parties, or other losses, that are not fully covered by our insurance, which could have a material adverse effect on our business.

Our fixed cost structure may result in reduced earnings or a loss.

Our network, including our re-refinery and other facilities, fleet, and personnel, subjects us to fixed costs, which makes our margins and earnings sensitive to changes in revenues. In periods of declining demand, our fixed cost structure may limit our ability to cut costs, which may put us at a competitive disadvantage to firms with lower cost structures, or may result in reduced operating margins and operating losses.

We are dependent on third parties to supply us with the necessary components and materials to service our customers. We are also dependent on third party transport, including rail, recycling, and disposal contractors.

In the operation of our business, we supply a large amount of virgin solvent and parts cleaning equipment to our customers. We do not maintain extensive inventories for most of these products. If we become unable to obtain, or experience delays in the transportation of, adequate supplies and components in a timely and/or cost-effective manner, we may be unable to adequately provide sufficient quantities of our services and products to our customers, which could have a material adverse effect on our financial condition and results of operations.

We are dependent on third parties for the disposal of most of our customers' non-used oil waste streams. We and our third party transporters ship waste collected from our customers to a number of third party recycling and disposal facilities, including incinerators, landfill operators, and waste-to-energy facilities. We generally do not have long-term fixed price contracts with our third party contractors. If our current disposal vendors or subcontractors cannot perform up to our standards, our reputation with our customers could be damaged, and we may be required to replace these vendors. Although we believe there are a number of potential replacement disposal vendors and subcontractors that could provide such services, we may incur additional costs and delays in identifying and qualifying such replacements. In addition, any mishandling of our customers' waste streams by disposal vendors or subcontractors could expose both us and our customers to liability. Any failure by disposal vendors or subcontractors to properly collect, transport, handle or dispose of our customers' waste streams, or any insolvency or business closure of disposal vendors or subcontractors, could expose us to liability, damage our reputation and generally have a material adverse effect on our business, financial condition, or results of operations.

The operation of our antifreeze recycling centers and oily water processing facilities expose us to additional risks beyond those encountered in our traditional service businesses.

Similar to our re-refining operation, the operations of our antifreeze recycling centers and oily water processing facilities expose us to risks related to the potential contamination of feedstock, adverse environmental impact of a spill or other release, or the risk of injury to our employees or others. While we may maintain some insurance that covers portions of these exposures, in many cases the risks are uninsurable, or we will not choose to procure insurance at levels that will cover all potential exposure.

A system failure could delay or interrupt our ability to provide services and products and could increase our costs and reduce our sales.

Our operations are dependent upon our ability to support our branch infrastructure. Our business operates through four hubs that service our 82 local branches. Any damage or failure that causes interruptions in our operations could result in the loss of customers. To date, we have not experienced any significant interruptions or delays which have affected our ability to provide services and products to our customers. The occurrence of a natural disaster, technological, transportation, or operational disruption or other unanticipated problem could cause interruptions in the services we provide and impair our ability to generate sales and achieve profits.

We may not be able to protect our intellectual property adequately.

We rely upon know-how and technological innovation and other trade secrets to develop and maintain our competitive position. We rely, to a significant extent, on trade secrets, confidentiality agreements, and other contractual provisions to protect our proprietary technology, and such agreements may not adequately protect us. Our competitors could gain knowledge of our know-how or trade secrets, either directly or through one or more of our employees or other third parties. Although we do not regard any single trade secret or component of our proprietary know-how to be material to our operations as a whole, if one or more of our competitors were to use or independently develop such know-how or trade secrets, our market share, sales volumes and profit margins could be adversely affected.

In the event we become involved in defending or pursuing intellectual property litigation, such action may increase our costs and divert management's time and attention from our business. In addition, any potential intellectual property litigation could force us to take specific actions, including, but not limited to, the following:



- 1 cease selling products that use the challenged intellectual property;
- 1 obtain from the owner of the infringed intellectual property a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or
- 1 redesign those products that use infringing intellectual property.

We have substantial financial assurance requirements, and increases in the costs of obtaining adequate financial assurance could negatively impact our business, financial condition or results of operations.

We are required by environmental laws to provide financial assurance that funds will be available when needed for closure and post-closure remediation costs at some of our treatment and storage facilities, the costs of which could be substantial. We typically have several options to demonstrate satisfactory financial assurance requirements, including letters of credit, surety bonds, trust funds, and a financial (net worth) test. The financial assurance instrument is provided for the benefit of the permitting authority and is not available for use at our discretion. The amount of financial assurance required varies by state and is subject to potentially significant increases by regulators. The cost of financial assurance instruments is difficult to accurately predict and depends on many factors, some of which are outside of our control, including the availability of instruments in the marketplace, the amount and form of financial assurance required by a state, our creditworthiness and our operating history. General economic factors, including developments within the insurance industry, may adversely affect the cost of our current financial assurance instruments and changes in regulations may impose stricter requirements on the types of financial assurance that will be accepted. In the event the cost of financial assurance instruments we are required to provide increases or we are otherwise unable to obtain sufficient coverage, our business, financial condition, or results of operations could be materially adversely affected. Our ability to continue conducting our industrial waste management operations could be adversely affected if we should become unable to obtain sufficient insurance and/or financial assurance to meet our business and regulatory requirements in the future.

A Cyber Incident could result in information theft, data corruption, operational disruption, and/or financial loss.

Businesses have become increasingly dependent on digital technologies to conduct day-to-day operations. At the same time, cyber incidents, including deliberate attacks or unintentional events, have increased. A cyber-attack could include gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption or result in denial of service on websites.

We are increasingly dependent on digital technology, including information systems and related infrastructure, to process and record financial and operating data, and communicate with our employees and business partners.

Our technologies, systems, networks, and those of our business partners may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss, or destruction of proprietary and other information, or other disruption of our business operations.

Although to date we have not experienced any losses relating to cyber-attacks, there can be no assurance that we will not suffer such losses in the future. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Climate change legislation or regulations restricting emissions of “Greenhouse Gases” could result in increased operating costs and reduced demand for our services.

In 2009, the EPA published its findings that emissions of carbon dioxide, methane, and other greenhouse gases (“GHGs”), present an endangerment to public health and the environment because emissions of such gases are, according to the EPA, contributing to the warming of the earth's atmosphere and other climate changes. These findings allow the EPA to adopt and implement regulations that would restrict emissions of GHGs under existing provisions of the federal Clean Air Act. The EPA has adopted two sets of regulations under the existing Clean Air Act that would require a reduction in emissions of GHGs from motor vehicles and could trigger permit review for GHG emissions from certain stationary sources. In addition, both houses of Congress have actively considered legislation to reduce emissions of GHGs, and almost one-half of the states have taken legal measures to reduce emissions of GHGs, primarily through the planned development of GHG emission inventories and/or regional GHG cap and trade programs. Most of these cap and trade programs work by requiring either major sources of emissions or major producers of fuels to acquire and surrender emission allowances, with the number of allowances available for purchase reduced each year until the overall GHG emission reduction goal is achieved. The adoption and implementation

of any regulations imposing GHG reporting obligations on, or limiting emissions of GHGs from, our equipment and operations could require us to incur costs to monitor emissions and to reduce emissions of GHGs associated with our operations.

#### Risks Related to our Common Stock

The price of our shares of common stock may be volatile.

The trading price of shares of our common stock may fluctuate substantially. In particular, it is possible that our operating results may be below the expectations of public market analysts and investors, including the results of our entry into the used oil re-refining industry, and, as a result of these and other factors, the price of our common stock may decline. These fluctuations could cause you to lose part or all of your investment in shares of our common stock. Factors that could cause fluctuations include, but are not limited to, the following:

- 1 variations in our operating results, including variations due to changes in the price of crude oil or base lubricating oil;
- 1 announcements by us, our competitors, or others of significant business developments, changes in customer relationships, acquisitions, or expansion plans;
- 1 analysts' earnings estimates, ratings, and research reports;
- 1 the depth and liquidity of the market for our common stock;
- 1 speculation in the press;
- 1 strategic actions by us or our competitors, such as sales promotions or acquisitions;
- 1 actions by our large stockholders or by institutional and other stockholders;
- 1 material litigation;
- 1 conditions in the industrial and hazardous waste services industry as a whole and in the geographic markets served by our branches; and
- 1 domestic and international economic factors unrelated to our performance.

The stock markets, in general, periodically experience volatility that is sometimes unrelated to the operating performance of particular companies. These broad market fluctuations may cause the trading price of our common stock to decline.

The small public float for our shares may make it difficult to sell your shares and may cause volatility in our stock price.

A substantial portion of our shares of common stock are closely held by certain inside investors, and our common stock has experienced limited trading volume since our initial public offering. As of January 2, 2016, our directors and executive officers, and stockholders affiliated with our directors and executive officers, beneficially owned 41.5% of our common stock. In addition, under a participation rights agreement between us and The Heritage Group, an affiliate of our Chairman Fred Fehsenfeld ("Heritage"), Heritage has the right, except in limited circumstances, to purchase shares from us when we issue common stock so that its percentage ownership interest in our common stock does not decrease. Therefore, if Heritage purchases all of the shares reserved for sale to Heritage when we issue common stock, Heritage will maintain its ownership interests in our common stock. Consequently, our public float is expected to remain small for a public company, the availability of our shares may be limited, and you may encounter difficulty selling your shares or obtaining a suitable price at which to sell your shares. In addition, as a result of the small float, you could experience meaningful volatility in the trading price of our common stock.

There may be future sales or issuances of our common stock, which will dilute the ownership interests of stockholders and may adversely affect the market price of our common stock.

We may issue additional common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or substantially similar securities, which may result in dilution to our stockholders. In addition, our stockholders may be further diluted by future issuances, or exercises or vesting of outstanding equity awards, under our equity incentive plans. Sales of substantial amounts of common stock by us or our stockholders in the public market could adversely affect the market price of the common stock. The market price of our common stock could decline as a result of sales or issuances of a large number of our common stock or similar securities in the market after this offering or the perception that such sales or issuances could occur.

If securities or industry analysts do not publish research or reports about our business or publish unfavorable research, or our results are below analysts' estimates, our stock price and trading volume could decline.

The trading market for our common stock may depend on the research and reports that industry or securities analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our stock or our results are below analysts' estimates, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if our operating results do not meet the expectations of the investor community, it is possible that the analysts who cover us may change their recommendations regarding our company, and our stock price could decline.

Heritage, the Fehsenfeld family trusts, and Mr. Fehsenfeld are affiliates of each other and have significant influence over our company, and their influence could delay or deter a change of control or other business combination or otherwise cause us to take actions with which you may disagree.

As of January 2, 2016, Heritage, the Fehsenfeld family trusts and Mr. Fehsenfeld, who are all affiliates of each other (collectively, the "Heritage Stockholders"), collectively beneficially own over 33.9% of our common stock. As a result, the Heritage Stockholders have significant influence over the outcome of matters requiring a stockholder vote, including the election of directors and the approval of significant matters and their interests may not align with the interest of other stockholders. This concentration of voting power could have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to our stockholders.

We are required to evaluate our internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and could have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to furnish a report by our management on our internal control over financial reporting. Such report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. Each year we must prepare or update the process documentation and perform the evaluation needed to comply with Section 404. During this process, if our management identifies one or more material weaknesses in our internal control over financial

reporting, we will be unable to assert such internal control is effective. Ensuring that we have adequate internal financial and accounting controls and procedures in place is a costly and time-consuming effort that needs to be re-evaluated frequently. We and our independent auditors may in the future discover areas of our internal controls that need further attention and improvement, particularly with respect to any other businesses that we decide to acquire in the future. Implementing any appropriate changes to our internal controls may require specific compliance training of our directors, officers, and employees, entail substantial costs in order to modify our existing accounting systems, and take a significant period of time to complete. Such changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could harm our ability to operate our business. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Investor perception that our internal controls are inadequate or that we are unable to produce accurate financial statements on a timely, consistent basis may adversely affect our stock price. Failure to comply with Section 404 could also potentially subject us to sanctions or investigations by the Securities and Exchange Commission, ("SEC"), NASDAQ, or other regulatory authorities.

We do not currently intend to pay cash dividends on our common stock to our stockholders and any determination to pay cash dividends in the future will be at the discretion of our Board of Directors.

We currently intend to retain any profits to provide capacity for general corporate uses and growth of our business. Our Board of Directors does not intend to declare cash dividends in the foreseeable future. Any determination to pay dividends to our stockholders in the future will be at the discretion of our Board of Directors and will depend on our results of operations, financial condition, and other factors deemed relevant by our Board of Directors. Further, our Credit Agreement restricts the payment of dividends. Consequently, it is uncertain when, if ever, we will declare dividends to our stockholders. If we do not pay dividends, investors will only obtain a return on their investment if the value of our shares of common stock appreciates. In addition, the terms of our existing or future borrowing arrangements may limit our ability to declare and pay dividends.

Provisions in our certificate of incorporation and bylaws and under Delaware law could prevent or delay transactions that stockholders may favor.

Our company is incorporated in Delaware. Our certificate of incorporation and bylaws, as well as Delaware corporate law, contain provisions that could delay or prevent a change of control or changes in our management that a stockholder might consider favorable, including a provision that authorizes our Board of Directors to issue preferred stock with such voting rights, dividend rates, liquidation, redemption, conversion, and other rights as our Board of Directors may fix and without further stockholder action. The issuance of preferred stock with voting rights could make it more difficult for a third party to acquire a majority of our outstanding voting stock. This could frustrate a change in the composition of our Board of Directors, which could result in entrenchment of current management. Takeover attempts generally include offering stockholders a premium for their stock. Therefore, preventing a takeover attempt may cause you to lose an opportunity to sell your shares at a premium. If a change of control or change in management is delayed or prevented, the market price of our common stock could decline.

Delaware law also prohibits a corporation from engaging in a business combination with any holder of 15% or more of its capital stock until the holder has held the stock for three years unless, among other possibilities, the Board of Directors approves the transaction. This provision may prevent changes in our management or corporate structure. Also, under applicable Delaware law, our Board of Directors is permitted to and may adopt additional anti-takeover measures in the future.

Our certificate of incorporation provides that the affirmative vote of at least seventy-five percent (75%) of our total voting power is required to amend our certificate of incorporation or to approve mergers, consolidations, conversions, or the sale of all or substantially all of our assets. Given the voting power of the Heritage Stockholders, we would need the approval of two of the Heritage Stockholders for any of these transactions to occur.

Our bylaws provide for the division of our Board of Directors into three classes with staggered three year terms. The classification of our Board of Directors could have the effect of making it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of us.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

Corporate Headquarters. Our headquarters is based in a 31,935 square foot leased facility in Elgin, Illinois and is leased with a term expiring in 2022.

Re-refinery and recycling operations. We own and operate a used oil re-refinery in Indianapolis, IN, with an annual nameplate capacity of approximately 75 million gallons of used oil feedstock and we own and operate a solvent recycling facility at the same site which has an annual capacity of approximately six million gallons. We operate three antifreeze recycling centers, and own the property where one is located and lease the property where the other two are located. In addition, we operate 13 oil processing facilities, of which five also perform waste water treatment, and two process used oil filters. Our wastewater treatment operations have the capacity to process approximately 150 million gallons per year. We own the properties where 12 of our oil processing operations are located, including all of our waste water treatment operations and one of our used oil filter processing operations. We lease the remaining oil processing facility with a term of year to year tenancy.

30

---



Hubs. We operate four hubs. One in Indianapolis, IN; Shreveport, LA; Philadelphia, PA; and Atlanta, GA. All of our hubs are leased with terms ranging two to ten years. These operating hubs are warehouse operations with the capability to receive and unload multiple trailers. The used solvent that arrives at the hubs is bulked and stored for future sale or stored for future recycling at our solvent recycling unit, depending on whether the used solvent came from our non-hazardous program or our reuse program. Drums of hazardous and non-hazardous waste that arrive at the hubs are organized based on the destination facility. These drums are staged and loaded back into trailers for reshipment to recyclers, incinerators, landfills, and waste-to-energy facilities.

Branches. We operate 82 branches that vary in size and serve customer locations in 43 states, the District of Columbia, and parts of Ontario, Canada. Depending on the maturity of our branches, our branch facilities range from small locations that only provide space to park a few vehicles and semi-trailers to larger locations that provide office space and warehouse storage as well as additional parking. We own 15 branches, and the remaining 67 are leased with terms ranging from month-to-month to up to nine years.

### ITEM 3. LEGAL PROCEEDINGS

We are a party to various general legal proceedings that arise in the ordinary course of business. We are not currently party to any legal proceedings that we expect, either individually or in the aggregate, to have a material adverse effect on our business, financial condition, results of operations, and cash flows, except as provided below. From time to time, we are involved in lawsuits that are brought against us in the normal course of business.

In the second quarter of fiscal 2015, we received a proposed penalty from the United States Environmental Protection Agency ("EPA") for \$0.4 million related to violations at a site in Virginia purchased from FCC Environmental ("the seller") in October 2014. The violations occurred prior to our taking possession of the site, and we believe that we are indemnified for any potential fine related to this site by the seller. As such, the proposed penalty did not impact earnings during fiscal 2015.

In the second quarter of fiscal 2015, the United States EPA initiated a proceeding against the Company with respect to alleged improper management of PCB contaminated material that occurred at our Indianapolis, Indiana re-refinery in 2013. We are currently in negotiations with the EPA to determine the final amount of any penalty or compensatory payment related to this incident, which could be up to \$0.9 million. As of the end of fiscal 2015 we have accrued less than the maximum potential amount of this penalty, which is an amount that we believe to be the most likely outcome for this potential penalty, as the ultimate outcome of this matter cannot be determined at this time.

On July 1, 2015, we received a grand jury subpoena from the DOJ, along with the EPA, requesting certain materials related to the transportation and disposal of wastewater generated by IPC/FCCE and the due diligence documents provided to us in connection with our acquisition of IPC. While we have received little information about this investigation, we intend to cooperate with the EPA and DOJ in an attempt to resolve the matter. Our acquisition of the IPC business is governed by a Stock Purchase Agreement which obligates the Seller to indemnify us for certain costs that may arise in connection with this matter. With the exception of attorney's fees and related expenses, no amounts have been accrued related to this investigation as a prediction of the ultimate outcome of this matter cannot be determined.

On February 11, 2016, the company received an information request from the U.S. EPA (EPA) regarding the operation of our Indianapolis, IN re-refinery in relation to our Clean Air Act permit for the facility. We are cooperating fully with the EPA's information request.

FCC Environmental Acquisition

On October 16, 2014, we purchased the outstanding stock of FCC Environmental, pursuant to a Stock Purchase Agreement (the "Agreement") between the Company and Dédalo Patrimonial S.L.U. (the "Seller") for \$90.0 million in cash subject to various adjustments including a working capital adjustment. The initial working capital adjustment, agreed upon between the Company and the Seller, was \$1.2 million, which decreased the purchase price to \$88.8 million as of the closing date of the transaction. According to the terms of the Agreement, we prepared a final working capital statement, along with supporting information. The Seller has disputed our final working capital statement, which showed a significant deficit in working capital. If we cannot agree with the Seller on the final working capital adjustment amount, then the amount will be determined by a third party. If the Company is not successful in this working capital dispute, it may materially impact the financial results of the Company.

On October 16, 2014, we purchased all stock in International Petroleum Corp. of Delaware (“IPC”) as part of the acquisition of FCC Environmental, LLC. IPC operated a wastewater facility in Wilmington, Delaware (“Facility”). We had been informed that IPC had entered into an agreement with the City of Wilmington (the “City”) regarding permit violations in 2011-2012 related to water and waste disposal activities. Prior to our Acquisition, a fine was paid by IPC, and its wastewater discharge permit was voluntarily surrendered. In February 2015, we learned that an investigation of such prior activities at the Facility by the EPA and DOJ is continuing. While we have received little information about this investigation, we intend to cooperate with the EPA and DOJ in an attempt to resolve the matter. The Company has recorded legal and related expenses of approximately \$2.2 million during fiscal 2015. No amounts have been accrued for potential fines or penalties related to this investigation.

#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

## Common Stock

Our common stock trades on the NASDAQ Global Select Market under the symbol "HCCI". The following table sets forth the high and low sales prices of our common stock for the indicated periods as reported by NASDAQ.

2014	High	Low
First Quarter	\$20.67	\$15.89
Second Quarter	\$18.56	\$14.32
Third Quarter	\$19.86	\$14.91
Fourth Quarter	\$19.13	\$9.73
2015	High	Low
First Quarter	\$13.39	\$10.70
Second Quarter	\$15.69	\$11.06
Third Quarter	\$16.11	\$10.43
Fourth Quarter	\$12.76	\$8.90

On March 14, 2016, the closing price of our common stock on the NASDAQ Global Select Market was \$8.97 per share. On March 14, 2016, there were 403 stockholders of record of our common stock. Several brokerage firms, banks, and other institutions ("nominees") are listed once on the stockholders of record listing. However, in most cases, the nominees' holdings represent blocks of our common stock held in brokerage accounts for a number of individual stockholders. As such, our actual number of beneficial stockholders would be higher than the number of registered stockholders of record.

We have never declared nor paid any cash dividends on our common stock, and we do not intend to pay any dividends on our common stock in the foreseeable future. We intend to retain any future earnings for use in the operation and expansion of our business and payment of our outstanding debt. In addition, our current credit agreement prohibits us from paying cash dividends on our common stock (see "Liquidity and Capital Resources" under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations").

## Performance Graph

The graph set forth below compares the cumulative total stockholder return on our common stock between January 2, 2011 and January 2, 2016, with the cumulative total return of (i) the NASDAQ Composite Index and (ii) the NASDAQ Industrial Index, over the same period. This graph assumes the investment of \$100 on January 2, 2011 in our common stock, in the NASDAQ Composite Index, and in the NASDAQ Industrial Index, and assumes the reinvestment of dividends, if any.

The comparisons shown in the graph below are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.

	January 2, 2011	December 31, 2011	December 29, 2012	December 28, 2013	January 3, 2015	January 2, 2016
Heritage-Crystal Clean, Inc.	\$ 100.00	\$ 165.00	\$ 148.00	\$ 197.00	\$ 122.00	\$ 105.00
NASDAQ Composite Index	\$ 100.00	\$ 98.00	\$ 110.00	\$ 157.00	\$ 178.00	\$ 189.00
NASDAQ Industrial Index	\$ 100.00	\$ 99.00	\$ 116.00	\$ 169.00	\$ 173.00	\$ 188.00

## Securities Authorized for Issuance under Equity Compensation Plans

See Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," for a description of the securities which are authorized for issuance under our equity compensation plans.

## ITEM 6. SELECTED FINANCIAL DATA

The following summary of consolidated financial information has been derived from the audited consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data," of this report. This information should be reviewed in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the consolidated financial statements and the notes thereto included in Item 8, "Financial Statements and Supplementary Data" of this report. Our fiscal year ends on the Saturday closest to December 31. "Fiscal 2015" represents the 52-week period ended January 2, 2016. "Fiscal 2014" represents the 53-week period ended January 3, 2015. "Fiscal 2013" represents the 52-week period ended December 28, 2013. "Fiscal 2012" represents the 52-week period ended December 29, 2012. "Fiscal 2011" represents the 52-week period ended December 31, 2011. We have derived the statement of operations for

Edgar Filing: Heritage-Crystal Clean, Inc. - Form 10-K

the fiscal years ended December 29, 2012 and December 31, 2011 and the balance sheet data at December 28, 2013, December 29, 2012, and December 31, 2011, from our audited consolidated financial statements not included in this report.

	Fiscal Year				
	(Dollars in thousands, except per share data)				
	2015	2014	2013	2012	2011
<b>STATEMENTS OF OPERATIONS DATA<sup>(a)</sup>:</b>					
<b>Revenues</b>					
Product revenues	\$ 134,320	\$ 160,079	\$ 132,409	\$ 119,470	\$ 39,149
Service revenues	215,698	178,973	150,727	133,021	113,709
<b>Total revenues</b>	<b>\$ 350,018</b>	<b>\$ 339,052</b>	<b>\$ 283,136</b>	<b>\$ 252,491</b>	<b>\$ 152,858</b>
<b>Operating Expenses</b>					
Operating Costs	\$ 280,708	\$ 290,622	\$ 234,638	\$ 213,568	\$ 124,000
Selling, general, and administrative expenses	45,269	45,646	30,274	26,194	20,715
Depreciation and amortization	17,197	12,877	9,524	8,141	5,657
Impairment of goodwill	3,952	—	—	—	—
Other (income) expense - net	(1,297)	(434)	210	6	(10)
<b>Operating income (loss)</b>	<b>4,189</b>	<b>(9,659)</b>	<b>8,490</b>	<b>4,582</b>	<b>2,496</b>
Interest expense - net	1,880	689	417	585	37
Income (loss) before income taxes	\$ 2,309	\$ (10,348)	\$ 8,073	\$ 3,997	\$ 2,459
Provision (benefit from) for income taxes	899	(3,483)	3,428	1,743	985
<b>Net income (loss)</b>	<b>1,410</b>	<b>(6,865)</b>	<b>4,645</b>	<b>2,254</b>	<b>1,474</b>
Income attributable to noncontrolling interest	160	143	100	—	—
<b>Income (loss) attributable to Heritage-Crystal Clean, Inc. common stockholders</b>	<b>\$ 1,250</b>	<b>\$ (7,008)</b>	<b>\$ 4,545</b>	<b>\$ 2,254</b>	<b>\$ 1,474</b>
Net income (loss) per share available to common stockholders: basic	\$ 0.06	\$ (0.38)	\$ 0.25	\$ 0.13	\$ 0.10
Net income (loss) per share available to common stockholders: diluted	\$ 0.06	\$ (0.38)	\$ 0.24	\$ 0.13	\$ 0.10

Number of weighted average common shares outstanding :

	2015	2014	2013	2012	2011
Basic	22,146	18,604	18,224	16,921	14,313
Diluted	22,408	18,604	18,552	17,363	14,710

<sup>(a)</sup> On October 16, 2014, we acquired FCC Environmental. FCC Environmental's operating results are consolidated into our financial statements from the date of acquisition.

	Fiscal Year				
	2015	2014	2013	2012	2011
<b>OTHER OPERATING DATA</b>					
<b>(UNAUDITED):</b>					
Average revenues per working day - Environmental Services (in thousands)	895	740	615	550	470
Number of branches at end of fiscal year	82	84	74	71	67



	At Fiscal Year End (In thousands)				
	2015	2014	2013	2012	2011
<b>BALANCE SHEET DATA:</b>					
Cash and cash equivalents	\$23,608	\$21,555	\$22,632	\$47,766	\$2,186
Total assets	303,265	319,819	215,958	199,111	134,056
Total debt	70,895	79,153	20,958	20,881	21,891
Total stockholders' equity	\$189,833	\$187,414	\$159,304	\$149,391	\$78,553

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Disclosure Regarding Forward-Looking Statements

You should read the following discussion in conjunction with our consolidated financial statements and related notes in our Annual Report on Form 10-K. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties, and assumptions that could cause actual results to differ materially from our expectations. Factors that could cause such differences include those described in the section titled "Risk Factors" and elsewhere in our Annual Report on Form 10-K. We undertake no obligation to update any of the forward-looking statements. Certain tabular information may not foot due to rounding. Our fiscal year ends on the Saturday closest to December 31. "Fiscal 2015" represents the 52-week period ended January 2, 2016. "Fiscal 2014" represents the 53-week period ended January 3, 2015. "Fiscal 2013" represents the 52-week period ended December 28, 2013.

### Overview

We provide parts cleaning, containerized waste management, used oil collection, vacuum truck services, antifreeze recycling, and field services, and we own and operate a used oil re-refinery where we re-refine used lubricating oils into high quality lubricant base oil and by-products. We are the second largest provider of industrial and hazardous waste services to small and mid-sized customers in both the vehicle maintenance and manufacturing services industries, and we have the second largest used oil re-refining capacity in North America. Our services help our customers manage their used chemicals and liquid and solid wastes, while also helping to minimize their regulatory burdens. We operate from a network of 82 branch facilities providing services to customers in 43 states and parts of Canada. We conduct business through two principal operating segments: Environmental Services and Oil Business.

Our Environmental Services segment revenues are generated primarily from providing parts cleaning, containerized waste management, vacuum truck, and antifreeze recycling services. Revenues from this segment accounted for approximately 65% of our total company revenues for fiscal 2015. In the Environmental Services segment, we define and measure same-branch revenues for a given period as the subset of all our branches that have been open and operating throughout and between the periods being compared, and we refer to these as established branches. We calculate average revenues per working day by dividing our revenues by the number of non-holiday weekdays in the applicable fiscal year or fiscal quarter.

Our Oil Business segment consists of our used oil collection and used oil re-refining activities, which accounted for approximately 35% of our fiscal 2015 total company revenues.

No single customer accounted for more than 10% of consolidated revenues in fiscal 2015, 2014, or 2013. There were no intersegment revenues during fiscal 2015.



We have established prices for our services, based on the relevant business variables for each service. With respect to our parts cleaning services, our pricing reflects the type of parts cleaning machine we provide (if any), the frequency of service visits, and the quantity and grade of solvent or other cleaning chemistry required. For our other services, our pricing typically reflects the nature and quality of the waste materials removed. Our customer agreements typically provide for annual renewal and price increases. With respect to our oil product sales, some prices are set through contracts or purchase orders with customers, which may be based on the market prices of an underlying commodity or market indicator.

Our operating costs include the costs of the materials we use in our products and services, such as used oil collected from customers or purchased from third party collectors, solvent, and other chemicals. The used solvent that we retrieve from customers in our product reuse program is accounted for as a reduction in our net cost of solvent under operating costs, whether placed in inventory or sold to a purchaser for reuse. Changes in the price of crude oil can impact operating costs indirectly as it may impact the price we pay for solvent or used oil, although we attempt to offset volatility in the oil markets by managing the spread between the costs we pay for our materials and the prices we charge for our products and services. Operating costs also include transportation of solvents and waste, payments to third parties to recycle or dispose of the waste materials that we collect, and the costs of operating our re-refinery, recycling centers, hubs, and branch system including personnel costs (including commissions), facility rent, truck leases, fuel, and maintenance. Our operating costs as a percentage of sales generally increase in relation to the number of new branch openings. As new branches achieve route density and scale efficiencies, our operating costs as a percentage of sales generally decrease.

We use profit before corporate selling, general, and administrative expenses ("SG&A") as a key measure of segment profitability. We define profit before SG&A as revenue less operating costs and depreciation and amortization from operations.

Our selling, general, and administrative expenses include the costs of performing centralized business functions, including sales management at or above the regional level, business management, billing, receivables management, accounting and finance, information technology, environmental health and safety, and legal.

We operate a used oil re-refinery located in Indianapolis, Indiana, through which we recycle used oil into high quality lubricant base oil and by-products. We supply the base oil to firms that produce and market finished lubricants. Late in the fourth quarter of 2015, we completed the expansion of our re-refinery that yields an annual input capacity of approximately 75 million gallons of used oil feedstock, allowing it to produce approximately 45 million gallons of lubricating base oil per year when operating at full capacity.

On October 16, 2014, we acquired the outstanding stock of FCC Environmental LLC and International Petroleum Corp. of Delaware (together, "FCC Environmental") from Dédalo Patrimonial S.L.U. for \$88.8 million in cash, subject to customary post-closing adjustments (the "Acquisition" or the "FCC Environmental Acquisition"). In 2013, FCC Environmental was a significant collector of used oil by volume in the United States. FCC Environmental also offered oily water disposal and treatment, parts cleaning, vacuum services, antifreeze recycling, oil filter recycling, on-site cleaning, and waste management services in 21 states in the South and along the Eastern seaboard of the United States. The financial data of FCC Environmental prior to October 16, 2014 is not incorporated into our audited financial statements for fiscal 2014.

For further discussion on these acquisitions, see Note 3 in our consolidated financial statements included elsewhere in this document.

## Critical Accounting Policies

Critical accounting policies are those that both are important to the accurate portrayal of a company's financial condition and results and require subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

In order to prepare financial statements that conform to accounting principles generally accepted in the United States, commonly referred to as GAAP, we make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may be significantly different from our expectations.

We have identified the following accounting policies as those that require us to make the most subjective or complex judgments in order to fairly present our consolidated financial position and results of operations. Actual results in these areas could differ materially from management's estimates under different assumptions and conditions.

### Acquisitions

We account for acquired businesses using the purchase method of accounting, which requires that the assets acquired, liabilities assumed, and contingent consideration be recorded as of the date of acquisition at their respective fair values. It further requires acquisition-related costs to be recognized separately from the acquisition and expensed as incurred and restructuring costs to be expensed in periods subsequent to the acquisition date.

### Identifiable Intangible Assets

The fair value of intangible assets may be based on significant judgments made by management. We sometimes engage third party valuation appraisal firms to assist us in determining the fair values and useful lives of the assets acquired. Such valuations and useful life determinations require us to make significant estimates and assumptions. These estimates and assumptions are based on historical experience and information obtained from the management of the acquired companies, and also include, but are not limited to, future expected cash flows to be earned from the continued operation of the acquired business and discount rates applied in determining the present value of those cash flows. Unanticipated events and circumstances may occur that could affect the accuracy or validity of such assumptions, estimates, or actual results. These intangible assets are amortized on a straight-line basis over their estimated economic lives.

### Goodwill

Goodwill is measured as a residual amount as of the acquisition date, which in most cases results in measuring goodwill as an excess of the purchase consideration transferred plus the fair value of any noncontrolling interest in the acquiree over the fair value of the net assets acquired, including any contingent consideration. The Company tests goodwill for impairment annually in the fourth quarter and in interim periods if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company's determination of fair value requires certain assumptions and estimates, such as margin expectations, market conditions, growth expectations, expected changes in working capital, etc., regarding expected future profitability and expected future cash flows. The Company tests goodwill for impairment at each of its two reporting units, Environmental Services and Oil Business, and the Company does not aggregate reporting units for purposes of impairment testing.

In fiscal 2015, we tested goodwill for impairment. In fiscal 2015, the fair value of the Environmental Services reporting unit was substantially in excess of its carrying value. In fiscal 2015, our tests indicated impairment of all of the goodwill in our Oil Business reporting unit. Therefore during the fourth quarter of fiscal 2015 we recorded a charge of approximately \$4.0 million related to impairment of goodwill in our Oil Business reporting unit. The facts and circumstances leading to the impairment are primarily related to the deterioration of market conditions in the markets in which the Company's Oil Business reporting unit operates. The deterioration of those market conditions is manifested in lower average selling prices for the Company's re-refined lubricating base oil, recycled fuel oil, and byproducts within the Oil Business. The method for determining the fair value of the Oil Business reporting unit was a combination of an income approach using a discounted cash flow method in combination with a market approach using a guideline company method. There is a moderate degree of uncertainty associated with key Oil Business fair value assumptions such as the selling prices of our oil products and byproducts, the price paid or charged for raw material inputs such as used oil, operating efficiency of the used oil re-refinery,

etc. A contraction of the spread between the selling prices of our oil products and the price paid or charged to vendors for raw material inputs could reasonably be expected to negatively affect the key assumptions used to determine fair value.

#### Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Consistent with industry practices, we require payment from most customers within 30 days of invoice date. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on analysis of customer creditworthiness, historical losses, and general economic trends and conditions. We perform periodic credit evaluations of our customers and typically do not require collateral. We have an estimation procedure, based on historical data and recent changes in the aging of these receivables that we use to record reserves throughout the year. In the last five years, our provisions for doubtful accounts have averaged 0.4% of sales. We do not have any off-balance sheet credit exposure related to our customers.

#### Inventory

Inventory consists primarily of used oil, processed oil, catalyst, new and used solvents, new and used antifreeze products, new and refurbished parts cleaning machines, drums, and other items. Inventories are valued at the lower of first-in, first-out ("FIFO") cost or market, net of any reserves for excess, obsolete, or unsalable inventory. We perform a physical inventory count on a periodic basis and use the results of these counts to determine inventory quantities. The quantities are used to help determine the value of our inventory. We continually monitor our inventory levels at each of our distribution locations and evaluate inventories for excess or slow-moving items.

In evaluating inventory for impairment, the Company considers factors that impact the lower-of-cost-or-market valuation of inventory, including declines in replacement cost and declines in net realizable value. In evaluating inventory for impairment, the Company assumes that current market conditions such as replacement cost per unit and net realizable value per unit shall remain stable throughout the period of time over which the inventory on hand turns. If circumstances indicate the cost of inventories exceed their recoverable value, inventories are reduced to net realizable value. In fiscal 2015, we recorded inventory impairment charges totaling \$9.2 million to reflect the lower value of our used oil and processed oil, and solvents and solutions inventory.

#### Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated.

## RESULTS OF OPERATIONS

General

Fiscal Year Ended January 2, 2016 versus Fiscal Year Ended January 3, 2015

The following table sets forth certain operating data as a percentage of revenues for the periods indicated:

39

---

Edgar Filing: Heritage-Crystal Clean, Inc. - Form 10-K

(Thousands)	For the Fiscal Years Ended,					
	January 2, 2016			January 3, 2015		
<b>Revenues</b>						
Product revenues	\$134,320	38.4	%	\$160,079	47.2	%
Service revenues	215,698	61.6	%	178,973	52.8	%
<b>Total Revenues</b>	<b>\$350,018</b>	<b>100.0</b>	<b>%</b>	<b>\$339,052</b>	<b>100.0</b>	<b>%</b>
<b>Operating expenses -</b>						
Operating costs	\$280,708	80.2	%	\$290,622	85.7	%
Selling, general and administrative expenses	45,269	12.9	%	45,646	13.5	%
Depreciation and amortization	17,197	4.9	%	12,877	3.8	%
Impairment of goodwill	3,952	1.1	%	—	—	%
Other (income) expense - net	(1,297)	(0.4)	)%	(434)	(0.1)	)%
Operating income (loss)	4,189	1.2	%	(9,659)	(2.8)	)%
Interest expense – net	1,880	0.5	%	689	0.2	%
Income (loss) before income taxes	\$2,309	0.7	%	\$(10,348)	(3.1)	)%
Provision (benefit of) for income taxes	899	0.3	%	(3,483)	(1.0)	)%
Net income (loss)	1,410	0.4	%	(6,865)	(2.0)	)%
Income attributable to noncontrolling interest	160	—	%	143	—	%
Net income (loss) attributable to Heritage-Crystal Clean, Inc. common stockholders	\$1,250	0.4	%	\$(7,008)	(2.1)	)%

Revenues

In fiscal 2015, revenues increased \$11.0 million, or 3.2%, to \$350.0 million from \$339.1 million in fiscal 2014. Revenues in the Environmental Services segment increased through increased volume and improved pricing from existing customers. Conversely, Oil Business revenues decreased as a result of a decrease in lube oil revenues resulting from lower average selling prices in fiscal 2015 compared to fiscal 2014. During the second half of fiscal 2013, we began a project to expand the capacity of the re-refinery to an annual used oil input capacity of 75 million gallons per year. Late in the fourth quarter of 2015, we completed that expansion of the re-refinery which yields an annual input capacity of approximately 75 million gallons of used oil feedstock, allowing it to produce about 45 million gallons of lubricating base oil per year when operating at full capacity. Overall in fiscal 2015, and especially during the fourth quarter, the increase in base oil sales volume continued to be offset by lower base oil prices compared to fiscal 2014. During fiscal 2015, the average spot market price for the Group II base oil product we produce declined approximately 39% compared to fiscal 2014. During the fourth quarter of fiscal 2015, the average spot market price for the Group II base oil we produce declined approximately 41% compared to the fourth quarter of fiscal 2014.

Operating costs

Operating costs decreased \$9.9 million, or 3.4%, in fiscal 2015 versus fiscal 2014. The decrease in operating costs was primarily a result of significantly lower market value of the Company's oil-based inventory due to the significant drop in crude oil prices throughout fiscal 2015. In addition, lower crude oil prices resulted in lower solvent cost in our Environmental Services segment and lower fuel cost for our vehicle fleet in both segments. The overall decrease in operating cost was partially offset by higher volume driven costs in the Environmental Services segment as we continued to expand geographically, add customers, and add to our service offerings. We expect that in the future our operating costs in the Environmental Services business will continue to increase as our service volume increases, however, a decrease in crude oil prices could partially offset this cost increase because a decrease in price could cause a decline in the price we pay for parts cleaning solvent and diesel fuel. In the Oil Business, we expect our operating

costs will also increase in the future as a result of our completion of the re-refinery expansion project, which increased the throughput capacity at our re-refinery. We expect a change in the price for crude oil could impact our used oil collection costs and processing costs at our re-refinery either favorably or unfavorably.

Selling, general, and administrative expenses

40

---



Selling, general, and administrative expenses decreased \$0.4 million, or .8%, in fiscal 2015 versus fiscal 2014. Overall, selling, general and administrative expenses as a percentage of revenues decreased to 12.9% in fiscal 2015 from 13.5% in fiscal 2014. The decrease in SG&A is the result of the approximately \$2.0 million charge related to the planned reduction in work force from the FCC Environmental acquisition in 2014, versus only \$0.2 million of charges in fiscal 2015, and transaction-related costs incurred in 2014 in connection with the acquisition of FCC Environmental, partially offset by higher SG&A costs from having owned FCC Environmental for the entirety of fiscal 2015 versus only a portion of fiscal 2014.

#### Interest expense

Interest expense for fiscal 2015 was \$1.9 million, compared \$0.7 million in fiscal 2014. The increase in interest expense in fiscal 2015 was a result of higher average debt outstanding in fiscal 2015 versus fiscal 2014 as a result of amending our credit facility in order to complete the acquisition of FCC Environmental. In fiscal 2015 and 2014, we capitalized \$0.6 million and \$0.4 million in interest, respectively, as a result of our work on the expansion of the re-refinery.

#### Provision for income taxes

Our effective tax rate for fiscal 2015 was 38.9% compared to 33.7% in fiscal 2014. The rate difference is attributable to the impact of non-deductible expenses in an income year as compared to the impact of those non-deductible expenses in a loss year.

#### Segment Information

The following table presents revenues by operating segment:

	For the Fiscal Year Ended,		Increase (Decrease)		
	January 2, 2016	January 3, 2015	\$	%	
Revenues:					
Environmental Services	\$ 226,313	\$ 189,731	\$ 36,582	19.3	%
Oil Business	123,705	149,321	(25,616)	(17.2)	)%
Total	\$ 350,018	\$ 339,052	\$ 10,966	3.2	%

In fiscal 2015, Environmental Services revenues increased \$36.6 million, or 19.3%, compared to fiscal 2014. Revenues grew in all Environmental Services product lines which included parts cleaning, containerized waste, and vacuum truck services. We continued to add customers through the expansion of our branch network and increased penetration of markets at our existing branches. In addition we realized revenue growth from a combination of higher pricing and volume, including significant volume added from our acquisition of FCC Environmental.

In fiscal 2015, Oil Business revenues decreased \$25.6 million, or 17.2%, mainly driven by a 38% decrease in lube oil prices compared to fiscal 2014, which was partially offset by an increase in RFO gallons sold compared to fiscal 2014. During fiscal 2015, we sold approximately 37.8 million gallons of base oil compared to 35.8 million gallons in fiscal 2014. Throughout fiscal 2015, Oil Business revenues experienced negative pressure from lower base oil pricing with the greatest decline occurring in the fourth quarter of fiscal 2015.

#### Segment Profit before Corporate Selling, General and Administrative Expenses ("SG&A")

The following table presents profit (loss) by operating segment before corporate SG&A:

	For the Fiscal Year Ended,		Increase (Decrease)	
	January 2, 2016	January 3, 2015	\$	%

Edgar Filing: Heritage-Crystal Clean, Inc. - Form 10-K

(Thousands)  
 Profit (loss) before corporate  
 SG&A\*

Environmental Services	\$ 63,524		\$ 47,620		\$ 15,904	33.4	%
Oil Business	(7,695	)	(9,990	)	2,295	(23.0	)%
Total	\$ 55,829		\$ 37,630		\$ 18,199	48.4	%

\*Includes depreciation and amortization related to operating activity but not depreciation and amortization related to corporate selling, general, and administrative activity. For further discussion see Note 12 in our consolidated financial statements included elsewhere in this document.

41

---

In fiscal 2015, Environmental Services profit before SG&A increased 33.4% on increased revenues of 19.3%. Revenues grew as a result of increased pricing and volume and from the FCC Environmental acquisition. Operating margin in the Environmental Services segment increased due to lower solvent and fuel costs as a result of lower crude oil prices, as well as the realization of synergies resulting from the acquisition of FCC Environmental.

The sale of used solvent generated by customers participating in our product reuse program for parts cleaning is not accounted for as revenues, but rather as a reduction in our net cost of solvent under operating costs. In both fiscal 2015 and 2014, the impact of reused solvent sales was immaterial.

In fiscal 2015, the Oil Business operating loss before corporate SG&A of \$7.7 million was lower by \$2.3 million compared to the fiscal 2014 loss of \$10.0 million.

In our Oil Business segment throughout fiscal 2015, we were engaged in a program to reduce the price paid to generators for used oil, and during the fourth quarter we aggressively increased this effort. At the end of fiscal 2015, we were on average charging the majority of our oil customers a nominal amount for performing a service by picking up their used oil. With the recent further decline in crude oil prices in early 2016, to the majority of our oil customers we have increased our average charge to collect used oil to over \$0.30 per gallon during the month of February 2016 in order to offset the continued decline in base oil and recycled fuel oil pricing. We have also focused on increasing our service fees to collect and handle oil filters.

Fiscal Year Ended January 3, 2015 versus Fiscal Year Ended December 28, 2013

The following table sets forth certain operating data as a percentage of revenues for the periods indicated:

(Thousands)	For the Fiscal Years Ended,					
	January 3, 2015			December 28, 2013		
Revenues						
Product revenues	\$ 160,079	47.2	%	\$ 132,409	46.8	%
Service revenues	178,973	52.8	%	150,727	53.2	%
Total Revenues	\$ 339,052	100.0	%	\$ 283,136	100.0	%
Operating expenses -						
Operating costs	\$ 290,622	85.7	%	\$ 234,638	82.9	%
Selling, general and administrative expenses	45,646	13.5	%	30,274	10.7	%
Depreciation and amortization	12,877	3.8	%	9,524	3.4	%
Other expense - net	(434)	(0.1)	)%	210	0.1	%
Operating income	(9,659)	(2.8)	)%	8,490	3.0	%
Interest expense - net	689	0.2	%	417	0.1	%
Income before income taxes	\$ (10,348)	(3.1)	)%	\$ 8,073	2.9	%
Provision for income taxes	(3,483)	(1.0)	)%	3,428	1.2	%
Net income	(6,865)	(2.0)	)%	4,645	1.6	%
Income attributable to noncontrolling interest	143	—	%	100	—	%
Net income attributable to Heritage-Crystal Clean, Inc. common stockholders	\$ (7,008)	(2.1)	)%	\$ 4,545	1.6	%

## Revenues

In fiscal 2014, revenues increased \$55.9 million, or 19.7%, to \$339.1 million from \$283.1 million in fiscal 2013. The acquisition of FCC Environmental contributed approximately \$19.5 million toward the increase in revenues, all during the fourth quarter of 2014. Revenues in the Environmental Services segment increased through increased volume and improved pricing from existing customers. In addition, Oil Business revenues increased as a result of the increase in volume of base oil and re-refinery by-products sold in fiscal 2014, compared to fiscal 2013. During the second half of fiscal 2013, we began a project to expand the capacity of the re-refinery to an annual used oil input capacity of 75 million gallons per year, and in fiscal 2014 the re-refinery operated at a nameplate capacity greater than 60 million gallons per year. Overall in fiscal 2014, and especially during the fourth quarter, the increase in base oil sales volume continued to be offset by lower base oil prices compared to fiscal 2013. During fiscal 2014, the average spot market price for the Group II base oil product we produce declined approximately 8% compared to fiscal 2013. During the fourth quarter of fiscal 2014, the average spot market price for the Group II base oil we produce declined approximately 19% compared to the fourth quarter of fiscal 2013.

## Operating costs

Operating costs increased \$56.0 million, or 23.9%, from fiscal 2013 to fiscal 2014. Of the \$56.0 million increase in operating costs, approximately 47% was a result of increased production volumes of 15.1% in the Oil Business segment and increased services volume in the Environmental Services segment of 7.0% compared to fiscal 2013. In fiscal 2014 the increase in operating costs was primarily a result of increased production volume in the Oil Business segment and increased service volume in the Environmental Services segment compared to fiscal 2013.

An additional 35% of the increase in Operating Costs was a result of the FCC Environmental acquisition. The acquisition of FCC Environmental added approximately \$19.8 million in operating costs during the fourth quarter of 2014. The former FCC Environmental business operated with lower margins than the Company's historical business. As such, the operating costs added by FCC Environmental significantly reduced margins in both segments in fiscal 2014 compared to 2013. We recorded an inventory write-down to our oil and oil products inventory during the fourth quarter of fiscal 2014 as a result of the sharp decline in crude oil prices. The inventory write-down accounts for approximately 11% of the \$56.0 million increase in Operating Costs from fiscal 2013 to fiscal 2014.

## Selling, general, and administrative expenses

Selling, general, and administrative expenses increased \$15.4 million, or 50.8%, from fiscal 2013 to fiscal 2014. Overall, selling, general and administrative expenses as a percentage of revenues increased to 13.5% in fiscal 2014 from 10.7% in fiscal 2013. The increase in SG&A as a percentage of revenues is the result of costs related to the acquisition of FCC Environmental. Acquisition related costs were \$4.5 million in fiscal 2014, compared to \$0.3 million in fiscal 2013. In addition, SG&A activities in the FCC Environmental legacy business added approximately \$5.6 million to SG&A costs during the fourth quarter of fiscal 2014.

During the fourth quarter of fiscal 2014, in connection with our integration plans for the FCC Environmental acquisition, we communicated to our employees plans to implement a reduction in force of approximately 100 employees across the organization. We terminated approximately one half of these employees in the fourth quarter of fiscal 2014. Additional employees were given communication that they would be terminated over the next year and were offered retention bonuses. As a result of these measures, we incurred a charge of approximately \$2.0 million related to the planned reduction in work force related to future cash severance payments of terminated employees, stay bonuses, and severance packages that were paid out in fiscal 2015.

The remaining increase in SG&A was a result of organic growth and cost of living adjustments for corporate employees.

#### Interest expense

Interest expense for fiscal 2014 was \$0.7 million, compared \$0.4 million in fiscal 2013. The increase in interest expense in fiscal 2014 was a result of higher average debt outstanding in fiscal 2014 as a result of amending our credit facility in order to complete the acquisition of FCC Environmental. In the fourth quarter of fiscal 2014, in connection with our purchase of FCC Environmental, we increased our Term A loan by \$62.1 million and incurred interest expense on our revolving loan. In fiscal 2014 and 2013, we capitalized \$0.4 million and \$0.1 million in interest, respectively, as a result of our work on the expansion of the re-refinery.

## Provision for income taxes

Our effective tax rate for fiscal 2014 was 33.7% compared to 42.5% in fiscal 2013. The rate difference is attributable to the impact of non-deductible expenses in a loss year as compared to the impact of those non-deductible expenses in an income year, and the impact of certain state taxes not based on income.

## Segment Information

The following table presents sales by operating segment (dollars in thousands):

(Thousands)	For the Fiscal Year Ended,		Increase		
	January 3, 2015	December 28, 2013	\$	%	
Revenues:					
Environmental Services	\$ 189,731	\$ 157,282	\$ 32,449	20.6	%
Oil Business	149,321	125,854	23,467	18.9	%
Total	\$ 339,052	\$ 283,136	\$ 55,916	19.7	%

In fiscal 2014, Environmental Services revenues increased \$32.4 million, or 20.6%, compared to fiscal 2013. Revenues grew in all Environmental Services product lines which included parts cleaning, containerized waste, and vacuum truck services. We continued to add customers through the expansion of our branch network and increased penetration of markets at our existing branches. In addition we realized revenue growth from a combination of higher pricing and volume. The acquisition of FCC Environmental contributed revenues of approximately \$7.1 million to this segment during the fourth quarter of 2014.

At the end of fiscal 2014, the Environmental Services segment was operating in 84 branch locations compared with 74 at the end of fiscal 2013. There were 74 branches that were in operation throughout fiscal 2014 and fiscal 2013. In fiscal 2014 same branch sales increased \$18.8 million, or 12.4%, for the 74 branches that were in operation during both years. Fiscal 2014 consisted of 53 weeks, compared to fiscal 2013, which consisted of 52 weeks. Excluding the impact of the 53rd week in fiscal 2014, same branch sales increased \$16.6 million, or 10.9%, compared to fiscal 2013.

In fiscal 2014, Oil Business revenues increased \$23.5 million, or 18.6%, as production increased at the re-refinery in fiscal 2014 compared to fiscal 2013. During fiscal 2014, we sold approximately 35.8 million gallons of base oil compared to 30.6 million gallons in fiscal 2013. Throughout fiscal 2014, Oil Business revenues experienced negative pressure from low base oil pricing, and in the fourth quarter of fiscal 2014, crude oil prices declined significantly, putting further downward pressure on base oil pricing. The acquisition of FCC Environmental contributed approximately \$12.5 million in revenues in the Oil Business during the fourth quarter of 2014.

During the fourth quarter of fiscal 2014, our re-refinery experienced an unplanned shutdown resulting in the curtailment of the operation of our hydrotreater for approximately two weeks with a corresponding reduction in our production of lube base oil and other re-refinery products. As a result, we believe our revenue for the Oil Business segment in the fourth quarter of 2014 was approximately \$4.4 million less than it would have been if the re-refinery had operated at full capacity.

## Segment Profit (Loss) before Corporate Selling, General and Administrative Expenses ("SG&amp;A")

The following table presents profit (loss) by operating segment before corporate SG&A:

(Thousands)	For the Fiscal Year Ended,		Increase (Decrease)		
	January 3, 2015	December 28, 2013	\$	%	

Edgar Filing: Heritage-Crystal Clean, Inc. - Form 10-K

Profit (loss) before corporate

SG&A\*

Environmental Services	\$47,620		\$41,886		\$5,734		13.7	%
Oil Business	(9,990	)	(1,689	)	(8,301	)	491.5	%
Total	\$37,630		\$40,197		\$(2,567	)	(6.4	)%

\*Includes depreciation and amortization related to operating activity but not depreciation and amortization related to corporate selling, general, and administrative activity. For further discussion see Note 12 in our consolidated financial statements included elsewhere in this document.

In fiscal 2014, Environmental Services profit before SG&A increased 13.7% on increased revenues of 20.6%. In fiscal 2014, the operating margin for the Environmental Services segment decreased 1.2% to 25.4% compared to 26.6% in fiscal 2013. The decrease in margin was a result of the FCC Environmental acquisition, which operated a lower margin business and contributed a loss before corporate SG&A of approximately \$0.6 million in this segment and decreased margins by approximately 0.3%. Operating margin in the Environmental Services segment decreased an additional 0.6% as a result of rising disposal and 0.5% as a result of increased employee healthcare costs.

The sale of used solvent generated by customers participating in our product reuse program for parts cleaning is not accounted for as revenues, but rather as a reduction in our net cost of solvent under operating costs. In fiscal 2014, the impact of reused solvent sales was immaterial. Reuse solvent sales provided a benefit during fiscal 2013 of \$0.3 million.

In fiscal 2014, the Oil Business operating loss before corporate SG&A increased \$8.3 million to a loss before corporate SG&A of \$10.0 million. The FCC Environmental acquisition contributed a loss before corporate SG&A of approximately \$1.1 million in this segment.

During the fourth quarter of 2014, the price of crude oil and related commodities fell sharply. At the start of our fourth fiscal quarter, the market price of Brent crude oil was approximately \$100 per barrel, and by the end of the fourth quarter, the market price of Brent crude oil was approximately \$56 per barrel, a decline of \$44 per barrel (or \$1.05/gallon). This decline in the value of crude oil has in turn led to declines in the prices of base lube oil and other oil products and had a negative impact on the value of our inventory, which is valued at the lower of cost or market. As such, we recorded a non-cash impairment charge which reduced our used oil and processed oil inventory value by \$6.1 million in the fourth quarter, which increased Operating costs in the Oil Business segment.

In our Oil Business segment throughout fiscal 2014, we were engaged in a program to reduce the price paid to generators for used oil, and during the fourth quarter we aggressively increased this effort. From the last four-week period of fiscal 2013 to the last five-week period of fiscal 2014, we reduced the average price we pay for used oil to historical HCC generators by over \$0.60 per gallon. We also reduced the average price paid to historical FCC generators by over \$0.50 per gallon from the date of the acquisition to the end of fiscal 2014.

The unplanned shutdown of the re-refinery in the fourth quarter of 2014 led to losses related to the interruption of our base lube oil production and sales as well as losses for equipment at the facility. After accounting for certain limits and deductibles on our insurance, we estimate the net costs to the Company of this event were approximately \$0.3 million pre-tax.



## FINANCIAL CONDITION

### Liquidity and Capital Resources

#### Cash and Cash Equivalents

As of January 2, 2016 and January 3, 2015, cash and cash equivalents were \$23.6 million and \$21.6 million, respectively. Our primary sources of liquidity are cash flows from operations and funds available to borrow under our term loan and revolving bank credit facility.

Our Amended and Restated Credit Agreement, as amended ("Credit Agreement"), provides for borrowings of up to \$140.0 million, consisting of Term A loans totaling \$80.0 million and a revolving loan of up to \$60.0 million. As of January 2, 2016, \$70.9 million was outstanding as a term loan having a maturity date of February 5, 2018, and \$36.8 million was available under the revolving loan. As of January 2, 2016 and January 3, 2015 we had \$70.9 million and \$78.8 million of borrowings outstanding under our term loans, respectively, and no amounts outstanding under the revolver. During fiscal 2015, we recorded interest of \$2.4 million on the term loan. In fiscal 2015 and fiscal 2014, we capitalized \$0.6 million and \$0.4 million in interest, respectively. The Term A loans have a maturity date of February 5, 2018. The actual amount available under the revolving loan portion of the Credit Agreement is limited by our total leverage ratio. The amount available to draw at any point in time would be further reduced by any standby letters of credit issued.

Loans made under the Credit Agreement may be Base Rate Loans or LIBOR Rate Loans, at our election subject to certain exceptions. Base Rate Loans have an interest rate equal to (i) the highest of (a) the federal funds rate plus 1/2 of 1%, (b) the British Bankers Association LIBOR rate plus 1%, or (c) Bank of America's prime rate, plus (ii) a variable margin of between 1.0% and 2.0% depending on our total leverage ratio, calculated on a consolidated basis. LIBOR rate loans have an interest rate equal to the (i) British Bankers Association LIBOR Rate plus (ii) a variable margin of between 2.0% and 3.0% depending on our total leverage ratio. Amounts borrowed under the Credit Agreement are secured by a security interest in substantially all of our tangible and intangible assets.

Certain covenants of the Credit Agreement, among other things, restrict our ability to incur indebtedness, grant liens, make investments, and sell assets. The Credit Agreement, as amended by the amendments, contains customary events of default, covenants, and representations and warranties. Financial covenants include:

- An interest coverage ratio (based on interest expense and EBITDA) of at least 3.5 to 1.0;  
A total leverage ratio no greater than 4.0 to 1.0 through the first quarter of fiscal 2015, no greater than 3.75 to 1.0 in the second quarter of fiscal 2015, no greater than 3.5 to 1.0 for the third quarter of fiscal 2015, no greater than 3.25 to 1.0 for the fourth quarter of fiscal 2015, and no greater than 3.0 to 1.0 thereafter; and
- A capital expenditures covenant limiting capital expenditures to \$15.0 million in fiscal 2015 and each fiscal year thereafter, unless the company raised additional capital through an equity offering, which took place in the fourth quarter of fiscal 2014. In addition, we were restricted from making capital expenditures for the expansion of our re-refinery to 75 million gallons of nameplate capacity if our leverage ratio was above 3.5 to 1.0.

The Credit Agreement places certain limitations on acquisitions and includes a prohibition on the payment of dividends.

As of January 2, 2016 and January 3, 2015, we were in compliance with all covenants of our credit facility then in effect. As of January 2, 2016, and January 3, 2015, we had \$4.4 million and \$0.4 million of standby letters of credit issued, respectively, and \$34.5 million and \$13.8 million was available for borrowing under the bank credit facility, respectively.

At January 2, 2016 we had short-term notes payable related to acquisitions of less than \$0.1 million. At January 3, 2015, we had notes payable related to acquisitions of approximately \$0.3 million.

We believe that our existing cash, cash equivalents, available borrowings, and other sources of financings will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. We cannot assure you that this will be the case or that our assumptions regarding revenues and expenses underlying this belief will be accurate. If, in the future, we require more liquidity than is available to us under our credit facility, we may need to raise additional funds through debt or equity offerings. Adequate funds may not be available when needed or may not be available on terms favorable to us, especially given the current condition of the financial credit markets. If additional funds are raised by issuing equity securities, dilution to existing stockholders may result. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operational flexibility, and would also require us to fund additional interest expense. If funding is insufficient at any time in the future, we may be unable to develop or enhance our products or services, take advantage of business opportunities, or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

#### Summary of Cash Flow Activity

	For the Fiscal Years Ended, (Dollars in thousands)		
	January 2, 2016	January 3, 2015	December 28, 2013
Net cash provided by (used in):			
Operating activities	\$28,877	\$14,677	\$15,383
Investing activities	(18,535 )	(107,105 )	(39,569 )
Financing activities	(8,289 )	91,351	(948 )
Net (decrease) increase in cash and cash equivalents	\$2,053	\$(1,077 )	\$(25,134 )

The most significant items affecting the comparison of our operating activities for fiscal 2015 and fiscal 2014 are summarized below:

#### Net Cash Provided by Operating Activities —

**Earnings increase** — Our increase in net income for fiscal 2015 favorably impacted our net cash provided by operating activities by \$8.3 million compared to fiscal 2014.

**Accounts Payable** — The decrease in accounts payable negatively affected cash flows from operations by \$9.2 million in fiscal 2015 compared to fiscal 2014. The decrease in accounts payable was mainly due to lower payables for used oil, solvent, and fuel.

**Inventory** — In fiscal 2015, we took a non-cash inventory impairment charge of \$9.2 million due to rapidly declining oil prices. Excluding the impact of the inventory impairment charge, the increase in inventory negatively affected cash flows from operations by \$1.7 million in fiscal 2015 compared to fiscal 2014. Inventory volumes increased as a result of increased activity in both segments.

#### Net Cash Used in Investing Activities —

**Capital expenditures and software and intangible assets**— We used \$19.7 million and \$20.4 million for capital expenditures and software and intangible assets during fiscal 2015 and fiscal 2014, respectively. During fiscal 2015, we spent approximately \$5.3 million toward the expansion of the re-refinery and \$4.5 million on capital improvements at the re-refinery. In addition, in fiscal 2015, we spent approximately \$5.3 million toward part cleaning machine purchases. During fiscal 2014, we spent approximately \$8.2 million on the expansion of the re-refinery and

approximately \$2.2 million on capital improvements at the re-refinery. In addition, we spent approximately \$6.3 million of capital expenditures toward parts cleaning machine purchases.

Net Cash Provided by (Used in) Financing Activities —

Term loan and Follow-on Public Offering — In fiscal 2015 total cash outflows were \$8.3 million. Cash outflows from financing activities result mainly from \$8.0 million of repayments of our term loan, and \$0.3 million of repayment on our note payable. There were no offerings of common stock, or increases to our Term A loan in fiscal 2015. In the fourth quarter of fiscal 2014, in connection with our purchase of FCC Environmental, we increased our Term A loan by \$62.1 million. During the fourth quarter of fiscal 2014, we received approximately \$33.4 million in net proceeds from a follow-on public offering of common stock. We used a portion of these proceeds to pay off the outstanding balance of our revolving credit facility of approximately \$9.0 million.

The most significant items affecting the comparison of our operating activities for fiscal 2014 and fiscal 2013 are summarized below:

Net Cash Provided by Operating Activities —

- Earnings decline — Our decrease in net income for fiscal 2014 negatively impacted our net cash provided by operating activities by \$11.5 million compared to fiscal 2013.

Accounts Receivable — The decrease in accounts receivable positively affected cash flows from operations by \$11.5 million in fiscal 2014 compared to fiscal 2013. In fiscal 2013, accounts receivable balances grew as we expanded our capacity at the re-refinery and grew revenues in both segments. In fiscal 2014, accounts receivable balances increased through the acquisition of FCC Environmental but decreased in total as we had lower open receivable balances at year end due to declining prices in the Oil Business segment.

Inventory — In the fourth quarter of fiscal 2014, we took a non-cash inventory impairment charge of \$6.1 million due to rapidly declining oil prices. Excluding the impact of the inventory impairment charge, the increase in inventory negatively affected cash flows from operations by \$3.4 million in fiscal 2014 compared to fiscal 2013. Inventory volumes increased as a result of increased activity in both segments.

Net Cash Used in Investing Activities —

Capital expenditures and software and intangible assets— We used \$20.4 million and \$18.4 million for capital expenditures and software and intangible assets during fiscal 2014 and fiscal 2013, respectively. During fiscal 2014, we spent approximately \$8.2 million toward the expansion of the re-refinery. In addition, in fiscal 2014, we spent approximately \$2.2 million on capital improvements at the re-refinery. During fiscal 2013, we spent approximately \$8.3 million on the expansion of the re-refinery. An additional \$1.8 million spent in fiscal 2013 was for capital improvements at the re-refinery. In fiscal 2014, approximately \$6.3 million of the capital expenditures were for purchases of parts cleaning machines compared to \$5.2 million in fiscal 2013. The remaining \$3.7 million in fiscal 2014 was for other items including capital expenditures, office equipment, leasehold improvements, software, and intangible assets compared to \$3.1 million in fiscal 2013.

Acquisitions - In fiscal 2014, we used \$85.9 million in net cash for the purchase of FCC Environmental and \$1.0 million in cash to purchase Sav-Tech. In fiscal 2013, we used \$21.2 million for the purchases of certain assets of Mirachem, RFTI, RTI, and ULNT/RS.

Net Cash Provided by (Used in) Financing Activities —

Follow-on Public Offering — In the fourth quarter of fiscal 2014, in connection with our purchase of FCC Environmental, we increased our Term A loan by \$62.1 million. During the fourth quarter of fiscal 2014, we received approximately \$33.4 million in net proceeds from a follow-on public offering of common stock. We used a portion of these proceeds to pay off the outstanding balance of our revolving credit facility of approximately \$9.0 million.

#### Contractual Obligations

Our contractual commitments consist of operating leases and short-term purchasing commitments. We anticipate that we will experience an increase in our lease commitments consistent anticipated growth in operations, infrastructure, and personnel and additional resources devoted to building our network of hubs and branches.

The following table summarizes our existing obligations as of January 2, 2016:

Payments Due by Fiscal Year

(In thousands)

Contractual Obligations	Total	2016	2017	2018	2019	2020	Thereafter
Operating lease obligations <sup>(1)</sup>	\$77,437	18,852	16,941	15,190	11,084	6,584	8,786
Future maturities of long term debt <sup>(2)</sup>	70,895	6,700	7,048	57,147	—	—	—
Interest on long term debt <sup>(3)</sup>	4,704	2,366	2,136	202	—	—	—
Purchase obligations <sup>(4)</sup>	9,784	9,784	—	—	—	—	—
Total	\$162,820	\$37,702	\$26,125	\$72,539	\$11,084	\$6,584	\$8,786

(1) We lease office space, equipment and vehicles under noncancelable operating lease agreements which expire at various dates through 2023.

(2) Excludes interest payments.

(3) Interest on long term debt is calculated at the contractual rate or, in the case of the Term A loan, at the effective rate as of January 2, 2016.

Our purchase obligations are open purchase orders as of January 2, 2016, and are primarily for capital expenditures, catalyst, disposal, and solvent. They represent expected payments to third party service providers and other commitments entered into during the normal course of our business. While our purchase obligations are generally cancelable with or without notice without penalty, certain vendor agreements provide for cancellation fees or penalties depending on the terms of the contract.

We offer a guarantee for our services. To date, costs relating to this guarantee have not been material.

Off-Balance Sheet Arrangements

As of the end of fiscal 2015, we had no off-balance sheet arrangements, other than operating leases reported above under "Contractual obligations."

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate risks primarily through borrowings under our bank credit facility. Interest on these borrowings is based upon variable interest rates. Our weighted average borrowings under our bank credit facility during fiscal 2015 were \$76.2 million, and the annual effective interest rate for fiscal 2015 was 3.1%. We currently do not hedge against interest rate risk. Based on the foregoing, a hypothetical 1.0% increase or decrease in interest rates would have resulted in a \$0.8 million change to our interest expense in fiscal 2015.

ITEM 8. FINANCIAL STATEMENTS AND OTHER SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of Heritage-Crystal Clean, Inc. (a Delaware corporation) and subsidiaries (the Company) as of January 2, 2016 and January 3, 2015, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended January 2, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes 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.

2

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heritage-Crystal Clean, Inc. and subsidiaries as of January 2, 2016 and January 3, 2015, and the results of their operations and their cash flows for each of the three years in the period ended January 2, 2016, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, the Company adopted new accounting guidance in 2015, related to measurement period adjustments for business combinations.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 2, 2016, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2016, expressed an unqualified opinion.

Chicago, Illinois  
March 16, 2016

/s/ GRANT THORNTON LLP



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Heritage-Crystal Clean, Inc.

We have audited the internal control over financial reporting of Heritage-Crystal Clean, Inc. (a Delaware corporation) and subsidiaries (the Company) as of January 2, 2016, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the 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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 2, 2016, based on criteria established in the 2013 Internal Control-Integrated Framework issued by COSO. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended January 2, 2016, and our report dated March 16, 2016, expressed an unqualified opinion on those consolidated financial statements.

/s/ GRANT THORNTON LLP

Chicago, Illinois  
March 16, 2016



Heritage-Crystal Clean, Inc.  
Consolidated Balance Sheets  
(In Thousands, Except Share and Par Value Amounts)

	January 2, 2016	January 3, 2015
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$23,608	\$21,555
Accounts receivable - net	41,592	49,857
Inventory - net	24,774	30,798
Deferred income taxes	—	2,549
Other current assets	6,227	11,776
Total Current Assets	96,201	116,535
Property, plant and equipment - net	131,365	137,137
Equipment at customers - net	23,172	22,039
Software and intangible assets - net	22,202	24,775
Goodwill	30,325	19,333
Total Assets	\$303,265	\$319,819
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$25,129	\$32,466
Current maturities of long-term debt and term loan	6,700	5,259
Accrued salaries, wages, and benefits	4,330	5,212
Taxes payable	6,735	4,080
Other current liabilities	3,617	6,010
Total Current Liabilities	46,511	53,027
Term loan, less current maturities	64,195	73,854
Long-term debt, less current maturities	—	40
Deferred income taxes	2,726	5,484
Total Liabilities	\$113,432	\$132,405
Commitments and contingencies (Note 13)		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock - 26,000,000 shares authorized at \$0.01 par value, 22,213,364 and 22,109,875 shares issued and outstanding at January 2, 2016 and January 3, 2015, respectively	\$222	\$221
Additional paid-in capital	182,558	181,140
Retained earnings	6,385	5,135
Total Heritage-Crystal Clean, Inc. Stockholders' Equity	189,165	186,496
Noncontrolling Interest	668	918
Total Equity	189,833	187,414
Total Liabilities and Stockholders' Equity	\$303,265	\$319,819

See accompanying notes to financial statements.

52

---

Heritage-Crystal Clean, Inc.  
Consolidated Statements of Operations  
(In Thousands, Except per Share Amounts)

	For the Fiscal Years Ended,		
	January 2, 2016	January 3, 2015	December 28, 2013
Revenues			
Product revenues	\$ 134,320	\$ 160,079	\$ 132,409
Service revenues	215,698	178,973	150,727
Total revenues	\$ 350,018	\$ 339,052	\$ 283,136
Operating expenses			
Operating costs	\$ 280,708	\$ 290,622	\$ 234,638
Selling, general, and administrative expenses	45,269	45,646	30,274
Depreciation and amortization	17,197	12,877	9,524
Impairment of goodwill	3,952	—	—
Other (income) expense - net	(1,297	) (434	) 210
Operating income (loss)	4,189	(9,659	) 8,490
Interest expense – net	1,880	689	417
Income (loss) before income taxes	\$ 2,309	\$ (10,348	) \$ 8,073
Provision (benefit of) for income taxes	899	(3,483	) 3,428
Net income (loss)	1,410	(6,865	) 4,645
Income attributable to noncontrolling interest	160	143	100
Income (loss) attributable to Heritage-Crystal Clean, Inc. common stockholders	\$ 1,250	\$ (7,008	) \$ 4,545
Net income (loss) per share: basic	\$ 0.06	\$ (0.38	) \$ 0.25
Net income (loss) per share: diluted	\$ 0.06	\$ (0.38	) \$ 0.24
Number of weighted average shares outstanding: basic	22,146	18,604	18,224
Number of weighted average shares outstanding: diluted	22,408	18,604	18,552

See accompanying notes to financial statements.

Edgar Filing: Heritage-Crystal Clean, Inc. - Form 10-K

Heritage-Crystal Clean, Inc.  
 Consolidated Statement of Stockholders' Equity  
 (In Thousands, Except Share Amounts)

	Shares	Par Value Common	Additional Paid-in Capital	Retained Earnings	Total Heritage-Crystal Clean, Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance, December 29, 2012	18,068,852	\$181	\$141,612	\$7,598	\$ 149,391	\$—	\$149,391
Mirachem Acquisition						834	834
Net income	—	—	—	4,545	4,545	100	4,645
Issuance of common stock – acquisitions	151,322	2	2,229	—	2,231	—	2,231
Issuance of common stock – ESPP	29,350	—	438	—	438	—	438
Exercise of stock options	49,434	—	398	—	398	—	398
Share-based compensation	61,324	1	1,366	—	1,367	—	1,367
Balance, December 28, 2013	18,360,282	\$184	\$146,043	\$12,143	\$ 158,370	\$934	\$159,304
Net (loss) income	—	—	—	(7,008 )	(7,008 )	143	(6,865 )
Distribution	—	—	—	—	—	(159 )	(159 )
Issuance of common stock – net of issuance costs	3,565,000	36	33,336	—	33,372	—	33,372
Issuance of common stock – ESPP	27,082	—	436	—	436	—	436
Issuance of common stock – acquisitions	12,005	—	193	—	193	—	193
Exercise of stock options	45,186	—	506	—	506	—	506
Share-based compensation	100,320	1	626	—	627	—	627
Balance, January 3, 2015	22,109,875	\$221	\$181,140	\$5,135	\$ 186,496	\$918	\$187,414
Net income	—	—	—	1,250	1,250	160	1,410
Distribution	—	—	—	—	—	(410 )	(410 )
Issuance of common stock – net of issuance costs	—	—	—	—	—	—	—
Issuance of common stock – ESPP	41,141	—	473	—	473	—	473

Edgar Filing: Heritage-Crystal Clean, Inc. - Form 10-K

Issuance of common stock – acquisitions	—	—	—	—	—	—	—
Exercise of stock options	—	—	—	—	—	—	—
Share-based compensation	62,348	1	945	—	946	—	946
Balance, January 2, 2016	22,213,364	\$222	\$182,558	\$6,385	\$ 189,165	\$668	\$189,833

See accompanying notes to financial statements.

Edgar Filing: Heritage-Crystal Clean, Inc. - Form 10-K

Heritage-Crystal Clean, Inc.  
Consolidated Statements of Cash Flows

(Thousands)	For the Fiscal Years Ended,		
	January 2, 2016	January 3, 2015	December 28, 2013
<b>Cash flows from Operating Activities:</b>			
Net income (loss)	\$1,410	\$(6,865	) \$4,645
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,197	12,877	9,524
Non-cash inventory impairment	9,217	6,112	—
Non-cash goodwill impairment	3,952	—	—
Bad debt provision	1,009	1,053	444
Share-based compensation	945	627	1,367
Deferred taxes	621	(3,551	) 3,236
Other, net	(415	) 638	59
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	3,467	3,755	(7,794
(Increase) decrease in inventory	(3,392	) (1,685	) 1,670
Decrease (increase) in prepaid and other current assets	5,140	(1,329	) (90
(Decrease) increase in accounts payable	(7,614	) 1,587	189
(Decrease) increase in accrued expenses	(2,660	) 1,458	2,133
Cash provided by operating activities	\$28,877	\$14,677	\$15,383
<b>Cash flows from Investing Activities:</b>			
Capital expenditures	\$(19,734	) \$(19,726	) \$(17,804
Software and intangible asset expenditures	—	(632	) (600
Proceeds from the disposal of property, plant, and equipment	1,199	118	—
Business acquisitions, net of cash acquired	—	(86,865	) (21,165
Cash used in investing activities	\$(18,535	) \$(107,105	) \$(39,569
<b>Cash flows from Financing Activities:</b>			
Proceeds from issuance of common stock	\$473	\$33,808	\$438
Proceeds from the exercise of stock options	—	506	398
Proceeds from Term Loan	—	62,125	750
Repayments of Term Loan	(7,994	) (2,527	) (1,000
Borrowings under revolving credit facility	—	31,000	—
Repayments of revolving credit facility	—	(31,000	) —
Repayments of contingent consideration	(95	) (393	) (551
Distributions to noncontrolling interest	(410	) (159	) —
Repayments of capital lease obligations	—	(344	) —
Repayments of notes payable	(263	) (1,665	) (983
Cash (used in) provided by financing activities	\$(8,289	) \$91,351	\$ (948
Net increase (decrease) in cash and cash equivalents	2,053	(1,077	) (25,134
Cash and cash equivalents, beginning of period	21,555	22,632	47,766
Cash and cash equivalents, end of period	\$23,608	\$21,555	\$22,632



Edgar Filing: Heritage-Crystal Clean, Inc. - Form 10-K

Supplemental disclosure of cash flow information:

Income taxes paid	\$584	\$262	\$285
Cash paid for interest, net of capitalized interest of \$628, \$363, and \$143, respectively	1,753	524	366
Supplemental disclosure of non-cash information:			
Payables for construction in progress	2,917	2,054	1,333
Business acquisitions, liabilities assumed	—	24,115	230
Business acquisitions, notes issued	—	203	1,265
Business acquisitions, common stock issued	\$—	\$193	\$2,231
See accompanying notes to financial statements.			

55

---

HERITAGE-CRYSTAL CLEAN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 2, 2016

(1) ORGANIZATION AND NATURE OF OPERATIONS

Heritage-Crystal Clean, Inc., a Delaware corporation and its subsidiaries (collectively the "Company"), provides parts cleaning and hazardous and non-hazardous waste services to small and mid-sized customers in both the manufacturing and vehicle maintenance sectors. The Company's service programs include parts cleaning, containerized waste management, used oil collection, vacuum truck services, waste antifreeze collection and recycling, and field services. The Company owns and operates a used oil re-refinery where it re-refines used oils and sells high quality base oil for lubricants as well as other re-refinery by-products. The Company also has multiple locations where it dehydrates used oil. The oil processed at these locations is eventually sold as recycled fuel oil. The Company's locations are in the United States and Ontario, Canada. The Company conducts its primary business operations through Heritage-Crystal Clean, LLC, its wholly owned subsidiary, and all intercompany balances have been eliminated in consolidation.

The Company's fiscal year ends on the Saturday closest to December 31. "Fiscal 2015" represents the 52-week period ended January 2, 2016. "Fiscal 2014" represents the 53-week period ended January 3, 2015. "Fiscal 2013" represents the 52-week period ended December 28, 2013. The most recent fiscal year ended on January 2, 2016. Each of the Company's first three fiscal quarters consists of twelve weeks while the last fiscal quarter consists of sixteen or seventeen weeks.

In the Company's Environmental Services segment, product revenues include sales of solvent, machines, absorbent, accessories, and antifreeze; service revenues include drum waste removal services, servicing of parts cleaning machines, vacuum truck services, field services, and other services. In the Company's Oil Business segment, product revenues include sales of re-refined base oil, by-products, recycled fuel oil, and used oil; service revenues include revenues from used oil collection activities and collecting and disposing of waste water. Due to the Company's integrated business model, it is impracticable to separately present costs of tangible products and costs of services.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires the use of certain estimates by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions are the allowance for doubtful accounts receivable, valuation of inventory at lower of cost or market, valuation of goodwill and other intangible assets, and income taxes. Actual results could differ from those estimates.

Revenue Recognition

The Company derives its revenues primarily from the services it performs and from the sale of processed oil from its used oil re-refinery. Parts cleaning and other service revenues are recognized as the service is performed. Product revenues are recognized at the time risk of loss passes to the customer. The risk of loss passes to customers at various times depending on the particular terms of the sales agreement in force with each individual customer. Common thresholds for when risk of loss passes to the customer are at the time that product is loaded onto the shipping vessel or at the time that product is offloaded at the customer's receiving location. Revenues are recognized only if collection

of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable.

#### Sales Tax

Amounts billed for sales tax, value added tax, or other transactional taxes imposed on revenue producing transactions are presented on a net basis and are not recognized as revenues.

#### Operating Costs

Within operating costs are cost of sales. Cost of sales in the Environmental Services segment includes the cost of the materials the Company sells and provides in its services, such as solvents and other chemicals, transportation of inventory and

waste, and payments to third parties to recycle or dispose of the waste materials that the Company collects. Parts cleaning machines are either sold to a customer or continue to be owned by the Company but placed offsite at a customer location to be used in parts cleaning services. When sold to a customer, machines are removed from inventory, and the costs are recognized under operating costs. The used solvent that the Company retrieves from customers in its product reuse program is accounted for as a reduction in net cost of solvent under cost of sales, whether placed in inventory or sold to a purchaser for reuse. If the used solvent is placed in inventory it is recorded at lower of cost or net realizable value. Cost of sales in the Oil Business include the costs paid to customers for used oil (if any), transportation out to customers, and costs to operate the used oil re-refinery, including personnel costs and utilities.

Operating costs also include the Company's costs of operating its branch system and hubs. These costs include personnel costs (including commissions), facility rent and utilities, truck leases, fuel, transportation, and maintenance. Operating costs are not presented separately for products and services.

#### Selling, General, and Administrative Expenses

Selling, general, and administrative expenses include costs of performing centralized business functions, including sales management at or above the regional level, billing, receivables management, accounting and finance, information technology, environmental health and safety, and legal.

#### Cash and Cash Equivalents

The Company considers investments in highly liquid debt instruments, purchased with an original maturity of ninety days or less, to be cash equivalents.

#### Concentration Risk

The Company maintains its cash in bank deposit accounts at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"). Cash balances may exceed FDIC limits. The Company has not experienced any losses in such accounts. The Company has a broad customer base and believes it is not exposed to any significant concentration of credit risk.

#### Accounts Receivable

Trade accounts receivable represent amounts due from customers. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on analysis of customer credit worthiness, historical losses, and general economic trends and conditions. Accounts receivable are written off once the Company determines the account to be uncollectible. The Company does not have any off-balance-sheet credit exposure related to its customers.

#### Inventory

Inventory consists primarily of used oil, processed oil, catalyst, new and used solvents, new and refurbished parts cleaning machines, new and used antifreeze products, drums, and other items. Inventories are valued at the lower of first-in, first-out ("FIFO") cost or market, net of any reserves for excess, obsolete, or unsalable inventory. The Company performs a physical inventory count on a periodic basis and uses the results of these counts to determine inventory quantities. These quantities are used to help determine the value of the inventory.

Processed oil inventory consists of the costs of feedstock, transportation, labor, conversion costs, and re-refining overhead costs incurred in bringing the inventory to its existing condition and location. Fixed production overhead costs are capitalized in processed oil inventory based on the normal capacity of the production facility. In periods of abnormal production levels, excess overhead costs are recognized as expense in the period they are incurred. The Company continually monitors its inventory levels at each of its distribution locations and evaluates inventories for excess or slow-moving items. If circumstances indicate the cost of inventories exceed their recoverable value, inventories are reduced to net realizable value. In fiscal 2015 and 2014, the Company wrote down \$9.2 million and \$6.1 million, respectively, in inventory due to sharply declining prices of oil and other petroleum-based products.

#### Prepaid and Other Current Assets

Prepaid and other current assets include, but are not limited to, insurance and vehicle license contract costs, which are expensed over the term of the underlying contract. Prepaid and other current assets at January 2, 2016 also include \$0.1 million in restricted cash which is held as security for standby letters of credit. At January 3, 2015, prepaid and other current assets included \$5.2 million in restricted cash held as security for standby letters of credit.

#### Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Expenditures for major renewals and betterments are capitalized, while expenditures for repair and maintenance charges are expensed as incurred. Property, plant, & equipment acquired in business combinations is stated at fair value as of the date of the acquisition.

Depreciation of property, plant, and equipment is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of buildings and storage tanks range from 10 to 39 years. The estimated useful lives of machinery, vehicles, and equipment range from 3 to 25 years. Leasehold improvements are amortized over the shorter of the lease terms or five years using the straight-line method.

The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets once the assets are placed into service. The interest rate used to capitalize interest is based upon the borrowing rate on the Company's bank debt outstanding. In fiscal 2015, 2014, and 2013, the Company capitalized interest of \$0.6 million, \$0.4 million, and \$0.1 million, respectively, for capital projects.

#### Equipment at Customers

The Company records purchases of new parts cleaning machines as inventory. Parts cleaning machines are either sold to a customer or continue to be owned by the Company but placed off-site at a customer location to be used in parts cleaning services. When sold to a customer, machines are removed from inventory, and the appropriate revenues and costs are recognized in the Income Statement. When the Company retains title to a machine that is placed off-site at a customer location to be used in parts cleaning services, the Company capitalizes the machine as a productive non-current asset under the Balance Sheet caption "Equipment at Customers" at the time the machine is placed at the customer's site. Machines capitalized as Equipment at Customers are depreciated over their estimated useful lives of 7 to 15 years, depending on the model. Depreciation of in-service equipment commences when equipment is placed in service at a customer location. Expenditures for machines that are sold to a customer are treated as a cash outflow from operating activities on the Statement of Cash Flows. Expenditures for machines that are placed at a customer's site to be used in parts cleaning services are treated as a cash outflow from investing activities.

#### Acquisitions

The Company accounts for acquired businesses using the purchase method of accounting, which requires that the assets acquired, liabilities assumed, and contingent consideration be recorded as of the date of acquisition at their respective fair values. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred and that restructuring costs be expensed in periods subsequent to the acquisition date. The Company engaged third party valuation appraisal firms to assist the Company in determining the fair values and useful lives of the assets acquired and liabilities assumed. The Company records a preliminary purchase price allocation for its acquisitions and finalizes purchase price allocations as additional information relative to the fair values of the assets acquired becomes known.

## Identifiable Intangible Assets

The fair value of identifiable intangible assets is based on significant judgments made by management. The Company engaged third party valuation appraisal firms to assist the Company in determining the fair values and useful lives of the assets acquired. Such valuations and useful life determinations require the Company to make significant estimates and assumptions. These estimates and assumptions are based on historical experience and information obtained from the management of the acquired companies and include, but are not limited to, future expected cash flows to be earned from the continued operation of the acquired business and discount rates applied in determining the present value of those cash flows. Unanticipated events and circumstances may occur that could affect the accuracy or validity of such assumptions, estimates, or actual results. Acquisition-related finite lived intangible assets are amortized on a straight-line basis over their estimated economic lives. The Company evaluates the estimated benefit periods and recoverability of its intangible assets when facts and circumstances

indicate that the lives may not be appropriate and/or the carrying value of the asset may not be recoverable. If the carrying value is not recoverable, impairment is measured as the amount by which the carrying value exceeds its estimated fair value.

#### Software Costs

The Company expenses costs incurred in the research stage of developing or acquiring internal use software, such as research and feasibility studies, as well as costs incurred in the post-implementation/operational stage, such as maintenance and training. Capitalization of software costs occurs only after the research stage is complete and after the development stage begins. The capitalized costs are amortized on a straight-line basis over the estimated useful lives of the software, ranging from 5 to 10 years.

#### Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment and intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated.

#### Income Taxes

The Company accounts for income taxes to recognize the amount of taxes payable or refundable for the current year and the amount of deferred tax assets and liabilities resulting from the future tax consequences of differences between the financial statements and tax basis of the respective assets and liabilities. The Company estimates and reserves for any material uncertain tax position that is unlikely to withstand an audit by the taxing authorities. These estimates are based on judgments made with currently available information. The Company reviews these estimates and makes changes to recorded amounts of any uncertain tax positions as facts and circumstances warrant. For additional information about income taxes, see Note 14.

#### Shipping Costs

For all periods presented, amounts billed to customers related to shipping and handling are classified as revenue, and the Company's shipping and handling costs are included in operating costs.

#### Research and Development

Research and development costs are expensed as incurred within general, selling, and administrative expenses. Such costs incurred during fiscal 2015, 2014 and 2013 were \$0.2 million, \$0.2 million, and \$0.3 million, respectively.

#### Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$0.6 million, \$0.6 million, and \$0.6 million for fiscal 2015, 2014, and 2013, respectively.

#### Share-Based Compensation



When a future restricted grant is approved, the Company evaluates the probability that the award will be granted, based on certain performance conditions. If the performance criteria are deemed probable, the Company accrues compensation expense related to these awards prior to the grant date. The Company accrues compensation expense based on the fair value of the performance awards at each reporting period when the performance criteria are deemed probable. Once the performance awards have been granted, the Company values the awards at fair value on the date of grant and amortizes the expense through the end of the vesting period, or requisite service period, on a straight-line basis. See Note 15 “Share-Based Compensation” for more details.

#### Fair Value of Financial Instruments

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to

their initial measurement. These tiers include: Level 1, defined as quoted market prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and Level 3, defined as unobservable inputs that are not corroborated by market data.

The Company's financial instruments consist primarily of cash and cash equivalents, trade receivables, trade payables, notes payable, and term debt. As of January 2, 2016 and January 3, 2015, the carrying values of cash and cash equivalents, trade receivables, trade payables, and notes payable are considered to be representative of their respective fair values due to the short maturity of these instruments. Term debt is representative of its fair value due to the interest rates being applied.

#### Insurance and Self-Insurance Policy

The Company purchases insurance providing financial protection from a range of risks; as of the end of fiscal 2015, the Company's insurance policies provided coverage for general liability, vehicle liability, and pollution liability, among other exposures. Each of these policies contains exclusions and limitations such that they would not cover all related exposures and each of these policies have maximum coverage limits and deductibles such that even in the event of an insured claim, the Company's net exposure could still have a material adverse effect on its financial results.

The Company is self-insured for certain healthcare benefits provided to its employees. The liability for the self-insured benefits is limited by the purchase of stop-loss insurance. The stop-loss coverage provides payment for medical and prescription claims exceeding \$170,000 per covered person, as well as an aggregate, cumulative claims cap for any given year. Accruals for losses are made based on the Company's claim experience and actuarial estimates based on historical data. Actual losses may differ from accrued amounts. At January 2, 2016 and January 3, 2015, the Company's liability for its self-insured benefits was \$1.0 million and \$1.0 million, respectively. Should actual losses exceed the amounts expected and the recorded liabilities be insufficient, additional expense will be recorded. Expenses incurred for healthcare benefits in fiscal 2015, 2014, and 2013 were \$11.6 million, \$10.3 million, and \$6.2 million, respectively.

#### Goodwill

Goodwill is measured as a residual amount as of the acquisition date, which in most cases results in measuring goodwill as an excess of the purchase consideration transferred plus the fair value of any noncontrolling interest in the acquiree over the fair value of the net assets acquired, including any contingent consideration. The Company tests goodwill for impairment annually in the fourth quarter and in interim periods if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company's determination of fair value requires certain assumptions and estimates, such as margin expectations, market conditions, growth expectations, expected changes in working capital, etc., regarding expected future profitability and expected future cash flows. The Company tests goodwill for impairment at each of its two reporting units, Environmental Services and Oil Business, and the Company does not aggregate reporting units for purposes of impairment testing.

In fiscal 2015, we tested goodwill for impairment. In fiscal 2015, the fair value of the Environmental Services reporting unit was substantially in excess of its carrying value. In fiscal 2015, our tests indicated impairment of all of the goodwill in our Oil Business reporting unit. Therefore during the fourth quarter of fiscal 2015 we recorded a charge of approximately \$4.0 million related to impairment of goodwill in our Oil Business reporting unit. The facts

and circumstances leading to the impairment are primarily related to the deterioration of market conditions in the markets in which the Company's Oil Business reporting unit operates. The deterioration of those market conditions is manifested in lower average selling prices for the Company's re-refined lubricating base oil, recycled fuel oil, and byproducts within the Oil Business. The method for determining the fair value of the Oil Business reporting unit was a combination of an income approach using a discounted cash flow method in combination with a market approach using a guideline company method. There is a moderate degree of uncertainty associated with key Oil Business fair value assumptions such as the selling prices of our oil products and byproducts, the price paid or charged for raw material inputs such as used oil, operating efficiency of the used oil re-refinery, etc. A contraction of the spread between the selling prices of our oil products and the price paid or charged to vendors for raw material inputs could reasonably be expected to negatively affect the key assumptions used to determine fair value.

#### Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). 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; early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. This update could impact the timing and amounts of revenue recognized. The Company is currently evaluating the effect that implementation of this update will have on its consolidated financial position and results of operations upon adoption.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40) - Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. The adoption of ASU 2014-15 is not expected to have an impact on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory (Topic 330), which requires the measurement of inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and early adoption is permitted. The company is currently evaluating the effect that implementation of this update will have on its consolidated financial position and results of operations upon adoption.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments (ASU 2015-16). ASU No. 2015-16 simplifies the accounting for measurement-period adjustments in a business combination by requiring the acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined. The acquirer is also required to record in the reporting period in which the adjustments are determined the effect on earnings of changes in depreciation, amortization, and other items resulting from the change to the provisional amounts. The new guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. As permitted, the Company has early adopted the amendments of this ASU No. 2015-16 and it did not have an impact on our consolidated financial condition and results of operations.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740), which simplifies the presentation of deferred income taxes. This ASU requires that deferred tax assets and liabilities be classified as non-current in the statement of financial position. As permitted, the Company has early adopted the provisions of ASU 2015-17, on a prospective basis, for the presentation and classification of its deferred tax liabilities at January 2, 2016. Adoption of this ASU resulted in a reclassification of the Company's net current deferred tax asset to the net non-current deferred tax liability in its Consolidated Balance Sheet as of January, 2016. No prior periods have been adjusted. See Note 14 for a discussion of our Income Taxes.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. For public business entities, the standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For all other entities, the standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments in this update is permitted for all entities. The company is currently evaluating the effect that implementation of this update will have on its consolidated financial position and results of operations upon adoption.



### (3) BUSINESS COMBINATIONS

On October 16, 2014, the Company purchased the outstanding stock of FCC Environmental LLC, a Delaware limited liability company, and International Petroleum Corp. of Delaware, a Delaware corporation (together "FCC Environmental"), pursuant to a Stock Purchase Agreement entered into with Dédalo Patrimonial S.L.U., a sociedad limitada unipersonal formed under the laws of Spain ("Seller"). Prior to the purchase, FCC Environmental was an environmental services provider and substantial collector of used oil in the United States and operated 34 facilities in the eastern half of the United States. The purchase price for FCC Environmental was set at \$90.0 million subject to certain adjustments, including, without limitation, a working capital adjustment and indemnification rights and obligations. Based on the initial working capital calculations, the Company initially paid \$88.8 million. The Company and Seller have not finalized the working capital adjustment as of the end of fiscal year 2015. The eventual settlement of the working capital adjustment could have a materially adverse impact on the operating results of the Company. The results of FCC Environmental are consolidated into both of the Company's operating segments subsequent to the closing date. The Company incurred \$4.5 million in due diligence, legal, and other expenses related to the acquisition, which are recorded in Selling, general, & administrative expenses in fiscal 2014.

During the measurement period, the Company made adjustments to the provisional amounts reported as the estimated fair values of assets acquired and liabilities assumed as part of the FCC Environmental business combination. Compared to the provisional values reported as of January 3, 2015, the fair values presented in the table below reflect increases to: equipment at customers of \$0.1 million; goodwill of \$15.0 million; other intangibles of \$1.9 million; deferred taxes of \$0.8 million; and taxes payable of \$3.0 million. Compared to the provisional values reported as of January 3, 2015, the fair values presented in the table below reflect decreases to: accounts receivable of \$3.8 million; inventory of \$0.2 million; other current assets of \$0.1 million; property, plant, & equipment of \$11.3 million; and accounts payable of \$0.6 million. Goodwill recognized from the acquisition of FCC Environmental represents the excess of the purchase consideration transferred over the fair value of the net assets acquired. Factors leading to goodwill being recognized are the Company's expectations of synergies from combining operations of FCC Environmental and the Company as well as the value of intangible assets that are not separately recognized, such as assembled workforce. Goodwill of \$24.5 million was assigned to the Environmental Services reporting unit, and zero goodwill was assigned to the Oil Business reporting unit. All goodwill is expected to be deductible for income tax purposes.

On May 14, 2014, the Company, through a new subsidiary, Heritage-Crystal Clean, Ltd., acquired the outstanding stock of Sav-Tech Solvent, Inc. ("Sav-Tech"), which is based in Ontario, Canada. Sav-Tech's services included parts cleaning and containerized waste management. The Company purchased the stock of Sav-Tech in order to expand operations into Canada. The Company paid \$1.4 million consisting of \$1.0 million in cash at the time of closing, \$0.2 million in the form of notes payable, and \$0.2 million of the Company's common stock, or 12,005 shares. The results of Sav-Tech are consolidated into the Company's Environmental Services segment subsequent to the closing date.

On November 1, 2013, the Company acquired certain assets and liabilities of the northern territory of RS Used Oil Services, Inc., a subsidiary of Universal Lubricants, LLC ("ULNT/RS"), in exchange for \$11.0 million in cash. The Company purchased these service routes in order to add used oil collection volume in Indiana, Ohio, Wisconsin, and parts of Illinois. The operating results of this acquisition are included in the Company's consolidated results of operations, as part of the Oil Business segment, from the date of the acquisition.

On June 26, 2013, the Company purchased substantially all of the operating assets of Recycling Fluid Technologies, Inc. ("RFTI"), which was based in Battle Creek, Michigan. RFTI's business consisted of collecting waste antifreeze and recycling the waste antifreeze, producing a line of high quality antifreeze products which were sold for use in vehicle engine applications. The Company purchased RFTI for \$4.9 million in cash and \$1.2 million of the Company's

common stock, or 82,000 shares.

On July 19, 2013, the Company purchased substantially all of the operating assets of Recycle Technologies, Inc. ("RTI"), which was based in Wood Dale, Illinois. RTI's business and operations were very similar to the business and operations of the former RFTI, which is described above. The Company purchased RTI for \$2.9 million in cash at the time of closing, \$0.4 million in the form of a note payable, and \$1.0 million of the Company's common stock or 69,322 shares.

The acquisitions of RFTI and RTI allowed the Company to establish a presence in the antifreeze recycling market.

On December 31, 2012, the Company, through a new Delaware subsidiary, Mirachem, LLC, purchased substantially all of the operating assets of Mirachem Corporation. Since 2004, Mirachem Corporation had provided the Company with cleaning chemistry used in the Company's aqueous parts cleaning service. The Company made an initial payment of approximately \$2.5 million in cash at the time of closing and provided a note payable for an additional \$0.8 million over two years. In a separate transaction, the Company acquired from a third party additional aqueous technologies in exchange for a 20% interest in

Mirachem, LLC. Originally the Company had an option to repurchase this 20% interest, and the holder of this 20% interest has a right to sell the interest to the Company after January 1, 2016, at a price based on the trailing EBITDA of Mirachem, LLC, subject to potential modifications. Prior to January 1, 2016 both the Company and the holder of the 20% interest agreed to enter into an agreement to extend the options described above for both parties for two years.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, net of cash acquired, related to each acquisition:

(Thousands)	Fiscal 2014		Fiscal 2013			
	Sav-Tech	FCC Environmental	Mirachem	RFTI	RTI	ULNT/RS
Accounts receivable	\$ 196	\$ 18,230	\$—	\$ 348	\$ 136	\$—
Inventory	19	7,701	476	211	106	955
Other current assets	7	6,683	—	—	—	101
Deferred taxes	—	2,579	—	—	—	—
Property, plant, & equipment	691	40,421	218	1,283	793	1,540
Equipment at customers	—	537	—	—	—	—
Intangible assets	458	11,681	2,710	1,590	1,340	6,274
Goodwill	96	24,486	809	3,027	1,917	2,100
Accounts payable	(81 )	(11,865 )	(139 )	(91 )	—	—
Accrued salaries, wages, and benefits	—	(2,039 )	—	—	—	—
Taxes payable	—	(5,205 )	—	—	—	—
Other current liabilities	(36 )	(1,379 )	—	—	—	—
Capital lease obligations <sup>(a)</sup>	—	(5,918 )	—	—	—	—
Non-controlling interest	—	—	(834 )	—	—	—
Total purchase price, net of cash acquired	\$ 1,350	\$ 85,912	\$ 3,240	\$ 6,368	\$ 4,292	\$ 10,970
Less: common stock issued	(193 )	—	—	(1,230 )	(1,001 )	—
Less: note issued	(203 )	—	(835 )	—	(430 )	—
Working capital adjustment	—	—	—	(218 )	9	—
Net cash paid	\$ 954	\$ 85,912	\$ 2,405	\$ 4,920	\$ 2,870	\$ 10,970

<sup>(a)</sup> Subsequent to the closing date, the Company renewed the leases acquired from FCC Environmental, resulting in the classification of the leases as Operating leases under the new lease terms. The change in lease terms decreased both Property, plant, & equipment and Capital lease obligations by \$5.9 million.

Subsequent to the closing date, the Company has consolidated each acquisition into its financial statements. The Company has included revenues of approximately \$19.5 million and pre-tax loss of approximately \$7.3 million in its fiscal 2014 financial results as a result of its acquisition of FCC Environmental. The Company has included revenues of approximately \$5.2 million and pre-tax income of approximately \$0.4 million in its fiscal 2013 financial results from various acquisitions in fiscal 2013. In fiscal 2014 and 2013 the Company incurred \$4.5 million and \$0.3 million in acquisition costs, respectively. The results of the Sav-Tech acquisition are not material to the Company's consolidated financial results.

#### Unaudited Pro Forma Financial Information



The pro forma financial information in the table below presents the combined results of the Company as if the FCC Environmental acquisition that occurred in fiscal 2014 had occurred December 30, 2012 (in thousands, except per share data). The pro forma information is shown for illustrative purposes only and is not necessarily indicative of future results of operations of the Company or results of operations of the Company that would have actually occurred had the transactions been in effect for the periods presented. Nor is it intended to represent or be indicative of actual results had the acquisition occurred as of the beginning of each period. Additionally, certain one-time transaction expenses that are a direct result of the acquisitions have been excluded from years ended January 3, 2015 and December 28, 2013. Included in the pro forma results for fiscal 2013 are impairment charges for goodwill and intangible assets at FCC Environmental of \$80.6 million. For more information on the pro forma operating results for fiscal 2013, refer to the Company's form 8-K/A filed with the SEC on December 2, 2014.

Edgar Filing: Heritage-Crystal Clean, Inc. - Form 10-K

(Thousands, except per share data)	Fiscal Year Ended,	
	January 3, 2015	December 28, 2013
Total revenues	\$455,542	\$445,617
Net loss	(14,045 )	(51,998 )
Loss per share	\$(0.75 )	\$(2.85 )

(4) ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

(Thousands)	January 2, 2016	January 3, 2015
Trade	\$38,379	\$49,407
Less: allowance for doubtful accounts	2,207	3,927
Trade - net	36,172	45,480
Related parties	1,250	1,452
Other	4,170	2,925
Total accounts receivable - net	\$41,592	\$49,857

The following table provides the changes in the Company's allowance for doubtful accounts for the fiscal year ended January 2, 2016 and the fiscal year ended January 3, 2015:

(Thousands)	Fiscal Year Ended,	
	January 2, 2016	January 3, 2015
Balance at beginning of period	\$3,927	\$1,121
Balance acquired from FCC Environmental, including measurement period adjustments	2,701	2,353
Provision for bad debts	1,009	1,053
Accounts written off, net of recoveries	(5,430 )	(600 )
Balance at end of period	\$2,207	\$3,927

(5) INVENTORY

Inventory consists primarily of used oil and processed oil, solvents and solutions, new and refurbished parts cleaning machines, drums and supplies, and other items. Inventories are valued at the lower of FIFO cost or market, net of any reserves for excess, obsolete, or unsalable inventory.

The carrying value of inventory consisted of the following:

(Thousands)	January 2, 2016	January 3, 2015
Used oil and processed oil	\$9,045	\$14,153
Solvents and solutions	6,285	8,859
Machines	3,827	3,659
Drums and supplies	4,226	2,756
Other	1,681	1,617
Total inventory	25,064	31,044
Less: Machine refurbishing reserve	290	246
Total inventory - net	\$24,774	\$30,798



The Company continually monitors its inventory levels at each of its locations and evaluates inventories for excess or slow-moving items. If circumstances indicate the cost of inventories exceed their recoverable value, inventories are reduced to net realizable value. In fiscal 2015, the Company recorded an inventory impairment charge of \$9.2 million due to a sharp decline in crude oil prices, which resulted in the market value for the Company's oil-based inventory, and solvents and solutions inventory declining below the historic FIFO values.

The following table provides the changes in the Company's machine refurbishing reserve related to inventory for fiscal years 2015 and 2014:

(Thousands)	Fiscal Year Ended,	
	January 2, 2016	January 3, 2015
Balance at beginning of period	\$ 246	\$ 217
Net change in reserve	44	29
Balance at end of period	\$ 290	\$ 246

#### (6) PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following:

(Thousands)	January 2, 2016	January 3, 2015
Buildings and storage tanks	\$69,317	\$70,375
Machinery, vehicles, and equipment	75,129	52,200
Land	9,295	12,576
Leasehold improvements	4,523	5,842
Construction in progress	4,474	18,822
Assets held for sale	189	—
Total property, plant, and equipment	162,927	159,815
Less: accumulated depreciation	(31,562)	(22,678)
Property, plant, and equipment - net	\$131,365	\$137,137

  

	January 2, 2016	January 3, 2015
Equipment at customers	\$59,216	\$53,781
Less: accumulated depreciation	(36,044)	(31,742)
Equipment at customers - net	\$23,172	\$22,039

#### (7) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is measured as a residual amount as of the acquisition date, which in most cases results in measuring goodwill as an excess of the purchase consideration transferred plus the fair value of any noncontrolling interest in the acquiree over the fair value of the net assets acquired, including any contingent consideration. The Company tests goodwill for impairment annually in the fourth quarter and in interim periods if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company's determination of fair value requires certain assumptions and estimates, such as margin expectations, market conditions, growth expectations, expected changes in working capital, etc., regarding expected future profitability and expected future cash flows. The Company tests goodwill for impairment at each of its two reporting units, Environmental Services and Oil Business, and the Company does not aggregate reporting units for purposes of

impairment testing.

In fiscal 2015, we tested goodwill for impairment. In fiscal 2015, the fair value of the Environmental Services reporting unit was substantially in excess of its carrying value. In fiscal 2015, our tests indicated impairment of all of the goodwill in our Oil Business reporting unit. Therefore during the fourth quarter of fiscal 2015 we recorded a charge of approximately \$4.0 million related to impairment of goodwill in our Oil Business reporting unit. The facts and circumstances leading to the impairment are primarily related to the deterioration of market conditions in the markets in which the Company's Oil Business

65

---

reporting unit operates. The deterioration of those market conditions is manifested in lower average selling prices for the Company's re-refined lubricating base oil, recycled fuel oil, and byproducts within the Oil Business. The method for determining the fair value of the Oil Business reporting unit was a combination of an income approach using a discounted cash flow method in combination with a market approach using a guideline company method. There is a moderate degree of uncertainty associated with key Oil Business fair value assumptions such as the selling prices of our oil products and byproducts, the price paid or charged for raw material inputs such as used oil, operating efficiency of the used oil re-refinery, etc. A contraction of the spread between the selling prices of our oil products and the price paid or charged to vendors for raw material inputs could reasonably be expected to negatively affect the key assumptions used to determine fair value.

The following table shows changes to our goodwill balances by segment during the years ended January 3, 2015, and January 2, 2016:

(Thousands)	Oil Business	Environmental Services	Total
Balance at December 28, 2013	\$3,901	\$5,753	\$9,654
Sav-Tech Acquisition	—	96	96
FCC Environmental Acquisition	3,929	5,599	9,528
Purchase price adjustments for previous acquisitions	50	14	64
Currency translation adjustments	—	(9	) (9
Balance at January 3, 2015	\$7,880	\$11,453	\$19,333
Sav-Tech Acquisition	—	—	—
FCC Environmental Acquisition	—	—	—
Purchase price adjustments for previous acquisitions	(3,928	) 18,872	14,944
Impairment	(3,952	) —	(3,952
Balance at January 2, 2016	\$—	\$30,325	\$30,325

Following is a summary of software and other intangible assets:

(Thousands)	January 2, 2016			January 3, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer & supplier relationships	\$22,202	\$4,369	\$17,833	\$20,361	\$2,007	\$18,354
Non-compete agreements	2,930	1,713	1,217	2,973	1,221	1,752
Software	4,455	3,382	1,073	5,199	3,074	2,125
Patents, formulae, and licenses	1,769	510	1,259	1,829	443	1,386
Other	1,354	534	820	1,406	248	1,158
Total software and intangible assets	\$32,710	\$10,508	\$22,202	\$31,768	\$6,993	\$24,775

Amortization expense was \$3.5 million, \$2.1 million, and \$1.1 million for fiscal 2015, 2014, and 2013, respectively. The weighted average useful lives of software; customer and supplier relationships; patents, formulae, and licenses; non-compete agreements, and other intangibles were 10 years, 11 years, 15 years, 5 years, and 6 years, respectively.

The expected amortization expense for fiscal years 2016, 2017, 2018, 2019 and 2020 is \$3.2 million, \$3.1 million, \$2.8 million, \$2.5 million, and \$2.4 million, respectively. The preceding expected amortization expense is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset

acquisitions, disposal of intangible assets, accelerated amortization of intangible assets, adjustment to purchase price allocations for assets acquired, and other events.

## (8) ACCOUNTS PAYABLE

Accounts payable consisted of the following:

(Thousands)	January 2, 2016	January 3, 2015
Accounts payable	\$24,400	\$32,014
Accounts payable - related parties	729	452
Total accounts payable	\$25,129	\$32,466

## (9) DEBT AND FINANCING ARRANGEMENTS

## Bank Credit Facility

On October 16, 2014, the Company entered into a First and Second Amendment (collectively the "Amendments") to its Amended and Restated Credit Agreement ("Credit Agreement"). The Credit Agreement, as amended, provides for borrowings of up to \$140.0 million, subject to the satisfaction of certain terms and conditions. The actual amount available under the revolving loan portion of the Credit Agreement is limited by the Company's total leverage ratio. The amount available to draw at any point in time would be further reduced by any standby letters of credit issued.

Loans made under the Credit Agreement may be Base Rate Loans or LIBOR Rate Loans, at the election of the Company subject to certain exceptions. Base Rate Loans have an interest rate equal to (i) the higher of (a) the federal funds rate plus 0.5%, (b) the British Bankers Association LIBOR rate plus 1%, or (c) Bank of America's prime rate, plus (ii) a variable margin of between 1.0% and 2.0% depending on the Company's total leverage ratio, calculated on a consolidated basis. LIBOR rate loans have an interest rate equal to the (i) British Bankers Association LIBOR Rate plus (ii) a variable margin of between 2.0% and 3.0% depending on the Company's total leverage ratio. Amounts borrowed under the Credit Agreement are secured by a security interest in substantially all of the Company's tangible and intangible assets.

The Credit Agreement requires the Company to consult with the bank on certain acquisitions and includes a prohibition on the payment of dividends. It also contains a number of financial covenants, including:

- An interest coverage ratio (based on interest expense and EBITDA) of at least 3.5 to 1.0;
- A total leverage ratio no greater than 4.0 to 1.0 through the first quarter of fiscal 2015, no greater than 3.75 to 1.0 in the second quarter of fiscal 2015, no greater than 3.5 to 1.0 for the third quarter of fiscal 2015, no greater than 3.25 to 1.0 for the fourth quarter of fiscal 2015, and no greater than 3.0 to 1.0 thereafter; and

A capital expenditures covenant limiting capital expenditures to \$15.0 million in fiscal 2015 and each fiscal year thereafter, unless the Company raised additional capital through an equity offering, which took place in the fourth quarter of 2014. In addition, the Company was restricted from making capital expenditures for the expansion of its re-refinery to 75 million gallons of nameplate capacity if its leverage ratio is above 3.5 to 1.0.

The Company's secured bank credit facility as of January 2, 2016 allowed for up to \$140.0 million in borrowings. As of January 2, 2016 and January 3, 2015, the Company's total borrowings were \$70.9 million and \$78.8 million, respectively, under the term loan having a maturity date of February 5, 2018. The remaining portion of the credit facility was a revolving loan which was to expire on February 5, 2018 under which up to an additional \$38.9 million was available. There were no amounts outstanding under the revolver at January 2, 2016 and January 3, 2015.

As of January 2, 2016 and January 3, 2015, the Company was in compliance with all covenants under the credit facility then in effect. As of January 2, 2016, and January 3, 2015, the Company had \$4.4 million and \$0.4 million of standby letters of credit issued, respectively, and \$34.5 million and \$13.8 million was available for borrowing under



the bank credit facility, respectively.

During fiscal 2015, the Company recorded interest of \$2.4 million on the term loan, of which \$0.6 million was capitalized for various capital projects. In fiscal 2014, the Company recorded interest of \$0.9 million on the term loan, of which \$0.4 million was capitalized for various capital projects.

The Company's weighted average interest rate as of January 2, 2016, January 3, 2015, and December 28, 2013 was 3.5%, 3.2%, and 2.5%, respectively. The Company's effective interest rate as of January 2, 2016, January 3, 2015, and December 28, 2013 was 3.1%, 2.7%, and 2.5%, respectively.

## Notes Payable

At January 2, 2016, the Company had short-term notes payable related to acquisitions of less than \$0.1 million. At January 3, 2015, the Company had notes payable related to acquisitions of approximately \$0.3 million.

## Future Maturities

The aggregate contractual annual maturities for debt as of January 2, 2016 are as follows:

(Thousands) Fiscal Year:	Notes Payable	Term Loan	Total
2016	41	6,659	6,700
2017	—	7,048	7,048
2018	—	57,147	57,147
2019	—	—	—
Thereafter	—	—	—
Total debt	\$41	\$70,854	\$70,895

## (10) EMPLOYEE BENEFIT PLAN

Heritage-Crystal Clean offers a defined contribution benefit plan for its employees. All regular employees who have completed at least one hour of service are eligible to participate in the plan. Participants are allowed to contribute 1% to 70% of their pre-tax earnings to the plan. The Company matches 100% of the first 3% contributed by the participant and 50% of the next 2% contributed by the participant for a maximum contribution of 4% per participant. The Company's matching contribution under this plan was \$1.5 million, \$1.2 million, and \$1.0 million in fiscal 2015, 2014, and 2013, respectively.

## (11) RELATED PARTY AND AFFILIATE TRANSACTIONS

As of January 2, 2016, the Heritage Group beneficially owned 33.9% of the Company's common stock, the Fehsenfeld Family Trusts, which are related to the Heritage Group owned 6.9% of the Company's common stock, and Fred Fehsenfeld, Jr., the Chairman of the Board and an affiliate of the Heritage Group, beneficially owned 4.6% of the Company's common stock. Companies affiliated with the Heritage Group are listed as affiliates.

During fiscal 2015, 2014, and 2013, the Company had transactions with the Heritage Group affiliates and other related parties. The following table sets forth related-party transactions:

(Thousands)	Fiscal 2015		Fiscal 2014		Fiscal 2013	
	Revenues	Expenses	Revenues	Expenses	Revenues	Expenses
Heritage Group affiliates	\$6,166	\$5,675	\$10,598	\$3,325	\$10,421	\$3,474
Other related parties / affiliates	6,040	2,756	6,968	2,870	4,875	4,633
Total	\$12,206	\$8,431	\$17,566	\$6,195	\$15,296	\$8,107

Revenues from related parties and affiliates are for sales of products and services performed by the Company.

Payments to related parties and affiliates include solvent purchases, insurance premiums, disposal services, transportation, and various other services.

The Company participates in a self-insurance program for workers' compensation with a shareholder and several related companies. In connection with this program, payments are made to the shareholder. Expenses paid to the shareholder in fiscal 2015, 2014, and 2013 were approximately \$1.4 million, \$1.3 million, and \$0.9 million, respectively.

## (12) SEGMENT INFORMATION

The Company reports in two segments: "Environmental Services" and "Oil Business." The Environmental Services segment consists of the Company's parts cleaning, containerized waste management, vacuum truck services, used antifreeze recycling activities, and field services. The Oil Business segment consists of the Company's used oil collection, recycled fuel oil sales, and used oil re-refining activities. No customer represented greater than 10% of consolidated revenues for any of the periods presented. There were no intersegment revenues. The Environmental Services segment operates in the United States and, to an immaterial degree, in Ontario, Canada. As such, the Company is not disclosing operating results by geographic segment.

Operating segment results for the fiscal years ended January 2, 2016, January 3, 2015, and December 28, 2013 were as follows:

	For the Fiscal Years Ended,			
	January 2, 2016			
(Thousands)	Environmental Services	Oil Business	Corporate and Eliminations	Consolidated
Revenues				
Product revenues	\$ 22,462	\$ 111,858	\$ —	\$ 134,320
Service revenues	203,851	11,847	\$ —	215,698
Total revenues	\$ 226,313	\$ 123,705	\$ —	\$ 350,018
Operating expenses				
Operating costs	155,321	125,387	—	280,708
Operating depreciation and amortization	7,468	6,013	—	13,481
Profit (loss) before corporate selling, general, and administrative expenses	\$ 63,524	\$ (7,695)	) \$ —	\$ 55,829
Selling, general, and administrative expenses			45,269	45,269
Depreciation and amortization from SG&A			\$ 3,716	3,716
Total selling, general, and administrative expenses			\$ 48,985	\$ 48,985
Impairment of goodwill			\$ 3,952	\$ 3,952
Other (income) - net			(1,297)	) (1,297)
Operating income				4,189
Interest expense - net			1,880	1,880
Income before income taxes				\$ 2,309

Edgar Filing: Heritage-Crystal Clean, Inc. - Form 10-K

January 3, 2015

(Thousands)	Environmental Services	Oil Business	Corporate and Eliminations	Consolidated
Revenues				
Product revenues	\$ 19,398	\$ 140,681	\$—	\$ 160,079
Service revenues	170,333	8,640	\$—	178,973
Total revenues	\$ 189,731	\$ 149,321	\$—	\$ 339,052
Operating expenses				
Operating costs	136,226	154,396	—	290,622
Operating depreciation and amortization	5,885	4,915	—	10,800
Profit (loss) before corporate selling, general, and administrative expenses	\$ 47,620	\$ (9,990	) \$—	\$ 37,630
Selling, general, and administrative expenses			45,646	45,646
Depreciation and amortization from SG&A			2,077	2,077
Total selling, general, and administrative expenses			\$ 47,723	\$ 47,723
Other (income) - net			(434	) (434
Operating loss				(9,659
Interest expense - net			689	689
Loss before income taxes				\$ (10,348

December 28, 2013

(Thousands)	Environmental Services	Oil Business	Corporate and Eliminations	Consolidated
Revenues				
Product revenues	\$ 14,449	\$ 117,960	\$—	\$ 132,409
Service revenues	142,833	7,894	—	150,727
Total revenues	\$ 157,282	\$ 125,854	\$—	\$ 283,136
Operating expenses				
Operating costs	110,459	124,179	—	234,638
Operating depreciation and amortization	4,937	3,364	—	8,301
Profit before corporate selling, general, and administrative expenses	\$ 41,886	\$ (1,689	) \$—	\$ 40,197
Selling, general, and administrative expenses			30,274	30,274
Depreciation and amortization from SG&A			1,223	1,223
Total selling, general, and administrative expenses			\$ 31,497	\$ 31,497
Other expense - net			210	210
Operating income				8,490
Interest expense - net			417	417
Income before income taxes				\$ 8,073



Total assets by segment as of January 2, 2016 and January 3, 2015 were as follows:

(Thousands)	January 2, 2016	January 3, 2015
<b>Total Assets:</b>		
Environmental Services	\$ 133,718	\$ 113,518
Oil Business	132,556	158,577
Unallocated Corporate Assets	36,991	47,724
<b>Total</b>	<b>\$ 303,265</b>	<b>\$ 319,819</b>

Segment assets for the Environmental Services and Oil Business segments consist of property, plant, and equipment, intangible assets, goodwill, accounts receivable, and inventories allocated to each segment. Assets for the corporate unallocated amounts consist of cash, prepaids, and property, plant, and equipment used at the corporate headquarters.

Total capital expenditures, including business acquisitions net of cash acquired, by segment for fiscal 2015, 2014, and 2013 were as follows:

(Thousands)	For the Fiscal Year Ended,		
	January 2, 2016	January 3, 2015	December 28, 2013
<b>Total Capital Expenditures:</b>			
Environmental Services	\$ 5,466	\$ 45,031	\$ 18,882
Oil Business	13,327	61,056	20,549
Unallocated Corporate Assets	941	1,018	138
<b>Total</b>	<b>\$ 19,734</b>	<b>\$ 107,105</b>	<b>\$ 39,569</b>

### (13) COMMITMENTS AND CONTINGENCIES

The Company may enter into purchase obligations with certain vendors. They represent expected payments to third party service providers and other commitments entered into during the normal course of our business. These purchase obligations are generally cancelable with or without notice without penalty, although certain vendor agreements provide for cancellation fees or penalties depending on the terms of the contract.

The Company had purchase obligations in the form of open purchase orders of \$9.8 million as of January 2, 2016, and \$15.8 million as of January 3, 2015, primarily for capital expenditures, used oil, catalyst, disposal, and solvent.

The Company may be subject to investigations, claims, or lawsuits as a result of operating its business, including matters governed by environmental laws and regulations. When claims are asserted, the Company evaluates the likelihood that a loss will occur and records a liability for those instances when the likelihood is deemed probable and the exposure is reasonably estimable. The Company carries insurance at levels it believes are adequate to cover loss contingencies based on historical claims activity. When the potential loss exposure is limited to the insurance deductible and the likelihood of loss is determined to be probable, the Company accrues for the amount of the required deductible, unless a lower amount of exposure is estimated. As of January 2, 2016 and January 3, 2015, the Company had accrued \$6.0 million and \$0.7 million related to loss contingencies, respectively.

The Company leases office space, equipment and vehicles under noncancelable operating leases that expire at various dates through 2023. Many of the building leases obligate the Company to pay real estate taxes, insurance, and certain maintenance costs and contain multiple renewal provisions, exercisable at the Company's option. Leases that contain predetermined fixed escalations of the minimum rentals are recognized in rental expense on a straight-line basis over

the lease term. Rental expense under operating leases was approximately \$26.5 million, \$21.8 million, and \$20.4 million for fiscal years 2015, 2014, and 2013, respectively.

Future minimum lease payments under noncancelable operating leases as of January 2, 2016 are as follows:

71

---



(Thousands)

Fiscal year:

2016	\$18,852
2017	16,941
2018	15,190
2019	11,084
2020	6,584
Thereafter	8,786
Total	\$77,437

## (14) INCOME TAXES

The Company deducted for federal income tax purposes accelerated "bonus" depreciation on the majority of its capital expenditures for assets placed in service in fiscal 2012 through fiscal 2015. Therefore, the Company recorded a noncurrent deferred tax liability as to the difference between the book basis and the tax basis of those assets. In addition, as a result of the federal bonus depreciation, the Company recorded a Net Operating Loss ("NOL") of \$44.7 million, which will begin to expire in 2031. The balance on the federal NOL at January 2, 2016 was \$49.4 million, and the remaining deferred tax asset related to the Company's state and federal NOL was a tax effected balance of \$18.3 million.

The Company recognizes windfall tax benefits associated with the exercise of stock options and the vesting of restricted stock directly to stockholders' equity only when realized. Consequently, deferred tax assets are not recognized for NOLs resulting from windfall tax benefits. At January 2, 2016, deferred tax assets do not include \$2.5 million of gross excess tax benefits from share-based compensation.

The Company's effective tax rate for fiscal 2015 was 38.9% compared to 33.7% in fiscal 2014. The rate difference is attributable to the impact of non-deductible expenses in an income year as compared to the impact of those non-deductible expenses in a loss year.

Components of the Company's income tax benefit and provision consist of the following for fiscal years 2015, 2014, and 2013:

(Thousands)	For the Fiscal Years Ended,		
Current:	January 2, 2016	January 3, 2015	December 28, 2013
Federal	\$53	\$(44	) \$21
State	216	112	171
Foreign	\$9	\$—	\$—
Total current	\$278	\$68	\$192
Deferred:			
Federal	\$794	\$(2,653	) \$2,679
State	(155	) (894	) 557
Foreign	(18	) (4	) —
Total deferred	\$621	\$(3,551	) \$3,236
Income tax provision (benefit)	\$899	\$(3,483	) \$3,428

A reconciliation of the expected income tax (benefit) expense at the statutory federal rate to the Company's actual income tax (benefit) expense is as follows:



Edgar Filing: Heritage-Crystal Clean, Inc. - Form 10-K

(Thousands)	For the Fiscal Years Ended,		
	January 2, 2016	January 3, 2015	December 28, 2013
Tax expense (benefit) at statutory federal rate	\$785	\$(3,518)	) \$2,745
State and local tax, net of federal expense (benefit)	42	(476)	) 508
Shortfalls from share-based compensation	124	145	70
Transaction and transaction-related costs	(454	) 157	—
Other	402	209	105
Total income tax provision (benefit)	\$899	\$(3,483)	) \$3,428

Components of deferred tax assets (liabilities) are as follows:

(Thousands)	As of,		
	January 2, 2016	January 3, 2015	
Deferred tax assets:			
Net operating loss carryforward	\$18,341	\$14,109	
Stock compensation	1,056	1,099	
Tax intangible assets	1,050	1,202	
Reserves and accruals	2,030	1,855	
Income tax credits	838	796	
Allowance for doubtful accounts	881	1,548	
Total deferred tax asset	\$24,196	\$20,609	
Less: valuation allowance	(17	) —	
Net deferred tax asset	24,179	20,609	
Deferred tax liabilities:			
Prepays	\$(748	) \$(849	)
Depreciation and amortization	(26,157	) (22,695	)
Total deferred tax liability	(26,905	) (23,544	)
Net deferred tax liability	\$(2,726	) \$(2,935	)
Net current deferred tax asset	—	2,549	
Net non-current deferred tax liability	(2,726	) (5,484	)
Net deferred tax liability	\$(2,726	) \$(2,935	)

As of January 2, 2016, the Company is no longer subject to U.S. federal examinations by taxing authorities for years prior to 2012. Federal and state income tax returns for fiscal years 2012 through 2015 are still open for examination.

The Company establishes reserves when it is more likely than not that the Company will not realize the full tax benefit of a position. The Company had a reserve of \$2.5 million and \$1.9 million for uncertain tax positions as of January 2, 2016 and January 3, 2015, respectively. The gross unrecognized tax benefits would, if recognized, decrease the Company's effective tax rate.

Although it is reasonably possible that certain unrecognized tax benefits may increase or decrease within the next twelve months due to tax examination changes, settlement activities, expirations of statute of limitations, or the impact

on recognition and measurement considerations related to the results of published tax cases or other similar activities, we do not anticipate any significant changes to unrecognized tax benefits over the next 12 months.

The Company recognizes interest and penalties associated with income tax liabilities as income tax expense in the Statement of Operations. No significant penalties or interest are included in income taxes or accounted for on the balance sheet related to unrecognized tax positions as of January 2, 2016.

The following table summarizes the movement in unrecognized tax benefits:

(Thousands)	For the Fiscal Years Ended,	
	January 2, 2016	January 3, 2015
Gross Unrecognized Tax Benefits:		
Beginning Balance	\$1,932	\$273
Additions based on current year's tax positions	743	1,649
Net changes based on prior year's tax positions	(159	) 10
Ending Balance	\$2,516	\$1,932

### (15) SHARE-BASED COMPENSATION

The aggregate number of shares of common stock which may be issued under the Company's 2008 Omnibus Plan ("Plan") is 1,902,077 plus any common stock that becomes available for issuance pursuant to the reusage provision of the Plan. As of January 2, 2016, the number of shares available for issuance under the Plan was 624,309 shares.

#### Stock Option Awards

A summary of stock option activity under this Plan is as follows:

Stock Options	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value as of Date Listed (in thousands)
Options outstanding at December 28, 2013	579,614	\$10.98	4.35	\$5,133
Exercised	(45,186 )	11.21		
Options outstanding at January 3, 2015	534,428	\$10.97	3.33	\$708
Exercised <sup>(a)</sup>	—	\$—		
Options outstanding at January 2, 2016	534,428	\$10.97	2.34	\$224

<sup>(a)</sup> There were no stock option exercises in fiscal 2015.

#### Restricted Stock Compensation/Awards

Annually, the Company grants restricted shares to its Board of Directors. The shares become fully vested one year from their grant date. The fair value of each restricted stock grant is based on the closing price of the Company's stock on the date of grant. The Company amortizes the expense over the service period, which is the fiscal year in which the award is granted. On May 8, 2015, the Company granted 22,638 restricted shares for service in fiscal 2015. Expense related to the Board of Directors' restricted stock in fiscal 2015, 2014, and 2013 was \$0.3 million per year. The 17,772 shares that were granted to the Board in fiscal 2014 vested on May 1, 2015.

In February 2013, the Company granted 10,000 restricted shares to a member of management based on performance goals achieved in fiscal 2012 by the individual. The restricted shares were subject to a vesting schedule over a three year period. The award fully vested January 1, 2015. In each of fiscal 2014, and 2013, less than \$0.1 million of compensation expense was recorded related to this award.

In February 2014, the Company granted certain members of management 132,107 restricted shares under the Company's 2013 LTIP. These restricted shares are subject to vesting over a three year period which began January 1, 2015. There was approximately \$0.5 million and \$1.1 million in unrecognized compensation expense remaining related to these awards as of January 2, 2016 and January 3, 2015, respectively. In each of fiscal 2015, 2014, and 2013, \$0.6 million of compensation expense was recorded related to these awards.

In February 2015, the Company granted certain members of management 38,372 restricted shares based on their services in fiscal 2014, contingent upon the employees' continued employment with the Company. The restricted shares vest over a three year period which began January 1, 2016. There was approximately \$0.2 million and \$0.4 million in unrecognized compensation expense remaining related to these awards as of January 2, 2016 and January 3, 2015, respectively. In each of fiscal 2015 and 2014, \$0.1 million of compensation expense was recorded related to these awards.

In January 2016, the Company granted certain members of management 42,208 restricted shares based on their services in fiscal 2015, contingent upon the employees' continued employment with the Company. The restricted shares vest over a period of approximately three years, beginning with the grant date in January 2016 and ending with the final vesting in January 2019. There was approximately \$0.3 million in unrecognized compensation expense remaining related to these awards as of January 2, 2016. In fiscal 2015, \$0.1 million of compensation expense was recorded related to these awards for services performed by the employees in fiscal 2015.

The following table summarizes information about restricted stock awards for the periods ended January 3, 2015 and January 2, 2016:

Restricted Stock (Nonvested Shares)	Number of Shares	Weighted Average Grant-Date Fair Value Per Share
Nonvested shares outstanding at December 28, 2013	100,052	\$ 16.97
Granted	149,879	16.59
Vested	(144,072)	) 16.88
Nonvested shares outstanding at January 3, 2015	105,859	\$ 16.56
Granted	61,010	12.44
Vested	(75,340)	) 15.76
Nonvested shares outstanding at January 2, 2016	91,529	\$ 14.47

#### Employee Stock Purchase Plan

The Employee Stock Purchase Plan of 2008 ("ESPP") is a shareholder approved plan under which all employees regularly scheduled to work 20 or more hours per week may purchase the Company's common stock through payroll deductions at a price equal to 95% of the fair market values of the stock as of the end of the first day following each three-month offering period. An employee's payroll deductions under the ESPP are limited to 10% of the employee's regular earnings, and employees may not purchase more than \$25,000 of stock during any calendar year.

As of January 2, 2016, the Company had reserved 95,984 shares of common stock available for purchase under the ESPP. In fiscal 2015, employees purchased 41,141 shares of the Company's common stock with a weighted average fair market value of \$12.12 per share.

#### (16) STOCKHOLDERS' EQUITY

In fiscal 2015 there were no common stock offerings. In the fourth quarter of fiscal 2014, the Company completed a follow-on public offering of common stock. In the follow-on offering, the Company sold 3,565,000 additional shares of common stock at \$10.00, raising net proceeds of approximately \$33.4 million, after underwriting discounts and transaction costs. The Company used a portion of the net proceeds to pay off the outstanding balance of its revolving credit facility of approximately \$9.0 million.

## Heritage Participation Rights

The Company has a Participation Rights Agreement with The Heritage Group (“Heritage”), an affiliate of Heritage-Crystal Clean, Inc. pursuant to which Heritage has the option to participate, pro rata based on its percentage ownership interest in the Company's common stock in any equity offerings for cash consideration, including (i) contracts with parties for equity financing (including any debt financing with an equity component) and (ii) issuances of equity securities or securities convertible, exchangeable or exercisable into or for equity securities (including debt securities with an equity component). If Heritage exercises its rights with respect to all offerings, it will be able to maintain its percentage ownership interest in the Company's common stock. The Participation Rights Agreement does not have an expiration date. Heritage is not required to participate or exercise its right of participation with respect to any offerings. Heritage's right to participate does not apply to



certain offerings of securities that are not conducted to raise or obtain equity capital or cash such as stock issued as consideration in a merger or consolidation, in connection with strategic partnerships or joint ventures, or for the acquisition of a business, product, license, or other asset by the Company.

(17) EMPLOYEE SEPARATION ACTIONS

In the fourth quarter of fiscal 2014, in connection with its integration plans of FCC Environmental, the Company communicated to its employees that it planned to implement a reduction in force of approximately 100 employees across the organization. The Company terminated approximately one half of these employees in the fourth quarter of fiscal 2014. Additional employees were given communication that they would be terminated over the next two to nine months and were offered retention bonuses. As a result of these measures, the Company incurred a charge of \$2.0 million related to the planned reduction in work force related to future cash severance payments of terminated employees in the fourth quarter of fiscal 2014. In fiscal 2015, the Company incurred additional charges of \$0.2 million.

Separation-related costs are recorded in Selling, general, and administrative expenses. The following table summarizes the severance activity recorded in Accrued salaries, wages, and benefits:

(Thousands)	For the Fiscal Year Ended January 2, 2016	
Beginning balance	\$2,010	
Severance expense	206	
Payments	(2,216	)
Ending balance	\$—	

(18) EARNINGS PER SHARE

The following table reconciles the number of shares outstanding for fiscal 2015, 2014, and 2013 respectively, to the number of weighted average basic shares outstanding and the number of weighted average diluted shares outstanding for the purposes of calculating basic and diluted earnings per share:

(Thousands, except per share data)	For the Fiscal Years Ended,		
	January 2, 2016	January 3, 2015	December 28, 2013
Net income (loss)	1,410	\$(6,865	) \$4,645
Less: Income attributable to noncontrolling interest	160	143	100
Net income (loss) attributable to Heritage-Crystal Clean, Inc. common stockholders	\$1,250	\$(7,008	) \$4,545
Weighted average basic shares outstanding	22,146	18,604	18,224
Dilutive shares for share-based compensation plans	262	—	328
Weighted average diluted shares outstanding	22,408	18,604	18,552
Number of anti-dilutive potentially issuable shares excluded from diluted shares outstanding	—	338	—
Net income (loss) per share: basic	\$0.06	\$(0.38	) \$0.25
Net income (loss) per share: diluted	\$0.06	\$(0.38	) \$0.24



## (19) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Fiscal 2015				Fiscal 2014			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter <sup>(a)</sup>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter <sup>(b)</sup>
(In thousands except per share data)								
STATEMENT OF OPERATIONS DATA:								
Revenues								
Product revenues	\$34,397	\$32,223	\$32,888	\$34,812	\$29,303	\$38,614	\$38,532	\$53,630
Service revenues	49,639	50,718	49,798	65,543	36,662	39,467	39,384	63,460
Total Revenues	\$84,036	\$82,941	\$82,686	\$100,355	\$65,965	\$78,081	\$77,916	\$117,090
Operating expenses								
Operating Costs	\$69,714	\$64,363	\$63,499	\$83,132	\$57,365	\$63,525	\$62,588	\$107,144
Selling, general, and administrative expenses	11,066	10,615	9,872	13,716	8,843	8,306	8,183	20,314
Depreciation and amortization	4,333	4,298	4,419	4,147	2,626	2,692	2,593	4,966
Impairment of goodwill	—	—	—	3,952				
Other (income) expense	(99 )	(154 )	99	(1,143 )	(51 )	236	172	(791 )
Operating (loss) income	(978 )	3,819	4,797	(3,449 )	(2,818 )	3,322	4,380	(14,543 )
Interest expense – net	554	408	405	513	53	33	24	579
(Loss) income before income taxes	\$(1,532 )	\$3,411	\$4,392	\$(3,962 )	\$(2,871 )	\$3,289	\$4,356	\$(15,122 )
(Benefit of) provision for income taxes	(632 )	1,413	1,637	(1,519 )	(1,235 )	1,304	1,942	(5,494 )
Net (loss) income	(900 )	1,998	2,755	(2,443 )	(1,636 )	1,985	2,414	(9,628 )
Less: Income attributable to noncontrolling interest	41	28	47	44	23	56	3	61
Net (loss) income attributable to Heritage-Crystal Clean, Inc. common stockholders	\$(941 )	\$1,970	\$2,708	\$(2,487 )	\$(1,659 )	\$1,929	\$2,411	\$(9,689 )
Net (loss) income per share: basic	(0.04 )	0.09	0.12	(0.11 )	(0.09 )	0.10	0.13	(0.51 )
Net (loss) income per share: diluted	(0.04 )	0.09	0.12	(0.11 )	(0.09 )	0.10	0.13	(0.51 )
Number of weighted average	22,119	22,138	22,153	22,166	18,402	18,423	18,446	18,985

shares outstanding:  
basic

Number of weighted average shares outstanding:	22,119	22,403	22,438	22,366	18,402	18,781	18,810	18,985
diluted								

OTHER

OPERATING DATA:

Average revenues per working day - Environmental Services

	\$880	\$900	\$900	\$900	\$660	\$705	\$720	\$840
--	-------	-------	-------	-------	-------	-------	-------	-------

Services

- (a) Reflects a sixteen week quarter.
- (b) Reflects a seventeen week quarter.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Effectiveness of Controls and Procedures

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded, based on their evaluation as of the end of the period covered by this report, that the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and

that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding financial disclosures.

#### Changes in Internal Control over Financial Reporting

The Company's management, together with our CEO and CFO, evaluated the changes in our internal control over financial reporting during the quarter ended January 2, 2016. There was no change in the Company's internal control over financial reporting that occurred during the quarter ended January 2, 2016 that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's management, with the participation of the Company's CEO and CFO, has evaluated the effectiveness of the Company's internal control over financial reporting based on the framework in Internal Control-Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the company's management has concluded that, as of January 2, 2016, the Company's internal control over financial reporting was effective.

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 risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Grant Thornton LLP, an independent registered public accounting firm, has audited the Company's consolidated financial statements and the effectiveness of internal controls over financial reporting as of January 2, 2016 as stated in its reports which are included in Item 8 of this Form 10-K.

#### ITEM 9B. OTHER INFORMATION

None.

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Certain information required by Item 401 of Regulation S-K will be included under the caption "Proposal 1 - Election of Directors" and "Executive Compensation" in the 2016 Proxy Statement, and that information is incorporated by reference herein. The information required by Item 405 of Regulation S-K will be included under the caption "Corporate Governance - Section 16(a) Beneficial Ownership Reporting Compliance" in the 2016 Proxy Statement, and that information is incorporated by reference herein.

The information required by Item 407(c)(3) of Regulation S-K will be included under the caption "Corporate Governance - Director Selection Procedures," and the information required under Items 407(d)(4) and (d)(5) of Regulation S-K will be included under the caption "Corporate Governance - Committees of the Board of Directors - Audit Committee" in the 2016 Proxy Statement, and that information is incorporated by reference herein.

We have adopted a Code of Conduct that applies to our key officers. This code of conduct is available on our website at [www.crystal-clean.com](http://www.crystal-clean.com). Amendments to, or waivers from, the Code of Conduct applicable to these senior executives will be posted on our website and provided to you without charge upon written request to Heritage-Crystal Clean, Inc., Attention: Corporate Secretary, 2175 Point Boulevard, Suite 375, Elgin, Illinois, 60123.

#### ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 of Regulation S-K will be included under the caption "Executive Compensation" in the 2016 Proxy Statement, and that information is incorporated by reference herein.

78

---

The information required by Items 407(e)(4) and (e)(5) of Regulation S-K will be included under the captions “Corporate Governance - Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” in the 2016 Proxy Statement, and that information is incorporated by reference herein.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 403 of Regulation S-K will be included under the caption “Security Ownership” in the 2016 Proxy Statement, and that information is incorporated by reference herein.

**Equity Compensation Plan Information**

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 remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	534,428	\$ 10.97	624,309
Equity compensation plans not approved by security holders	n/a	n/a	n/a
<b>Total</b>	<b>534,428</b>	<b>\$ 10.97</b>	<b>624,309</b>

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by Item 404 of Regulation S-K will be included under the caption “Certain Relationships and Related Party Transactions” in the 2016 Proxy Statement, and that information is incorporated by reference herein.

The information required by Item 407(a) of Regulation S-K will be included under the caption “Corporate Governance - Independence of Directors” in the 2016 Proxy Statement, and that information is incorporated by reference herein.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information concerning principal accounting fees and services and the information required by Item 14 will be included under the caption “Fees Incurred for Services of Independent Registered Public Accounting Firm” and “Approval of Services Provided by Independent Registered Public Accounting Firm” in the 2016 Proxy Statement, and that information is incorporated by reference herein.

**PART IV**





ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Consolidated Financial Statements:

Reports of Independent Registered Public Accounting Firms

Consolidated Balance Sheets as of January 2, 2016 and January 3, 2015

Consolidated Statements of Income for the years ended January 2, 2016, January 3, 2015, and December 28, 2013

Consolidated Statements of Cash Flows for the years ended January 2, 2016, January 3, 2015, and December 28, 2013

Consolidated Statements of Stockholders' Equity for the years ended January 2, 2016, January 3, 2015, and December 28, 2013

Notes to Consolidated Financial Statements

(a)(2) Consolidated Financial Statement Schedules:

All schedules have been omitted because the required information is not significant or is included in the financial statements or notes thereto or is not applicable.

(a)(3) Exhibits:

The exhibit list required by this Item is incorporated by reference to the Exhibit Index filed as part of this report.

SIGNATURES

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

HERITAGE-CRYSTAL CLEAN, INC.

Date: March 16, 2016

By: /s/ Joseph Chalhoub

Joseph Chalhoub  
President, Chief Executive Officer, and Director

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 indicated as of March 16, 2016.

Signature	Title
/s/ Joseph Chalhoub Joseph Chalhoub	President, Chief Executive Officer and Director (Principal Executive Officer of the Registrant)
/s/ Gregory Ray Gregory Ray	Chief Operating Officer
/s/ Mark DeVita Mark DeVita	Chief Financial Officer, (Principal Financial Officer and Principal Accounting Officer of the Registrant)
/s/ Fred Fehsenfeld, Jr. Fred Fehsenfeld, Jr.	Director
/s/ Bruce Bruckmann Bruce Bruckmann	Director
/s/ Carmine Falcone Carmine Falcone	Director
/s/ Brian Recatto Brian Recatto	Director
/s/ Charles E. Schalliol Charles E. Schalliol	Director
/s/ Robert W. Willmschen, Jr. Robert W. Willmschen, Jr.	Director



EXHIBIT INDEX

Exhibit Number	Exhibit
2 .1	Stock Purchase Agreement by and among Heritage-Crystal Clean, LLC, an Indiana limited liability company, as buyer, and Dédalo Patrimonial S.L.U., a sociedad limitada unipersonal formed under the laws of the Kingdom of Spain, as seller, and Fomento de Construcciones y Contratas, S.A., solely for purposes of Section 5.5 and Article 7 of the Agreement (Incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on October 16, 2014).
3 .1	Certificate of Incorporation of Heritage-Crystal Clean, Inc., amended (Incorporated herein by reference to Exhibit 3.1 of the Company's Annual Report on 10-K filed with the SEC on February 29, 2012).
3 .2	By-Laws of Heritage-Crystal Clean, Inc. (Incorporated herein by reference to Exhibit 3.2 of Amendment No. 6 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on February 25, 2008).
4 .1	Form of Specimen Common Stock Certificate of Heritage-Crystal Clean, Inc. (Incorporated herein by reference to Exhibit 4.1 of Amendment No. 7 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on March 7, 2008).
10 .1	Amended and Restated Credit Agreement dated as of February 5, 2013 by and between the Company and Bank of America, N.A. (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 11, 2013).
10 .2	First Amendment to the Amended and Restated Credit Agreement (the "Agreement") dated as of October 16, 2014 by and between Heritage-Crystal Clean LLC and Bank of America N.A., as Administrative Agent, Swing Line Lender, and L/C Issuer and the other lenders who are identified therein (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on October 16, 2014).
10 .3	Second Amendment to Amended and Restated Credit Agreement (the "Agreement") dated as of October 16, 2014 by and between Heritage-Crystal Clean LLC and Bank of America N.A., as Administrative Agent, Swing Line Lender, and L/C Issuer and the other lenders who are identified therein (Incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on October 16, 2014)
* 10 .4	Form of Restricted Stock Award under Omnibus Incentive Plan***
* 10 .10	Employment Agreement, dated as of August 24, 1999 by and between Heritage-Crystal Clean, LLC and Joseph Chalhoub, as amended March 1, 2000 (Incorporated herein by reference to Exhibit 10.8 of Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on August 3, 2007).
10 .11	Form of Participation Rights Agreement between Heritage-Crystal Clean, Inc. and The Heritage Group (Incorporated herein by reference to Exhibit 10.9 of Amendment No. 7 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on March 7, 2008).
* 10 .12	Employment Agreement, dated as of March 1, 2000 by and between Heritage-Crystal Clean, LLC and John Lucks (Incorporated herein by reference to Exhibit 10.10 of Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on August 3, 2007).
* 10 .13	Employment Agreement, dated as of November 15, 1999 by and between Heritage-Crystal Clean, LLC and Gregory Ray (Incorporated herein by reference to Exhibit 10.12 of Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on August 3, 2007).
* 10 .14	Employment Agreement, dated as of July 14, 2002 by and between Heritage-Crystal Clean, LLC and Tom Hillstrom (Incorporated herein by reference to Exhibit 10.14 of Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on August 3, 2007).

Edgar Filing: Heritage-Crystal Clean, Inc. - Form 10-K

- 10 .16 Multi-Story Office Building Lease between Heritage-Crystal-Clean, LLC and RP 2 Limited Partnership dated November 28, 2005 (Incorporated herein by reference to Exhibit 10.17 of Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on August 3, 2007).
- 10 .18 Heritage-Crystal Clean, Inc. Omnibus Incentive Plan (Incorporated herein by reference to Exhibit 10.25 of Amendment No. 6 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on February 25, 2008).
- \* 10 .19 Heritage-Crystal Clean, Inc. Performance-Based Annual Incentive Plan (Incorporated herein by reference to Exhibit 10.26 of Amendment No. 6 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on February 25, 2008).
- \* 10 .20 Heritage-Crystal Clean, Inc. Non-Qualified Deferred Compensation Plan (Incorporated herein by reference to Exhibit 10.27 of Amendment No. 7 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on March 7, 2008).

* 10	.21	Form of Option Grant Agreement under Omnibus Incentive Plan (Incorporated herein by reference to Exhibit 10.28 of Amendment No. 6 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on February 25, 2008).
* 10	.22	Heritage-Crystal Clean, Inc. Employee Stock Purchase Plan (Incorporated herein by reference to Exhibit 10.29 of Amendment No. 7 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on March 7, 2008).
* 10	.23	Form of Indemnity Agreement with Directors of the Company (Incorporated herein by reference to Exhibit 10.30 of Amendment No. 7 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on March 7, 2008).
* 10	.24	Non-Competition and Non-Disclosure Agreement between Joseph Chalhoub and Heritage-Crystal Clean, LLC dated August 24, 1999 (Incorporated herein by reference to Exhibit 10.32 of Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on August 3, 2007).
* 10	.25	Non-Competition and Non-Disclosure Agreement between Gregory Ray and Heritage Crystal Clean, LLC dated November 15, 1999 (Incorporated herein by reference to Exhibit 10.33 of Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on August 3, 2007).
* 10	.26	Non-Competition and Non-Disclosure Agreement between John Lucks and Heritage-Crystal Clean, LLC dated March 1, 2000 (Incorporated herein by reference to Exhibit 10.34 of Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on August 3, 2007).
* 10	.27	Non-Competition and Non-Disclosure Agreement among BRS-HCC Investment Co., Inc., Bruckmann, Rosser, Sherrill & Co. II, L.P., Bruckmann, Rosser, Sherrill & Co., Inc., Bruce C. Bruckmann and Heritage-Crystal Clean, LLC dated February 24, 2004 (Incorporated herein by reference to Exhibit 10.35 of Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-1438640) filed with the SEC on August 3, 2007).
* 10	.28	Form of Restricted Stock Award Agreement (Incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 9, 2011).
	.1	Subsidiaries of Heritage-Crystal Clean, Inc.***
	.1	Consent of Grant Thornton LLP, Independent Registered Public Accountants***
	.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002***
	.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002***
	.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002***
	.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002***
	.INS	XBRL Instance Document***
	.SCH	XBRL Taxonomy Extension Schema Document***
	.CAL	XBRL Taxonomy Extension Calculation Linkbase Document***
	.LAB	XBRL Taxonomy Extension Label Linkbase Document***
	.PRE	XBRL Taxonomy Extension Presentation Linkbase Document***
	.DEF	XBRL Taxonomy Extension Definition Linkbase Document***

\* Management or compensatory plan or arrangement.

\*\*\* Included herein.