CLEAN HARBORS INC
Form 10-Q
August 02, 2017


UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017
OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 001-34223

CLEAN HARBORS, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Massachusetts | 04-2997780 |
| (State or Other Jurisdiction of Incorporation or Organization) | (IRS Employer Identification No.) |
| 42 Longwater Drive, Norwell, MA | 02061-9149 |
| (Address of Principal Executive Offices) | (Zip Code) |

(781) 792-5000
(Registrant’s Telephone Number, Including area code)

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

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

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

| | |
|---|---|
| Large accelerated filer x | Accelerated filer o |
| Non-accelerated filer o | Smaller reporting company o |
| (Do not check if a smaller reporting company) | Emerging growth company o |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

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

| | |
|---|---|
| Common Stock, $.01 par value | 57,154,060 |
| (Class) | (Outstanding as of July 28, 2017) |

CLEAN HARBORS, INC.

QUARTERLY REPORT ON FORM 10-Q

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CLEAN HARBORS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

| | June 30, 2017 (unaudited) | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $446,366 | $306,997 |
| Accounts receivable, net of allowances aggregating $26,782 and $29,249, respectively | 512,375 | 496,226 |
| Unbilled accounts receivable | 46,576 | 36,190 |
| Deferred costs | 21,054 | 18,914 |
| Inventories and supplies | 172,540 | 178,428 |
| Prepaid expenses and other current assets | 35,823 | 56,116 |
| Total current assets | 1,234,734 | 1,092,871 |
| Property, plant and equipment, net | 1,602,453 | 1,611,827 |
| Other assets: | | |
| Goodwill | 472,819 | 465,154 |
| Permits and other intangibles, net | 482,828 | 498,721 |
| Other | 13,448 | 13,347 |
| Total other assets | 969,095 | 977,222 |
| Total assets | $3,806,282 | $3,681,920 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term obligations | $107,798 | $— |
| Accounts payable | 224,218 | 229,534 |
| Deferred revenue | 72,089 | 64,397 |
| Accrued expenses | 191,495 | 190,721 |
| Current portion of closure, post-closure and remedial liabilities | 23,700 | 20,016 |
| Total current liabilities | 619,300 | 504,668 |
| Other liabilities: | | |
| Closure and post-closure liabilities, less current portion of $6,745 and $6,220, respectively | 53,048 | 52,111 |
| Remedial liabilities, less current portion of $16,955 and $13,796, respectively | 109,204 | 114,211 |
| Long-term obligations, less current portion | 1,626,505 | 1,633,272 |
| Deferred taxes, unrecognized tax benefits and other long-term liabilities | 297,288 | 293,417 |
| Total other liabilities | 2,086,045 | 2,093,011 |
| Commitments and contingent liabilities (See Note 15) | | |
| Stockholders' equity: | | |
| Common stock, $.01 par value: | | |
| Authorized 80,000,000; shares issued and outstanding 57,153,687 and 57,297,978 shares, respectively | 572 | 573 |
| Shares held under employee participation plan | — | (469) |
| Additional paid-in capital | 716,712 | 725,670 |
| Accumulated other comprehensive loss | (193,177) | (214,326) |

| | | |
|---|---|---|
| Accumulated earnings | 576,830 | 572,793 |
| Total stockholders' equity | 1,100,937 | 1,084,241 |
| Total liabilities and stockholders' equity | $3,806,282 | $3,681,920 |

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

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CLEAN HARBORS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues: | | | | |
| Service revenues | $610,940 | $584,562 | $1,171,154 | $1,114,793 |
| Product revenues | 141,848 | 112,948 | 270,575 | 218,800 |
| Total revenues | 752,788 | 697,510 | 1,441,729 | 1,333,593 |
| Cost of revenues (exclusive of items shown separately below) | | | | |
| Service revenues | 412,356 | 388,684 | 803,443 | 762,670 |
| Product revenues | 107,447 | 91,318 | 212,945 | 181,611 |
| Total cost of revenues | 519,803 | 480,002 | 1,016,388 | 944,281 |
| Selling, general and administrative expenses | 112,294 | 107,063 | 224,515 | 211,547 |
| Accretion of environmental liabilities | 2,416 | 2,548 | 4,706 | 5,053 |
| Depreciation and amortization | 71,531 | 73,393 | 143,943 | 142,295 |
| Income from operations | 46,744 | 34,504 | 52,177 | 30,417 |
| Other expense | (833) | (189) | (2,382) | (539) |
| Loss on early extinguishment of debt | (6,045) | — | (6,045) | — |
| Gain on sale of business | 31,722 | — | 31,722 | — |
| Interest expense, net of interest income of $311, $225, $520 and $375, respectively | (22,492) | (21,647) | (45,068) | (40,627) |
| Income (loss) before provision for income taxes | 49,096 | 12,668 | 30,404 | (10,749) |
| Provision for income taxes | 23,216 | 8,702 | 25,917 | 6,156 |
| Net income (loss) | $25,880 | $3,966 | $4,487 | $(16,905) |
| Earnings (loss) per share: | | | | |
| Basic | $0.45 | $0.07 | $0.08 | $(0.29) |
| Diluted | $0.45 | $0.07 | $0.08 | $(0.29) |
| Shares used to compute earnings (loss) per share - Basic | 57,190 | 57,549 | 57,226 | 57,599 |
| Shares used to compute earnings (loss) per share - Diluted | 57,336 | 57,678 | 57,349 | 57,599 |

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

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CLEAN HARBORS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net income (loss) | $25,880 | $3,966 | $4,487 | $(16,905) |
| Other comprehensive income (loss): | | | | |
| Unrealized gains on available-for-sale securities (net of taxes of $20, $0, $122 and $0, respectively) | 27 | — | 159 | — |
| Reclassification adjustment for losses on available-for-sale securities included in net income (loss) (net of taxes of $29, $0, $79 and $0, respectively) | 47 | — | 143 | — |
| Foreign currency translation adjustments | 15,024 | (1,178 ) | 20,847 | 44,659 |
| Other comprehensive income (loss) | 15,098 | (1,178 ) | 21,149 | 44,659 |
| Comprehensive income | $40,978 | $2,788 | $25,636 | $27,754 |

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

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CLEAN HARBORS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

| | Six Months Ended June 30, 2017 | 2016 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $4,487 | $(16,905) |
| Adjustments to reconcile net loss to net cash from operating activities: | | |
| Depreciation and amortization | 143,943 | 142,295 |
| Allowance for doubtful accounts | 3,580 | 3,228 |
| Amortization of deferred financing costs and debt discount | 1,660 | 1,772 |
| Accretion of environmental liabilities | 4,706 | 5,053 |
| Changes in environmental liability estimates | (129) | (315) |
| Deferred income taxes | 190 | (6,521) |
| Stock-based compensation | 5,172 | 4,739 |
| Excess tax benefit of stock-based compensation | — | (2) |
| Net tax deficiency on stock based awards | — | (603) |
| Other expense | 2,382 | 1,049 |
| Gain on sale of business | (31,722) | — |
| Loss on early extinguishment of debt | 6,045 | — |
| Environmental expenditures | (6,102) | (6,454) |
| Changes in assets and liabilities, net of acquisitions | | |
| Accounts receivable and unbilled accounts receivable | (31,154) | 993 |
| Inventories and supplies | (6,307) | (1,113) |
| Other current assets | 13,918 | (4,789) |
| Accounts payable | (2,686) | (8,397) |
| Other current and long-term liabilities | 8,948 | 6,021 |
| Net cash from operating activities | 116,931 | 120,051 |
| Cash flows used in investing activities: | | |
| Additions to property, plant and equipment | (88,742) | (123,529) |
| Proceeds from sales of fixed assets | 2,121 | 2,668 |
| Acquisitions, net of cash acquired | (9,277) | (58,989) |
| Proceeds on sale of businesses, net of transactional costs | 46,391 | — |
| Additions to intangible assets, including costs to obtain or renew permits | (1,239) | (973) |
| Purchases of available-for-sale securities | — | (598) |
| Proceeds from sale of investments | 376 | — |
| Net cash used in investing activities | (50,370) | (181,421) |
| Cash flows from financing activities: | | |
| Change in uncashed checks | (8,361) | (11,022) |
| Proceeds from exercise of stock options | 46 | 184 |
| Issuance of restricted shares, net of shares remitted | (2,132) | (1,879) |
| Repurchases of common stock | (12,257) | (10,134) |
| Deferred financing costs paid | (4,727) | (2,614) |
| Excess tax benefit of stock-based compensation | — | 2 |
| Premiums paid on early extinguishment of debt | (4,665) | — |
| Principal payment on debt | (296,202) | — |

| | | |
|---|---|---|
| Issuance of senior secured notes, net of discount | 399,000 | — |
| Issuance of senior unsecured notes, including premium | — | 250,625 |
| Net cash from financing activities | 70,702 | 225,162 |
| Effect of exchange rate change on cash | 2,106 | 4,423 |
| Increase in cash and cash equivalents | 139,369 | 168,215 |
| Cash and cash equivalents, beginning of period | 306,997 | 184,708 |
| Cash and cash equivalents, end of period | $446,366 | $352,923 |
| Supplemental information: | | |
| Cash payments for interest and income taxes: | | |
| Interest paid | $50,432 | $44,275 |
| Income taxes paid | 13,407 | 23,872 |
| Non-cash investing and financing activities: | | |
| Property, plant and equipment accrued | 16,213 | 24,187 |
| Transfer of inventory to property, plant and equipment | 12,641 | — |

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

CLEAN HARBORS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

| | Common Stock | | Shares Held Under Employee Participation Plan | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Earnings | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| | Number of Shares | $ 0.01 Par Value | | | | | |
| Balance at January 1, 2017 | 57,298 | $573 | $ (469) | $725,670 | $ (214,326) | $ 572,793 | $ 1,084,241 |
| Cumulative effect of change in accounting for stock based compensation | — | — | — | 681 | — | (450) | 231 |
| Net income | — | — | — | — | — | 4,487 | 4,487 |
| Other comprehensive income | — | — | — | — | 21,149 | — | 21,149 |
| Stock-based compensation | — | — | — | 5,172 | — | — | 5,172 |
| Issuance of restricted shares, net of shares remitted | 93 | 1 | — | (2,133) | — | — | (2,132) |
| Shares held under employee participation plan | (25) | — | 469 | (469) | — | — | — |
| Repurchases of common stock | (214) | (2) | — | (12,255) | — | — | (12,257) |
| Exercise of stock options | 2 | — | — | 46 | — | — | 46 |
| Balance at June 30, 2017 | 57,154 | $572 | $ — | $716,712 | $ (193,177) | $ 576,830 | $ 1,100,937 |

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

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CLEAN HARBORS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## (1) BASIS OF PRESENTATION

The accompanying consolidated interim financial statements are unaudited and include the accounts of Clean Harbors, Inc. and its subsidiaries (collectively, "Clean Harbors," the "Company" or "we") and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and, in the opinion of management, include all adjustments which are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. Management has made estimates and assumptions affecting the amounts reported in the Company's consolidated interim financial statements and accompanying footnotes, actual results could differ from those estimates and judgments. The results for interim periods are not necessarily indicative of results for the entire year or any other interim periods. The financial statements presented herein should be read in connection with the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, which includes the audited consolidated balance sheet as of December 31, 2016 from which the one presented herein was derived.

## (2) SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2, "Significant Accounting Policies," in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. There have been no material changes in these policies or their application.

### Reclassifications

As disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, in the fourth quarter of 2016 the Company changed the manner in which it manages its business, makes operating decisions and assesses the Company's performance. The Company's operations are now managed in six operating segments: Technical Services, Industrial Services, Field Services, Safety-Kleen, Oil and Gas Field Services and Lodging Services. For purposes of segment disclosure the Industrial Services and Field Services operating segments have been aggregated into a single reportable segment based upon their similar economic and other characteristics, and the Oil and Gas Field Services and Lodging Services operating segments have been combined as they do not meet the quantitative thresholds for separate presentation. The amounts presented for the three and six months ended June 30, 2016 have been recast to reflect the impact of such changes. These reclassifications and adjustments had no effect on consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of cash flows or consolidated statements of stockholders' equity for any of the periods presented.

### Recent Accounting Pronouncements

#### Standards implemented

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-11, Inventory (Topic 330). The amendment provides guidance regarding the measurement of inventory. Entities should measure inventory within the scope of this update at the lower of cost and net realizable value. The adoption of ASU 2015-11 was applied prospectively and as of January 1, 2017 did not have an impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendment simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. Stock-based compensation excess tax benefits or deficiencies are now reflected in the Consolidated Statements of Operations as a component of the provision for income taxes, whereas they previously were recognized in equity. Additionally, the Consolidated Statements of Cash Flows now include excess tax benefits as an operating activity. Previously, income tax benefits at settlement of an award were reported as a reduction to operating cash flows and an increase to financing cash flows to the extent that those benefits exceeded the income tax benefits reported in earnings during the award's vesting period. The Company has elected to apply that change in cash flow classification on a prospective basis, leaving previously reported net cash from operating activities and net cash from financing activities in the accompanying consolidated statement of cash flows for the period ended June 30, 2016 unchanged. Finally, the Company has elected to account for forfeitures as they occur, rather than estimate expected forfeitures. As a result of the adoption of this update, the Company recorded a cumulative-effect adjustment that reduced beginning retained earnings by $0.5 million, net of tax.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The amendment provides updated guidance on eight specific cash flow issues, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims and corporate-owned life insurance, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The Company early adopted the amendments in the Update on a retrospective basis in the second quarter of fiscal year 2017. As a result of adoption, the Company recorded cash paid in the second quarter for debt prepayment and extinguishment costs as financing activities in the accompanying consolidated statements of cash flows.

Standard to be implemented

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In August 2015, FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 for all entities by one year. In March 2016, FASB issued ASU 2016-08, which reduces the potential for diversity in practice arising from inconsistent application of the principal versus agent guidance, as well as the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. In April 2016, FASB issued ASU 2016-10, which reduces the potential for diversity in initial application, as well as the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. In May 2016, FASB issued ASU 2016-12, which provided narrow scope improvements and practical expedients on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. ASU 2014-09 is currently effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company expects that it will adopt ASU 2014 09 beginning in the first quarter of 2018 and continues its evaluation of the impact of the new standard on its accounting policies, disclosures, processes, and system requirements. The Company has assigned internal resources to assist in this implementation project and believes that the project is progressing timely. The Company currently anticipates adopting this ASU using the modified retrospective method. As the Company completes its evaluation of this new standard, the Company's preliminary assessments could change.

In February 2017, the FASB issued ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The amendments in this Update are meant to clarify the scope of ASC Subtopic 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets and to add guidance for partial sales of nonfinancial assets. The amendments in this Update should be applied using a full retrospective method or a modified retrospective method and are effective at the same time as ASU 2014-09. Further, the Company is required to adopt ASU 2017-05 at the same time that it adopts the guidance in ASU 2014-09. Adoption is not expected to have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting. The amendments in this Update are meant to provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date and are effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Adoption is not expected to have a material impact on the Company's consolidated financial statements.

(3) BUSINESS COMBINATIONS
2017 Acquisitions

On January 31, 2017, the Company acquired a privately held company for a purchase price of approximately $11.9 million in cash, net of cash acquired, and subject to customary post-closing adjustments. The acquired business produces and distributes oil products and therefore complements the Company's closed loop model as it relates to the sale of its oil products. The acquired company is included in the Safety-Kleen operating segment. In connection with this acquisition a preliminary goodwill amount of $4.9 million was recognized.

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2016 Acquisitions

During 2016, the Company acquired seven businesses that complement the strategy to create a closed loop model as it relates to the sale of the Company's oil products. These acquisitions provided the Company with three additional oil re-refineries while also expanding its used motor oil collection network and providing greater blending and packaging capabilities. These acquisitions also provided the Company with greater access to customers in the West Coast region of the United States and additional locations with Part B permits. Operations of these acquisitions are primarily being integrated into the Safety-Kleen operating segment with certain operations also being integrated into the Technical Services and Industrial Services operating segments. The combined purchase price for the seven acquisitions was $204.8 million in cash, net of cash acquired. Upon acquisition, the acquired entities were immediately integrated into the Company's operating segments. Therefore it is impracticable to measure earnings attributable to the acquired businesses.

The allocation of the purchase price was based on estimates of the fair value of assets acquired and liabilities assumed as of the acquisition dates. The Company believes that such information provides a reasonable basis for estimating the fair values of
assets acquired and liabilities assumed. The Company finalized the purchase accounting for the seven acquisitions in the second
quarter of 2017.

The components and allocation of the purchase price consist of the following amounts (in thousands):

| | At Acquisition Dates As Reported December 31, 2016 | Measurement Period Adjustments | Final Allocations |
|---|---|---|---|
| Accounts receivable | $ 15,767 | $ 475 | $ 16,242 |
| Inventories and supplies | 12,515 | 173 | 12,688 |
| Prepaid expenses and other current assets | 777 | (25 ) | 752 |
| Property, plant and equipment | 143,025 | 891 | 143,916 |
| Permits and other intangibles | 28,856 | — | 28,856 |
| Current liabilities | (20,258 ) | 353 | (19,905 ) |
| Closure and post-closure liabilities | (2,408 ) | (596 ) | (3,004 ) |
| Remedial liabilities, less current portion | (2,041 ) | (504 ) | (2,545 ) |
| Deferred taxes, unrecognized tax benefits and other long-term liabilities | (17,019 ) | (3,200 ) | (20,219 ) |
| Total identifiable net assets | 159,214 | (2,433 ) | 156,781 |
| Goodwill | 45,791 | 2,186 | 47,977 |
| Total purchase price, net of cash acquired | $ 205,005 | $ (247 ) | $ 204,758 |

Pro forma revenue and earnings amounts on a combined basis as if these acquisitions had been completed on January 1, 2016 are immaterial to the consolidated financial statements of the Company since that date.

(4) DISPOSITION OF BUSINESS
2017 Disposition

On June 30, 2017, the Company completed the sale of its Transformer Services business, as part of its continuous focus on improving or divesting certain non-core operations. The Transformer Services business was a non-core business previously included within the Technical Services operating segment and has sold for approximately $46.5

million ($44.4 million net of $2.1 million in transactional related costs) subject to customary post-closing conditions. As a result of the sale, the Company recognized during the three and six months ended June 30, 2017, a pre-tax gain of $31.7 million which is included in gain on sale of business in the Company's consolidated statement of operations.

The following table presents the carrying amounts of the Company's Transformer Services business that was disposed of on June 30, 2017 (in thousands):

| | June 30, 2017 |
|---|---|
| Total current assets | $7,216 |
| Property, plant and equipment, net | 8,773 |
| Total other assets | 1,681 |
| Total assets divested | $17,670 |
| Total current liabilities | 3,849 |
| Total other liabilities | 1,170 |
| Total liabilities divested | $5,019 |
| Net carrying value divested | $12,651 |

The Company evaluated the disposition and determined it did not meet the “major effect” criteria for classification as a discontinued operation largely due to the nature and size of the operations of the disposed entity. However, the Company determined that the disposition represented an individually significant component of the Company’s business. The following table presents income attributable to the Transformer Services business included in the Company's consolidated results of operations for each of the periods shown and through its disposition on June 30, 2017 (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Income before provision for income taxes | $ 1,873 | $ 986 | $2,771 | $1,793 |

2016 Disposition

On September 1, 2016, the Company completed the sale of its Catalyst Services business, which was a non-core business previously included within the Industrial and Field Services segment. During the first quarter of 2017, the Company and the buyer of the Catalyst Services business agreed to final working capital amounts and as a result the Company received $2.0 million of final sale proceeds.

The following table presents the income before provision for income taxes attributable to the Catalyst Services business included in the Company's consolidated results of operations for three and six months ended June 30, 2016 (in thousands):

| | Three Months Ended | Six Months Ended |
|---|---|---|
| | June 30, 2016 | June 30, 2016 |
| Income before provision for income taxes | $ 2,607 | $ 1,508 |

(5) INVENTORIES AND SUPPLIES

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

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Oil and oil products | $57,554 | $ 52,158 |
| Supplies and drums | 92,995 | 90,610 |
| Solvent and solutions | 8,575 | 8,566 |

| | | |
|---|---|---|
| Modular camp accommodations | 2,699 | 15,255 |
| Other | 10,717 | 11,839 |
| Total inventories and supplies | $172,540 | $ 178,428 |

As of June 30, 2017 and December 31, 2016, other inventories consisted primarily of cleaning fluids, such as absorbents and wipers, and automotive fluids, such as windshield washer fluid and antifreeze. During the second quarter of 2017, $12.6 million of modular camp accommodations inventory was transferred to and included as camp equipment within the Company's property, plant and equipment amount as such assets will be utilized in the Company's ongoing camp and lodging operations.

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## (6) PROPERTY, PLANT AND EQUIPMENT

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

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Land | $121,114 | $ 120,575 |
| Asset retirement costs (non-landfill) | 14,861 | 14,567 |
| Landfill assets | 141,878 | 139,708 |
| Buildings and improvements | 406,030 | 373,160 |
| Camp equipment | 168,524 | 152,740 |
| Vehicles | 564,723 | 541,022 |
| Equipment | 1,605,581 | 1,483,736 |
| Furniture and fixtures | 5,524 | 5,492 |
| Construction in progress | 54,934 | 146,904 |
| | 3,083,169 | 2,977,904 |
| Less - accumulated depreciation and amortization | 1,480,716 | 1,366,077 |
| Total property, plant and equipment, net | $1,602,453 | $ 1,611,827 |

Interest in the amount of $0.1 million and $0.2 million was capitalized to fixed assets during the three and six months ended June 30, 2017, respectively. Interest in the amount of $1.3 million and $2.5 million was capitalized to fixed assets during the three and six months ended June 30, 2016, respectively. Depreciation expense, inclusive of landfill amortization, was $61.8 million and $125.2 million for the three and six months ended June 30, 2017, respectively. Depreciation expense, inclusive of landfill amortization, was $63.5 million and $122.8 million for the three and six months ended June 30, 2016, respectively.

## (7) GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in goodwill by segment for the six months ended June 30, 2017 were as follows (in thousands):

| | Technical Services | Industrial & Field Services | Safety-Kleen | Oil, Gas and Lodging Services | Totals |
|---|---|---|---|---|---|
| Balance at January 1, 2017 | $61,116 | $107,968 | $ 296,070 | $ — | $465,154 |
| Increase from current period acquisitions | — | — | 4,916 | — | 4,916 |
| Measurement period adjustments from prior period acquisitions | — | — | 2,186 | — | 2,186 |
| Decrease from disposition of business | (1,300 ) | — | — | | (1,300 ) |
| Foreign currency translation and other | 157 | 615 | 1,091 | — | 1,863 |
| Balance at June 30, 2017 | $59,973 | $108,583 | $ 304,263 | $ — | $472,819 |

The Company assesses goodwill for impairment on an annual basis as of December 31, or at an interim date when events or changes in the business environment would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company conducted the annual impairment test of goodwill for all reporting units as of December 31, 2016 and determined that no adjustment to the carrying value of goodwill for any reporting units was necessary because the fair value of each of the reporting units exceeded that reporting unit's respective carrying value. As a result of the sale of the Transformer Services business discussed in Note 4, "Disposition of Business," to the accompanying financial statements, the Company assessed qualitative factors to determine whether it was more likely than not that the fair value of the remaining Technical Services reporting unit was less than its carrying value. As a result of its qualitative assessment, the Company noted no indicators of impairment for the remaining Technical Services reporting unit existed as of June 30, 2017.

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As of June 30, 2017 and December 31, 2016, the Company's total finite-lived and indefinite-lived intangible assets consisted of the following (in thousands):

| | June 30, 2017 | | | | December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net | Weighted Average Remaining Amortization Period (in years) | Cost | Accumulated Amortization | Net | Weighted Average Remaining Amortization Period (in years) |
| Permits | $173,174 | $ 70,698 | $102,476 | 21.4 | $171,637 | $ 67,301 | $104,336 | 18.9 |
| Customer and supplier relationships | 395,911 | 143,038 | 252,873 | 11.9 | 393,426 | 127,462 | 265,964 | 12.2 |
| Other intangible assets | 34,673 | 30,166 | 4,507 | 7.5 | 34,254 | 28,456 | 5,798 | 7.1 |
| Total amortizable permits and other intangible assets | 603,758 | 243,902 | 359,856 | 14.5 | 599,317 | 223,219 | 376,098 | 13.9 |
| Trademarks and trade names | 122,972 | — | 122,972 | Indefinite | 122,623 | — | 122,623 | Indefinite |
| Total permits and other intangible assets | $726,730 | $ 243,902 | $482,828 | | $721,940 | $ 223,219 | $498,721 | |

Amortization expense of permits and other intangible assets was $9.7 million and $18.8 million for the three and six months ended June 30, 2017, respectively. Amortization expense of permits and other intangible assets was $9.9 million and $19.5 million for the three and six months ended June 30, 2016, respectively.

The expected amortization of the net carrying amount of finite-lived intangible assets at June 30, 2017 was as follows (in thousands):

| Years Ending December 31, | Expected Amortization |
|---|---|
| 2017 (six months) | $ 18,078 |
| 2018 | 34,091 |
| 2019 | 31,238 |
| 2020 | 28,756 |
| 2021 | |