

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

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 21, 2020
- 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 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 No

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 No

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

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

On April 28, 2020, there were outstanding 23,257,943 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 21, 2020 (unaudited)	December 28, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 56,938	\$ 60,694
Accounts receivable - net	55,122	55,586
Inventory - net	29,112	29,373
Other current assets	6,062	7,104
Total current assets	147,234	152,757
Property, plant and equipment - net	157,931	154,911
Right of use assets	88,006	89,525
Equipment at customers - net	24,374	24,232
Software and intangible assets - net	16,123	16,892
Goodwill	32,990	32,997
Total assets	\$ 466,658	\$ 471,314
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 30,607	\$ 38,058
Current portion of lease liabilities	22,087	20,407
Contract liabilities - net	2,428	2,252
Accrued salaries, wages, and benefits	5,110	6,771
Taxes payable	7,048	6,538
Other current liabilities	16,121	16,418
Total current liabilities	83,401	90,444
Lease liabilities, net of current portion	67,212	68,734
Long-term debt, less current maturities	29,418	29,348
Deferred income taxes	18,617	17,157
Total liabilities	\$ 198,648	\$ 205,683
STOCKHOLDERS' EQUITY:		
Common stock - 26,000,000 shares authorized at \$0.01 par value, 23,247,912 and 23,191,498 shares issued and outstanding at March 21, 2020 and December 28, 2019, respectively	\$ 232	\$ 232
Additional paid-in capital	198,305	200,583
Retained earnings	69,473	64,182
Total Heritage-Crystal Clean, Inc. stockholders' equity	268,010	264,997
Noncontrolling interest	—	634
Total equity	268,010	265,631

Total liabilities and stockholders' equity

\$ 466,658

\$ 471,314

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 21, 2020	March 23, 2019
Revenues		
Service revenues	\$ 63,757	\$ 56,366
Product revenues	37,722	35,858
Rental income	5,785	3,548
		1
		0
		7
		\$ 2
		6
		4
Total revenues		
Operating expenses		
Operating costs	\$ 83,250	\$ 82,483
Selling, general, and administrative expenses	11,522	12,396
Depreciation and amortization	5,268	4,136
Other expense (income) - net	272	(58)
		(
		3
		,
		1
		8
		5
Operating income (loss)		2
		3
		0
Interest expense - net		21
		4
		(
		3
		,
		4
		1
		5
Income (loss) before income taxes		8
		(
		9
		8
Provision for (benefit from) income taxes		44
		7

							(
							2	
							,	
							4	
							2	
Net income (loss)						5,	9	
						29)	
						1		8
								3
Income attributable to noncontrolling interest						—		
						5,		
						2		(2,
						9		51
Net income (loss) attributable to Heritage-Crystal Clean, Inc. common stockholders						\$1)
								2)
						0.		(0.
						2		11
Net income (loss) per share: basic						\$3)
								\$)
						0.		(0.
						2		11
Net income (loss) per share: diluted						\$3)
								\$)
								2
								3
						23		,
						,2		.
						39		1
								7
Number of weighted average shares outstanding: basic								
								2
								3
						23		,
						,4		.
						22		1
								7
Number of weighted average shares outstanding: diluted								

See accompanying notes to financial statements.

Heritage-Crystal Clean, Inc.
Condensed Consolidated Statement of Stockholders' Equity
(In Thousands, Except Share Amounts)
For the First Quarter Ended March 21, 2020 and March 23, 2019
(Unaudited)

First Quarter Ended,
March 21, 2020

Shares	Par Value Common	Additional Paid-in Capital	Retained Earnings	Total Heritage-Crystal Clean, Inc. Stockholders' Equity	Non-controlling Interest	Total Equity
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Balance at December 28, 2019	23,191,498	\$ 232	\$ 200,583	\$ 64,182	\$ 264,997	\$ 634	\$ 265,631
Net income	—	—	—	5,291	5,291	—	5,291
Non-controlling interest acquisition	—	—	(2,678)	—	(2,678)	—	(2,678)
Distribution	—	—	—	—	—	(634)	(634)
Issuance of common stock - ESPP	4,102	—	122	—	122	—	122
Share-based compensation	52,312	—	1,069	—	1,069	—	1,069
Share repurchases to satisfy tax withholding obligations	—	—	(791)	—	(791)	—	(791)
Balance at March 21, 2020	<u>23,247,912</u>	<u>\$ 232</u>	<u>\$ 198,305</u>	<u>\$ 69,473</u>	<u>\$ 268,010</u>	<u>\$ —</u>	<u>\$ 268,010</u>

First Quarter Ended,
March 23, 2019

	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 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	<u>23,120,998</u>	<u>\$ 231</u>	<u>\$ 197,909</u>	<u>\$ 53,307</u>	<u>\$ 251,447</u>	<u>\$ 731</u>	<u>\$ 252,178</u>

	For the First Quarter Ended,	
	March 21, 2020	March 23, 2019
Cash flows from Operating Activities:		
Net income (loss)	\$ 5,291	\$ (2,429)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,268	4,136
Bad debt provision	189	249
Share-based compensation	1,069	889
Deferred taxes	1,459	(972)
Other, net	(424)	(171)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	275	(1,473)
Decrease in inventory	262	3,716
Decrease in other current assets	1,040	1,921
(Decrease) increase in accounts payable	(5,273)	1,531
Increase in accrued liabilities	1,110	1,781
Cash provided by operating activities	\$ 10,266	\$ 9,178
Cash flows from Investing Activities:		
Capital expenditures	\$ (9,842)	\$ (7,579)
Business acquisitions, net of cash acquired	—	(1,973)
Cash used in investing activities	\$ (9,842)	\$ (9,552)
Cash flows from Financing Activities:		
Proceeds from the exercise of stock options	\$ —	\$ 20
Share repurchases to satisfy tax withholding obligations	(791)	(644)
Proceeds from the issuance of common stock	122	111
Payments of deferred and contingent consideration	(199)	—
Distributions to noncontrolling interest	(3,312)	—
Cash used in financing activities	\$ (4,180)	\$ (513)
Net decrease in cash and cash equivalents	(3,756)	(887)
Cash and cash equivalents, beginning of period	60,694	43,579
Cash and cash equivalents, end of period	\$ 56,938	\$ 42,692
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 31	\$ —
Cash paid for interest	92	334
Supplemental disclosure of non-cash information:		
Payables for construction in progress	465	1,933

See accompanying notes to financial statements.

(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 28, 2019. 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; rental income includes embedded lease income from certain of our parts cleaning contracts. 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 28, 2019. There have been no material changes in these policies or their application during the first quarter of fiscal 2020.

Recently Issued Accounting Standards Adopted

Standard	Issuance Date	Description	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 adopted ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)" on December 29, 2019 and determined there was no material impact on the financial statements with no adjustment to retained earnings.

(3) BUSINESS COMBINATIONS

On January 28, 2020, the Company acquired the remaining ownership interest in one of our subsidiaries in the amount of \$2.7 million.

On October 8, 2019, Heritage-Crystal Clean completed the acquisition of certain assets of California Environmental & Litho, Inc., which provide transportation, manifesting, labeling and profiling services to printing, photographic, automotive and body shop industries in the Bay Area, Central Valley & Northern California. The acquisition represents an expansion of HCC's Environmental Services business in this geographic area while potentially providing new services and products for this market. No facilities were acquired in the transaction and all service employees and activity will be consolidated in existing branch territories. Total consideration for the acquisition was approximately \$0.5 million. Factors leading to goodwill being recognized are the Company's expectations of synergies from combining operations of California Environmental & Litho, Inc. and the Company as well as the value of intangible assets that are not separately recognized, such as an assembled workforce.

On March 25, 2019, the Company completed the acquisition of certain assets of All Valley Disposal, Inc., an environmental services provider based in Fresno, California. Consideration for the acquisition paid at closing was \$0.6 million. Contingent upon the achievement of certain business performance metrics, total consideration for the acquisition could reach a maximum of approximately \$1.3 million. Factors leading to goodwill being recognized are the Company's expectations of synergies from combining operations of All Valley Disposal, Inc., and the Company as well as the value of intangible assets that are not separately recognized, such as an assembled workforce. The results of All Valley Disposal 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 allocated based on our estimates and assumptions of the approximate fair values of assets acquired on the acquisition date. The results of WSS are consolidated into the Company's Environmental Services segment.

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 allocated based on our estimates and assumptions of the approximate fair values of assets acquired on the acquisition date. Factors leading to goodwill being recognized are the Company's expectations of synergies from combining operations of GlyEco and the Company as well as the value of intangible assets that are not separately recognized, such as an assembled workforce. The results of GlyEco are consolidated into the Company's Environmental Services segment.

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

(thousands)	As of March 21, 2020			
	California Environmental & Litho	All Valley Disposal	GlyEco	WSS
Accounts receivable	\$ 67	\$ 36	\$ 107	\$ —
Inventory	3	18	291	28
Property, plant, & equipment	15	252	746	154
Equipment at customers	—	—	—	24
Intangible assets	445	310	251	298
Goodwill	3	384	251	—
Total purchase price, net of cash acquired	\$ 533	\$ 1,000	\$ 1,646	\$ 504
Less: working capital adjustment	—	—	23	—

Less: contingent consideration		120		250		—		—
Less: to be placed in escrow		—		100		—		—
Net cash paid	\$	413	\$	650	\$	1,623	\$	504

(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.

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:

Total Net Sales by Major Lines of Business (thousands)	For the First Quarter Ended,				
	March 21, 2020			March 21, 2019	
	Environmental Services	Oil Business	Total	Environmental Services	Oil Business
Parts cleaning, containerized waste, & related products/services	\$ 40,290	\$ —	\$ 40,290	\$ 38,134	\$ —

	2019	2018	2017	2016	2015
Vacuum Services & Wastewater Treatment	14,618	—	14,618	13,976	—
Field Services	9,623	—	9,623	3,841	—
Antifreeze Business	6,677	—	6,677	6,658	—
Environmental Services - Other	480	—	480	403	—
Re-refinery Product Sales	—	25,436	25,436	—	24,035
Oil Collection Services & RFO	—	3,289	3,289	—	3,962
Oil Filter Business	—	1,066	1,066	—	1,215
Revenues from Contracts with Customers	71,688	29,791	101,479	63,012	29,212
Rental income	5,765	20	5,785	3,484	64
Total Revenues	\$ 77,453	\$ 29,811	\$ 107,264	\$ 66,496	\$ 29,276

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

	M a r c h 2 1 , 2 0 2 0	D e c e m b e r 2 8 , 2 0 1 9
<i>(thousands)</i>		
Contract assets	6,842,020	6,842,019
Contract liabilities	2,496,221	2,496,216
Contract liabilities - net	\$ 1,644,800	\$ 1,644,800

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During the fiscal quarter ended March 21, 2020, the Company recognized \$2.3 million of revenue that was included in the contract liabilities balance as of December 28, 2019. 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 — 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 our best estimate of the amount of probable lifetime-expected credit losses in existing accounts receivable and is determined based on our historical collections experience, age of the receivable, knowledge of the customer and the condition of the general economy and industry as a whole. The Company does not have any off-balance-sheet credit exposure related to its customers.

Accounts receivable for the first quarter ended March 21, 2020, and the fiscal year ended December 28, 2019 consisted of the following:

<i>(thousands)</i>	March 21, 2020	December 28, 2019
Trade	\$ 53,901	\$ 54,420
Less: allowance for doubtful accounts	1,644	2,221
Trade - net	52,257	52,199

Related parties		2,309	1,560
Other		556	1,827
Total accounts receivable - net	\$	55,122	\$ 55,586

The following table provides the changes in the Company's allowance for doubtful accounts for the first quarter ended March 21, 2020, and the fiscal year ended December 28, 2019:

<i>(thousands)</i>		March 21, 2020	December 28, 2019
Balance at beginning of period	\$	2,221	\$ 1,816
Provision for bad debts		189	1,486
Accounts written off, net of recoveries		(766)	(1,081)
Balance at end of period	\$	1,644	\$ 2,221

(6) INVENTORY

The carrying value of inventory consisted of the following:

<i>(thousands)</i>		March 21, 2020	December 28, 2019
Used oil and processed oil	\$	9,797	\$ 8,349
Solvents and solutions		8,443	8,694
Machines		4,619	5,440
Drums and supplies		4,238	4,697
Other		2,441	2,632
Total inventory		29,538	29,812
Less: machine refurbishing reserve		426	439
Total inventory - net	\$	29,112	\$ 29,373

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 quarter of fiscal 2020 or fiscal 2019.

(7) PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following:

<i>(thousands)</i>		March 21, 2020	December 28, 2019
Machinery, vehicles, and equipment	\$	127,502	\$ 127,242
Buildings and storage tanks		71,607	71,616
Land		9,647	9,664
Leasehold improvements		6,523	6,523

Construction in progress	13,275	7,958
Assets held for sale	—	4
Total property, plant and equipment	228,554	223,007
Less: accumulated depreciation	70,623	68,096
Property, plant and equipment - net	\$ 157,931	\$ 154,911

	March 21, 2020	December 28, 2019
(thousands)		
Equipment at customers	\$ 79,201	\$ 77,914
Less: accumulated depreciation	54,827	53,682
Equipment at customers - net	\$ 24,374	\$ 24,232

Depreciation expense for the first quarter ended March 21, 2020 and March 23, 2019 was \$4.4 million and \$3.1 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 28, 2019 to March 21, 2020:

(thousands)	Oil Business	Environmental Services	Total
Goodwill at December 28, 2019			
Gross carrying amount	\$ 3,952	\$ 32,997	\$ 36,949
Accumulated impairment loss	(3,952)	—	(3,952)
Net book value at December 28, 2019	\$ —	\$ 32,997	\$ 32,997
Measurement period and other adjustments	—	(7)	(7)
Goodwill at March 21, 2020			
Gross carrying amount	3,952	32,990	36,942
Accumulated impairment loss	(3,952)	—	(3,952)
Net book value at March 21, 2020	\$ —	\$ 32,990	\$ 32,990

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

	March 21, 2020			December 28, 2019		
(thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer & supplier relationships	\$ 25,531	\$ 14,545	\$ 10,986	\$ 25,551	\$ 13,886	\$ 11,665
Software	8,229	5,033	3,196	8,093	4,887	3,206

Non-compete agreements	3,590	3,087	503	3,603	3,068	535
Patents, formulae, and licenses	1,769	791	978	1,769	774	995
Other	1,701	1,241	460	1,702	1,211	491
Total software and intangible assets - net	\$ 40,820	\$ 24,697	\$ 16,123	\$ 40,718	\$ 23,826	\$ 16,892

Amortization expense was \$0.9 million for the first quarter ended March 21, 2020, and \$1.0 million for the first quarter ended March 23, 2019.

The weighted average useful lives of software and other intangibles are as follows:

	Weighted Average Useful Life (years)
Patents, formulae, & licenses	15
Customer and supplier relationships	11
Software	9
Non-compete agreements	5
Other intangibles	7

The estimated amortization expense for the remainder of fiscal 2020 and each of the five succeeding fiscal years is as follows:

Fiscal Year	Amortization Expense
2020	\$2.6
2021	3.2
2022	3.0
2023	2.4
2024	0.9
2025	0.7

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 21, 2020	December 28, 2019
Accounts payable	\$ 30,196	\$ 37,690
Accounts payable - related parties	411	368
Total accounts payable	\$ 30,607	\$ 38,058

(10) DEBT AND FINANCING ARRANGEMENTS

Bank Credit Facility

The Company's Credit Agreement ("Credit Agreement"), dated February 21, 2017, 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 a revolving loan. 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.

On July 27, 2017, the Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out the London Interbank Offered Rate by the end of 2021. We expect that widespread use of LIBOR will transition to alternative interest rates in the near future. Since loans made under our Credit Agreement may be based on LIBOR based loans, the phasing out of LIBOR may adversely affect interest rates that could result in higher borrowing costs and higher interest expense. The Company is currently evaluating its options under our Credit Agreement, but at this time we cannot reasonably estimate the impact to our financial statements.

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:

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- 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 3.00 to 1.00, 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 21, 2020 and December 28, 2019 consisted of the following:

<i>(thousands)</i>	March 21, 2020	December 28, 2019
Principal amount	\$ 30,000	\$ 30,000
Less: unamortized debt issuance costs	582	652
Long-term debt, less current maturities	\$ 29,418	\$ 29,348

For the first fiscal quarters ended March 21, 2020, and March 23, 2019, the Company recorded interest expense of \$0.4 million, of which \$0.3 million is with respect to our term loan, and \$0.1 million related to amortization of debt issuance costs.

The Company's weighted average interest rate for all debt as of March 21, 2020, and March 23, 2019 was 3.7% and 4.5%, respectively.

As of March 21, 2020 and December 28, 2019, the Company was in compliance with all covenants under its Credit Agreement. As of March 21, 2020 and December 28, 2019, the Company had \$1.7 million and \$1.1 million of standby letters of credit issued, respectively, and \$63.3 million and \$63.9 million was available for borrowing under the bank credit facility, respectively. We believe that the carrying value of our debt balance at March 21, 2020 approximates fair value.

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(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 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.

Segment results for the first quarters ended March 21, 2020, and March 23, 2019 were as follows:

(thousands)	First Quarter Ended, March 21, 2020			
	Environmental Services	Oil Business	Corporate and Eliminations	Consolidated
Revenues				
Service revenues	\$ 60,960	\$ 2,797	\$ —	\$ 63,757
Product revenues	10,728	26,994	—	37,722
Rental income	5,765	20	—	5,785
Total revenues	\$ 77,453	\$ 29,811	\$ —	\$ 107,264
Operating expenses				
Operating costs	56,404	26,846	—	83,250
Operating depreciation and amortization	2,271	2,055	—	4,326
Profit before corporate selling, general, and administrative expenses	\$ 18,778	\$ 910	\$ —	\$ 19,688
Selling, general, and administrative expenses			11,522	11,522
Depreciation and amortization from SG&A			942	942
Total selling, general, and administrative expenses			\$ 12,464	\$ 12,464
Other expense - net			272	272
Operating income				6,952
Interest expense - net			214	214
Income before income taxes				\$ 6,738

March 23, 2019

<i>(thousands)</i>	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)

Total assets by segment as of March 21, 2020, and December 28, 2019 were as follows:

<i>(thousands)</i>	March 21, 2020	December 28, 2019
Total Assets:		
Environmental Services	\$ 225,308	\$ 224,657
Oil Business	170,688	171,104
Unallocated Corporate Assets	70,662	75,553
Total	\$ 466,658	\$ 471,314

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, trailers 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. Options to extend or terminate a lease are included in the lease term when it is reasonably certain that we will exercise that option. We have elected not to record leases with an initial term of 12 months or less on the balance sheet and instead recognize those lease payments on a straight-line basis over the lease term. Leases with initial terms in excess of 12 months are

recorded as either operating or financing 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. Our leased 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. Our 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. Lease expense is recognized on a straight-line basis over the lease term. Our finance leases include a fleet of mobile equipment.

The components of lease expense were as follows:

<i>(thousands)</i>	For the First Quarter Ended	
	March 21, 2020	March 23, 2019
Finance lease cost:		
Amortization of right-of-use assets	\$ 322	\$ —
Interest on lease liabilities	74	—

Total finance lease cost	\$	396	\$	—
Operating lease cost	\$	6,051	\$	6,031
Short-term lease cost		1,360		1,404
Variable lease cost		1,033		1,093
Total lease cost	\$	8,444	\$	8,528
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from financing leases	\$	66	\$	—
Operating cash flows from operating leases	\$	6,523	\$	6,341
Financing cash flows from financing leases	\$	210	\$	—
Right-of-use assets obtained in exchange for new finance lease liabilities	\$	3,264	\$	—
Right-of-use assets obtained in exchange for new operating lease liabilities	\$	588	\$	67,593
Weighted-average remaining lease term (years)				
Finance leases		6.6		—
Operating leases		4.9		4.9
Weighted-average discount rate				
Finance leases		3.4 %		— %
Operating leases		5.8 %		5.5 %

Future annual minimum lease payment commitments as of March 21, 2020 were as follows:

(thousands)

Year 1	\$	26,299
Year 2		21,007
Year 3		17,204
Year 4		13,125
Year 5		9,398
thereafter		15,778
Total minimum lease payments	\$	102,811
Less: imputed interest		13,512
Lease liability	\$	89,299

Lessor

short-term leases. Variable lease payments include real and personal property taxes, which are based on the lessee's pro rata portion of such amounts, and excess mileage charges which are computed as the actual miles traveled in a calendar year minus the maximum average mileage allowance as specified per the contract. Options to extend the lease beyond the original terms range from day-to-day renewals to increments of five-year extensions. Options to terminate the lease range from immediate termination upon return of the asset to various written notification periods following a minimum lease term. Options for a lessee to purchase the underlying asset are not contractually specified but may be negotiated on a case-by-case basis. Significant judgments made in determining whether a contract contains a lease include assessments as to whether or not the contract conveys the right to direct the use of an identified asset. Significant judgments made in allocating consideration between lease and non-lease components include techniques applied in estimating the relative stand-alone selling prices of the lease and non-lease components of the contract in cases where a stand-alone selling price is not directly observable. As of March 21, 2020, the Company is party to a contract under which it leases railcars to the related party Calumet Specialty Products Partners, L.P. No leased assets are covered by residual value guarantees. The Company manages the risk associated with the residual value of leased assets through such means as performing periodic maintenance and upkeep activities and the inclusion of contractual terms that hold the lessee responsible for damage incurred to leased assets. Contained in Note 7, "Property, plant, and equipment," are disclosures concerning the Company's underlying assets under operating leases. The Company has made an accounting policy election to exclude from the consideration in the contract, and from variable payments not included in the consideration in the contract, all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific lease revenue-producing transaction and collected by the lessor from a lessee.

The Company recognizes rental income on a straight-line basis for that portion of the consideration allocated to the embedded lease component of certain of our parts cleaning contracts. We also recognize rental income on certain subleases of railcars and portions of a building and property.

Rental income was as follows:

(thousands)	For the First Quarter Ended					
	March 21, 2020			March 23, 2019		
	Environmental Services	Oil Business	Total	Environmental Services	Oil Business	Total
Parts Cleaning	\$ 5,765	\$ —	\$ 5,765	\$ 3,484	\$ —	\$ 3,484
Railcars	—	16	16	—	57	57
Property	—	4	4	—	7	7
Total rental income	\$ 5,765	\$ 20	\$ 5,785	\$ 3,484	\$ 64	\$ 3,548

Purchase Obligations

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 has purchase obligations in the form of open purchase orders of \$25.8 million as of March 21, 2020, and \$28.3 million as of December 28, 2019, primarily for used oil, solvent, machine purchases, disposal and transportation expenses, and capital expenditures.

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. The Company may also be subject to tax audits in a variety of jurisdictions. 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 March 21, 2020 and December 28, 2019, the Company had accrued \$3.9 million and \$4.0 million related to loss contingencies and other contingent liabilities, respectively.

(13) 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 2011 through the first quarter of 2020. Therefore, the Company recorded a noncurrent deferred tax liability as to the difference between the book basis and the tax basis of those assets. As of the first quarter of fiscal 2020, the Company's remaining Federal Net Operating Loss ("NOL") was \$19.4 million, which will begin to expire in 2031. The unexpired balance on the federal NOL generated in 2011 is \$0.4 million as of March 21, 2020. The Company's remaining balance of Federal NOLs recorded during 2012 - 2019 was \$19.1 million as of March 21, 2020. There are also state NOLs of varying amounts, dependent on each state's conformity with bonus depreciation. The remaining deferred tax asset related to the Company's state and federal NOL was a tax effected balance of \$4.7 million.

The Company's effective tax rate for the first quarter of fiscal 2020 was 21.5% compared to 28.9% in the first quarter of fiscal 2019. The rate decrease is principally attributable to the opposing effect on the tax rate from equity compensation in an income quarter as compared to a loss quarter.

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 \$2.7 million for uncertain tax positions as of March 21, 2020. The gross unrecognized tax benefits would, if recognized, decrease the Company's effective tax rate.

(14) SHARE-BASED COMPENSATION

On February 20, 2019, the Compensation Committee and the Board of Directors of the Company adopted the 2019 Incentive Award Plan (the "2019 Plan"), to replace the Company's 2008 Omnibus Incentive Plan ("2008 Plan"), which expired in March 2018. The 2019 Plan was approved during the second quarter of 2019 and authorizes 1,500,000 shares to be available for award grants.

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 common 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. In addition, the Company may grant restricted shares to certain members of management based on their services and contingent upon continued service with the Company. The restricted shares vest over a period of approximately three years from the grant date. The fair value of each restricted stock grant is based on the closing price of the Company's common stock on the date of grant.

The following table shows a summary of restricted share grants and expense resulting from the awards:

Recipient of Grant	Grant Date	Restricted Shares	Compensation Expense		First Quarters Ended,	
			March 21, 2020	March 23, 2019	March 21, 2020	March 23, 2019
Members of Management	February, 2017	146,564	\$ —	\$ 89	\$ —	\$ 296
Chief Executive Officer	February, 2017	500,000	106	205	400	1,025
Members of Management	February, 2018	116,958	142	136	472	1,040
Special Incentive Grant	April, 2018	350,000	344	163	3,084	5,192

(thousands, except share amounts)

Unrecognized expense as of

Board of Directors	May, 2019	10,590	—	66	—	219
Members of Management	May, 2019	23,560	50	—	408	—
Members of Management	February, 2020	41,138	165	—	705	—

In February 2017, as part of Mr. Recatto's employment agreement, the Company granted a restricted stock award of 500,000 shares of common stock, which vests through January 2021 in an amount based on the vesting table below, with the common stock price increase to be determined based on the increase in the price of the Company's common stock (if any) from the closing price of the common stock as reported by Nasdaq on the employment commencement date (\$15.00) and the common stock price on the potential vesting date (determined by using the weighted average closing price of a share of the Company's common stock for the 90-day period ending on the vesting date). If the stock price does not increase by \$5.00, then no shares shall vest. During the first quarter of fiscal 2020, the Company recorded approximately \$0.1 million of compensation expense related to this award. In the future, the Company expects to recognize compensation expense of approximately \$0.4 million over the remaining requisite service period, which ends January 31, 2021. The fair value of this restricted stock award as of the grant date was estimated using a Monte Carlo simulation model. Key assumptions used in the Monte Carlo simulation to estimate the grant date fair value of this award are a risk-free rate of 1.70%, expected dividend yield of zero, and an expected volatility assumption of 41.73%.

Increase in Stock Price From the Employment Commencement Date to the Vesting Date	Total Percentage of Restricted Stock Shares to Be Vested
Less than \$5 per share increase	—%
\$5 per share increase	25%
\$10 per share increase	50%
\$15 per share increase	75%
\$20 or more per share increase	100%

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Provision for possible accelerated vesting of award

If the average closing price of the Company's common stock increases by the marginal levels set forth in the above vesting table for any consecutive 180 day period between the award date and final vesting date, Mr. Recatto shall become vested in 50% of the corresponding total percentage of restricted shares earned on the last day of the 180 day period.

Accelerated vestings achieved to date include the following:

Vesting Date	Marginal Level Target	Shares Fully Vested
March 14, 2018	25%	62,500
June 10, 2019	50%	62,500

The following table summarizes the restricted stock activity for the first quarter ended March 21, 2020:

Restricted Stock (Nonvested Shares)	Number of Shares	Weighted Average Grant-Date Fair Value Per Share
Nonvested shares outstanding at December 28, 2019	784,579	\$ 18.39
Granted	41,138	28.16
Vested	(64,408)	19.15
Forfeited	(8,088)	15.42
Nonvested shares outstanding at March 21, 2020	753,221	\$ 17.34

Employee Stock Purchase Plan

As of March 21, 2020, the Company had reserved 105,483 shares of common stock available for purchase under the Employee Stock Purchase Plan. In the first quarter of fiscal 2020, employees purchased 4,102 shares of the Company's common stock with a weighted average fair market value of \$31.21 per share.

(15) EARNINGS PER SHARE

The following table reconciles the number of shares outstanding for the first quarters of fiscal 2020 and 2019, 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:

<i>(thousands, except per share amounts)</i>	First Quarter Ended,	
	March 21, 2020	March 23, 2019
Net income (loss)	\$ 5,291	\$ (2,429)
Less: income attributable to noncontrolling interest	—	83
Net income (loss) attributable to Heritage-Crystal Clean, Inc. available to common stockholders	\$ 5,291	\$ (2,512)
Weighted average basic shares outstanding	23,239	23,117
Dilutive shares for share-based compensation plans	183	—
Weighted average diluted shares outstanding	23,422	23,117
Number of anti-dilutive potentially issuable shares excluded from diluted shares outstanding	—	248
Net income (loss) per share: basic	\$ 0.23	\$ (0.11)
Net income (loss) per share: diluted	\$ 0.23	\$ (0.11)

(16) OTHER EXPENSE (INCOME) - NET

Other expense (income) - net was \$0.3 million of expense for the first quarter of fiscal 2020, compared to a net \$0.1 million of other income in the first quarter of 2019.

(17) SUBSEQUENT EVENTS

On March 31, 2020, Heritage-Crystal Clean completed the acquisition of certain assets of Gro America ("Gro"), which has expanded our network of wastewater processing facilities and augmented our field services capabilities to better serve our customers throughout the Midwestern United States. This acquisition provides the Company with a first-class centralized wastewater treatment operation in Wyoming, Michigan just outside of Grand Rapids, and adds a robust field services business with expanded service capabilities which will allow us to reduce the use of subcontractors required to complete field services projects in certain geographies. Total consideration for the acquisition was approximately \$10.0 million.

COVID-19 Pandemic

We are closely monitoring the spread and impact of the COVID-19 pandemic and are continually assessing its potential effects on our business and our financial performance as well as the businesses of our customers and vendors. The Company cannot predict the duration or severity of the COVID-19 pandemic, and we cannot reasonably estimate the financial impact the COVID-19 outbreak will have on our results and significant estimates going forward.

ITEM 2. 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 filed with the SEC on March 3, 2020. 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. 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," "will likely result," "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. Forward-looking statements speak only as of the date of this quarterly report. 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 for fiscal 2019 filed with the SEC on March 3, 2020. Except as required under federal securities laws and the rules and regulations of the SEC, we do not have any intention, and do not undertake, to update any forward-looking statements to reflect events or circumstances arising after the date of this quarterly report, whether as a result of new information, future events or otherwise. As a result of these risks and uncertainties, readers are cautioned not to place undue reliance on the forward-looking statements included in this quarterly 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. Certain tabular information may not foot due to rounding. Our fiscal year ends on the Saturday closest to December 31. Interim results are presented for the twelve weeks ("first quarter" or "quarter") ended March 21, 2020 and March 23, 2019, respectively. "Fiscal 2019" represents the 52-week period ended December 28, 2019 and "Fiscal 2020" represents the period beginning December 29, 2019, and ending on December 31, 2020.

Overview

We provide parts cleaning, containerized waste management, used oil collection, vacuum truck services, antifreeze recycling, and field services primarily to small and medium sized industrial customers as well as vehicle maintenance customers. We own and operate a used oil re-refinery, several wastewater treatment plants and multiple antifreeze recycling facilities. We believe we are the second largest provider of industrial and hazardous waste services to small and mid-sized customers in both the vehicle maintenance and industrial services sector in North America, 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 89 branch facilities providing services to customers in 45 states and parts of Canada. We conduct business through two segments: Environmental Services and Oil Business.

Our Environmental Services segment revenues are generated primarily from providing parts cleaning services, containerized waste management, vacuum truck services, antifreeze recycling, and field services. Revenues from this segment accounted for approximately 72% of our total Company revenues for the first quarter of fiscal 2020. 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 primarily of our used oil collection, used oil re-refining activities, and recycled fuel oil ("RFO") sales which together accounted for approximately 28% of our total Company revenues in the first quarter of fiscal 2020.

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, waste water treatment facilities, 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 corporate SG&A expense as revenue less operating costs and depreciation and amortization from operations.

Our corporate selling, general, and administrative expenses include the costs of performing centralized business functions, including sales management at or above the regional level, business management and marketing, billing, receivables management, accounting and finance, procurement, real estate management, information technology, environmental health and safety, human resources 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 other products. We supply the base oil to firms that produce and market finished lubricants. Our re-refinery has an annual nameplate capacity of approximately 75 million gallons of used oil feedstock, allowing it to produce approximately 49 million gallons of lubricating base oil per year when operating at full capacity.

Critical Accounting Policies

Critical accounting policies are those that are both 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.

There were no material changes during the first quarter of fiscal 2020 to the information provided under the heading "Critical Accounting Policies" included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2019.

Impact of the COVID-19 Pandemic on Our Business

The COVID-19 pandemic has caused significant disruption and volatility on a global scale resulting in, among other things, an economic slowdown. In response to the COVID-19 outbreak, national and local governments around the world have instituted certain measures, including travel bans, prohibitions on group events and gatherings, shutdowns of certain businesses, curfews, shelter-in-place orders and recommendations to practice social distancing. As our operations have been deemed essential, we have taken several measures to combat the COVID-19 downturn which have resulted in attenuating activity and, in some cases, required temporary closures of certain of our facilities, among other impacts. The duration of these measures is unknown and may be extended, and additional measures may be necessary. Our fiscal first quarter financial results

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do not fully reflect the adverse impact that the COVID-19 pandemic has had on our business as our business first experienced the impact of the COVID-19 economic slowdown at the end of our first fiscal quarter.

As a result of the impact of the COVID-19 outbreak, some of our customers have temporarily closed their businesses, limited our access to their businesses or have a decreased demand for our products and services due to a slowdown in the demand for their own products and or services. We believe that we will experience a material decrease in activity in both our Environmental Services and our Oil Business segments during the second quarter of fiscal 2020, but cannot determine the full extent to which the COVID-19 pandemic will impact our business and operating results at this time. The ultimate impact of the COVID-19 pandemic on our business, results of operations, financial condition and cash flows is highly uncertain and cannot be accurately predicted and is dependent on future developments, including the duration of the pandemic and the related length of its impact on the global economy, and any new information that may emerge concerning the COVID-19 outbreak and the actions to contain it or treat its impact. The continued impact on our business as a result of COVID-19 pandemic could result in a material adverse effect on our business, results of operations, financial condition, prospects and the trading prices of our securities in the near-term and beyond 2020.

During the second quarter we have taken several actions to combat the COVID-19 outbreak induced downturn in our business including, but not limited to, the following:

- Implementation of the Company's pandemic response plan;
- Implementation of salary reductions for all levels of management;
- Planned implementation of furlough and workshare programs;
- Suspension of all material, non-essential capital expenditures;
- Suspension of mergers & acquisitions (after the acquisition we closed on March 31, 2020);
- Implementation of a hiring freeze;
- Launched a COVID-19 cleaning service; and
- Moved into a material charge position for our used oil collection service.

In addition to the above actions, we have taken steps to minimize the negative impact of the COVID-19 pandemic on our business and to protect the safety of our employees and customers. Entering this economic downturn, we had a strong balance sheet and were in a net-cash position which we expect will position us to take advantage of some of the opportunities that we believe will be in front of us once we emerge from this challenging time.

RESULTS OF OPERATIONS

General

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

<i>(thousands)</i>	For the First Quarter Ended,			
	March 21, 2020		March 23, 2019	
Revenues				
Service revenues	\$ 63,757	59.4 %	\$ 56,366	58.9 %
Product revenues	37,722	35.2 %	35,858	37.4 %
Rental income	5,785	5.4 %	3,548	3.7 %
Total revenues	\$ 107,264	100.0 %	\$ 95,772	100.0 %
Operating expenses				
Operating costs	\$ 83,250	77.6 %	\$ 82,483	86.1 %
Selling, general, and administrative expenses	11,522	10.7 %	12,396	12.9 %
Depreciation and amortization	5,268	4.9 %	4,136	4.3 %
Other expense (income) - net	272	0.3 %	(58)	(0.1) %
		6		
		.5		
Operating income (loss)		6,952 %		(3,185) (3.3) %
		0		
		.2		
Interest expense - net		214 %		230 0.2 %
		6		
		.3		
Income (loss) before income taxes		6,738 %		(3,415) (3.6) %
		1		
		.3		
Provision for (benefit from) income taxes		1,447 %		(986) (1.0) %
		4		
		.9		
Net income (loss)		5,291 %		(2,429) (2.5) %
		.4		
		.9		
Income attributable to noncontrolling interest		— %		83 0.1 %
		4		
		.9		
Net income (loss) attributable to Heritage-Crystal Clean, Inc. common stockholders	\$ 5,291	%	\$ (2,512)	(2.6) %

Revenues

Revenue for the first quarter of 2020 was \$107.3 million compared to \$95.8 million for the same quarter of 2019, an increase of \$11.5 million, or 12.0%. The \$11.5 million increase in revenue was driven by 16.5% revenue growth in the Environmental Services segment, along with a 1.8% increase in revenue from our Oil Business segment. The increase in revenue was driven mainly by growth in most of our Environmental Services segment product and service lines.

Operating costs

Operating costs increased \$0.8 million, or 0.9%, during the first quarter of 2020 compared to the first quarter of fiscal 2019. The increase was mainly due to higher disposal cost from increased volume and fleet repairs, partially offset by lower maintenance and health care costs compared to the year-ago quarter.

We expect that in the future our operating costs in both the Environmental Services and Oil Business segments may increase or decrease depending on our product and service volumes, changes in commodity pricing, along with other factors.

Selling, general, and administrative expenses

Selling, general, and administrative expenses decreased \$0.9 million, or 7.1%, from the first quarter of fiscal 2019 to the first quarter of fiscal 2020 mainly driven by lower severance, professional services, and legal fees, partially offset by higher non-management salaries and share-based compensation.

Other expense (income) - net

Other expense (income) - net was \$0.3 million of expense for the first quarter of fiscal 2020, compared to a net \$0.1 million of other income in the first quarter of 2019.

Interest expense - net

Interest expense - net for the first quarters of fiscal 2020 and fiscal 2019 was \$0.2 million.

Provision for income taxes

The Company's effective tax rate for the first quarter of fiscal 2020 was 21.5% compared to 28.9% in the first quarter of fiscal 2019. The rate decrease is principally attributable to the opposing effect on the tax rate from equity compensation in an income quarter as compared to a loss quarter.

Segment Information

The following table presents revenues by reportable segment:

(thousands)	For the First Quarter Ended,		Change	
	March 21, 2020	March 23, 2019	\$	%
Revenues:				
Environmental Services	\$ 77,453	\$ 66,496	\$ 10,957	16.5 %
Oil Business	29,811	29,276	535	1.8 %
Total	\$ 107,264	\$ 95,772	\$ 11,492	12.0 %

In the first quarter of fiscal 2020, Environmental Services revenue increased by \$11.0 million, or 16.5%, from \$66.5 million in the first quarter of fiscal 2019 to \$77.5 million in the first quarter of fiscal 2020. The 16.5% increase in revenue was driven primarily by growth in our field services, parts cleaning, and containerized waste businesses. Our field services business accounted for 8.7 percentage points of the revenue growth for the quarter mainly due a large project that continued from the fourth quarter of 2019. Excluding the field services project, our first quarter revenue growth in the segment was 7.8%.

During the first quarter of fiscal 2020, Oil Business revenues were up \$0.5 million, or 1.8%, to \$29.8 million compared to \$29.3 million in the first quarter of fiscal 2019. The increase in revenue was mainly due to an increase in our

selling price of base oil, partially offset by a decrease in the volume of base oil gallons sold. During the first quarter of fiscal 2020, we produced 10.8 million gallons of base oil at a 95.2% rate of nameplate capacity, compared to 9.4 million gallons at a 86.9% rate of nameplate capacity during the first quarter of fiscal of 2019.

Segment Profit (Loss) Before Corporate Selling, General and Administrative Expenses ("SG&A")

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

(thousands)	For the First Quarter Ended,			Change	
	March 21, 2020	March 23, 2019		\$	%
Profit (loss) before corporate SG&A*					
Environmental Services	\$ 18,778	\$ 14,697	\$ 4,081		27.8%
Oil Business	910	(4,478)	5,388		(120.3)%
Total	\$ 19,688	\$ 10,219	\$ 9,469		92.7%

*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 11 in our consolidated financial statements included elsewhere in this document.

Environmental Services profit before corporate SG&A expense increased \$4.1 million, or 27.8%, in the first quarter of fiscal 2020 compared to the first quarter of fiscal 2019 driven mainly by higher revenues and lower healthcare expenses, partially offset by higher disposal, fleet repair, and depreciation expense.

Oil Business profit before corporate SG&A expense increased \$5.4 million in the first quarter of fiscal 2020 compared to the first quarter of fiscal 2019. The increase in profit before corporate SG&A expense was mainly due to better operating efficiency during the first quarter of 2020, while we experienced unscheduled downtime during the first quarter of 2019 which hampered production.

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FINANCIAL CONDITION

Liquidity and Capital Resources

Cash and Cash Equivalents

As of March 21, 2020 and December 28, 2019, cash and cash equivalents were \$56.9 million and \$60.7 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.

Debt and Financing Arrangements

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 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.

On July 27, 2017, the Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out the London Interbank Offered Rate by the end of 2021. We expect that widespread use of LIBOR will transition to alternative interest rates in the near future. Since loans made under our Credit Agreement may be based on LIBOR based loans, the phasing out of LIBOR may adversely affect interest rates that could result in higher borrowing costs and higher interest expense. The Company is currently evaluating its options under our Credit Agreement, but at this time we cannot reasonably estimate the impact to our financial statements.

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 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 3.00 to 1.00, 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;
- 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 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.

As of March 21, 2020 and December 28, 2019, the Company was in compliance with all covenants under its Credit Agreement. As of March 21, 2020 and December 28, 2019, the Company had \$1.7 million and \$1.1 million of standby letters of credit issued, respectively, and \$63.3 million and \$63.9 million was available for borrowing under the bank credit facility, respectively. We believe that the carrying value of our debt balance at March 21, 2020 approximates fair value.

The Company's weighted average interest rate for all debt as of March 21, 2020, and March 23, 2019 was 3.7% and 4.5%, respectively.

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. 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

<i>(thousands)</i>	For the First Quarter Ended,	
	March 21, 2020	March 23, 2019
Net cash provided by (used in):		
Operating activities	\$ 10,266	\$ 9,178
Investing activities	(9,842)	(9,552)
Financing activities	(4,180)	(513)
Net decrease in cash and cash equivalents	<u>\$ (3,756)</u>	<u>\$ (887)</u>

The most significant items affecting the comparison of our operating activities for the first quarter of fiscal 2020 and the first quarter of fiscal 2019 are summarized below:

Net Cash Provided by Operating Activities —

- Earnings* — Our increase in net income during the first quarter of 2020 favorably impacted our net cash provided by operating activities by \$7.8 million compared to the first quarter of 2019.
- Accounts Payable* — The decrease in accounts payable, had an unfavorable impact on cash provided by operating activities of \$6.6 million in the first quarter of fiscal 2020.

Net Cash Used in Investing Activities —

- Capital expenditures* — We made capital expenditures as follows:

For the Fiscal Years Ended,

<i>(thousands)</i>	March 21, 2020	March 23, 2019
Re-refinery capital improvements	\$ 3.1	\$ 0.9
Parts cleaning machines	1.4	1.0
Trucks and trailers	0.2	2.4
IT projects	0.1	0.4
Various other projects	5.1	2.9
Total	\$ 9.9	\$ 7.6

- *Net Cash Used in Financing Activities* — The Company dispersed \$2.8 million to acquire the remaining ownership interest in one of our subsidiaries.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate risks primarily through borrowings under our bank Credit Facility. Interest on this facility is based upon variable interest rates. Our weighted average borrowings under our Credit Facility during the first quarter of fiscal 2020 was \$30.0 million, and the annual effective interest rate for the Credit Facility for the first quarter of fiscal 2020 was 3.7%. We currently do not hedge against interest rate risk. Based on the foregoing, a hypothetical 1% increase or decrease in interest rates would have resulted in a change of \$0.3 million to our interest expense in the first quarter of fiscal 2020.

ITEM 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer 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 Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding financial disclosures.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the first quarter ended March 21, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

No change since the filing of our 10-K on March 3, 2020.

ITEM 1A. RISK FACTORS

There have been no changes in the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 28, 2019, with the exception of the risk factor mentioned below.

Pandemics, epidemics or other disease outbreaks may negatively impact our business operations, financial condition, liquidity, and consolidated results of operations.

A widespread outbreak of disease, can adversely affect the operation of our customers' businesses which could lead to a significant decline in demand for our products and services and our customers' ability to pay us for the products and services we have provided to them. A pandemic could also have significant negative impact on the operation of our vendors' and suppliers' businesses and effect their ability to provide us the products and services we rely on to conduct our business and provide products and services to our customers. A widespread outbreak could potentially result in the infection of the company's employees and diminish our ability to operate our business, service our customers or produce and sell our products. These potential negative impacts to our business could negatively impact our financial results and thereby reduce our borrowing capacity which could limit our ability to operate our business. These situations can also lead to a general downturn in the equity markets which could negatively impact the value of the company's shares as well as increase the cost to the company to raise equity capital. Any and all of the above situations could have a material adverse impact on our business, financial results of operations, and cash flows.

ITEM 6. EXHIBITS

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	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
32.2	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
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

*In accordance with Regulation S-T, the XBRL-related information in Exhibits 101 to this Quarterly Report on Form 10-Q shall be deemed to be "furnished" and not "filed."

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: April 29, 2020

By: /s/ Mark DeVita

Mark DeVita
Chief Financial Officer