Heritage-Crystal Clean, Inc.
Form 10-Q
May 02, 2019

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

FORM 10-Q

(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended March 23, 2019
	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 001-33987

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

Delaware	26-0351454
State or other jurisdiction of Incorporation	(I.R.S. Employer Identification No.)

2175 Point Boulevard
Suite 375
Elgin, IL 60123
(Address of principal executive offices and zip code)

Registrant’s telephone number, including area code: (847) 836-5670
Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Trading Symbol	Name of Exchange on which registered
Common Stock, par value $0.01 per share	HCCI	NASDAQ

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

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Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted 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 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 definitions of “large accelerated filer,” “accelerated filer,” "smaller reporting company," and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	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 in Rule 12b-2 of the Exchange Act). Yes o No x

On April 30, 2019, there were outstanding 23,125,474 shares of Common Stock, $0.01 par value, of Heritage-Crystal Clean, Inc.

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PART I

ITEM 1. FINANCIAL STATEMENTS

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

	March 23, 2019 (unaudited)	December 29, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 42,692	$ 43,579
Accounts receivable - net	53,326	51,744
Inventory - net	29,661	33,059
Other current assets	4,914	6,835
Total current assets	130,593	135,217
Property, plant and equipment - net	144,796	139,987
Right of use assets	62,929	—
Equipment at customers - net	23,839	23,814
Software and intangible assets - net	17,070	14,681
Goodwill	32,358	34,123
Total assets	$ 411,585	$ 347,822
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 34,858	$ 32,630
Current portion of lease liabilities	18,433	—
Contract liabilities - net	2,399	166
Accrued salaries, wages, and benefits	4,483	6,024
Taxes payable	6,290	6,120
Other current liabilities	5,986	5,089
Total current liabilities	72,449	50,029
Lease liabilities, net of current portion	44,298	—
Long-term debt	29,116	29,046
Deferred income taxes	13,544	14,516
Total liabilities	$ 159,407	$ 93,591
STOCKHOLDERS' EQUITY:		
Common stock - 26,000,000 shares authorized at $0.01 par value, 23,120,998 shares and 23,058,584 shares issued and outstanding at March 23, 2019 and December 29, 2018, respectively	$ 231	$ 231
Additional paid-in capital	197,909	197,533
Retained earnings	53,307	55,819
Total Heritage-Crystal Clean, Inc. stockholders' equity	251,447	253,583
Noncontrolling interest	731	648
Total equity	252,178	254,231
Total liabilities and stockholders' equity	$ 411,585	$ 347,822

See accompanying notes to financial statements.

Heritage-Crystal Clean, Inc.
Condensed Consolidated Statements of Income/(Loss)
(In Thousands, Except per Share Amounts)
(Unaudited)

	First Quarter Ended,	
	March 23, 2019	March 24, 2018
Revenues		
Service revenues	$56,366	$54,137
Product revenues	35,858	29,010
Rental income	3,548	—
Total revenues	$95,772	$83,147
Operating expenses		
Operating costs	$82,483	$68,386
Selling, general, and administrative expenses	12,396	11,022
Depreciation and amortization	4,136	3,643
Other (income) expense - net	(58)	389
Operating loss	(3,185)	(293)
Interest expense – net	230	245
Loss before income taxes	(3,415)	(538)
Benefit from income taxes	(986)	(436)
Net loss	(2,429)	(102)
Income attributable to noncontrolling interest	83	18
Net loss attributable to Heritage-Crystal Clean, Inc. common stockholders	$(2,512)	$(120)
Net loss per share: basic	$(0.11)	$(0.01)
Net loss per share: diluted	$(0.11)	$(0.01)
Number of weighted average shares outstanding: basic	23,117	22,962
Number of weighted average shares outstanding: diluted	23,117	22,962

See accompanying notes to financial statements.

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

(Unaudited)

	Shares	Par Value Common	Additional Paid–in Capital	Retained Earnings	Total Heritage-Crystal Clean, Inc. Stockholders' Equity	Non-controlling Interest	Total Equity
Balance at December 30, 2017	22,891,674	$ 229	$ 193,640	$ 41,359	$ 235,228	$ 698	$ 235,926
Adjustment from adopting ASC 606	—	—	—	(268)	(268)	—	(268)
Net (loss) income	—	—	—	(120)	(120)	18	(102)
Issuance of common stock – ESPP	4,822	—	100	—	100	—	100
Share-based compensation	114,237	1	827	—	828	—	828
Share repurchases to satisfy tax withholding obligations	—	—	(1,031)	—	(1,031)	—	(1,031)
Balance at March 24, 2018	23,010,733	$ 230	$ 193,536	$ 40,971	$ 234,737	$ 716	$ 235,453
Balance at December 29, 2018	23,058,584	$ 231	$ 197,533	$ 55,819	$ 253,583	$ 648	$ 254,231
Net (loss) income	—	—	—	(2,512)	(2,512)	83	(2,429)
Issuance of common stock – ESPP	4,975	—	111	—	111	—	111
Exercise of stock options	2,760	—	20	—	20	—	20
Share-based compensation	54,679	—	889	—	889	—	889
Share repurchases to satisfy tax withholding obligations	—	—	(644)	—	(644)	—	(644)
Balance at March 23, 2019	23,120,998	$ 231	$ 197,909	$ 53,307	$ 251,447	$ 731	$ 252,178

See accompanying notes to financial statements.

Heritage-Crystal Clean, Inc.
Condensed Consolidated Statements of Cash Flows
(In Thousands)
(Unaudited)

	For the First Quarter Ended,	
	March 23, 2019	March 24, 2018
Cash flows from Operating Activities:		
Net loss	$(2,429)	$(102)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,136	3,643
Bad debt provision	249	286
Share-based compensation	889	828
Deferred taxes	(972)	(386)
Other, net	(171)	74
Changes in operating assets and liabilities:		
Increase in accounts receivable	(1,473)	(1,678)
Decrease (increase) in inventory	3,716	(3,755)
Decrease in other current assets	1,921	773
Increase in accounts payable	1,531	2,344
Increase (decrease) in accrued liabilities	1,781	(2,564)
Cash provided by (used in) operating activities	$9,178	$(537)
Cash flows from Investing Activities:		
Capital expenditures	$(7,579)	$(3,568)
Business acquisitions, net of cash acquired	(1,973)	—
Proceeds from the disposal of assets	—	55
Cash used in investing activities	$(9,552)	$(3,513)
Cash flows from Financing Activities:		
Proceeds from the exercise of stock options	$20	$—
Share repurchases to satisfy tax withholding obligations	(644)	(382)
Proceeds from the issuance of common stock	111	100
Cash used in financing activities	$(513)	$(282)
Net decrease in cash and cash equivalents	(887)	(4,332)
Cash and cash equivalents, beginning of period	43,579	41,889
Cash and cash equivalents, end of period	$42,692	$37,557
Supplemental disclosure of cash flow information:		
Income taxes paid	$—	$2
Cash paid for interest	334	249
Supplemental disclosure of non-cash information:		
Payables for construction in progress	$1,933	$451
Payables for share-based tax withholdings	—	649

See accompanying notes to financial statements.

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

March 23, 2019

(1) ORGANIZATION AND NATURE OF OPERATIONS

Heritage-Crystal Clean, Inc., a Delaware corporation and its subsidiaries (collectively the “Company”), provide parts cleaning, hazardous and non-hazardous containerized waste, used oil collection, vacuum, antifreeze recycling and field services primarily to small and mid-sized industrial and vehicle maintenance customers. 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 products. The Company also has multiple locations where it dehydrates used oil. The oil processed at these locations is sold as recycled fuel oil. The Company also operates multiple wastewater treatment plants and antifreeze recycling facilities at which it produces virgin-quality antifreeze. 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 has two reportable segments: "Environmental Services" and "Oil Business." The Environmental Services segment consists of the Company's parts cleaning, containerized waste management, vacuum truck services, antifreeze recycling activities, and field services. The Oil Business segment consists of the Company's used oil collection, recycled fuel oil sales, used oil re-refining activities, and used oil filter removal and disposal services. No customer represented greater than 10% of consolidated revenues for any of the periods presented. There were no intersegment revenues. Both segments operate in the United States and, to an immaterial degree, in Ontario, Canada. As such, the Company is not disclosing operating results by geographic segment.

The Company’s fiscal year ends on the Saturday closest to December 31. The most recent fiscal year ended on December 29, 2018. 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 servicing of parts cleaning machines, drum waste removal services, vacuum truck services, field services, and other services. In the Company's Oil Business segment, product revenues primarily consist of sales of re-refined base oil, re-refinery co-products and recycled fuel oil; service revenues include revenues from used oil collection activities, collecting and disposing of waste water and removal and disposal of used oil filters. 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

The Company's significant accounting policies are described in Note 2, "Summary of Significant Accounting Policies," in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2018. There have been no material changes in these policies or their application during the first quarter of fiscal 2019 with the exception of our accounting for leases. See footnote 12 — Commitments and Contingencies for more information.

Recently Issued Accounting Pronouncements

Standard	Issuance Date	Description	Our Effective Date	Effect on the Financial Statements
ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments."	June 2016	This update modifies the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to utilize a new forward-looking "expected loss" methodology that generally will result in the earlier recognition of allowance for losses.	December 29, 2019	The Company is evaluating the impact this new standard would have on our consolidated financial statements.

Recently Issued Accounting Standards Adopted

Standard	Issuance Date	Description	Effective Date	Effect on the Financial Statements
ASU 2016-02 Leases (Topic 842), and subsequent updates	February 2016	This update was issued 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. Early application of the amendments in this update is permitted for all entities.	December 30, 2018	The Company adopted the new leasing standard ASC 842 "Leases" on December 30, 2018. ASU 2016-02 provides for a modified retrospective transition approach requiring lessees to recognize and measure leases on the balance sheet at the beginning of either the earliest period presented or as of the beginning of the period of adoption. The Company elected to apply ASU 2016-02 as of the beginning of the period of adoption (December 30, 2018) and will not restate comparative periods. The adoption resulted in the recognition of $63.3 million of right of use assets and $63.3 million of lease liabilities. The Company recognized approximately $2.2 million of deferred rental income from certain embedded leases during the first quarter of 2019.

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Effective December 30, 2018, the Company adopted the requirements of Topic 842. The cumulative effects of the changes made to our Statement of Income and Balance Sheet are as follows:

(thousands)	For the First Quarter Ended, March 23, 2019 As Reported	Balances Without Adoption of Topic 842	Effect of Change Higher/(Lower)
Statement of Income			
Service revenues	$56,366	$62,116	$ (5,750)
Rental income	3,548	—	3,548
Total revenues	95,772	97,974	(2,202)
Operating loss	(3,185)	(983)	(2,202)
Loss before income taxes	(3,415)	(1,213)	(2,202)
Net loss	(2,429)	(862)	(1,567)
Net loss attributable to Heritage-Crystal Clean, Inc. common stockholders	$(2,512)	$(945)	$ (1,567)
Net loss per share: basic	$(0.11)	$(0.04)	$ (0.07)
Net loss per share: diluted	$(0.11)	$(0.04)	$ (0.07)

(thousands)	March 23, 2019 As Reported	Balances Without Adoption of Topic 842	Effect of Change Higher/(Lower)
Balance Sheet			
Right of use assets	$62,929	$—	$ 62,929
Total assets	411,585	348,656	62,929
Current portion of lease liabilities	18,433	—	18,433
Contract liabilities - net	2,399	197	2,202
Other current liabilities	5,986	5,788	198
Total current liabilities	72,449	51,616	20,833
Lease liabilities, net of current portion	44,298	—	44,298
Deferred income taxes	13,544	14,179	(635)
Total liabilities	159,407	94,911	64,496
Retained earnings	53,307	54,874	(1,567)
Heritage-Crystal Clean, Inc. stockholders' equity	$251,447	$253,014	$ (1,567)
Total equity	$252,178	$253,745	$ (1,567)
Total liabilities and stockholders' equity	$411,585	$348,656	$ 62,929

(3) BUSINESS COMBINATIONS

On January 11, 2019, the Company purchased the assets of the consumer division of GlyEco, Inc. ("GlyEco") pursuant to an Asset Purchase Agreement. The Company purchased the assets of GlyEco's consumer division to expand the Company's antifreeze line of business while expanding geographically. The purchase price was set at $1.6 million subject to certain adjustments, including working capital adjustments, and is preliminarily allocated based on our estimates and assumptions of the approximate fair values of assets acquired on the acquisition date. We are still in the process of completing our valuation, and accordingly our estimates and assumptions are subject to change within the measurement period. The Company is continuing to examine facts and circumstances that existed at the acquisition date and how those affect the estimated fair value of working capital, and the allocation of the estimated purchase price to other tangible and intangible assets. The results of GlyEco are consolidated into the Company's Environmental Services segment.

On February 1, 2019, the Company purchased the assets of W.S. Supplies, Inc. ("WSS") pursuant to an Asset Purchase Agreement. The Company purchased the assets of WSS to expand the Company's Environmental Services segment in the mid-west. The purchase price was set at $0.5 million subject to certain adjustments, including a contingent consideration provision, and is preliminarily allocated based on our estimates and assumptions of the approximate fair values of assets acquired on the acquisition date.We are still in the process of completing our valuation, and accordingly our estimates and assumptions are subject to change within the measurement period. The Company is continuing to examine facts and circumstances that existed at the acquisition date and how those affect the estimated fair value of working capital, and the allocation of the estimated purchase price to other tangible and intangible assets. The results of WSS are consolidated into the Company's Environmental Services segment.

On May 3, 2018, the Company purchased the assets of Products Plus, Inc. and AO Holding Company-Kansas City, LLC (collectively "PPI") pursuant to an Asset Purchase Agreement. The Company purchased the assets of PPI to expand the Company's market share in the collection, recycling, and sales of a full line of antifreeze products. The purchase price was set at $5.9 million subject to certain adjustments, including a working capital adjustment and a contingent consideration provision. During the measurement period, the Company finalized the purchase price allocation of the PPI business combination. Compared to the provisional values reported as of December 29, 2018, the fair values presented in the table below reflect increases to property, plant, & equipment of $0.2 million and other intangible assets of $1.5 million. Compared to the provisional values reported as of December 29, 2018, the finalized fair values presented in the table below reflect decreases to contingent consideration of $0.1 million and goodwill of $1.8 million. Contingent consideration to be paid subsequent to March 23, 2019 is contingent upon several business performance metrics over the three-year period starting with the acquisition date and ending May 3, 2021. The range of the potential contingent consideration, which is to be paid out subsequent to March 23, 2019, is between zero to $1.5 million. Goodwill recognized from the acquisition of PPI represents the excess of the estimated purchase consideration transferred over the estimated fair value of the assets acquired. Factors leading to goodwill being recognized are the Company's expectations of synergies from combining operations of PPI and the Company as well as the value of intangible assets that are not separately recognized, such as assembled workforce. The results of PPI are consolidated into the Company's Environmental Services segment.

On June 11, 2018, the Company purchased the assets of Kurt Lanse d/b/a Hot Tank Supply Company ("HTSC") pursuant to an Asset Purchase Agreement. The Company purchased the assets of HTSC to expand the Company's market share in California. The purchase price was set at $0.7 million subject to certain adjustments, including a working capital adjustment and a deferred and contingent consideration provision, and is preliminarily allocated based on our estimates and assumptions of the approximate fair values of assets acquired on the acquisition date. We are still in the process of completing our valuation, and accordingly our estimates and assumptions are subject to change within the measurement period. The Company is continuing to examine facts and circumstances that existed at the acquisition date and how those affect the estimated fair value of contingent consideration, working capital, and the allocation of the estimated purchase price to other tangible and intangible assets. The Company estimates that contingent consideration to be paid subsequent to March 23, 2019 will be approximately $0.1 million. Goodwill recognized from the acquisition of HTSC represents the excess of the estimated purchase consideration transferred over the estimated fair value of the assets acquired. Factors leading to goodwill being recognized are the Company's expectations of synergies from combining operations of HTSC and the Company as well as the value of intangible assets that are not separately recognized, such as assembled workforce. The results of HTSC are consolidated into the Company's Environmental Services segment.

The following table summarizes the estimated fair values of the assets acquired, some of which are preliminary, related to each acquisition:

(thousands)	As of March 23, 2019 GlyEco	WSS	PPI	HTSC
Accounts receivable	$359	$—	$909	$40
Inventory	290	28	259	3
Property, plant, & equipment	746	154	2,154	47
Equipment at customers	—	24	—	104
Intangible assets	251	298	2,001	100
Goodwill	—	—	406	377
Total purchase price, net of cash acquired	$1,646	$504	$5,729	$671
Less: working capital adjustment	23	14	(62)	(9)
Less: deferred consideration	—	—	—	225
Less: contingent consideration	—	90	1,341	100
Less: to be placed in escrow	—	50	—	—
Net cash paid	$1,623	$350	$4,450	$355

Unaudited Pro-forma Financial Information

Pro forma financial information was not presented as results were immaterial to the Company's consolidated results for the quarter ended March 23, 2019.

(4) REVENUE

We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Revenue is recognized when our performance obligations under the terms of a contract with our customers are satisfied. Recognition occurs when the Company transfers control by completing the specified services at the point in time the customer benefits from the services performed or once our products are delivered. The Company measures progress toward complete satisfaction of a performance obligation satisfied over time using a cost-based input method. This method of measuring progress provides a faithful depiction of the transfer of goods or services because the costs incurred are expected to be substantially proportionate to the Company’s satisfaction of the performance obligation. Revenue is measured as the amount of consideration we expect to receive in exchange for completing our performance obligations. Sales tax and other taxes we collect with revenue-producing activities are excluded from revenue. In the case of contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation based on the relative stand-alone selling prices of the various goods and/or services encompassed by the contract. We do not have any material significant payment terms as payment is generally due within 30 days after the performance obligation has been satisfactorily completed. The Company has elected the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that we otherwise would have recognized is one year or less. In applying the guidance in Topic 606, there were no judgments or estimates made that the Company deems significant.

Accounts Receivable — Net, includes amounts billed and currently due from customers. The amounts due are stated at their net estimated realizable value. 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 and historical losses. 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.

Contract Balances — Contract assets primarily relate to the Company’s rights to consideration for work completed in relation to its services performed but not billed at the reporting date. Contract liabilities primarily consist of advance payments of performance obligations yet to be fully satisfied in the period reported. Our contract liabilities and contract assets are reported in a net position at the end of each reporting period.

We disaggregate our revenue from contracts with customers by major lines of business for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

The following table disaggregates our revenue by major lines:

	For the First Quarter Ended, March 23, 2019		
Total Net Sales by Major Lines of Business (thousands)	Environmental Services	Oil Business	Total
	$38,134	$—	$38,134

Parts cleaning, containerized waste, & related products/services			
Vacuum Services & Wastewater Treatment	13,976	—	13,976
Antifreeze Business	6,658	—	6,658
Field Services	3,841	—	3,841
Environmental Services - Other	403	—	403
Re-refinery Product Sales	—	24,035	24,035
Oil Collection Services & RFO	—	3,962	3,962
Oil Filter Business	—	1,215	1,215
Revenues from Contracts with Customers	63,012	29,212	92,224
Other Revenue	3,484	64	3,548
Total Revenues	$66,496	$ 29,276	$95,772

The following table provides information about contract assets and contract liabilities from contracts with customers:

(thousands)	March 23, 2019	December 29, 2018
Contract assets	$45	$ 100
Contract liabilities	2,444	266
Contract liabilities - net	$2,399	$ 166

During the quarter ended March 23, 2019, the Company recognized $0.3 million of revenue that was included in the contract liabilities balance as of December 29, 2018. During the quarter ended March 23, 2019, the Company recognized within Contract liabilities - net approximately $2.2 million of deferred rental income as a result of the Company having adopted ASC 842 on December 30, 2018. The Company has no assets recognized from costs to obtain or fulfill a contract with a customer. We do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

(5) ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

(thousands)	March 23, 2019	December 29, 2018
Trade	$52,455	$ 51,118
Less: allowance for doubtful accounts	1,841	1,816
Trade - net	50,614	49,302
Related parties	2,083	1,595
Other	629	847
Total accounts receivable - net	$53,326	$ 51,744

The following table provides the changes in the Company’s allowance for doubtful accounts for the first quarter ended March 23, 2019, and the fiscal year ended December 29, 2018:

(thousands)	March 23, 2019	December 29, 2018
Balance at beginning of period	$1,816	$ 1,881
Provision for bad debts	249	628
Accounts written off, net of recoveries	(224)	(693)
Balance at end of period	$1,841	$ 1,816

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(6) INVENTORY

The carrying value of inventory consisted of the following:

(thousands)	March 23, 2019	December 29, 2018
Used oil and processed oil	$8,664	$ 12,124
Solvents and solutions	7,983	8,216
Machines	5,988	5,334
Drums and supplies	5,098	5,231
Other	2,170	2,378
Total inventory	29,903	33,283
Less: machine refurbishing reserve	242	224
Total inventory - net	$29,661	$ 33,059

Inventory consists primarily of used oil, processed oil, solvents and solutions, new and refurbished parts cleaning machines, drums and supplies, and other items. Inventories are valued at the lower of first-in, first-out (FIFO) cost or net realizable value, net of any reserves for excess, obsolete, or unsalable inventory. The Company routinely 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. The Company had no inventory write downs during the first quarters of fiscal 2019 or fiscal 2018.

(7) PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following:

(thousands)	March 23, 2019	December 29, 2018
Machinery, vehicles, and equipment	$100,350	$98,708
Buildings and storage tanks	69,977	69,791
Land	9,659	9,546
Leasehold improvements	5,738	5,701
Construction in progress	20,251	15,405
Assets held for sale	4	4
Total property, plant and equipment	205,979	199,155
Less: accumulated depreciation	61,183	59,168
Property, plant and equipment - net	$144,796	$139,987

(thousands)	March 23, 2019	December 29, 2018
Equipment at customers	$74,113	$73,075
Less: accumulated depreciation	50,274	49,261
Equipment at customers - net	$23,839	$23,814

Depreciation expense for the first quarters ended March 23, 2019 and March 24, 2018 was $3.1 million and $2.9 million, respectively.

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(8) 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.

The following table shows changes to our goodwill balances by segment from December 29, 2018 to March 23, 2019:

(thousands)	Oil Business	Environmental Services	Total
Goodwill at December 29, 2018			
Gross carrying amount	$ 3,952	$ 34,123	$ 38,075
Accumulated impairment loss	(3,952)	—	(3,952)
Net book value at December 29, 2018	$ —	$ 34,123	$ 34,123
Measurement period adjustments	—	(1,765)	—
Goodwill at March 23, 2019			
Gross carrying amount	3,952	32,358	36,310
Accumulated impairment loss	(3,952)	—	(3,952)
Net book value at March 23, 2019	$ —	$ 32,358	$ 32,358

The following is a summary of software and other intangible assets:

	March 23, 2019			December 29, 2018		
(thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer & supplier relationships	$ 25,020	$ 12,001	$ 13,019	$ 23,686	$ 11,445	$ 12,241
Software	6,446	4,452	1,994	5,040	4,094	946
Non-compete agreements	3,369	2,952	417	2,937	2,904	33
Patents, formulae, and licenses	1,769	723	1,046	1,769	708	1,061
Other	1,701	1,107	594	1,442	1,042	400
Total software and intangible assets - net	$ 38,305	$ 21,235	$ 17,070	$ 34,874	$ 20,193	$ 14,681

Amortization expense was $1.0 million for the first quarter ended March 23, 2019, and $0.7 million for the first quarter ended March 24, 2018. The weighted average useful lives of software; customer & supplier relationships; patents, formulae, and licenses; non-compete agreements, and other intangibles were 10 years, 11 years, 15 years, 5 years, and 7 years, respectively.

The expected amortization expense for the remainder of fiscal 2019 and for fiscal years 2020, 2021, 2022, and 2023 is $2.4 million, $3.0 million, $2.8 million, $2.6 million, and $2.1 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, the finalization of the fair value of intangible assets that have been acquired from business combinations, disposal of intangible assets, accelerated amortization of intangible assets, and other events.

(9) ACCOUNTS PAYABLE

Accounts payable consisted of the following:

(thousands)	March 23, 2019	December 29, 2018
Accounts payable	$34,459	$ 32,471
Accounts payable - related parties	399	159
Total accounts payable	$34,858	$ 32,630

(10) DEBT AND FINANCING ARRANGEMENTS

Bank Credit Facility

The Company's Credit Agreement as amended ("Credit Agreement"), provides for borrowings of up to $95.0 million, subject to the satisfaction of certain terms and conditions, comprised of a term loan of $30.0 million and up to $65.0 million of borrowings under the revolving loan portion. The actual amount of borrowings 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 London Interbank Offering Rate (“LIBOR”) plus 1%, or (c) Bank of America's prime rate, plus (ii) a variable margin of between 0.75% and 1.75% depending on the Company's total leverage ratio, calculated on a consolidated basis. LIBOR rate loans have an interest rate equal to (i) the LIBOR rate plus (ii) a variable margin of between 1.75% and 2.75% 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 contains customary terms and provisions (including representations, covenants, and conditions) for transactions of this type. Certain covenants, among other things, restrict the Company's and its subsidiaries' ability to incur indebtedness, grant liens, make investments and sell assets. The Credit Agreement also 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 3.0 to 1.0, provided that in the event of a permitted acquisition having an aggregate consideration equal to $10.0 million or more, at the Borrower’s election, the total leverage ratio shall be deemed to be 3.25 to 1.00 for the fiscal quarter in which such permitted acquisition occurs and the three immediately following fiscal quarters and thereafter will revert to 3.00 to 1.00; and

- A capital expenditures covenant limiting capital expenditures to $100.0 million plus, if the capital expenditures permitted have been fully utilized, an additional amount for the remaining term of the Credit Agreement equal to 35% of EBITDA for the thirteen “four-week” periods most recently ended immediately prior to the full utilization of such $100.0 million basket.

The Credit Agreement places certain limitations on acquisitions and the payment of dividends.
Debt at March 23, 2019 and December 29, 2018 consisted of the following:
(thousands)

	March 23, 2019	December 29, 2018
Principal amount	$30,000	$ 30,000
Less: unamortized debt issuance costs	884	954
Debt less unamortized debt issuance costs	$29,116	$ 29,046

The Company recorded interest expense of $0.4 million, of which $0.3 million is on our term loan, and $0.1 million which is amortization of debt issuance costs, for the first quarter ended March 23, 2019. The Company recorded interest expense of $0.3 million for the first quarter ended March 24, 2018 which was primarily on our term loan.

The Company's weighted average interest rate for all debt as of March 23, 2019, and March 24, 2018 was 4.5% and 3.4%, respectively.

As of March 23, 2019 and December 29, 2018, the Company was in compliance with all covenants under its Credit Agreement. As of March 23, 2019 and December 29, 2018, the Company had $1.2 million and $1.3 million of standby letters of credit issued, respectively, and $63.8 million and $63.7 million was available for borrowing under the bank credit facility, respectively. We believe that the carrying value of our debt balance at March 23, 2019 approximates fair value.

(11) SEGMENT INFORMATION

The Company has two reportable segments: "Environmental Services" and "Oil Business." The Environmental Services segment consists primarily of the Company's parts cleaning, containerized waste management, vacuum truck service, antifreeze recycling activities, and field services. The Oil Business segment consists primarily of the Company's used oil collection, used oil re-refining activities, and the dehydration of used oil to be sold as recycled fuel oil.

No single customer in either segment accounted for more than 10.0% of consolidated revenues in any of the periods presented. There were no intersegment revenues. Both the Environmental Services and Oil Business segment operate in the United States and, to an immaterial degree, in Ontario, Canada. As such, the Company is not disclosing operating results by geographic segment.

Segment results for the first quarters ended March 23, 2019, and March 24, 2018 were as follows:
First Quarter Ended,
March 23, 2019

(thousands)	Environmental Services	Oil Business	Corporate and Eliminations	Consolidated
Revenues				
Service revenues	$ 52,875	$3,491	$ —	$ 56,366
Product revenues	10,137	25,721	—	35,858
Rental income	3,484	64	—	3,548
Total revenues	$ 66,496	$29,276	$ —	$ 95,772
Operating expenses				
Operating costs	50,163	32,320	—	82,483
Operating depreciation and amortization	1,636	1,434	—	3,070
Profit (loss) before corporate selling, general, and administrative expenses	$ 14,697	$(4,478)	$ —	$ 10,219
Selling, general, and administrative expenses			12,396	12,396
Depreciation and amortization from SG&A			1,066	1,066
Total selling, general, and administrative expenses			$ 13,462	$ 13,462
Other income - net			(58)	(58)
Operating loss				(3,185)
Interest expense – net			230	230
Loss before income taxes				$ (3,415)

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First Quarter Ended,
March 24, 2018

(thousands)	Environmental Services	Oil Business	Corporate and Eliminations	Consolidated
Revenues				
Service revenues	$ 51,032	$3,105	$ —	$ 54,137
Product revenues	6,444	22,566	—	29,010
Total revenues	$ 57,476	$25,671	$ —	$ 83,147
Operating expenses				
Operating costs	42,725	25,661	—	68,386
Operating depreciation and amortization	1,490	1,389	—	2,879
Profit (loss) before corporate selling, general, and administrative expenses	$ 13,261	$(1,379)	$ —	$ 11,882
Selling, general, and administrative expenses			11,022	11,022
Depreciation and amortization from SG&A			764	764
Total selling, general, and administrative expenses			$ 11,786	$ 11,786
Other expense - net			389	389
Operating loss				(293)
Interest expense – net			245	245
Loss before income taxes				$ (538)

Total assets by segment as of March 23, 2019, and December 29, 2018 were as follows:

(thousands)	March 23, 2019	December 29, 2018
Total Assets:		
Environmental Services	$197,092	$148,192
Oil Business	157,383	142,691
Unallocated Corporate Assets	57,110	56,939
Total	$411,585	$347,822

Segment assets for the Environmental Services and Oil Business segments consist of property, plant, and equipment, right-of-use assets, intangible assets, accounts receivable, goodwill, and inventories. Assets for the corporate unallocated amounts consist of property, plant, and equipment used at the corporate headquarters as well as cash and net deferred tax assets.

(12) COMMITMENTS AND CONTINGENCIES

LEASES

Lessee

The Company leases buildings and property, railcars, machinery and equipment, and various types of vehicles for use in our operations. Each arrangement is evaluated individually to determine if the arrangement is or contains a lease at inception. The Company has lease agreements with lease and non-lease components and we have elected to not separate lease and non-lease components for all classes of underlying assets. In addition, our lease agreements do not contain any material residual guarantees or restrictive covenants.

Leases may include variable lease payments for common area maintenance, real estate taxes, and truck lease mileage. No leases are tied to a market index rate or CPI. Variable lease payments are not included in the initial measurement of the right-of-use assets or lease liabilities, and are recorded as lease expense in the period incurred. Unless leases include an option to renew terms for longer than a year, leases with an initial term of 12 months or less are not recorded on our Consolidated Balance Sheet. Leases with initial terms in excess of 12 months are recorded as operating leases in our Consolidated Balance Sheet.

Right-of-use assets represent the Company's right to use an underlying asset during the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets are measured at the initial measurement of the lease liability, adjusted for any lease payments made prior to the lease commencement date, less any lease incentives received and other initial direct costs incurred. Operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, we use an incremental borrowing rate based on the information available at commencement date, including lease term, in determining the present value of future payments.

Our leases have remaining terms ranging from less than one month to 11 years and may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Operating lease expense is recognized on a straight-line basis over the lease term. We have no finance leases as of March 23, 2019.

The components of lease expense were as follows:

(thousands)	For the First Quarter Ended, March 23, 2019
Operating lease cost	$ 6,031
Short-term lease cost	1,404
Variable lease cost	1,093
Total lease cost	$ 8,528

Cash paid for amounts included in the measurement of lease liabilities: