

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

**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018**  
**OR**

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

**FOR THE TRANSITION PERIOD FROM      TO**

**Commission File Number 001-34223**

**CLEAN HARBORS, INC.**

(Exact name of registrant as specified in its charter)

**Massachusetts**

(State or Other Jurisdiction of Incorporation or Organization)

**42 Longwater Drive, Norwell, MA**

(Address of Principal Executive Offices)

**04-2997780**

(IRS Employer Identification No.)

**02061-9149**

(Zip Code)

**(781) 792-5000**

(Registrant's Telephone Number, Including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

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 by Rule 12b-2 of the Exchange Act). Yes  No

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

**Common Stock, \$.01 par value**  
(Class)

**56,005,486**  
(Outstanding as of October 26, 2018)

CLEAN HARBORS, INC.  
QUARTERLY REPORT ON FORM 10-Q  
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CLEAN HARBORS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

|   | September 30, 2018 | December 31, 2017 |
|---|--------------------|-------------------|
|   | (unaudited)        |                   |
| <b>ASSETS</b>   |                    |                   |
| <b>Current assets:</b>  |                    |                   |
| Cash and cash equivalents   | \$ 215,497         | \$ 319,399        |
| Short-term marketable securities  | 37,380             | 38,179            |
| Accounts receivable, net of allowances aggregating \$32,260 and \$27,799, respectively              | 608,645            | 528,924           |
| Unbilled accounts receivable  | 63,964             | 35,922            |
| Deferred costs  | 19,849             | 20,445            |
| Inventories and supplies  | 196,045            | 176,012           |
| Prepaid expenses and other current assets   | 35,441             | 35,175            |
| Total current assets  | 1,176,821          | 1,154,056         |
| Property, plant and equipment, net  | 1,614,429          | 1,587,365         |
| <b>Other assets:</b>  |                    |                   |
| Goodwill  | 514,102            | 478,523           |
| Permits and other intangibles, net  | 451,355            | 469,128           |
| Other   | 17,622             | 17,498            |
| Total other assets  | 983,079            | 965,149           |
| Total assets  | \$ 3,774,329       | \$ 3,706,570      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                    |                   |
| <b>Current liabilities:</b>   |                    |                   |
| Current portion of long-term obligations  | \$ 7,535           | \$ 4,000          |
| Accounts payable  | 248,405            | 224,231           |
| Deferred revenue  | 65,172             | 67,822            |
| Accrued expenses  | 229,932            | 187,982           |
| Current portion of closure, post-closure and remedial liabilities                                   | 25,256             | 19,782            |
| Total current liabilities   | 576,300            | 503,817           |
| <b>Other liabilities:</b>   |                    |                   |
| Closure and post-closure liabilities, less current portion of \$9,576 and \$6,444, respectively     | 57,805             | 54,593            |
| Remedial liabilities, less current portion of \$15,680 and \$13,338, respectively                   | 105,032            | 111,130           |
| Long-term obligations, less current portion   | 1,616,156          | 1,625,537         |
| Deferred taxes, unrecognized tax benefits and other long-term liabilities                           | 221,712            | 223,291           |
| Total other liabilities   | 2,000,705          | 2,014,551         |
| Commitments and contingent liabilities (See Note 16)  |                    |                   |
| <b>Stockholders' equity:</b>  |                    |                   |
| Common stock, \$.01 par value:  |                    |                   |
| Authorized 80,000,000; shares issued and outstanding 55,997,893 and 56,501,190 shares, respectively | 560                | 565               |
| Additional paid-in capital  | 661,546            | 686,962           |
| Accumulated other comprehensive loss  | (185,505)          | (172,407)         |
| Accumulated earnings  | 720,723            | 673,082           |
| Total stockholders' equity  | 1,197,324          | 1,188,202         |
| Total liabilities and stockholders' equity  | \$ 3,774,329       | \$ 3,706,570      |

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

**CLEAN HARBORS, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts)

|   | Three Months Ended |            | Nine Months Ended |              |
|---|--------------------|------------|-------------------|--------------|
|   | September 30,      |            | September 30,     |              |
|   | 2018               | 2017       | 2018              | 2017         |
| <b>Revenues:</b>  |                    |            |                   |              |
| Service revenues  | \$ 685,183         | \$ 612,352 | \$ 2,001,681      | \$ 1,783,506 |
| Product revenues  | 157,998            | 143,494    | 440,418           | 414,069      |
| Total revenues  | 843,181            | 755,846    | 2,442,099         | 2,197,575    |
| <b>Cost of revenues: (exclusive of items shown separately below)</b>                        |                    |            |                   |              |
| Service revenues  | 464,612            | 412,369    | 1,385,684         | 1,215,812    |
| Product revenues  | 116,073            | 107,226    | 325,010           | 320,171      |
| Total cost of revenues  | 580,685            | 519,595    | 1,710,694         | 1,535,983    |
| Selling, general and administrative expenses  | 121,219            | 113,252    | 362,302           | 337,767      |
| Accretion of environmental liabilities  | 2,450              | 2,347      | 7,328             | 7,053        |
| Depreciation and amortization   | 73,082             | 72,989     | 220,686           | 216,932      |
| <b>Income from operations</b>   | 65,745             | 47,663     | 141,089           | 99,840       |
| Other expense, net  | (996)              | (432)      | (449)             | (2,814)      |
| Loss on early extinguishment of debt  | (2,469)            | (1,846)    | (2,469)           | (7,891)      |
| (Loss) gain on sale of business   | —                  | (77)       | —                 | 31,645       |
| Interest expense, net of interest income of \$736, \$573, \$2,086 and \$1,098, respectively | (19,916)           | (20,675)   | (60,955)          | (65,743)     |
| <b>Income before provision for income taxes</b>   | 42,364             | 24,633     | 77,216            | 55,037       |
| Provision for income taxes  | 11,275             | 12,575     | 28,011            | 38,492       |
| <b>Net income</b>   | \$ 31,089          | \$ 12,058  | \$ 49,205         | \$ 16,545    |
| <b>Earnings per share:</b>  |                    |            |                   |              |
| Basic   | \$ 0.55            | \$ 0.21    | \$ 0.88           | \$ 0.29      |
| Diluted   | \$ 0.55            | \$ 0.21    | \$ 0.87           | \$ 0.29      |
| Shares used to compute earnings per share - Basic   | 56,059             | 57,033     | 56,222            | 57,149       |
| Shares used to compute earnings per share - Diluted   | 56,291             | 57,195     | 56,360            | 57,280       |

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

## CLEAN HARBORS, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

|   | Three Months Ended |           | Nine Months Ended |           |
|---|--------------------|-----------|-------------------|-----------|
|   | September 30,      |           | September 30,     |           |
|   | 2018               | 2017      | 2018              | 2017      |
| Net income  | \$ 31,089          | \$ 12,058 | \$ 49,205         | \$ 16,545 |
| Other comprehensive income (loss):  |                    |           |                   |           |
| Unrealized (losses) gains on available-for-sale securities (net of taxes of \$7, \$7, \$95 and \$129, respectively)                                   | (932)              | 11        | (1,138)           | 170       |
| Reclassification adjustment for losses on available-for-sale securities included in net income (net of taxes of \$0, \$0, \$0 and \$79, respectively) | —                  | —         | —                 | 143       |
| Unrealized loss on interest rate hedge (net of taxes of \$0, \$0, \$0 and \$0)  | (310)              | —         | (310)             | —         |
| Foreign currency translation adjustments (including a tax benefit of \$5.6 million in the nine months ended September 30, 2018)                       | 9,832              | 23,698    | (11,650)          | 44,545    |
| Other comprehensive income (loss)   | 8,590              | 23,709    | (13,098)          | 44,858    |
| Comprehensive income  | \$ 39,679          | \$ 35,767 | \$ 36,107         | \$ 61,403 |

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

**CLEAN HARBORS, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

|  | Nine Months Ended |                   |
|--|-------------------|-------------------|
|  | September 30,     |                   |
|  | 2018              | 2017              |
| Cash flows from operating activities:                                      |                   |                   |
| Net income   | \$ 49,205         | \$ 16,545         |
| Adjustments to reconcile net income to net cash from operating activities: |                   |                   |
| Depreciation and amortization  | 220,686           | 216,932           |
| Allowance for doubtful accounts  | 6,869             | 5,635             |
| Amortization of deferred financing costs and debt discount                 | 2,841             | 2,562             |
| Accretion of environmental liabilities                                     | 7,328             | 7,053             |
| Changes in environmental liability estimates                               | (301)             | (312)             |
| Deferred income taxes  | 61                | 184               |
| Stock-based compensation   | 10,726            | 9,212             |
| Other expense, net   | 449               | 2,814             |
| Gain on sale of business   | —                 | (31,645)          |
| Loss on early extinguishment of debt                                       | 2,469             | 7,891             |
| Environmental expenditures   | (7,238)           | (10,078)          |
| Changes in assets and liabilities, net of acquisitions                     |                   |                   |
| Accounts receivable and unbilled accounts receivable                       | (76,249)          | (38,122)          |
| Inventories and supplies   | (20,534)          | (4,975)           |
| Other current assets   | (523)             | 18,305            |
| Accounts payable   | 22,041            | (7,085)           |
| Other current and long-term liabilities                                    | 29,385            | 26,553            |
| Net cash from operating activities   | <u>247,215</u>    | <u>221,469</u>    |
| Cash flows used in investing activities:                                   |                   |                   |
| Additions to property, plant and equipment                                 | (150,722)         | (127,736)         |
| Proceeds from sale and disposal of fixed assets                            | 6,111             | 5,375             |
| Acquisitions, net of cash acquired   | (151,023)         | (44,432)          |
| Proceeds from sale of businesses, net of transactional costs               | —                 | 46,339            |
| Additions to intangible assets, including costs to obtain or renew permits | (3,500)           | (1,348)           |
| Proceeds from sale of available-for-sale securities                        | 20,123            | 376               |
| Purchases of available-for-sale securities                                 | (20,471)          | —                 |
| Net cash used in investing activities                                      | <u>(299,482)</u>  | <u>(121,426)</u>  |
| Cash flows used in financing activities:                                   |                   |                   |
| Change in uncashed checks  | (3,476)           | (8,657)           |
| Proceeds from exercise of stock options                                    | —                 | 46                |
| Tax payments related to withholdings on vested restricted stock            | (2,566)           | (2,321)           |
| Repurchases of common stock  | (33,581)          | (24,465)          |
| Deferred financing costs paid  | (3,938)           | (5,746)           |
| Premiums paid on early extinguishment of debt                              | (1,219)           | (6,028)           |
| Principal payment on debt  | (403,884)         | (401,000)         |
| Issuance of senior secured notes, net of discount                          | 348,250           | 399,000           |
| Borrowing from revolving credit facility                                   | 50,000            | —                 |
| Net cash used in financing activities                                      | <u>(50,414)</u>   | <u>(49,171)</u>   |
| Effect of exchange rate change on cash                                     | (1,221)           | 3,789             |
| (Decrease) increase in cash and cash equivalents                           | (103,902)         | 54,661            |
| Cash and cash equivalents, beginning of period                             | 319,399           | 306,997           |
| Cash and cash equivalents, end of period                                   | <u>\$ 215,497</u> | <u>\$ 361,658</u> |
| Supplemental information:  |                   |                   |
| Cash payments for interest and income taxes:                               |                   |                   |
| Interest paid  | \$ 58,312         | \$ 67,550         |
| Income taxes paid  | 16,071            | 14,321            |
| Non-cash investing activities:   |                   |                   |

|  |        |        |
|--|--------|--------|
| Property, plant and equipment accrued                  | 13,834 | 14,509 |
| Transfer of inventory to property, plant and equipment | —      | 12,641 |

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

CLEAN HARBORS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

|  | Common Stock           |                         | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss | Accumulated<br>Earnings | Total<br>Stockholders'<br>Equity |
|--|------------------------|-------------------------|----------------------------------|---|-------------------------|----------------------------------|
|  | Number<br>of<br>Shares | \$ 0.01<br>Par<br>Value |                                  |   |                         |                                  |
| Balance at January 1, 2018   | 56,501                 | \$ 565                  | \$686,962                        | \$ (172,407)                                  | \$ 673,082              | \$ 1,188,202                     |
| Cumulative effect of change in accounting principle                        | —                      | —                       | —                                | —   | (1,564)                 | (1,564)                          |
| Net income   | —                      | —                       | —                                | —   | 49,205                  | 49,205                           |
| Other comprehensive loss   | —                      | —                       | —                                | (13,098)                                      | —                       | (13,098)                         |
| Stock-based compensation   | —                      | —                       | 10,726                           | —   | —                       | 10,726                           |
| Issuance of restricted shares, net of shares remitted and tax withholdings | 133                    | 1                       | (2,567)                          | —   | —                       | (2,566)                          |
| Repurchases of common stock  | (636)                  | (6)                     | (33,575)                         | —   | —                       | (33,581)                         |
| Balance at September 30, 2018  | <u>55,998</u>          | <u>\$ 560</u>           | <u>\$661,546</u>                 | <u>\$ (185,505)</u>                           | <u>\$ 720,723</u>       | <u>\$ 1,197,324</u>              |

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

CLEAN HARBORS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

**(1) BASIS OF PRESENTATION**

The accompanying consolidated interim financial statements are unaudited and include the accounts of Clean Harbors, Inc. and its subsidiaries (collectively, "Clean Harbors," the "Company" or "we") and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and, in the opinion of management, include all adjustments which are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. Management has made estimates and assumptions affecting the amounts reported in the Company's consolidated interim financial statements and accompanying footnotes, actual results could differ from those estimates and judgments. The results for interim periods are not necessarily indicative of results for the entire year or any other interim periods. The financial statements presented herein should be read in connection with the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

**(2) SIGNIFICANT ACCOUNTING POLICIES**

The Company's significant accounting policies are described in Note 2, "Significant Accounting Policies," in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes in these policies or their application except for the changes described below.

*Changes in Reporting Segments*

During the first quarter of fiscal year 2018, certain of the Company's businesses undertook a reorganization which included changes to the underlying business and management structures. The reorganization resulted in combining the Environmental Services businesses from an operational and management perspective and is expected to deepen customer relationships and allow for efficiencies across the Company's operations through the sharing of resources, namely labor and equipment which will reduce third party spend and promote the cross selling of such business offerings. In connection with this reorganization, the Company's chief operating decision maker also requested changes in the information that he regularly reviews for purposes of allocating resources and assessing performance. These changes required a reconsideration of the Company's operating segments in the first quarter of 2018 and resulted in a change in the Company's assessment of its operating segments. Upon reconsideration of the identification of the Company's operating segments, the Company concluded that there are now two operating segments for disclosure in accordance with ASC 280 *Segment reporting*: (i) the Environmental Services segment which consists of the Company's historical Technical Services, Industrial Services, Field Services and Oil, Gas and Lodging businesses and (ii) the Safety-Kleen segment. See Note 18, "Segment Reporting," for more information. The amounts presented for the three and nine months ended September 30, 2017 have been recast to reflect the impact of such changes. These reclassifications and adjustments had no effect on the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of cash flows or consolidated statements of stockholders' equity for any of the periods presented.

*Recent Accounting Pronouncements*

*Standards implemented*

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which replaces numerous requirements in U.S. GAAP, including industry-specific requirements, and provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method for all contracts. Results for reporting periods beginning on the date of adoption are presented under ASC 606, while prior period amounts have not been adjusted and continue to be reported in accordance with the Company's historical accounting methodology pursuant to ASC 605, *Revenue Recognition*. Upon adoption, a cumulative effect adjustment was not required as the majority of the Company's contracts are recognized based on time and materials incurred and were not impacted by the new guidance. The Company has concluded that the most significant impact of the standard relates to the incremental disclosures required.

In October 2016, the FASB issued ASU 2016-16, *Income Tax - Intra-Entity Transfers of Assets Other than Inventory*. The amendment improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The

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Company adopted the amendment on a modified retrospective basis effective January 1, 2018. As a result of adoption, the Company recorded a cumulative effect adjustment that reduced retained earnings by \$1.6 million.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendment requires an employer to report the service cost component of net benefit cost in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. In addition, the amendment allows only the service cost component to be eligible for capitalization when applicable. The Company adopted the amendment in the first quarter of 2018. Adoption did not have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The amendment better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The Company adopted the amendment in the third quarter of 2018. Adoption did not have a material impact on the Company's consolidated financial statements.

### *Standards to be implemented*

The Company is evaluating the impact that the below standards to be implemented will have on the Company's consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The amendment increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In February 2018, FASB issued ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*. The amendment clarifies that land easements are within the scope of the new leases standard (ASC 842) and introduces a new transition practical expedient allowing a company to not assess whether existing and expired land easements that were not previously accounted for as leases under current US GAAP (ASC 840) are or contain leases under ASC 842. In July 2018, FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*. The amendment provides improvements that clarify specific aspects of the guidance in ASU 2016-02. In August 2018, FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. The amendment provides entities with an additional (and optional) transition method to adopt the new leases standard and provides lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if certain criteria are met. The Company will adopt the new standard beginning on January 1, 2019. While the Company is still continuing to assess the effect of adoption, it expects that the new standard will have a material effect on its consolidated balance sheet related to the recognition of new assets and lease liabilities. In preparation for the adoption of the guidance, the Company is in the process of implementing new software, testing and validating the data in the new software and changing controls and processes to enable the preparation of financial information.

## **(3) REVENUES**

### **Revenue Recognition**

Revenues are recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

### **Nature of Goods and Services**

The Company generates services and product revenues through its Environmental Services and Safety-Kleen operating segments. The majority of the Company's contracts are for services, which are recognized based on time and materials incurred at contractually agreed-upon rates. Product revenues are recognized when the products are delivered and control transfers to the customer. The Company's payment terms vary by the type and location of its customers and the products or services offered. The term between invoicing and when payment is due is not significant. The Company excludes sales taxes that it collects from customers from its revenues.

**Disaggregation of Revenue**

The following table presents the Company's revenues disaggregated by revenue source (in thousands):

|                                     | For the Three Months Ended September 30, 2018 |              |           |            |
|-------------------------------------|---|--------------|-----------|------------|
|                                     | Environmental Services                        | Safety-Kleen | Corporate | Total      |
| <b>Primary Geographical Markets</b> |   |              |           |            |
| United States                       | \$ 410,792                                    | \$ 307,497   | \$ (66)   | \$ 718,223 |
| Canada                              | 98,021  | 26,404       | 533       | 124,958    |
| Total third party revenues          | \$ 508,813                                    | \$ 333,901   | \$ 467    | \$ 843,181 |

**Sources of Revenue (1)**

|   |            |            |        |            |
|---|------------|------------|--------|------------|
| Technical Services                      | \$ 264,769 | \$ —       | \$ —   | \$ 264,769 |
| Field and Emergency Response Services   | 77,025     | —          | —      | 77,025     |
| Industrial Services                     | 134,323    | —          | —      | 134,323    |
| Oil, Gas and Lodging Services and Other | 32,696     | —          | 467    | 33,163     |
| Safety-Kleen Environmental Services     | —          | 200,681    | —      | 200,681    |
| Kleen Performance Products              | —          | 133,220    | —      | 133,220    |
| Total third party revenues              | \$ 508,813 | \$ 333,901 | \$ 467 | \$ 843,181 |

|                                     | For the Three Months Ended September 30, 2017 |              |           |            |
|-------------------------------------|---|--------------|-----------|------------|
|                                     | Environmental Services                        | Safety-Kleen | Corporate | Total      |
| <b>Primary Geographical Markets</b> |   |              |           |            |
| United States                       | \$ 334,625                                    | \$ 290,653   | \$ 468    | \$ 625,746 |
| Canada                              | 105,538                                       | 24,375       | 187       | 130,100    |
| Total third party revenues          | \$ 440,163                                    | \$ 315,028   | \$ 655    | \$ 755,846 |

**Sources of Revenue (1)**

|   |            |            |        |            |
|---|------------|------------|--------|------------|
| Technical Services                      | \$ 246,323 | \$ —       | \$ —   | \$ 246,323 |
| Field and Emergency Response Services   | 76,446     | —          | —      | 76,446     |
| Industrial Services                     | 90,894     | —          | —      | 90,894     |
| Oil, Gas and Lodging Services and Other | 26,500     | —          | 655    | 27,155     |
| Safety-Kleen Environmental Services     | —          | 191,420    | —      | 191,420    |
| Kleen Performance Products              | —          | 123,608    | —      | 123,608    |
| Total third party revenues              | \$ 440,163 | \$ 315,028 | \$ 655 | \$ 755,846 |

|                                     | For the Nine Months Ended September 30, 2018 |              |           |              |
|-------------------------------------|--|--------------|-----------|--------------|
|                                     | Environmental Services                       | Safety-Kleen | Corporate | Total        |
| <b>Primary Geographical Markets</b> |  |              |           |              |
| United States                       | \$ 1,162,891                                 | \$ 901,198   | \$ 442    | \$ 2,064,531 |
| Canada                              | 305,526                                      | 71,336       | 706       | 377,568      |
| Total third party revenues          | \$ 1,468,417                                 | \$ 972,534   | \$ 1,148  | \$ 2,442,099 |

**Sources of Revenue (1)**

|   |              |            |          |              |
|---|--------------|------------|----------|--------------|
| Technical Services                      | \$ 758,081   | \$ —       | \$ —     | \$ 758,081   |
| Field and Emergency Response Services   | 223,052      | —          | —        | 223,052      |
| Industrial Services                     | 399,132      | —          | —        | 399,132      |
| Oil, Gas and Lodging Services and Other | 88,152       | —          | 1,148    | 89,300       |
| Safety-Kleen Environmental Services     | —            | 594,876    | —        | 594,876      |
| Kleen Performance Products              | —            | 377,658    | —        | 377,658      |
| Total third party revenues              | \$ 1,468,417 | \$ 972,534 | \$ 1,148 | \$ 2,442,099 |

For the Nine Months Ended September 30, 2017

|   | Environmental Services | Safety-Kleen | Corporate | Total        |
|---|------------------------|--------------|-----------|--------------|
| <b>Primary Geographical Markets</b>     |                        |              |           |              |
| United States                           | \$ 991,731             | \$ 843,341   | \$ 756    | \$ 1,835,828 |
| Canada                                  | 293,970                | 67,544       | 233       | 361,747      |
| Total third party revenues              | \$ 1,285,701           | \$ 910,885   | \$ 989    | \$ 2,197,575 |
| <b>Sources of Revenue (1)</b>           |                        |              |           |              |
| Technical Services                      | \$ 731,028             | \$ —         | \$ —      | \$ 731,028   |
| Field and Emergency Response Services   | 208,172                | —            | —         | 208,172      |
| Industrial Services                     | 265,695                | —            | —         | 265,695      |
| Oil, Gas and Lodging Services and Other | 80,806                 | —            | 989       | 81,795       |
| Safety-Kleen Environmental Services     | —                      | 575,964      | —         | 575,964      |
| Kleen Performance Products              | —                      | 334,921      | —         | 334,921      |
| Total third party revenues              | \$ 1,285,701           | \$ 910,885   | \$ 989    | \$ 2,197,575 |

1. All revenue except Kleen Performance Products and product sales within Safety-Kleen Environmental Services, which includes allied products and direct blended oil sales, are recognized over time. Kleen Performance Products and Safety-Kleen Environmental Services product sales are recognized at a point in time.

**Technical Services.** Technical Services revenues are generated from fees charged for waste material management and disposal services including onsite environmental management services, collection and transportation, packaging, recycling, treatment and disposal of waste. Revenue is primarily generated by short-term projects, most of which are governed by master service agreements that are long-term in nature. These master service agreements are typically entered into with the Company's larger customers and outline the pricing and legal frameworks for such arrangements. Services are provided based on purchase orders or agreements with the customer and include prices based upon units of volume of waste, and transportation and other fees. Collection and transportation revenues are recognized over time, as the customer receives and consumes the benefits of the service as they are being performed and the Company has a right to payment for performance completed to date. The Company uses the input method to recognize revenue over time, based on time and materials incurred. Revenues for treatment and disposal of waste are recognized upon completion of treatment, final disposition in a landfill or incineration, or when the waste is shipped to a third party for processing and disposal. The Company periodically enters into bundled arrangements for the collection and transportation and disposal of waste. For such arrangements, transportation and disposal are considered distinct performance obligations and the Company allocates revenue to each based on their relative standalone selling price (i.e. the estimated price that a customer would pay for the services on a standalone basis). Revenues from waste that is not yet completely processed and disposed and the related costs are deferred. The revenue is recognized and the deferred costs are expensed when the related services are completed. The period between collection and transportation and the final processing and disposal ranges depending on location of the customer, but generally is measured in days.

**Field and Emergency Response Services.** Field Services revenues are generated from cleanup services at customer sites, including municipalities and utilities, or other locations on a scheduled or emergency response basis. Services include confined space entry for tank cleaning, site decontamination, large remediation projects, demolition, spill cleanup on land and water, railcar cleaning, product recovery and transfer and vacuum services. Additional services include filtration and water treatment services. Response services for environmental emergencies include any scale from man-made disasters such as oil spills, to natural disasters such as hurricanes. These services are provided based on purchase orders or agreements with customers and include prices generally based upon daily, hourly or job rates for equipment, materials and personnel. The Company recognizes revenue for these services over time, as the customer receives and consumes the benefits of the service as they are being performed and the Company has a right to payment for performance completed to date. The Company uses the input method to recognize revenue over time, based on time and materials incurred. The duration of such services can be over a number of hours, several days or even months for larger scale projects.

**Industrial Services.** Industrial Services revenues are generated from industrial and specialty services provided to refineries, mines, upgraders, chemical plants, pulp and paper mills, manufacturing facilities, power generation facilities and other industrial customers throughout North America. Services include in-plant cleaning and maintenance services, plant outage and turnaround

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services, decoking and pigging, chemical cleaning, high and ultra-high pressure water cleaning, pipeline inspection and coating services, large tank and surface impoundment cleaning, oilfield transport, daylighting, production services and directional boring services (previously included in Oil, Gas and Lodging service offerings) supporting drilling, completions and production programs. These services are provided based on purchase orders or agreements with the customer and include prices based upon daily, hourly or job rates for equipment, materials and personnel. The Company recognizes revenue for these services over time, as the customer receives and consumes the benefits of the service as they are being performed and the Company has a right to payment for performance completed to date. The Company uses the input method to recognize revenue over time, based on time and materials incurred.

**Safety-Kleen Environmental Services.** Safety-Kleen Environmental Services revenues are generated from providing parts washer services, containerized waste handling and disposal services, oil collection services, direct sales of blended oil products, and other complementary services and product sales. Containerized waste services consist of profiling, collecting, transporting and recycling or disposing of a wide variety of waste. Other products and services include vacuum services, sale of allied supply products and other environmental services. Revenues from parts washer services include fees charged to customers for their use of parts washer equipment, to clean and maintain parts washer equipment and to remove and replace used cleaning fluids. Parts washer services are considered a single performance obligation due to the highly integrated and interdependent nature of the arrangement. Revenue from parts washer services is recognized over the service interval as the customer receives the benefit of the service. Collection and transportation revenues are recognized over time, as the customer receives and consumes the benefits of the service as they are being performed and the Company has a right to payment for performance completed to date. The Company uses the input method to recognize revenue over time, based on time and materials incurred. Product revenue is recognized upon the transfer of control. Control transfers when the products are delivered to the customer.

**Kleen Performance Products.** Kleen Performance Products revenues are generated from sales of high quality base and blended lubricating oils to third-party distributors, government agencies, fleets, railroads and industrial customers. The business also sells recycled fuel oil to asphalt plants, industrial plants, blenders, pulp and paper companies, vacuum gas oil producers and marine diesel oil producers. Revenue for oil products is recognized at a point in time, upon the transfer of control. Control transfers when the products are delivered to the customer.

**Oil, Gas and Lodging Services and Other.** Oil, Gas and Lodging Services and Other is primarily comprised of revenues generated from providing Oil and Gas Field Services that support upstream activities such as exploration and drilling for oil and gas companies and Lodging Services to customers in Western Canada. The Company recognizes Oil and Gas Field Services revenue over time, as the customer receives and consumes the benefits of the service as they are being performed and the Company has a right to payment for performance completed to date. The Company uses the input method to recognize revenue over time, based on time and materials incurred. Revenue for lodging accommodation services is recognized over time based on passage of time. Revenue for manufacturing services is recognized over time using a cost-to-cost measure of progress or completed units to depict the transfer of assets to the customer.

### Contract Balances

|   | September 30, 2018 | December 31, 2017 | September 30, 2017 | December 31, 2016 |
|---|--------------------|-------------------|--------------------|-------------------|
| Receivables                             | \$ 608,645         | \$ 528,924        | \$ 531,696         | \$ 496,226        |
| Contract Assets (Unbilled Receivables)  | 63,964             | 35,922            | 40,933             | 36,190            |
| Contract Liabilities (Deferred Revenue) | 65,172             | 67,822            | 69,236             | 64,397            |

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits or deferred revenue (contract liabilities) on the Consolidated Balance Sheet. Generally, billing occurs subsequent to revenue recognition, as a right to payment is not just subject to passage of time, resulting in contract assets. Contract assets are generally classified as current. The Company sometimes receives advances or deposits from its customers before revenue is recognized, resulting in contract liabilities. These assets and liabilities are reported on the Consolidated Balance Sheet on a contract-by-contract basis at the end of each reporting period. As part of the acquisition of the Veolia Business on February 23, 2018, the Company acquired receivables and contract assets of \$20.5 million and \$17.7 million, respectively. Changes in the contract asset and liability balances during the nine-month periods ended September 30, 2018 and September 30, 2017 were not materially impacted by any other factors. The contract liability balances at the beginning of each period presented were fully recognized in the subsequent three-month period.

### **Remaining Performance Obligations**

Remaining performance obligations represent the transaction price of orders for which work has not been performed. As of September 30, 2018, all remaining performance obligations were for contracts with an original expected length of one year or less.

### **Variable Consideration**

The nature of the Company's contracts gives rise to certain types of variable consideration, including in limited cases volume and payment discounts. The Company estimates the amount of variable consideration to include in the estimated transaction price based on historical experience, anticipated performance and its best judgment at the time and to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Variable consideration was not material in any of the periods presented.

### **Contract Costs**

Contract costs include direct and incremental costs to obtain or fulfill a contract. The Company's contract costs that are subject to capitalization are comprised of costs associated with parts washer services and costs associated with the treatment and disposal of waste. Parts washer costs include costs of solvent, commissions paid relating to revenue generated from parts washer services, and transportation costs associated with transferring the product picked up from the services as it is returned to the Company's facilities or a third party site. Costs related to the treatment of waste include costs for waste receiving, drum movement and storage, waste consolidation and transportation between facilities. Deferred costs associated with parts washer services are amortized ratably over the average service interval, which ranges between seven and 14 weeks. Deferred costs related to treatment and disposal of waste are recognized when the corresponding waste is disposed of and are included in Deferred Costs within total current assets in the Company's consolidated balance sheets. The deferred contract cost balances at the beginning of each period presented were fully recognized in cost of revenue in the subsequent three-month period.

## **(4) BUSINESS COMBINATIONS**

### ***2018 Acquisition***

On August 31, 2018, Clean Harbors acquired a privately owned company which is expected to expand the environmental services and waste oil capabilities of the Company. The acquired company is included in the Safety-Kleen and Environmental Services segments. In connection with this acquisition, a preliminary goodwill amount of \$16.0 million was recognized.

On February 23, 2018, the Company completed the acquisition of the U.S. Industrial Cleaning Business of Veolia Environmental Services North America LLC (the "Veolia Business"). The acquisition provides significant scale and industrial services capabilities while increasing the size of the Company's existing U.S. Industrial Services business. The Company acquired the Veolia Business for a purchase price of \$120.0 million subject to certain post-closing adjustments. The acquisition was financed with cash on hand. The amount of revenue from the Veolia Business included in the Company's results of operations for the three and nine months ended September 30, 2018 was \$44.9 million and \$108.8 million, respectively. The amount of pre-tax (loss) income for the three and nine months ended September 30, 2018 was \$(0.8) million and \$2.5 million, respectively. During the three and nine months ended September 30, 2018, the Company incurred acquisition-related costs of approximately \$0.2 million and \$1.2 million, respectively, in connection with the transaction which are included in selling, general and administrative expenses in the consolidated statements of operations. The Veolia Business is included in the Environmental Services segment.

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The allocation of the Veolia Business purchase price was based on preliminary estimates of the fair value of assets acquired and liabilities assumed as of February 23, 2018, as the Company is continuing to obtain information to complete its valuation of these accounts and the associated tax accounting. The components and preliminary allocation of the purchase price consist of the following amounts (in thousands):

|   | At Acquisition Date | Measurement Period Adjustments | At Acquisition Date As Reported September 30, 2018 |
|---|---------------------|--------------------------------|--|
| Accounts receivable, including unbilled receivables | \$ 40,773           | \$ (2,580)                     | \$ 38,193  |
| Inventories and supplies                            | 1,442               | (316)                          | 1,126  |
| Prepaid expenses and other current assets           | 1,005               | (219)                          | 786  |
| Property, plant and equipment                       | 72,244              | —                              | 72,244   |
| Permits and other intangibles                       | 5,140               | —                              | 5,140  |
| Current liabilities                                 | (15,908)            | (2,717)                        | (18,625)   |
| Closure and post-closure liabilities                | (604)               | 250                            | (354)  |
| Total identifiable net assets                       | 104,092             | (5,582)                        | 98,510   |
| Goodwill  | 15,908              | 5,582                          | 21,490   |
| Total purchase price                                | \$ 120,000          | \$ —                           | \$ 120,000   |

The weighted average amortization period for the intangibles acquired is 8.2 years. The excess of the total purchase price, which includes the aggregate cash consideration paid in excess of the fair value of the tangible net assets and intangible assets acquired, was recorded as goodwill. The goodwill recognized is attributable to the expected operating synergies and growth potential that the Company expects to realize from this acquisition. Goodwill generated from the acquisition is deductible for tax purposes.

Pro forma revenue and earnings amounts on a combined basis as if these acquisitions had been completed on January 1, 2017 are immaterial to the consolidated financial statements of the Company since that date.

#### **2017 Acquisitions**

On July 14, 2017, the Company acquired Lonestar West Inc. ("Lonestar"), a public company headquartered in Alberta, Canada, for approximately CAD \$41.8 million, (\$33.1 million USD), net of cash acquired, which included an equity payout of CAD \$0.72 per share to Lonestar shareholders and the assumption of approximately CAD \$21.3 million (\$16.8 million USD) in outstanding debt, which Clean Harbors subsequently repaid. The acquisition supports the Company's growth in the daylighting and hydro excavation services markets. In addition to increasing the size of the Company's hydro vac fleet, Lonestar's network of locations provides the Company with direct access to key geographic markets in both the United States and Canada. The acquired company is included in the Environmental Services segment. In connection with this acquisition, a goodwill amount of \$2.8 million was recognized.

On January 31, 2017, the Company acquired a privately held company for a purchase price of approximately \$11.9 million in cash, net of cash acquired. The acquired business produces and distributes oil products and therefore complements the Company's closed loop model as it relates to the sale of its oil products. The acquired company is included in the Safety-Kleen segment. In connection with this acquisition, a goodwill amount of \$5.0 million was recognized.

Pro forma revenue and earnings amounts on a combined basis as if these acquisitions had been completed on January 1, 2017 are immaterial to the consolidated financial statements of the Company since that date.

#### **(5) DISPOSITION OF BUSINESS**

On June 30, 2017, the Company completed the sale of its Transformer Services business, as part of its continuous focus on improving or divesting certain non-core operations. The sale price was \$45.5 million. The Transformer Services business was a non-core business previously included within the legacy Technical Services operating segment.

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The following table presents income attributable to the Transformer Services business included in the Company's consolidated results of operations for the three and nine months ended September 30, 2017 (in thousands):

|  | Three Months Ended<br>September 30, 2017 | Nine Months Ended<br>September 30, 2017 |
|--|--|---|
| Income before provision for income taxes | \$ —                                     | \$ 2,771                                |

**(6) INVENTORIES AND SUPPLIES**

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

|                                | September 30, 2018 | December 31, 2017 |
|--------------------------------|--------------------|-------------------|
| Oil and oil products           | \$ 72,268          | \$ 58,142         |
| Supplies and drums             | 99,773             | 94,242            |
| Solvent and solutions          | 9,200              | 9,167             |
| Modular camp accommodations    | 1,657              | 1,826             |
| Other                          | 13,147             | 12,635            |
| Total inventories and supplies | <u>\$ 196,045</u>  | <u>\$ 176,012</u> |

As of September 30, 2018 and December 31, 2017, other inventories consisted primarily of parts washer components, cleaning fluids, absorbents and automotive fluids, such as windshield washer fluid and antifreeze. Supplies and drums consisted primarily of drums and containers as well as critical spare parts to support the Company's incinerator and re-refinery operations.

**(7) PROPERTY, PLANT AND EQUIPMENT**

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

|  | September 30, 2018  | December 31, 2017   |
|--|---------------------|---------------------|
| Land   | \$ 125,804          | \$ 121,658          |
| Asset retirement costs (non-landfill)            | 14,857              | 14,593              |
| Landfill assets                                  | 149,748             | 144,539             |
| Buildings and improvements                       | 443,908             | 414,384             |
| Camp equipment                                   | 163,427             | 170,012             |
| Vehicles   | 723,872             | 617,959             |
| Equipment  | 1,697,920           | 1,644,102           |
| Furniture and fixtures                           | 5,652               | 5,708               |
| Construction in progress                         | 29,373              | 57,618              |
|  | <u>3,354,561</u>    | <u>3,190,573</u>    |
| Less - accumulated depreciation and amortization | 1,740,132           | 1,603,208           |
| Total property, plant and equipment, net         | <u>\$ 1,614,429</u> | <u>\$ 1,587,365</u> |

Interest in the amount of \$0.1 million and \$0.5 million was capitalized to property, plant and equipment during the three and nine months ended September 30, 2018, respectively. Interest in the amount of \$0.2 million and \$0.4 million was capitalized to property, plant and equipment during the three and nine months ended September 30, 2017, respectively. Depreciation expense, inclusive of landfill amortization, was \$64.9 million and \$194.7 million for the three and nine months ended September 30, 2018, respectively. Depreciation expense, inclusive of landfill amortization, was \$64.0 million and \$189.2 million for the three and nine months ended September 30, 2017, respectively.

**(8) GOODWILL AND OTHER INTANGIBLE ASSETS**

The changes in goodwill by segment for the nine months ended September 30, 2018 were as follows (in thousands):

|   | Environmental<br>Services | Safety-Kleen      | Totals            |
|---|---------------------------|-------------------|-------------------|
| Balance at January 1, 2018                                    | \$ 172,386                | \$ 306,137        | \$ 478,523        |
| Increase from current period acquisitions                     | 33,281                    | 4,168             | 37,449            |
| Measurement period adjustments from prior period acquisitions | (78)                      | —                 | (78)              |
| Foreign currency translation                                  | (829)                     | (963)             | (1,792)           |
| Balance at September 30, 2018                                 | <u>\$ 204,760</u>         | <u>\$ 309,342</u> | <u>\$ 514,102</u> |

The Company assesses goodwill for impairment on an annual basis as of December 31, or at an interim date when events or changes in the business environment would more likely than not reduce the fair value of a reporting unit below its carrying value.

As discussed in Note 18, “Segment Reporting,” during the first quarter of fiscal year 2018 and as a result of operational and managerial changes in several of the Company’s businesses, the identification of operating segments in accordance with ASC 280, *Segment Information*, was changed. As a result of the Company’s conclusions about the identification of operating segments, the Company also concluded that, for purposes of reviewing for potential goodwill impairment, it now has four reporting units, consisting of Environmental Sales and Service, Environmental Facilities, Kleen Performance Products and Safety-Kleen Environmental Services. The Company allocated goodwill to the newly identified reporting units using a relative fair value approach. In addition, the Company completed an assessment of any potential goodwill impairment for all reporting units immediately prior and subsequent to the reallocation and determined that no impairment existed.

As of September 30, 2018 and December 31, 2017, the Company’s total finite-lived and indefinite-lived intangible assets consisted of the following (in thousands):

|   | September 30, 2018 |                             |                   | December 31, 2017 |                             |                   |
|---|--------------------|-----------------------------|-------------------|-------------------|-----------------------------|-------------------|
|   | Cost               | Accumulated<br>Amortization | Net               | Cost              | Accumulated<br>Amortization | Net               |
| Permits   | \$ 177,628         | \$ 78,419                   | \$ 99,209         | \$ 174,721        | \$ 74,347                   | \$ 100,374        |
| Customer and supplier relationships                   | 400,292            | 178,506                     | 221,786           | 399,224           | 158,972                     | 240,252           |
| Other intangible assets                               | 37,844             | 31,412                      | 6,432             | 36,766            | 31,592                      | 5,174             |
| Total amortizable permits and other intangible assets | 615,764            | 288,337                     | 327,427           | 610,711           | 264,911                     | 345,800           |
| Indefinite lived trademarks and trade names           | 123,928            | —                           | 123,928           | 123,328           | —                           | 123,328           |
| Total permits and other intangible assets             | <u>\$ 739,692</u>  | <u>\$ 288,337</u>           | <u>\$ 451,355</u> | <u>\$ 734,039</u> | <u>\$ 264,911</u>           | <u>\$ 469,128</u> |

Amortization expense of permits and other intangible assets was \$8.1 million and \$26.0 million in the three and nine months ended September 30, 2018, respectively. Amortization expense of permits and other intangible assets was \$8.9 million and \$27.7 million in the three and nine months ended September 30, 2017, respectively.

The expected amortization of the net carrying amount of finite-lived intangible assets at September 30, 2018 was as follows (in thousands):

| Years Ending December 31, | Expected Amortization |
|---------------------------|-----------------------|
| 2018 (three months)       | \$ 8,481              |
| 2019                      | 32,488                |
| 2020                      | 30,137                |
| 2021                      | 27,645                |
| 2022                      | 27,476                |
| Thereafter                | 201,200               |
|                           | <u>\$ 327,427</u>     |

**(9) ACCRUED EXPENSES**

Accrued expenses consisted of the following at September 30, 2018 and December 31, 2017 (in thousands):

|  | September 30, 2018 | December 31, 2017 |
|--|--------------------|-------------------|
| Insurance                                  | \$ 72,636          | \$ 57,889         |
| Interest                                   | 14,736             | 12,660            |
| Accrued compensation and benefits          | 68,657             | 55,861            |
| Income, real estate, sales and other taxes | 37,307             | 27,330            |
| Other                                      | 36,596             | 34,242            |
|  | <u>\$ 229,932</u>  | <u>\$ 187,982</u> |

**(10) CLOSURE AND POST-CLOSURE LIABILITIES**

The changes to closure and post-closure liabilities (also referred to as “asset retirement obligations”) from January 1, 2018 through September 30, 2018 were as follows (in thousands):

|  | Landfill Retirement Liability | Non-Landfill Retirement Liability | Total            |
|--|-------------------------------|-----------------------------------|------------------|
| Balance at January 1, 2018                               | \$ 32,382                     | \$ 28,655                         | \$ 61,037        |
| Liabilities assumed in acquisition                       | —                             | 354                               | 354              |
| New asset retirement obligations                         | 2,052                         | —                                 | 2,052            |
| Accretion  | 1,898                         | 1,897                             | 3,795            |
| Changes in estimates recorded to statement of operations | —                             | 400                               | 400              |
| Changes in estimates recorded to balance sheet           | 871                           | 64                                | 935              |
| Expenditures   | (787)                         | (269)                             | (1,056)          |
| Currency translation and other                           | (79)                          | (57)                              | (136)            |
| Balance at September 30, 2018                            | <u>\$ 36,337</u>              | <u>\$ 31,044</u>                  | <u>\$ 67,381</u> |

All of the landfill facilities included in the above were active as of September 30, 2018. There were no significant charges (benefits) in 2018 resulting from changes in estimates for closure and post-closure liabilities.

New asset retirement obligations incurred during the first nine months of 2018 were discounted at the credit-adjusted risk-free rate of 5.66%.

**(11) REMEDIAL LIABILITIES**

The changes to remedial liabilities for the nine months ended September 30, 2018 were as follows (in thousands):

|  | Remedial Liabilities for Landfill Sites | Remedial Liabilities for Inactive Sites | Remedial Liabilities (Including Superfund) for Non-Landfill Operations | Total             |
|--|---|---|--|-------------------|
| Balance at January 1, 2018                               | \$ 1,800                                | \$ 65,342                               | \$ 57,326  | \$ 124,468        |
| Accretion  | 64                                      | 2,074                                   | 1,395  | 3,533             |
| Changes in estimates recorded to statement of operations | —                                       | (56)                                    | (645)  | (701)             |
| Expenditures   | (35)                                    | (2,911)                                 | (3,236)  | (6,182)           |
| Currency translation and other                           | —                                       | 892                                     | (1,298)  | (406)             |
| Balance at September 30, 2018                            | <u>\$ 1,829</u>                         | <u>\$ 65,341</u>                        | <u>\$ 53,542</u>   | <u>\$ 120,712</u> |

In the nine months ended September 30, 2018, there were no significant charges (benefits) resulting from changes in estimates for remedial liabilities.

**(12) FINANCING ARRANGEMENTS**

The following table is a summary of the Company's financing arrangements (in thousands):

|   | September 30, 2018  | December 31, 2017   |
|---|---------------------|---------------------|
| Senior secured Term Loan Agreement ("Term Loan Agreement")          | \$ 7,535            | \$ 4,000            |
| Current portion of long-term obligations, at carrying value         | <u>\$ 7,535</u>     | <u>\$ 4,000</u>     |
| Senior secured Term Loan Agreement due June 30, 2024                | \$ 736,581          | \$ 394,000          |
| Senior unsecured notes, at 5.25%, due August 1, 2020 ("2020 Notes") | —                   | 400,000             |
| Senior unsecured notes, at 5.125%, due June 1, 2021 ("2021 Notes")  | 845,000             | 845,000             |
| Revolving credit facility   | 50,000              | —                   |
| Long-term obligations, at par                                       | <u>\$ 1,631,581</u> | <u>\$ 1,639,000</u> |
| Unamortized debt issuance costs and premium, net                    | (15,425)            | (13,463)            |
| Long-term obligations, at carrying value                            | <u>\$ 1,616,156</u> | <u>\$ 1,625,537</u> |
| Total current and long-term obligations, at carrying value          | <u>\$ 1,623,691</u> | <u>\$ 1,629,537</u> |

**Financing Activities**

On April 17, 2018, the Company, and substantially all of the Company's domestic subsidiaries as guarantors, entered into the first amendment ("First Amendment") of the Term Loan Agreement. The First Amendment reduced the applicable interest rate margin for the Company's initial term loans (the "Term Loans") outstanding under the Term Loan Agreement by 25 basis points for both Eurocurrency borrowings and base rate borrowings. After giving effect to the repricing, the applicable interest rate margins for the Term Loans are 1.75% for Eurocurrency borrowings and 0.75% for base rate borrowings.

On July 19, 2018, the Company, and substantially all of the Company's domestic subsidiaries as guarantors, entered into an Incremental Facility Amendment (the "Incremental Facility Amendment") to the Company's Term Loan Agreement. The Incremental Facility Amendment increased the principal amount of the Term Loans outstanding under the Term Loan Agreement by \$350.0 million. Term Loans under the Term Loan Agreement will mature on June 30, 2024 and may be prepaid at any time without premium or penalty other than customary breakage costs with respect to Eurodollar based loans or if the Company engages in certain repricing transactions before January 19, 2019, in which event a 1.0% prepayment premium would be due. The Company's obligations under the Term Loan Agreement are guaranteed by all of the Company's domestic restricted subsidiaries and secured by liens on substantially all of the assets of the Company and the guarantors.

Concurrently with the closing on July 19, 2018 of the Incremental Facility Amendment, the Company purchased \$322.0 million aggregate principal of the 2020 Notes. The total amount paid in purchasing the 2020 Notes was \$330.9 million including \$7.9 million of accrued interest. On August 1, 2018, the Company redeemed the remaining \$78.0 million of outstanding 2020 Notes.

At September 30, 2018 and December 31, 2017, the fair value of the Term Loans was \$746.0 million and \$400.5 million, respectively, based on quoted market prices or other available market data. At September 30, 2018 and December 31, 2017, the fair value of the Company's 2021 Notes was \$846.1 million and \$855.7 million, respectively, based on quoted market prices for the instrument. The fair values of the Term Loans, 2020 Notes and 2021 Notes are considered Level 2 measures according to the fair value hierarchy.

The Company also maintains a \$400.0 million revolving credit facility under which in connection with the redemption of the \$78.0 million of 2020 Notes, the Company borrowed \$50.0 million. At September 30, 2018, approximately \$194.4 million was available to borrow and outstanding letters of credit were \$130.0 million. At December 31, 2017, \$217.8 million was available to borrow and outstanding letters of credit were \$134.1 million.

**Cash Flow Hedge**

The Company's strategy to hedge against fluctuations in variable interest rates involves entering into interest rate derivative agreements to hedge against adverse movements in interest rates. For interest rate derivatives deemed to be effective cash flow hedges, the change in fair value is recorded in stockholders' equity as a component of accumulated other comprehensive loss and included in interest expense at the same time as interest expense is affected by the hedged transaction. Differences paid or received over the life of the agreements are recorded as additions to or reductions of interest expense on the underlying debt.

Although the interest rate on all \$744.1 million aggregate principal amount of Term Loans which were outstanding on September 30, 2018 is variable under the Term Loan Agreement, the Company has effectively fixed the interest rate on the first \$350.0 million aggregate principal amount of the Term Loans outstanding by entering into interest rate swap agreements with a notional amount of \$350.0 million. Under the terms of the interest rate swap agreements, the Company receives interest based on the 1-month LIBOR index and pays interest at a weighted average rate of approximately 2.92%. When combined with the 1.75% interest rate margin for Eurocurrency borrowings, the effective annual interest rate on such \$350.0 million aggregate principal amount of Term Loans is therefore approximately 4.67%.

The Company recognizes derivative instruments as either assets or liabilities on the balance sheet at fair value. No ineffectiveness has been identified on these swaps and, therefore, all unrealized changes in fair value are recorded in accumulated other comprehensive loss. Amounts are reclassified from accumulated other comprehensive loss into interest expense on the Statement of Operations in the same period or periods during which the hedged transaction affects earnings.

As of September 30, 2018, we have recorded a derivative liability with a fair value of \$0.3 million within accrued expenses in connection with these cash flow hedges.

The fair value of the interest rate swaps included in the Level 2 tier of the fair value hierarchy is calculated using discounted cash flow valuation methodologies based upon the one month LIBOR yield curves that are observable at commonly quoted intervals for the full term of the swaps.

**(13) EARNINGS PER SHARE**

The following are computations of basic and diluted earnings per share (in thousands except for per share amounts):

|   | Three Months Ended |                | Nine Months Ended |                |
|---|--------------------|----------------|-------------------|----------------|
|   | September 30,      |                | September 30,     |                |
|   | 2018               | 2017           | 2018              | 2017           |
| Numerator for basic and diluted earnings per share: |                    |                |                   |                |
| Net income  | \$ 31,089          | \$ 12,058      | \$ 49,205         | \$ 16,545      |
| Denominator:  |                    |                |                   |                |
| Basic shares outstanding                            | 56,059             | 57,033         | 56,222            | 57,149         |
| Dilutive effect of equity-based compensation awards | 232                | 162            | 138               | 131            |
| Dilutive shares outstanding                         | <u>56,291</u>      | <u>57,195</u>  | <u>56,360</u>     | <u>57,280</u>  |
| Basic income per share:                             | <u>\$ 0.55</u>     | <u>\$ 0.21</u> | <u>\$ 0.88</u>    | <u>\$ 0.29</u> |
| Diluted income per share:                           | <u>\$ 0.55</u>     | <u>\$ 0.21</u> | <u>\$ 0.87</u>    | <u>\$ 0.29</u> |

For the three months ended September 30, 2018 and September 30, 2017, the dilutive effect of all then outstanding restricted stock and performance awards is included in the EPS calculation above except for 304,644 and 301,300, respectively, of performance stock awards for which the performance criteria were not attained at that time and 6,565 and 3,724, respectively, of restricted stock awards which were antidilutive at that time.

For the nine months ended September 30, 2018 and September 30, 2017, the dilutive effect of all then outstanding restricted stock and performance awards is included in the EPS calculation above except for 304,644 and 301,300, respectively, of performance stock awards for which the performance criteria were not attained at that time and 91,743 and 19,485, respectively, of restricted stock awards which were antidilutive at that time.

**(14) ACCUMULATED OTHER COMPREHENSIVE LOSS**

The changes in accumulated other comprehensive loss by component and related tax effects for the nine months ended September 30, 2018 were as follows (in thousands):

|   | Foreign Currency<br>Translation | Unrealized Losses<br>on Available-For-<br>Sale Securities | Unrealized Loss on<br>Interest Rate Hedge | Unfunded Pension<br>Liability | Total        |
|---|---------------------------------|---|---|-------------------------------|--------------|
| Balance at January 1, 2018                  | \$ (170,575)                    | \$ (146)  | \$ —                                      | \$ (1,686)                    | \$ (172,407) |
| Other comprehensive loss before tax effects | (17,259)                        | (1,043)   | (310)                                     | —                             | (18,612)     |
| Tax effects                                 | 5,609                           | (95)  | —   | —                             | 5,514        |
| Other comprehensive loss                    | \$ (11,650)                     | \$ (1,138)  | \$ (310)                                  | \$ —                          | \$ (13,098)  |
| Balance at September 30, 2018               | \$ (182,225)                    | \$ (1,284)  | \$ (310)                                  | \$ (1,686)                    | \$ (185,505) |

**(15) STOCK-BASED COMPENSATION**

Total stock-based compensation cost charged to selling, general and administrative expenses for the three and nine months ended September 30, 2018 was \$4.1 million and \$10.7 million, respectively. Total stock-based compensation cost charged to selling, general and administrative expenses for the three and nine months ended September 30, 2017 was \$4.0 million and \$9.2 million, respectively. The total income tax benefit recognized in the consolidated statements of operations from stock-based compensation was \$0.8 million and \$2.0 million for the three and nine months ended September 30, 2018, respectively. The total income tax benefit recognized in the consolidated statements of operations from stock-based compensation was \$1.2 million and \$2.7 million for the three and nine months ended September 30, 2017, respectively.

***Restricted Stock Awards***

The following information relates to restricted stock awards that have been granted to employees and directors under the Company's equity incentive plans (the "Plans"). The restricted stock awards are not transferable until vested and the restrictions generally lapse upon the achievement of continued employment over a three-to-five-year period or service as a director until the following annual meeting of shareholders. 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 and is amortized to expense over its vesting period.

The following table summarizes information about restricted stock awards for the nine months ended September 30, 2018:

| Restricted Stock              | Number of Shares | Weighted Average<br>Grant-Date<br>Fair Value |
|-------------------------------|------------------|--|
| Balance at January 1, 2018    | 604,933          | \$ 54.23                                     |
| Granted                       | 308,016          | \$ 54.39                                     |
| Vested                        | (172,946)        | \$ 54.61                                     |
| Forfeited                     | (41,244)         | \$ 54.04                                     |
| Balance at September 30, 2018 | 698,759          | \$ 54.22                                     |

As of September 30, 2018, there was \$28.5 million of total unrecognized compensation cost arising from restricted stock awards under the Company's Plans. This cost is expected to be recognized over a weighted average period of 2.6 years. The total fair value of restricted stock vested during the three and nine months ended September 30, 2018 was \$1.1 million and \$9.4 million, respectively. The total fair value of restricted stock vested during the three and nine months ended September 30, 2017 was \$0.5 million and \$6.2 million, respectively.

***Performance Stock Awards***

The following information relates to performance stock awards that have been granted to employees under the Company's Plans. Performance stock awards are subject to performance criteria established by the compensation committee of the Company's board of directors prior to or at the date of grant. The vesting of the performance stock awards is based on achieving such targets typically based on revenue, Adjusted EBITDA margin, Adjusted Free Cash Flow and Total Recordable Incident Rate. In addition, performance stock awards include continued service conditions. The fair value of each performance stock award is based on the

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closing price of the Company's common stock on the date of grant and is amortized to expense over the service period if achievement of performance measures is considered probable.

The following table summarizes information about performance stock awards for the nine months ended September 30, 2018:

| <b>Performance Stock</b>      | <b>Number of Shares</b> | <b>Weighted Average Grant-Date Fair Value</b> |
|-------------------------------|-------------------------|---|
| Balance at January 1, 2018    | 190,129                 | \$ 55.63                                      |
| Granted                       | 171,584                 | \$ 55.71                                      |
| Vested                        | (8,696)                 | \$ 54.26                                      |
| Forfeited                     | (27,181)                | \$ 55.43                                      |
| Balance at September 30, 2018 | 325,836                 | \$ 55.73                                      |

As of September 30, 2018, there was \$2.1 million of total unrecognized compensation cost arising from unvested performance stock awards deemed probable of vesting under the Company's Plans. No performance awards vested during the three months ended September 30, 2018. The total fair value of performance awards vested during the nine months ended September 30, 2018 was \$0.5 million. No performance awards vested during the three months ended September 30, 2017. The total fair value of performance awards vested during the nine months ended September 30, 2017 was \$1.4 million.

#### ***Common Stock Repurchases***

On October 31, 2017, the Company's board of directors increased the size of the Company's current share repurchase program from \$300 million to \$600 million. During the three and nine months ended September 30, 2018, the Company repurchased and retired a total of 0.1 million shares and 0.6 million shares, respectively, of the Company's common stock for a total cost of \$7.1 million and \$33.6 million, respectively. During the three and nine months ended September 30, 2017, the Company repurchased and retired a total of 0.2 million and 0.5 million, respectively, of the Company's common stock for a total cost of \$12.2 million and \$24.5 million, respectively. Through September 30, 2018, the Company has repurchased and retired a total of 5.4 million shares of the Company's common stock for a total cost of \$282.4 million under this program. As of September 30, 2018, an additional \$317.6 million remained available for repurchase of shares under the current authorized program.

## **(16) COMMITMENTS AND CONTINGENCIES**

### ***Legal and Administrative Proceedings***

The Company and its subsidiaries are subject to legal proceedings and claims arising in the ordinary course of business. Actions filed against the Company arise from commercial and employment-related claims including alleged class actions related to sales practices and wage and hour claims. The plaintiffs in these actions may be seeking damages or injunctive relief or both. These actions are in various jurisdictions and stages of proceedings, and some are covered in part by insurance. In addition, the Company's waste management services operations are regulated by federal, state, provincial and local laws enacted to regulate discharge of materials into the environment, remediation of contaminated soil and groundwater or otherwise protect the environment. This ongoing regulation results in the Company frequently becoming a party to legal or administrative proceedings involving all levels of governmental authorities and other interested parties. The issues involved in such proceedings generally relate to alleged violations of existing permits and licenses or alleged responsibility under federal or state Superfund laws to remediate contamination at properties owned either by the Company or by other parties ("third party sites") to which either the Company or the prior owners of certain of the Company's facilities shipped wastes.

At September 30, 2018 and December 31, 2017, the Company had recorded reserves of \$21.8 million and \$19.3 million, respectively, in the Company's financial statements for actual or probable liabilities related to the legal and administrative proceedings in which the Company was then involved, the principal of which are described below. At September 30, 2018 and December 31, 2017, the Company also believed that it was reasonably possible that the amount of these potential liabilities could be as much as \$1.7 million and \$1.8 million more, respectively. The Company periodically adjusts the aggregate amount of these reserves when actual or probable liabilities are paid or otherwise discharged, new claims arise, or additional relevant information about existing or probable claims becomes available. As of September 30, 2018 and December 31, 2017, the \$21.8 million and \$19.3 million, respectively, of reserves consisted of (i) \$17.0 million and \$17.9 million, respectively, related to pending legal or administrative proceedings, including Superfund liabilities, which were included in remedial liabilities on the consolidated balance sheets, and (ii) \$4.8 million and \$1.4 million, respectively, primarily related to federal, state and provincial enforcement actions, which were included in accrued expenses on the consolidated balance sheets.

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As of September 30, 2018, the principal legal and administrative proceedings in which the Company was involved, or which had been terminated during 2018, were as follows:

*Ville Mercier.* In September 2002, the Company acquired the stock of a subsidiary (the "Mercier Subsidiary") which owns a hazardous waste incinerator in Ville Mercier, Quebec (the "Mercier Facility"). The property adjacent to the Mercier Facility, which is also owned by the Mercier Subsidiary, is now contaminated as a result of actions dating back to 1968, when the Government of Quebec issued to a company unrelated to the Mercier Subsidiary two permits to dump organic liquids into lagoons on the property. In 1999, Ville Mercier and three neighboring municipalities filed separate legal proceedings against the Mercier Subsidiary and the Government of Quebec. In 2012, the municipalities amended their existing statement of claim to seek \$2.9 million (CAD) in general damages and \$10.0 million (CAD) in punitive damages, plus interest and costs, as well as injunctive relief. Both the Government of Quebec and the Company have filed summary judgment motions against the municipalities. The parties are currently attempting to negotiate a resolution and hearings on the motions have been delayed. In September 2007, the Quebec Minister of Sustainable Development, Environment and Parks issued a Notice pursuant to Section 115.1 of the Environment Quality Act, superseding Notices issued in 1992, which are the subject of the pending litigation. The more recent Notice notifies the Mercier Subsidiary that, if the Mercier Subsidiary does not take certain remedial measures at the site, the Minister intends to undertake those measures at the site and claim direct and indirect costs related to such measures. The Company has accrued for costs expected to be incurred relative to the resolution of this matter and believes this matter will not have future material effect on its financial position or results of operations.

*Safety-Kleen Legal Proceedings.* On December 28, 2012, the Company acquired Safety-Kleen, Inc. ("Safety-Kleen") and thereby became subject to the legal proceedings in which Safety-Kleen was a party on that date. In addition to certain Superfund proceedings in which Safety-Kleen has been named as a potentially responsible party as described below under "Superfund Proceedings," the principal such legal proceedings involving Safety-Kleen which were outstanding as of September 30, 2018 were as follows:

*Product Liability Cases.* Safety-Kleen has been named as a defendant in various lawsuits that are currently pending in various courts and jurisdictions throughout the United States, including approximately 63 proceedings (excluding cases which have been settled but not formally dismissed) as of September 30, 2018, wherein persons claim personal injury resulting from the use of Safety-Kleen's parts cleaning equipment or cleaning products. These proceedings typically involve allegations that the solvent used in Safety-Kleen's parts cleaning equipment contains contaminants and/or that Safety-Kleen's recycling process does not effectively remove the contaminants that become entrained in the solvent during their use. In addition, certain claimants assert that Safety-Kleen failed to warn adequately the product user of potential risks, including a historic failure to warn that solvent contains trace amounts of toxic or hazardous substances such as benzene.

Safety-Kleen maintains insurance that it believes will provide coverage for these product liability claims (over amounts accrued for self-insured retentions and deductibles in certain limited cases), except for punitive damages to the extent not insurable under state law or excluded from insurance coverage. Safety-Kleen also believes that these claims lack merit and has historically vigorously defended, and intends to continue to vigorously defend, itself and the safety of its products against all of these claims. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, Safety-Kleen is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of September 30, 2018. From January 1, 2018 to September 30, 2018, six product liability claims were settled or dismissed. Due to the nature of these claims and the related insurance, the Company did not incur any expense as Safety-Kleen's insurance provided coverage in full for all such claims. Safety-Kleen may be named in similar, additional lawsuits in the future, including claims for which insurance coverage may not be available.

### ***Superfund Proceedings***

The Company has been notified that either the Company (which, since December 28, 2012, includes Safety-Kleen) or the prior owners of certain of the Company's facilities for which the Company may have indemnification obligations have been identified as potentially responsible parties ("PRPs") or potential PRPs in connection with 128 sites which are subject to or are proposed to become subject to proceedings under federal or state Superfund laws. Of the 128 sites, five (including the BR Facility described below) involve facilities that are now owned or leased by the Company and 123 involve third party sites to which either the Company or the prior owners of certain of the Company's facilities shipped wastes. Of the 123 third party sites, 30 are now settled, 16 are currently requiring expenditures on remediation and 77 are not currently requiring expenditures on remediation.

In connection with each site, the Company has estimated the extent, if any, to which it may be subject, either directly or as a result of any indemnification obligations, for cleanup and remediation costs, related legal and consulting costs associated with PRP investigations, settlements, and related legal and administrative proceedings. The amount of such actual and potential liability is inherently difficult to estimate because of, among other relevant factors, uncertainties as to the legal liability (if any) of the Company

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or the prior owners of certain of the Company's facilities to contribute a portion of the cleanup costs, the assumptions that must be made in calculating the estimated cost and timing of remediation, the identification of other PRPs and their respective capability and obligation to contribute to remediation efforts, and the existence and legal standing of indemnification agreements (if any) with prior owners, which may either benefit the Company or subject the Company to potential indemnification obligations. The Company believes its potential liability could exceed \$100,000 at 10 of the 123 third party sites.

*BR Facility.* The Company acquired in 2002 a former hazardous waste incinerator and landfill in Baton Rouge (the "BR Facility"), for which operations had been previously discontinued by the prior owner. In September 2007, the Environmental Protection Agency (the "EPA") issued a special notice letter to the Company related to the Devil's Swamp Lake Site ("Devil's Swamp") in East Baton Rouge Parish, Louisiana. Devil's Swamp includes a lake located downstream of an outfall ditch where wastewater and storm water have been discharged, and Devil's Swamp is proposed to be included on the National Priorities List due to the presence of Contaminants of Concern ("COC") cited by the EPA. These COCs include substances of the kind found in wastewater and storm water discharged from the BR Facility in past operations. The EPA originally requested COC generators to submit a good faith offer to conduct a remedial investigation feasibility study directed towards the eventual remediation of the site. The Company has completed performing corrective actions at the BR Facility under an order issued by the Louisiana Department of Environmental Quality, and has also completed conducting the remedial investigation and feasibility study for Devil's Swamp under an order issued by the EPA. The Company cannot presently estimate the potential additional liability for the Devil's Swamp cleanup until a final remedy is selected by the EPA with issuance of a Record of Decision.

*Third Party Sites.* Of the 123 third party sites at which the Company has been notified it is a PRP or potential PRP or may have indemnification obligations, Clean Harbors has an indemnification agreement at 11 of these sites with ChemWaste, a former subsidiary of Waste Management, Inc., and at six additional of these third party sites, Safety-Kleen has a similar indemnification agreement with McKesson Corporation. These agreements indemnify the Company (which now includes Safety-Kleen) with respect to any liability at the 17 sites for waste disposed prior to the Company's (or Safety-Kleen's) acquisition of the former subsidiaries of Waste Management and McKesson which had shipped wastes to those sites. Accordingly, Waste Management or McKesson are paying all costs of defending those subsidiaries in those 17 cases, including legal fees and settlement costs. However, there can be no guarantee that the Company's ultimate liabilities for those sites will not exceed the amount recorded or that indemnities applicable to any of these sites will be available to pay all or a portion of related costs. Except for the indemnification agreements which the Company holds from ChemWaste, McKesson and one other entity, the Company does not have an indemnity agreement with respect to any of the 123 third party sites discussed above.

### ***Federal, State and Provincial Enforcement Actions***

From time to time, the Company pays fines or penalties in regulatory proceedings relating primarily to waste treatment, storage or disposal facilities. As of September 30, 2018 and December 31, 2017, there were six and five, respectively, proceedings for which the Company reasonably believes that the sanctions could equal or exceed \$100,000. The Company believes that the fines or other penalties in these or any of the other regulatory proceedings will, individually or in the aggregate, not have a material effect on its financial condition, results of operations or cash flows.

### **(17) INCOME TAXES**

The Company records a tax provision or benefit on an interim basis using an estimated annual effective tax rate. This rate is applied to the current period ordinary income or loss to determine the income tax provision or benefit allocated to the interim period. Losses from jurisdictions for which no benefit can be recognized and the income tax effects of unusual or infrequent items are excluded from the estimated annual effective tax rate and are recognized in the impacted interim period. The estimated annual effective tax rate may be significantly impacted by projected earnings mix by tax jurisdiction. Adjustments to the estimated annual effective income tax rate are recognized in the period when such estimates are revised.

The Company's effective tax rate for the three and nine months ended September 30, 2018 was 26.6% and 36.3% compared to 51.0% and 69.9% for the same periods in 2017. The decrease in the effective tax rate for the three months ended September 30, 2018 was primarily attributable to a lower federal tax rate, a decrease in unrecognized tax benefits and the recording of tax benefits for prior period returns recorded as a discrete item in the quarter. The variations in the effective income tax rates for the nine months ended September 30, 2018 and the three and nine months ended September 30, 2017, as compared to more customary relationships between pre-tax income and the provision for income taxes, were primarily due to not recognizing income tax benefits from current operating losses related to certain Canadian entities during these periods.

On December 22, 2017, the "Tax Cuts and Jobs Act" (the "Tax Act") was signed into law, making significant changes to the federal tax law. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial tax

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system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. The Company recognized its best estimate of the income tax effects of the 2017 Tax Act in the financial statements included in its 2017 Annual Report on Form 10-K in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC Topic 740, Income Taxes, in the reporting period in which the 2017 Tax Act was signed into law. During the three and nine months ended September 30, 2018, the Company did not recognize any changes to the provisional amounts recorded in its 2017 Annual Report on Form 10-K in connection with the 2017 Tax Act. The Company is continuing to evaluate the impact of the Tax Act on its business and the consolidated financial statements and will make any adjustments to its provisional amounts in subsequent reporting periods upon obtaining, preparing or analyzing additional information affecting the income tax effects initially reported as a provisional amount. Any subsequent adjustment to these amounts will be recorded to tax expense in the fourth quarter of 2018 when the analysis will be completed, but the adjustment (if any) is not expected to be material.

As of September 30, 2018 and December 31, 2017, the Company had recorded \$4.2 million and \$5.1 million, respectively, of liabilities for unrecognized tax benefits and \$0.8 million and \$0.9 million of interest, respectively. The net decrease to the liability of \$0.9 was related to the release of unrecognized tax benefits due to expiring statute of limitations.

Due to expiring statute of limitation periods, the Company believes that total unrecognized tax benefits will decrease by \$0.6 million within the next 12 months.

## (18) SEGMENT REPORTING

Segment reporting is prepared on the same basis that the Company's chief executive officer, who is the Company's chief operating decision maker, manages the business, makes operating decisions and assesses performance. During the first quarter of fiscal year 2018, certain of the Company's businesses undertook a reorganization which included changes to the underlying business and management structures. The reorganization resulted in combining the Environmental Services businesses from an operational and management perspective and is expected to deepen customer relationships and allow for efficiencies across the Company's operations through the sharing of resources, namely labor and equipment which will reduce third party spend and promote the cross selling of such business offerings. In connection with this reorganization, the Company's chief operating decision maker also requested changes in the information that he regularly reviews for purposes of allocating resources and assessing performance. These changes required a reconsideration of the Company's operating segments in the first quarter of 2018 and resulted in a change in the Company's assessment of its operating segments. Upon reconsideration of the identification of the Company's operating segments, the Company concluded that there are now two operating segments for disclosure in accordance with ASC 280 *Segment reporting*; (i) the Environmental Services segment which consists of the Company's historical Technical Services, Industrial Services, Field Services and Oil, Gas and Lodging businesses and (ii) the Safety-Kleen segment.

Third-party revenue is revenue billed to outside customers by a particular segment. Direct revenue is revenue allocated to the segment providing the product or service. Intersegment revenues represent the sharing of third-party revenues among the segments based on products and services provided by each segment as if the products and services were sold directly to the third-party. The intersegment revenues are shown net. The negative intersegment revenues are due to more transfers out of customer revenues to other segments than transfers in of customer revenues from other segments. The operations not managed through the Company's operating segments described above are recorded as "Corporate Items." Corporate Items revenues consist of two different operations for which the revenues are insignificant. Corporate Items cost of revenues represents certain central services that are not allocated to the Company's operating segments for internal reporting purposes. Corporate Items selling, general and administrative expenses include typical corporate items such as legal, accounting and other items of a general corporate nature that are not allocated to the Company's operating segments.

The following table reconciles third party revenues to direct revenues for the three and nine months ended September 30, 2018 and 2017 (in thousands):

|                        | For the Three Months Ended September 30, 2018 |                            |                      |                   | For the Three Months Ended September 30, 2017 |                            |                      |                   |
|------------------------|---|----------------------------|----------------------|-------------------|---|----------------------------|----------------------|-------------------|
|                        | Third party revenues                          | Intersegment revenues, net | Corporate Items, net | Direct revenues   | Third party revenues                          | Intersegment revenues, net | Corporate Items, net | Direct revenues   |
| Environmental Services | \$ 508,813                                    | \$ 33,022                  | \$ 1,145             | \$ 542,980        | \$ 440,163                                    | \$ 31,757                  | \$ 761               | \$ 472,681        |
| Safety-Kleen           | 333,901                                       | (33,022)                   | 6                    | 300,885           | 315,028                                       | (31,757)                   | 3                    | 283,274           |
| Corporate Items        | 467   | —                          | (1,151)              | (684)             | 655   | —                          | (764)                | (109)             |
| Total                  | <u>\$ 843,181</u>                             | <u>\$ —</u>                | <u>\$ —</u>          | <u>\$ 843,181</u> | <u>\$ 755,846</u>                             | <u>\$ —</u>                | <u>\$ —</u>          | <u>\$ 755,846</u> |

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|                        | For the Nine Months Ended September 30, 2018 |                            |                      |                 | For the Nine Months Ended September 30, 2017 |                            |                      |                 |
|------------------------|--|----------------------------|----------------------|-----------------|--|----------------------------|----------------------|-----------------|
|                        | Third party revenues                         | Intersegment revenues, net | Corporate Items, net | Direct revenues | Third party revenues                         | Intersegment revenues, net | Corporate Items, net | Direct revenues |
| Environmental Services | \$ 1,468,417                                 | \$ 99,278                  | \$ 2,546             | \$ 1,570,241    | \$ 1,285,701                                 | \$ 95,465                  | \$ 2,001             | \$ 1,383,167    |
| Safety-Kleen           | 972,534                                      | (99,278)                   | 28                   | 873,284         | 910,885                                      | (95,465)                   | 4                    | 815,424         |
| Corporate Items        | 1,148  | —                          | (2,574)              | (1,426)         | 989  | —                          | (2,005)              | (1,016)         |
| Total                  | \$ 2,442,099                                 | \$ —                       | \$ —                 | \$ 2,442,099    | \$ 2,197,575                                 | \$ —                       | \$ —                 | \$ 2,197,575    |

The primary financial measure by which the Company evaluates the performance of its segments is "Adjusted EBITDA" which consists of net income plus accretion of environmental liabilities, depreciation and amortization, interest expense, net, loss on early extinguishment of debt, provision for income taxes and excludes loss (gain) on sale of business and other expense, net. Transactions between the segments are accounted for at the Company's best estimate based on similar transactions with outside customers.

The following table presents Adjusted EBITDA information used by management by reported segment (in thousands):

|  | For the Three Months Ended |            | For the Nine Months Ended |            |
|--|----------------------------|------------|---------------------------|------------|
|  | September 30,              |            | September 30,             |            |
|  | 2018                       | 2017       | 2018                      | 2017       |
| Adjusted EBITDA:   |                            |            |                           |            |
| Environmental Services                                   | \$ 102,419                 | \$ 86,505  | \$ 273,035                | \$ 241,527 |
| Safety-Kleen   | 79,502                     | 70,305     | 214,455                   | 182,954    |
| Corporate Items  | (40,644)                   | (33,811)   | (118,387)                 | (100,656)  |
| Total  | \$ 141,277                 | \$ 122,999 | \$ 369,103                | \$ 323,825 |
| Reconciliation to Consolidated Statements of Operations: |                            |            |                           |            |
| Accretion of environmental liabilities                   | 2,450                      | 2,347      | 7,328                     | 7,053      |
| Depreciation and amortization                            | 73,082                     | 72,989     | 220,686                   | 216,932    |
| Income from operations                                   | 65,745                     | 47,663     | 141,089                   | 99,840     |
| Other expense, net                                       | 996                        | 432        | 449                       | 2,814      |
| Loss on early extinguishment of debt                     | 2,469                      | 1,846      | 2,469                     | 7,891      |
| Loss (gain) on sale of business                          | —                          | 77         | —                         | (31,645)   |
| Interest expense, net of interest income                 | 19,916                     | 20,675     | 60,955                    | 65,743     |
| Income before provision for income taxes                 | \$ 42,364                  | \$ 24,633  | \$ 77,216                 | \$ 55,037  |

The following table presents certain assets by reportable segment and in the aggregate (in thousands):

|                                    | September 30, 2018     |              |                 |              |
|------------------------------------|------------------------|--------------|-----------------|--------------|
|                                    | Environmental Services | Safety-Kleen | Corporate Items | Totals       |
| Property, plant and equipment, net | \$ 997,708             | \$ 558,550   | \$ 58,171       | \$ 1,614,429 |
| Goodwill                           | 204,760                | 309,342      | —               | 514,102      |
| Permits and other intangibles, net | 96,175                 | 355,180      | —               | 451,355      |
| Total assets                       | \$ 1,714,209           | \$ 1,445,995 | \$ 614,125      | \$ 3,774,329 |
|                                    | December 31, 2017      |              |                 |              |
|                                    | Environmental Services | Safety-Kleen | Corporate Items | Totals       |
| Property, plant and equipment, net | \$ 927,139             | \$ 582,162   | \$ 78,064       | \$ 1,587,365 |
| Goodwill                           | 172,386                | 306,137      | —               | 478,523      |
| Permits and other intangibles, net | 97,519                 | 371,609      | —               | 469,128      |
| Total assets                       | \$ 1,541,241           | \$ 1,471,291 | \$ 694,038      | \$ 3,706,570 |

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The following table presents total assets by geographical area (in thousands):

|               | September 30, 2018  | December 31, 2017   |
|---------------|---------------------|---------------------|
| United States | \$ 3,090,011        | \$ 2,985,394        |
| Canada        | 684,144             | 721,176             |
| Other foreign | 174                 | —                   |
| Total         | <u>\$ 3,774,329</u> | <u>\$ 3,706,570</u> |

**(19) GUARANTOR AND NON-GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION**

The previously outstanding 2020 Notes and the 2021 Notes (collectively, the "Senior Unsecured Notes") and the Company's obligations under its Term Loan Agreement are guaranteed by substantially all of the Company's subsidiaries organized in the United States. Each guarantor is a 100% owned subsidiary of Clean Harbors, Inc. and its guarantee is both full and unconditional and joint and several. The guarantors are, however, subject to customary release provisions under which, in particular, the guarantee of any domestic restricted subsidiary will be released if the Company sells such subsidiary to an unrelated third party in accordance with the terms of the indentures which govern the Senior Unsecured Notes and of the Term Loan Agreement. The Senior Unsecured Notes and the Company's obligations under its Term Loan Agreement are not guaranteed by the Company's subsidiaries organized outside the United States. The following supplemental condensed consolidating financial information for the parent company, the guarantor subsidiaries and the non-guarantor subsidiaries, respectively, is presented in conformity with the requirements of Rule 3-10 of SEC Regulation S-X ("Rule 3-10").

Following is the condensed consolidating balance sheet at September 30, 2018 (in thousands):

|   | Clean Harbors, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total               |
|---|---------------------|------------------------|----------------------------|---------------------------|---------------------|
| <b>Assets:</b>                                      |                     |                        |                            |                           |                     |
| Cash and cash equivalents                           | \$ 52,158           | \$ 105,518             | \$ 57,821                  | \$ —                      | \$ 215,497          |
| Short-term marketable securities                    | 368                 | —                      | 37,012                     | —                         | 37,380              |
| Intercompany receivables                            | 256,615             | 667,371                | 51,517                     | (975,503)                 | —                   |
| Accounts receivable, net                            | —                   | 511,333                | 97,312                     | —                         | 608,645             |
| Other current assets                                | —                   | 264,204                | 53,281                     | (2,186)                   | 315,299             |
| Property, plant and equipment, net                  | —                   | 1,251,472              | 362,957                    | —                         | 1,614,429           |
| Investments in subsidiaries                         | 3,185,768           | 599,352                | —                          | (3,785,120)               | —                   |
| Intercompany debt receivable                        | —                   | 15,491                 | 21,000                     | (36,491)                  | —                   |
| Goodwill  | —                   | 453,052                | 61,050                     | —                         | 514,102             |
| Permits and other intangibles, net                  | —                   | 398,117                | 53,238                     | —                         | 451,355             |
| Other long-term assets                              | 1,720               | 13,055                 | 2,844                      | 3                         | 17,622              |
| Total assets  | <u>\$ 3,496,629</u> | <u>\$ 4,278,965</u>    | <u>\$ 798,032</u>          | <u>\$ (4,799,297)</u>     | <u>\$ 3,774,329</u> |
| <b>Liabilities and Stockholders' Equity:</b>        |                     |                        |                            |                           |                     |
| Current liabilities                                 | \$ 22,515           | \$ 428,273             | \$ 127,698                 | \$ (2,186)                | \$ 576,300          |
| Intercompany payables                               | 660,634             | 306,805                | 8,064                      | (975,503)                 | —                   |
| Closure, post-closure and remedial liabilities, net | —                   | 145,795                | 17,042                     | —                         | 162,837             |
| Long-term obligations, net                          | 1,616,156           | —                      | —                          | —                         | 1,616,156           |
| Intercompany debt payable                           | —                   | 21,000                 | 15,491                     | (36,491)                  | —                   |
| Other long-term liabilities                         | —                   | 200,278                | 21,431                     | 3                         | 221,712             |
| Total liabilities                                   | <u>2,299,305</u>    | <u>1,102,151</u>       | <u>189,726</u>             | <u>(1,014,177)</u>        | <u>2,577,005</u>    |
| Stockholders' equity                                | 1,197,324           | 3,176,814              | 608,306                    | (3,785,120)               | 1,197,324           |
| Total liabilities and stockholders' equity          | <u>\$ 3,496,629</u> | <u>\$ 4,278,965</u>    | <u>\$ 798,032</u>          | <u>\$ (4,799,297)</u>     | <u>\$ 3,774,329</u> |

Following is the condensed consolidating balance sheet at December 31, 2017 (in thousands):

|   | Clean Harbors, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total               |
|---|---------------------|------------------------|----------------------------|---------------------------|---------------------|
| <b>Assets:</b>                                      |                     |                        |                            |                           |                     |
| Cash and cash equivalents                           | \$ 51,638           | \$ 207,777             | \$ 59,984                  | \$ —                      | \$ 319,399          |
| Short-term marketable securities                    | —                   | —                      | 38,179                     | —                         | 38,179              |
| Intercompany receivables                            | 238,339             | 590,100                | 52,909                     | (881,348)                 | —                   |
| Accounts receivable, net                            | —                   | 433,042                | 95,882                     | —                         | 528,924             |
| Other current assets                                | 897                 | 233,602                | 52,947                     | (19,892)                  | 267,554             |
| Property, plant and equipment, net                  | —                   | 1,174,975              | 412,390                    | —                         | 1,587,365           |
| Investments in subsidiaries                         | 3,112,547           | 569,568                | —                          | (3,682,115)               | —                   |
| Intercompany debt receivable                        | —                   | 92,530                 | 21,000                     | (113,530)                 | —                   |
| Goodwill  | —                   | 415,641                | 62,882                     | —                         | 478,523             |
| Permits and other intangibles, net                  | —                   | 408,655                | 60,473                     | —                         | 469,128             |
| Other long-term assets                              | 2,084               | 12,064                 | 3,350                      | —                         | 17,498              |
| Total assets  | <u>\$ 3,405,505</u> | <u>\$ 4,137,954</u>    | <u>\$ 859,996</u>          | <u>\$ (4,696,885)</u>     | <u>\$ 3,706,570</u> |
| <b>Liabilities and Stockholders' Equity:</b>        |                     |                        |                            |                           |                     |
| Current liabilities                                 | \$ 16,954           | \$ 371,135             | \$ 135,620                 | \$ (19,892)               | \$ 503,817          |
| Intercompany payables                               | 574,812             | 289,531                | 17,005                     | (881,348)                 | —                   |
| Closure, post-closure and remedial liabilities, net | —                   | 148,872                | 16,851                     | —                         | 165,723             |
| Long-term obligations, net                          | 1,625,537           | —                      | —                          | —                         | 1,625,537           |
| Intercompany debt payable                           | —                   | 21,000                 | 92,530                     | (113,530)                 | —                   |
| Other long-term liabilities                         | —                   | 201,086                | 22,205                     | —                         | 223,291             |
| Total liabilities                                   | <u>2,217,303</u>    | <u>1,031,624</u>       | <u>284,211</u>             | <u>(1,014,770)</u>        | <u>2,518,368</u>    |
| Stockholders' equity                                | <u>1,188,202</u>    | <u>3,106,330</u>       | <u>575,785</u>             | <u>(3,682,115)</u>        | <u>1,188,202</u>    |
| Total liabilities and stockholders' equity          | <u>\$ 3,405,505</u> | <u>\$ 4,137,954</u>    | <u>\$ 859,996</u>          | <u>\$ (4,696,885)</u>     | <u>\$ 3,706,570</u> |

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Following is the consolidating statement of operations for the three months ended September 30, 2018 (in thousands):

|   | Clean Harbors, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total      |
|---|---------------------|------------------------|----------------------------|---------------------------|------------|
| <b>Revenues</b>   |                     |                        |                            |                           |            |
| Service revenues  | \$ —                | \$ 547,997             | \$ 152,007                 | \$ (14,821)               | \$ 685,183 |
| Product revenues  | —                   | 140,757                | 20,652                     | (3,411)                   | 157,998    |
| Total revenues  | —                   | 688,754                | 172,659                    | (18,232)                  | 843,181    |
| <b>Cost of revenues (exclusive of items shown separately below)</b> |                     |                        |                            |                           |            |
| Service cost of revenues  | —                   | 359,703                | 119,730                    | (14,821)                  | 464,612    |
| Product cost of revenues  | —                   | 109,009                | 10,475                     | (3,411)                   | 116,073    |
| Total cost of revenues  | —                   | 468,712                | 130,205                    | (18,232)                  | 580,685    |
| Selling, general and administrative expenses                        | 118                 | 101,703                | 19,398                     | —                         | 121,219    |
| Accretion of environmental liabilities                              | —                   | 2,199                  | 251                        | —                         | 2,450      |
| Depreciation and amortization                                       | —                   | 53,764                 | 19,318                     | —                         | 73,082     |
| (Loss) income from operations                                       | (118)               | 62,376                 | 3,487                      | —                         | 65,745     |
| Other expense, net  | —                   | (609)                  | (387)                      | —                         | (996)      |
| Loss on early extinguishment of debt                                | (2,469)             | —                      | —                          | —                         | (2,469)    |
| Interest (expense) income, net                                      | (20,303)            | 195                    | 192                        | —                         | (19,916)   |
| Equity in earnings of subsidiaries, net of taxes                    | 47,570              | 260                    | —                          | (47,830)                  | —          |
| Intercompany interest income (expense)                              | —                   | 199                    | (199)                      | —                         | —          |
| Income before (benefit) provision for income taxes                  | 24,680              | 62,421                 | 3,093                      | (47,830)                  | 42,364     |
| (Benefit) provision for income taxes                                | (6,409)             | 15,543                 | 2,141                      | —                         | 11,275     |
| Net income  | 31,089              | 46,878                 | 952                        | (47,830)                  | 31,089     |
| Other comprehensive income  | 8,590               | 8,590                  | —                          | (8,590)                   | 8,590      |
| Comprehensive income  | \$ 39,679           | \$ 55,468              | \$ 952                     | \$ (56,420)               | \$ 39,679  |

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Following is the consolidating statement of operations for the three months ended September 30, 2017 (in thousands):

|   | Clean Harbors, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total      |
|---|---------------------|------------------------|----------------------------|---------------------------|------------|
| <b>Revenues</b>   |                     |                        |                            |                           |            |
| Service revenues  | \$ —                | \$ 473,428             | \$ 152,997                 | \$ (14,073)               | \$ 612,352 |
| Product revenues  | —                   | 127,355                | 19,435                     | (3,296)                   | 143,494    |
| Total revenues  | —                   | 600,783                | 172,432                    | (17,369)                  | 755,846    |
| <b>Cost of revenues (exclusive of items shown separately below)</b> |                     |                        |                            |                           |            |
| Service cost of revenues  | —                   | 306,291                | 120,151                    | (14,073)                  | 412,369    |
| Product cost of revenues  | —                   | 97,353                 | 13,169                     | (3,296)                   | 107,226    |
| Total cost of revenues  | —                   | 403,644                | 133,320                    | (17,369)                  | 519,595    |
| Selling, general and administrative expenses                        | 19                  | 92,299                 | 20,934                     | —                         | 113,252    |
| Accretion of environmental liabilities                              | —                   | 2,092                  | 255                        | —                         | 2,347      |
| Depreciation and amortization                                       | —                   | 50,917                 | 22,072                     | —                         | 72,989     |
| (Loss) income from operations                                       | (19)                | 51,831                 | (4,149)                    | —                         | 47,663     |
| Other expense, net  | —                   | (305)                  | (127)                      | —                         | (432)      |
| Loss on early extinguishment of debt                                | (1,846)             | —                      | —                          | —                         | (1,846)    |
| Loss on sale of business  | —                   | (77)                   | —                          | —                         | (77)       |
| Interest (expense) income, net                                      | (21,135)            | 517                    | (57)                       | —                         | (20,675)   |
| Equity in earnings of subsidiaries, net of taxes                    | 25,858              | (5,620)                | —                          | (20,238)                  | —          |
| Intercompany interest income (expense)                              | —                   | 1,372                  | (1,372)                    | —                         | —          |
| Income (loss) before (benefit) provision for income taxes           | 2,858               | 47,718                 | (5,705)                    | (20,238)                  | 24,633     |
| (Benefit) provision for income taxes                                | (9,200)             | 20,824                 | 951                        | —                         | 12,575     |
| Net income (loss)   | 12,058              | 26,894                 | (6,656)                    | (20,238)                  | 12,058     |
| Other comprehensive income  | 23,709              | 23,709                 | 20,263                     | (43,972)                  | 23,709     |
| Comprehensive income  | \$ 35,767           | \$ 50,603              | \$ 13,607                  | \$ (64,210)               | \$ 35,767  |

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Following is the consolidating statement of operations for the nine months ended September 30, 2018 (in thousands):

|   | Clean Harbors, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total        |
|---|---------------------|------------------------|----------------------------|---------------------------|--------------|
| <b>Revenues</b>   |                     |                        |                            |                           |              |
| Service revenues  | \$ —                | \$ 1,574,001           | \$ 469,843                 | \$ (42,163)               | \$ 2,001,681 |
| Product revenues  | —                   | 400,230                | 49,465                     | (9,277)                   | 440,418      |
| Total revenues  | —                   | 1,974,231              | 519,308                    | (51,440)                  | 2,442,099    |
| <b>Cost of revenues (exclusive of items shown separately below)</b> |                     |                        |                            |                           |              |
| Service cost of revenues  | —                   | 1,049,527              | 378,320                    | (42,163)                  | 1,385,684    |
| Product cost of revenues  | —                   | 306,489                | 27,798                     | (9,277)                   | 325,010      |
| Total cost of revenues  | —                   | 1,356,016              | 406,118                    | (51,440)                  | 1,710,694    |
| Selling, general and administrative expenses                        | 286                 | 300,568                | 61,448                     | —                         | 362,302      |
| Accretion of environmental liabilities                              | —                   | 6,569                  | 759                        | —                         | 7,328        |
| Depreciation and amortization                                       | —                   | 160,332                | 60,354                     | —                         | 220,686      |
| (Loss) income from operations                                       | (286)               | 150,746                | (9,371)                    | —                         | 141,089      |
| Other expense, net  | —                   | (425)                  | (24)                       | —                         | (449)        |
| Loss on early extinguishment of debt                                | (2,469)             | —                      | —                          | —                         | (2,469)      |
| Interest (expense) income, net                                      | (62,518)            | 938                    | 625                        | —                         | (60,955)     |
| Equity in earnings of subsidiaries, net of taxes                    | 96,202              | (17,572)               | —                          | (78,630)                  | —            |
| Intercompany interest income (expense)                              | —                   | 2,644                  | (2,644)                    | —                         | —            |
| Income (loss) before (benefit) provision for income taxes           | 30,929              | 136,331                | (11,414)                   | (78,630)                  | 77,216       |
| (Benefit) provision for income taxes                                | (18,276)            | 42,872                 | 3,415                      | —                         | 28,011       |
| Net income (loss)   | 49,205              | 93,459                 | (14,829)                   | (78,630)                  | 49,205       |
| Other comprehensive loss  | (13,098)            | (13,098)               | (24,442)                   | 37,540                    | (13,098)     |
| Comprehensive income (loss)   | \$ 36,107           | \$ 80,361              | \$ (39,271)                | \$ (41,090)               | \$ 36,107    |

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Following is the consolidating statement of operations for the nine months ended September 30, 2017 (in thousands):

|   | Clean Harbors, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total        |
|---|---------------------|------------------------|----------------------------|---------------------------|--------------|
| <b>Revenues</b>   |                     |                        |                            |                           |              |
| Service revenues  | \$ —                | \$ 1,391,534           | \$ 431,992                 | \$ (40,020)               | \$ 1,783,506 |
| Product revenues  | —                   | 369,864                | 53,496                     | (9,291)                   | 414,069      |
| Total revenues  | —                   | 1,761,398              | 485,488                    | (49,311)                  | 2,197,575    |
| <b>Cost of revenues (exclusive of items shown separately below)</b> |                     |                        |                            |                           |              |
| Service cost of revenues  | —                   | 907,396                | 348,436                    | (40,020)                  | 1,215,812    |
| Product cost of revenues  | —                   | 292,503                | 36,959                     | (9,291)                   | 320,171      |
| Total cost of revenues  | —                   | 1,199,899              | 385,395                    | (49,311)                  | 1,535,983    |
| Selling, general and administrative expenses                        | 70                  | 276,974                | 60,723                     | —                         | 337,767      |
| Accretion of environmental liabilities                              | —                   | 6,328                  | 725                        | —                         | 7,053        |
| Depreciation and amortization                                       | —                   | 154,754                | 62,178                     | —                         | 216,932      |
| (Loss) income from operations                                       | (70)                | 123,443                | (23,533)                   | —                         | 99,840       |
| Other expense, net  | (222)               | (2,100)                | (492)                      | —                         | (2,814)      |
| Loss on early extinguishment of debt                                | (7,891)             | —                      | —                          | —                         | (7,891)      |
| Gain on sale of business  | —                   | 31,645                 | —                          | —                         | 31,645       |
| Interest (expense) income, net                                      | (66,408)            | 876                    | (211)                      | —                         | (65,743)     |
| Equity in earnings of subsidiaries, net of taxes                    | 61,388              | (32,776)               | —                          | (28,612)                  | —            |
| Intercompany interest income (expense)                              | —                   | 3,937                  | (3,937)                    | —                         | —            |
| (Loss) income before (benefit) provision for income taxes           | (13,203)            | 125,025                | (28,173)                   | (28,612)                  | 55,037       |
| (Benefit) provision for income taxes                                | (29,748)            | 62,442                 | 5,798                      | —                         | 38,492       |
| Net income (loss)   | 16,545              | 62,583                 | (33,971)                   | (28,612)                  | 16,545       |
| Other comprehensive income  | 44,858              | 44,858                 | 38,132                     | (82,990)                  | 44,858       |
| Comprehensive income  | \$ 61,403           | \$ 107,441             | \$ 4,161                   | \$ (111,602)              | \$ 61,403    |



Following is the condensed consolidating statement of cash flows for the nine months ended September 30, 2018 (in thousands):

|  | Clean<br>Harbors, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Total      |
|--|------------------------|---------------------------|-------------------------------|------------------------------|------------|
| Net cash from operating activities   | \$ 8,877               | \$ 216,369                | \$ 21,969                     | \$ —                         | \$ 247,215 |
| Cash flows used in investing activities:                                   |                        |                           |                               |                              |            |
| Additions to property, plant and equipment                                 | —                      | (125,098)                 | (25,624)                      | —                            | (150,722)  |
| Proceeds from sale and disposal of fixed assets                            | —                      | 3,788                     | 2,323                         | —                            | 6,111      |
| Acquisitions, net of cash acquired   | —                      | (151,023)                 | —                             | —                            | (151,023)  |
| Additions to intangible assets, including costs to obtain or renew permits | —                      | (3,262)                   | (238)                         | —                            | (3,500)    |
| Proceeds from sale of available-for-sale securities                        | —                      | —                         | 20,123                        | —                            | 20,123     |
| Purchases of available-for-sale securities                                 | (1,450)                | —                         | (19,021)                      | —                            | (20,471)   |
| Intercompany   | —                      | (40,031)                  | —                             | 40,031                       | —          |
| Net cash used in investing activities                                      | (1,450)                | (315,626)                 | (22,437)                      | 40,031                       | (299,482)  |
| Cash flows used in financing activities:                                   |                        |                           |                               |                              |            |
| Change in uncashed checks  | —                      | (3,002)                   | (474)                         | —                            | (3,476)    |
| Tax payments related to withholdings on vested restricted stock            | (2,566)                | —                         | —                             | —                            | (2,566)    |
| Repurchases of common stock  | (33,581)               | —                         | —                             | —                            | (33,581)   |
| Deferred financing costs paid  | (3,938)                | —                         | —                             | —                            | (3,938)    |
| Premiums paid on early extinguishment of debt                              | (1,219)                | —                         | —                             | —                            | (1,219)    |
| Principal payment on debt  | (403,884)              | —                         | —                             | —                            | (403,884)  |
| Issuance of senior secured notes, net of discount                          | 348,250                | —                         | —                             | —                            | 348,250    |
| Borrowing from revolving credit facility                                   | 50,000                 | —                         | —                             | —                            | 50,000     |
| Intercompany   | 40,031                 | —                         | —                             | (40,031)                     | —          |
| Net cash used in financing activities                                      | (6,907)                | (3,002)                   | (474)                         | (40,031)                     | (50,414)   |
| Effect of exchange rate change on cash                                     | —                      | —                         | (1,221)                       | —                            | (1,221)    |
| Increase (decrease) in cash and cash equivalents                           | 520                    | (102,259)                 | (2,163)                       | —                            | (103,902)  |
| Cash and cash equivalents, beginning of period                             | 51,638                 | 207,777                   | 59,984                        | —                            | 319,399    |
| Cash and cash equivalents, end of period                                   | \$ 52,158              | \$ 105,518                | \$ 57,821                     | \$ —                         | \$ 215,497 |

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Following is the condensed consolidating statement of cash flows for the nine months ended September 30, 2017 (in thousands):

|  | Clean<br>Harbors, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Total      |
|--|------------------------|---------------------------|-------------------------------|------------------------------|------------|
| Net cash from operating activities   | \$ 16,196              | \$ 169,715                | \$ 35,558                     | \$ —                         | \$ 221,469 |
| Cash flows from (used in) investing activities:                            |                        |                           |                               |                              |            |
| Additions to property, plant and equipment                                 | —                      | (105,564)                 | (22,172)                      | —                            | (127,736)  |
| Proceeds from sale and disposal of fixed assets                            | —                      | 1,625                     | 3,750                         | —                            | 5,375      |
| Acquisitions, net of cash acquired   | —                      | (11,427)                  | (33,005)                      | —                            | (44,432)   |
| Proceeds from sale of business, net of transactional costs                 | —                      | 46,158                    | 181                           | —                            | 46,339     |
| Additions to intangible assets, including costs to obtain or renew permits | —                      | (1,018)                   | (330)                         | —                            | (1,348)    |
| Proceeds from sale of available-for-sale securities                        | 376                    | —                         | —                             | —                            | 376        |
| Intercompany   | —                      | (27,740)                  | —                             | 27,740                       | —          |
| Intercompany debt  | —                      | —                         | 3,701                         | (3,701)                      | —          |
| Net cash from (used in) investing activities                               | 376                    | (97,966)                  | (47,875)                      | 24,039                       | (121,426)  |
| Cash flows used in financing activities:                                   |                        |                           |                               |                              |            |
| Change in uncashed checks  | —                      | (6,140)                   | (2,517)                       | —                            | (8,657)    |
| Proceeds from exercise of stock options                                    | 46                     | —                         | —                             | —                            | 46         |
| Tax payments related to withholdings on vested restricted stock            | (2,321)                | —                         | —                             | —                            | (2,321)    |
| Repurchases of common stock  | (24,465)               | —                         | —                             | —                            | (24,465)   |
| Deferred financing costs paid  | (5,746)                | —                         | —                             | —                            | (5,746)    |
| Premiums paid on early extinguishment of debt                              | (6,028)                | —                         | —                             | —                            | (6,028)    |
| Principal payment on debt  | (401,000)              | —                         | —                             | —                            | (401,000)  |
| Issuance of senior secured notes, net of discount                          | 399,000                | —                         | —                             | —                            | 399,000    |
| Intercompany   | 27,740                 | —                         | —                             | (27,740)                     | —          |
| Intercompany debt  | (3,701)                | —                         | —                             | 3,701                        | —          |
| Net cash used in financing activities                                      | (16,475)               | (6,140)                   | (2,517)                       | (24,039)                     | (49,171)   |
| Effect of exchange rate change on cash                                     | —                      | —                         | 3,789                         | —                            | 3,789      |
| Increase (decrease) in cash and cash equivalents                           | 97                     | 65,609                    | (11,045)                      | —                            | 54,661     |
| Cash and cash equivalents, beginning of period                             | 51,417                 | 155,943                   | 99,637                        | —                            | 306,997    |
| Cash and cash equivalents, end of period                                   | \$ 51,514              | \$ 221,552                | \$ 88,592                     | \$ —                         | \$ 361,658 |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### *Forward-Looking Statements*

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements, which are generally identifiable by use of the words "believes," "expects," "intends," "anticipates," "plans to," "estimates," "projects," or similar expressions. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed under Item 1A, "Risk Factors," in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2018, under Item 1A, "Risk Factors," included in Part II—Other Information in this report, and in other documents we file from time to time with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements.

### *Overview*

We are North America's leading provider of environmental, energy and industrial services. We believe we operate, in the aggregate, the largest number of hazardous waste incinerators, landfills and treatment, storage and disposal facilities ("TSDFs") in North America. We serve a diverse customer base, including Fortune 500 companies, across the chemical, energy, manufacturing and additional markets, as well as numerous government agencies. These customers rely on us to deliver a broad range of services including but not limited to end-to-end hazardous waste management, emergency response, industrial cleaning and maintenance, and recycling services. We are also the largest re-refiner and recycler of used oil in the world and the largest provider of parts cleaning and related environmental services to commercial, industrial and automotive customers in North America.

During the first quarter of fiscal year 2018, certain of our businesses undertook a reorganization which included changes to the underlying business and management structures. The reorganization resulted in combining the Environmental Services businesses from an operational and management perspective and is expected to deepen customer relationships and allow for efficiencies across our operations through the sharing of resources, namely labor and equipment which will reduce third party spend and promote the cross selling of such business offerings. In connection with this reorganization, our chief operating decision maker also requested changes in the information that he regularly reviews for purposes of allocating resources and assessing performance. These changes required a reconsideration of our operating segments in the first quarter of 2018 and resulted in a change in our assessment of our operating segments. We concluded that there are now two operating segments for disclosure in accordance with ASC 280 *Segment reporting*: (i) the Environmental Services segment which consists of our historical Technical Services, Industrial Services, Field Services and Oil, Gas and Lodging businesses, and (ii) the Safety-Kleen segment.

Performance of our segments is evaluated on several factors of which the primary financial measure is Adjusted EBITDA as described more fully below. The following is a discussion of how management evaluates its segments in regards to other factors including key performance indicators that management uses to assess the segments' results, as well as certain macroeconomic trends and influences that impact each reportable segment:

- **Environmental Services** - Environmental Services segment results are predicated upon the demand by our customers for waste services directly attributable to waste volumes generated by them and project work for which waste handling and/or disposal is required. In managing the business and evaluating performance, management tracks the volumes of waste handled and disposed of through our owned incinerators and landfills as well as the utilization of such incinerators. Levels of activity and ultimate performance associated with this segment can be impacted by several factors including overall U.S. GDP and U.S. industrial production, weather conditions, efficiency of our operations, competition and market pricing of our services and the management of our related operating costs. Environmental Services results are also impacted by the demand for planned and unplanned industrial related cleaning and maintenance services at customer sites and the requirement for environmental cleanup services on a scheduled or emergency basis, including response to national events such as major oil spills, natural disasters or other events where immediate and specialized services are required.
- **Safety-Kleen** - Safety-Kleen segment results are significantly impacted by the overall market pricing and product mix associated with base and blended oil products and, more specifically, the market prices of Group II base oils, which historically have correlated with overall crude oil prices. Costs incurred in connection with the collection of used oils and other raw materials associated with the segment's oil related products, can also be volatile. The implementation of our OilPlus® closed loop initiative resulting in the sale of our renewable oil products directly to our end customers will

also impact future operating results. In addition, this segment's results are impacted by an array of core service offerings that serve to attract small quantity waste producers as customers and integrate them into the Clean Harbors waste network.

### **Highlights**

Total revenues for the three and nine months ended September 30, 2018 were \$843.2 million and \$2,442.1 million, respectively, compared with \$755.8 million and \$2,197.6 million, respectively, for the three and nine months ended September 30, 2017. In the three and nine months ended September 30, 2018, our Environmental Services segment increased direct revenues 14.9% and 13.5%, respectively, from the comparable periods in 2017 primarily due to incremental revenues resulting from the acquisition of the Veolia Business in the first quarter of 2018 and acquisitions made in 2017, as well as improved pricing and mix conditions of waste streams handled by the business. In the three and nine months ended September 30, 2018, our Safety-Kleen segment increased direct revenues 6.2% and 7.1%, respectively, from the comparable periods in 2017, as a result of improved pricing conditions related to our renewable oil products and continued growth across Safety-Kleen's core service offerings and our direct lubricant sales. The fluctuation of the Canadian dollar impacted our consolidated revenues negatively by \$6.3 million and positively by \$6.2 million, respectively, in the three and nine months ended September 30, 2018.

We reported income from operations for the three and nine months ended September 30, 2018 of \$65.7 million and \$141.1 million, respectively, compared with \$47.7 million and \$99.8 million in the three and nine months ended September 30, 2017. We reported net income for the three and nine months ended September 30, 2018 of \$31.1 million and \$49.2 million, respectively, compared with net income of \$12.1 million and \$16.5 million in the three and nine months ended September 30, 2017. The three and nine months ended September 30, 2018 included a \$2.5 million pre-tax loss on early extinguishment of debt. The three and nine months ended September 30, 2017 included a \$1.8 million and \$7.9 million, respectively, pre-tax loss on early extinguishment of debt. The nine months ended September 30, 2017 included \$31.6 million pre-tax gain on the sale of a non-core line of business.

Adjusted EBITDA, which is the primary financial measure by which our segments are evaluated, increased 14.9% to \$141.3 million in the three months ended September 30, 2018 from \$123.0 million in the three months ended September 30, 2017, and increased 14.0% to \$369.1 million in the nine months ended September 30, 2018 from \$323.8 million in the nine months ended September 30, 2017. Additional information, including a reconciliation of Adjusted EBITDA to net income, appears below under the heading "*Adjusted EBITDA.*"

Net cash from operating activities for the nine months ended September 30, 2018 was \$247.2 million, an increase of \$25.7 million from the comparable period in 2017. Adjusted free cash flow, which management uses to measure our financial strength and ability to generate cash, was \$102.6 million in the nine months ended September 30, 2018, which represents a \$3.5 million increase over the comparable period of 2017. The increase in cash flows as compared to the comparable period of 2017 was most directly attributable to greater levels of operating income and lower interest payments offset by higher working capital levels and capital spending. Additional information, including a reconciliation of adjusted free cash flow to net cash from operating activities, appears below under the heading "*Adjusted Free Cash Flow.*"

**Segment Performance**

The primary financial measure by which we evaluate the performance of our segments is Adjusted EBITDA. The following table sets forth certain financial information associated with our results of operations for the three and nine months ended September 30, 2018 and 2017 (in thousands).

|  | Summary of Operations (in thousands) |                       |              |             |                           |                       |              |             |
|--|--------------------------------------|-----------------------|--------------|-------------|---------------------------|-----------------------|--------------|-------------|
|  | For the Three Months Ended           |                       |              |             | For the Nine Months Ended |                       |              |             |
|  | September 30,<br>2018                | September 30,<br>2017 | \$<br>Change | %<br>Change | September 30,<br>2018     | September 30,<br>2017 | \$<br>Change | %<br>Change |
| <b>Direct Revenues<sup>(1)</sup>:</b>                  |                                      |                       |              |             |                           |                       |              |             |
| Environmental Services                                 | \$ 542,980                           | \$ 472,681            | \$ 70,299    | 14.9%       | \$ 1,570,241              | \$ 1,383,167          | \$ 187,074   | 13.5%       |
| Safety-Kleen   | 300,885                              | 283,274               | 17,611       | 6.2         | 873,284                   | 815,424               | 57,860       | 7.1         |
| Corporate Items  | (684)                                | (109)                 | (575)        | N/M         | (1,426)                   | (1,016)               | (410)        | N/M         |
| Total  | 843,181                              | 755,846               | 87,335       | 11.6        | 2,442,099                 | 2,197,575             | 244,524      | 11.1        |
| <b>Cost of Revenues<sup>(2)</sup>:</b>                 |                                      |                       |              |             |                           |                       |              |             |
| Environmental Services                                 | 395,949                              | 345,951               | 49,998       | 14.5        | 1,168,349                 | 1,020,854             | 147,495      | 14.4        |
| Safety-Kleen   | 183,112                              | 175,220               | 7,892        | 4.5         | 542,343                   | 519,652               | 22,691       | 4.4         |
| Corporate Items  | 1,624                                | (1,576)               | 3,200        | N/M         | 2                         | (4,523)               | 4,525        | N/M         |
| Total  | 580,685                              | 519,595               | 61,090       | 11.8        | 1,710,694                 | 1,535,983             | 174,711      | 11.4        |
| <b>Selling, General &amp; Administrative Expenses:</b> |                                      |                       |              |             |                           |                       |              |             |
| Environmental Services                                 | 44,612                               | 40,225                | 4,387        | 10.9        | 128,857                   | 120,786               | 8,071        | 6.7         |
| Safety-Kleen   | 38,271                               | 37,749                | 522          | 1.4         | 116,486                   | 112,818               | 3,668        | 3.3         |
| Corporate Items  | 38,336                               | 35,278                | 3,058        | 8.7         | 116,959                   | 104,163               | 12,796       | 12.3        |
| Total  | 121,219                              | 113,252               | 7,967        | 7.0         | 362,302                   | 337,767               | 24,535       | 7.3         |
| <b>Adjusted EBITDA:</b>                                |                                      |                       |              |             |                           |                       |              |             |
| Environmental Services                                 | 102,419                              | 86,505                | 15,914       | 18.4        | 273,035                   | 241,527               | 31,508       | 13.0        |
| Safety-Kleen   | 79,502                               | 70,305                | 9,197        | 13.1        | 214,455                   | 182,954               | 31,501       | 17.2        |
| Corporate Items  | (40,644)                             | (33,811)              | (6,833)      | (20.2)      | (118,387)                 | (100,656)             | (17,731)     | (17.6)      |
| Total  | \$ 141,277                           | \$ 122,999            | \$ 18,278    | 14.9%       | \$ 369,103                | \$ 323,825            | \$ 45,278    | 14.0%       |

N/M = not meaningful

1. Direct revenue is revenue allocated to the segment performing the provided service.
2. Cost of revenue is shown exclusive of items presented separately on the statements of operations which consist of (i) accretion of environmental liabilities and (ii) depreciation and amortization.

**Direct Revenues**

There are many factors which have impacted and continue to impact our revenues. These factors include, but are not limited to: overall industrial activity and growth in North America, existence of large scale environmental waste and remediation projects, general conditions of the energy related industries, competitive industry pricing, the effects of fuel prices on our fuel recovery fees, acquisitions and divestitures, the level of emergency response projects and foreign currency translation. In addition, customer efforts to minimize hazardous waste and changes in regulation can also impact our revenues.

*Environmental Services*

|                 | For the Three Months Ended |            |                |          | For the Nine Months Ended |              |                |          |
|-----------------|----------------------------|------------|----------------|----------|---------------------------|--------------|----------------|----------|
|                 | September 30,              |            | 2018 over 2017 |          | September 30,             |              | 2018 over 2017 |          |
|                 | 2018                       | 2017       | \$ Change      | % Change | 2018                      | 2017         | \$ Change      | % Change |
| Direct revenues | \$ 542,980                 | \$ 472,681 | \$ 70,299      | 14.9%    | \$ 1,570,241              | \$ 1,383,167 | \$ 187,074     | 13.5%    |

Environmental Services direct revenues for the three months ended September 30, 2018 increased \$70.3 million from the comparable period in 2017. Included in the three months ended September 30, 2018 was \$44.9 million of direct revenues from the Veolia Business, which we acquired on February 23, 2018. Excluding these direct revenues, Environmental Services direct revenue increased \$25.4 million primarily due to increases driven by improved pricing conditions and increased activity across multiple business lines. The utilization rate at our incinerators on a practical capacity of 561,721 tons was 83.5% for the three months ended September 30, 2018, compared with 91.9% in the comparable period of 2017. The decrease in utilization rate in the three months ended September 30, 2018 from the comparable period in 2017 was primarily due to a higher number of down days at our facilities during the current quarter as compared to the same quarter of 2017. Inclusive in the change within this segment was also the negative impact of foreign currency translation on our Canadian operations of \$4.5 million for the three months ended September 30, 2018 from the comparable period in 2017.

Environmental Services direct revenues for the nine months ended September 30, 2018 increased \$187.1 million from the comparable period in 2017. Included in the nine months ended September 30, 2017 was \$20.6 million of direct revenues from our Transformer Services business, which we sold on June 30, 2017. Included in the nine months ended September 30, 2018 was \$108.8 million of direct revenues from the Veolia Business, which we acquired on February 23, 2018, and \$18.6 million from our 2017 acquisitions. Excluding the impacts from recent acquisition and divestiture activity, Environmental Services direct revenue increased \$80.3 million primarily due to higher levels of service related revenues and disposal revenues from improved pricing conditions and mix associated with waste streams as well as increased waste volumes disposed of in our incinerators and landfills. The utilization rate at our incinerators on a practical capacity of 561,721 tons was 86.9% for the nine months ended September 30, 2018, compared with 86.0% in the comparable period of 2017. Greater levels of activity at our sales and service branches also accounted for increases to direct revenue of \$46.5 million from the comparable period in 2017. Inclusive in the change within this segment was also the positive impact of foreign currency translation on our Canadian operations of \$4.5 million for the nine months ended September 30, 2018 from the comparable period in 2017.

*Safety-Kleen*

|                 | For the Three Months Ended |            |                |          | For the Nine Months Ended |            |                |          |
|-----------------|----------------------------|------------|----------------|----------|---------------------------|------------|----------------|----------|
|                 | September 30,              |            | 2018 over 2017 |          | September 30,             |            | 2018 over 2017 |          |
|                 | 2018                       | 2017       | \$ Change      | % Change | 2018                      | 2017       | \$ Change      | % Change |
| Direct revenues | \$ 300,885                 | \$ 283,274 | \$ 17,611      | 6.2%     | \$ 873,284                | \$ 815,424 | \$ 57,860      | 7.1%     |

Safety-Kleen direct revenues for the three months ended September 30, 2018 increased \$17.6 million from the comparable period in 2017 primarily due to more favorable pricing on oil products and growth in the business' core service offerings. Increased base oil pricing and sales of blended oil accounted for \$12.9 million of incremental direct revenue from the comparable period in 2017. Revenues generated through sales of recycled fuel oil and allied products as well as core service offerings such as handling of containerized waste and vac services accounted for \$7.9 million of incremental revenues. These increases were partially offset by \$4.8 million of lower revenue related to the collection of used motor oil as the prices charged for such services have declined commensurate with the correlated increase in crude oil prices. Inclusive in the change within this segment was also the negative impact of foreign currency translation on our Canadian operations of \$1.7 million for the three months ended September 30, 2018 from the comparable period in 2017.

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Safety-Kleen direct revenues for the nine months ended September 30, 2018 increased \$57.9 million from the comparable period in 2017 primarily due to more favorable pricing on oil products and growth in the business' core service offerings. Increased base oil pricing and sales of blended oil accounted for \$53.4 million of incremental direct revenue from the comparable period in 2017. Revenues generated through sales of recycled fuel oil and allied products as well as core service offerings such as handling of containerized waste and vac services accounted for \$18.1 million of incremental revenues which offset a decrease in used oil collection revenues of \$15.6 million. Inclusive in the change within this segment was also the positive impact of foreign currency translation on our Canadian operations of \$1.5 million for the nine months ended September 30, 2018 from the comparable period in 2017.

**Cost of Revenues**

We believe that our ability to manage operating costs is important to our ability to remain price competitive. We continue to upgrade the quality and efficiency of our services through the development of new technology and continued modifications at our facilities, invest in new business opportunities and aggressively implement strategic sourcing and logistics solutions as well as other cost reduction initiatives in an effort to optimize our operating margins.

*Environmental Services*

|                          | For the Three Months Ended |            |                |          | For the Nine Months Ended |              |                |          |
|--------------------------|----------------------------|------------|----------------|----------|---------------------------|--------------|----------------|----------|
|                          | September 30,              |            | 2018 over 2017 |          | September 30,             |              | 2018 over 2017 |          |
|                          | 2018                       | 2017       | \$ Change      | % Change | 2018                      | 2017         | \$ Change      | % Change |
| Cost of revenues         | \$ 395,949                 | \$ 345,951 | \$ 49,998      | 14.5 %   | \$ 1,168,349              | \$ 1,020,854 | \$ 147,495     | 14.4%    |
| As a % of Direct Revenue | 72.9%                      | 73.2%      |                | (0.3)%   | 74.4%                     | 73.8%        |                | 0.6%     |

Environmental Services cost of revenues for the three months ended September 30, 2018 increased \$50.0 million from the comparable period in 2017. The acquired Veolia Business had cost of revenue of \$39.9 million in the three months ended September 30, 2018. Excluding these costs, Environmental Services cost of revenues for the three months ended September 30, 2018 increased \$10.1 million from the comparable period in 2017 primarily due to increases in labor related costs of \$6.5 million along with transportation, disposal and fuel costs of \$5.2 million offset by a decrease of \$1.5 million in equipment, supply costs and various other expenses.

Environmental Services cost of revenues for the nine months ended September 30, 2018 increased \$147.5 million from the comparable period in 2017. The acquired Veolia Business had cost of revenue of \$92.6 million in the nine months ended September 30, 2018. Excluding these costs, Environmental Services cost of revenues for the nine months ended September 30, 2018 increased \$54.9 million primarily due to increases in labor related costs of \$34.5 million along with transportation, disposal and fuel costs of \$10.0 million and equipment, supply and various other expenses of \$10.3 million. The incremental operating costs were driven by higher volumes of waste handled in our facilities, as well as overall inflationary pressure across several cost categories including certain commodity supplies such as fuel and solvents.

*Safety-Kleen*

|                          | For the Three Months Ended |            |                |          | For the Nine Months Ended |            |                |          |
|--------------------------|----------------------------|------------|----------------|----------|---------------------------|------------|----------------|----------|
|                          | September 30,              |            | 2018 over 2017 |          | September 30,             |            | 2018 over 2017 |          |
|                          | 2018                       | 2017       | \$ Change      | % Change | 2018                      | 2017       | \$ Change      | % Change |
| Cost of revenues         | \$ 183,112                 | \$ 175,220 | \$ 7,892       | 4.5 %    | \$ 542,343                | \$ 519,652 | \$ 22,691      | 4.4 %    |
| As a % of Direct Revenue | 60.9%                      | 61.9%      |                | (1.0)%   | 62.1%                     | 63.7%      |                | (1.6)%   |

Safety-Kleen cost of revenues for the three months ended September 30, 2018 increased \$7.9 million from the comparable period in 2017 primarily due to increased costs of raw materials of \$4.5 million and increased transportation, disposal and fuel costs of \$3.9 million. These increases were the result of overall growth of the business and increases seen in commodities pricing. Despite these increases in costs, gross margin has expanded as we continue to effectively manage the spread in our re-refinery business and implement new pricing strategies.

Safety-Kleen cost of revenues for the nine months ended September 30, 2018 increased \$22.7 million from the comparable period in 2017 primarily due to increased costs of raw materials of \$10.3 million, increased transportation, disposal and fuel costs of \$9.6 million and labor related costs of \$3.7 million. These increases were in line with the overall growth of the business. Costs as a

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percentage of direct revenues decreased over the comparable periods of 2017 as we have been able to gain greater leverage from our cost structure.

**Selling, General and Administrative ("SG&A") Expenses**

We strive to manage our selling, general and administrative expenses commensurate with the overall performance of our segments and corresponding revenue levels. We believe that our ability to properly align these costs with business performance is reflective of our strong management of the businesses and further promotes our ability to remain competitive in the marketplace.

*Environmental Services*

|                          | For the Three Months Ended |           |                |          | For the Nine Months Ended |            |                |          |
|--------------------------|----------------------------|-----------|----------------|----------|---------------------------|------------|----------------|----------|
|                          | September 30,              |           | 2018 over 2017 |          | September 30,             |            | 2018 over 2017 |          |
|                          | 2018                       | 2017      | \$ Change      | % Change | 2018                      | 2017       | \$ Change      | % Change |
| SG&A                     | \$ 44,612                  | \$ 40,225 | \$ 4,387       | 10.9 %   | \$ 128,857                | \$ 120,786 | \$ 8,071       | 6.7 %    |
| As a % of Direct Revenue | 8.2%                       | 8.5%      |                | (0.3)%   | 8.2%                      | 8.7%       |                | (0.5)%   |

Environmental Services selling, general and administrative expenses for the three months ended September 30, 2018 increased \$4.4 million from the comparable period in 2017 due to increases in salary and benefit related costs of \$2.2 million, variable compensation of \$0.8 million and increases across various other expense categories of \$1.3 million. As a percentage of direct revenue, SG&A costs decreased as the additional revenues outpaced incremental SG&A costs.

Environmental Services selling, general and administrative expenses for the nine months ended September 30, 2018 increased \$8.1 million from the comparable period in 2017 due primarily to increases in salary and benefit related costs of \$6.6 million and variable compensation of \$1.1 million. As a percentage of direct revenue, Environmental Services margins improved for the nine months ended September 30, 2018 as compared to the same period in prior year, thereby leveraging increased revenues.

*Safety-Kleen*

|                          | For the Three Months Ended |           |                |          | For the Nine Months Ended |            |                |          |
|--------------------------|----------------------------|-----------|----------------|----------|---------------------------|------------|----------------|----------|
|                          | September 30,              |           | 2018 over 2017 |          | September 30,             |            | 2018 over 2017 |          |
|                          | 2018                       | 2017      | \$ Change      | % Change | 2018                      | 2017       | \$ Change      | % Change |
| SG&A                     | \$ 38,271                  | \$ 37,749 | \$ 522         | 1.4 %    | \$ 116,486                | \$ 112,818 | \$ 3,668       | 3.3 %    |
| As a % of Direct Revenue | 12.7%                      | 13.3%     |                | (0.6)%   | 13.3%                     | 13.8%      |                | (0.5)%   |

Safety-Kleen selling, general and administrative expenses for the three and nine months ended September 30, 2018 increased \$0.5 million and \$3.7 million, respectively, from the comparable periods in 2017 primarily due to an increase in variable compensation consistent with the increase in revenues of the business. As a percentage of direct revenue Safety-Kleen SG&A costs improved for the three and nine months ended September 30, 2018 with the comparable periods in 2017.

*Corporate Items*

|      | For the Three Months Ended |           |                |          | For the Nine Months Ended |            |                |          |
|------|----------------------------|-----------|----------------|----------|---------------------------|------------|----------------|----------|
|      | September 30,              |           | 2018 over 2017 |          | September 30,             |            | 2018 over 2017 |          |
|      | 2018                       | 2017      | \$ Change      | % Change | 2018                      | 2017       | \$ Change      | % Change |
| SG&A | \$ 38,336                  | \$ 35,278 | \$ 3,058       | 8.7%     | \$ 116,959                | \$ 104,163 | \$ 12,796      | 12.3%    |

Corporate Items selling, general and administrative expenses for the three and nine months ended September 30, 2018 increased \$3.1 million and \$12.8 million, respectively, from the comparable periods in 2017 primarily due to increases in salaries, benefits and variable compensation of \$5.9 million and \$12.8 million, respectively, including costs associated with the acquired Veolia Business and our commitment to investing in our employees, partially offset by cost cutting initiatives related to professional fees and travel expenses.

**Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”)**

Management considers Adjusted EBITDA to be a measurement of performance which provides useful information to both management and investors. Adjusted EBITDA should not be considered an alternative to net income (loss) or other measurements under generally accepted accounting principles (“GAAP”). Adjusted EBITDA is not calculated identically by all companies, and therefore our measurements of Adjusted EBITDA, while defined consistently and in accordance with our existing credit agreement, may not be comparable to similarly titled measures reported by other companies.

|                         | For the Three Months Ended |                   |                  |              | For the Nine Months Ended |                   |                  |              |
|-------------------------|----------------------------|-------------------|------------------|--------------|---------------------------|-------------------|------------------|--------------|
|                         | September 30,              |                   | 2018 over 2017   |              | September 30,             |                   | 2018 over 2017   |              |
|                         | 2018                       | 2017              | \$ Change        | % Change     | 2018                      | 2017              | \$ Change        | % Change     |
| <b>Adjusted EBITDA:</b> |                            |                   |                  |              |                           |                   |                  |              |
| Environmental Services  | \$ 102,419                 | \$ 86,505         | \$ 15,914        | 18.4%        | \$ 273,035                | \$ 241,527        | \$ 31,508        | 13.0%        |
| Safety-Kleen            | 79,502                     | 70,305            | 9,197            | 13.1         | 214,455                   | 182,954           | 31,501           | 17.2         |
| Corporate Items         | (40,644)                   | (33,811)          | (6,833)          | (20.2)       | (118,387)                 | (100,656)         | (17,731)         | (17.6)       |
| <b>Total</b>            | <b>\$ 141,277</b>          | <b>\$ 122,999</b> | <b>\$ 18,278</b> | <b>14.9%</b> | <b>\$ 369,103</b>         | <b>\$ 323,825</b> | <b>\$ 45,278</b> | <b>14.0%</b> |

We use Adjusted EBITDA to enhance our understanding of our operating performance, which represents our views concerning our performance in the ordinary, ongoing and customary course of our operations. We historically have found it helpful, and believe that investors have found it helpful, to consider an operating measure that excludes certain expenses relating to transactions not reflective of our core operations.

The information about our operating performance provided by this financial measure is used by our management for a variety of purposes. We regularly communicate Adjusted EBITDA results to our lenders since our loan covenants are based upon levels of Adjusted EBITDA achieved and to our board of directors and we discuss with the board our interpretation of such results. We also compare our Adjusted EBITDA performance against internal targets as a key factor in determining cash and equity bonus compensation for executives and other employees, largely because we believe that this measure is indicative of how the fundamental business is performing and is being managed.

We also provide information relating to our Adjusted EBITDA so that analysts, investors and other interested persons have the same data that we use to assess our core operating performance. We believe that Adjusted EBITDA should be viewed only as a supplement to the GAAP financial information. We also believe, however, that providing this information in addition to, and together with, GAAP financial information permits the foregoing persons to obtain a better understanding of our core operating performance and evaluate the efficacy of the methodology and information used by management to evaluate and measure such performance on a standalone and a comparative basis.

The following is a reconciliation of net income to Adjusted EBITDA for the following periods (in thousands):

|  | For the Three Months Ended |                   | For the Nine Months Ended |                   |
|--|----------------------------|-------------------|---------------------------|-------------------|
|  | September 30,              |                   | September 30,             |                   |
|  | 2018                       | 2017              | 2018                      | 2017              |
| Net income                               | \$ 31,089                  | \$ 12,058         | \$ 49,205                 | \$ 16,545         |
| Accretion of environmental liabilities   | 2,450                      | 2,347             | 7,328                     | 7,053             |
| Depreciation and amortization            | 73,082                     | 72,989            | 220,686                   | 216,932           |
| Other expense, net                       | 996                        | 432               | 449                       | 2,814             |
| Loss on early extinguishment of debt     | 2,469                      | 1,846             | 2,469                     | 7,891             |
| Loss (gain) on sale of business          | —                          | 77                | —                         | (31,645)          |
| Interest expense, net of interest income | 19,916                     | 20,675            | 60,955                    | 65,743            |
| Provision for income taxes               | 11,275                     | 12,575            | 28,011                    | 38,492            |
| <b>Adjusted EBITDA</b>                   | <b>\$ 141,277</b>          | <b>\$ 122,999</b> | <b>\$ 369,103</b>         | <b>\$ 323,825</b> |

### Depreciation and Amortization

|  | For the Three Months Ended |           |                |          | For the Nine Months Ended |            |                |          |
|--|----------------------------|-----------|----------------|----------|---------------------------|------------|----------------|----------|
|  | September 30,              |           | 2018 over 2017 |          | September 30,             |            | 2018 over 2017 |          |
|  | 2018                       | 2017      | \$ Change      | % Change | 2018                      | 2017       | \$ Change      | % Change |
| Depreciation of fixed assets and landfill amortization | \$ 64,938                  | \$ 64,044 | \$ 894         | 1.4 %    | \$ 194,729                | \$ 189,210 | \$ 5,519       | 2.9 %    |
| Permits and other intangibles amortization             | 8,144                      | 8,945     | (801)          | (9.0)    | 25,957                    | 27,722     | (1,765)        | (6.4)    |
| Total depreciation and amortization                    | \$ 73,082                  | \$ 72,989 | \$ 93          | 0.1 %    | \$ 220,686                | \$ 216,932 | \$ 3,754       | 1.7 %    |

Depreciation and amortization for the three months ended September 30, 2018 remained consistent with the comparable period in 2017.

Depreciation and amortization for the nine months ended September 30, 2018 increased \$3.8 million from the comparable period in 2017, primarily due to incremental depreciation from acquisitions and increased volumes at our landfills which drove increased landfill amortization.

### Loss on Early Extinguishment of Debt

|                                      | For the Three Months Ended |            |                |          | For the Nine Months Ended |            |                |          |
|--------------------------------------|----------------------------|------------|----------------|----------|---------------------------|------------|----------------|----------|
|                                      | September 30,              |            | 2018 over 2017 |          | September 30,             |            | 2018 over 2017 |          |
|                                      | 2018                       | 2017       | \$ Change      | % Change | 2018                      | 2017       | \$ Change      | % Change |
| Loss on early extinguishment of debt | \$ (2,469)                 | \$ (1,846) | \$ (623)       | 34%      | \$ (2,469)                | \$ (7,891) | \$ 5,422       | (69)%    |

During the third quarter of 2018, we recorded a \$2.5 million loss on early extinguishment of debt in connection with the extinguishment of the remaining \$400.0 million previously outstanding senior unsecured notes which were refinanced in connection with the Incremental Facility Amendment to our Term Loan Agreement completed during the current quarter. During the three and nine months ended September 30, 2017, we recorded a \$1.8 million and \$7.9 million, respectively, loss on the early extinguishment of debt in connection with the extinguishment of the \$400.0 million previously outstanding senior unsecured notes which were refinanced in connection with the issuance of the \$400.0 million Term Loan Agreement which was completed in the second quarter of 2017. The losses consist of amounts paid in excess of par in order to extinguish the debt prior to maturity and non-cash expenses related to the write-off of unamortized financing costs. For additional information regarding our financing arrangements, see Note 12, "Financing Arrangements," to the accompanying financial statements.

### (Loss) Gain on Sale of Business

|                                 | For the Three Months Ended |         |                |          | For the Nine Months Ended |           |                |          |
|---------------------------------|----------------------------|---------|----------------|----------|---------------------------|-----------|----------------|----------|
|                                 | September 30,              |         | 2018 over 2017 |          | September 30,             |           | 2018 over 2017 |          |
|                                 | 2018                       | 2017    | \$ Change      | % Change | 2018                      | 2017      | \$ Change      | % Change |
| (Loss) gain on sale of business | \$ —                       | \$ (77) | \$ 77          | 100%     | \$ —                      | \$ 31,645 | \$ (31,645)    | 100%     |

During the three and nine months ended September 30, 2017, we recorded a \$0.1 million loss and \$31.6 million gain, respectively, on the sale of a non-core line of business within our Environmental Services segment. For additional information regarding this (loss) gain on sale of business, see Note 5, "Disposition of Business," to the accompanying financial statements.

### Provision for Income Taxes

|                            | For the Three Months Ended |           |                |          | For the Nine Months Ended |           |                |          |
|----------------------------|----------------------------|-----------|----------------|----------|---------------------------|-----------|----------------|----------|
|                            | September 30,              |           | 2018 over 2017 |          | September 30,             |           | 2018 over 2017 |          |
|                            | 2018                       | 2017      | \$ Change      | % Change | 2018                      | 2017      | \$ Change      | % Change |
| Provision for income taxes | \$ 11,275                  | \$ 12,575 | \$ (1,300)     | (10.3)%  | \$ 28,011                 | \$ 38,492 | \$ (10,481)    | (27.2)%  |

The income tax provision for the three and nine months ended September 30, 2018 decreased \$1.3 million and \$10.5 million as compared to the comparable periods in 2017. The decrease in the three and nine months ended September 30, 2018 was primarily

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due to the lower US federal statutory rate for 2018 which was enacted as part of the Tax Cuts and Jobs Act signed into law in December of 2017. Our effective tax rate for the three and nine months ended September 30, 2018 was 26.6% and 36.3%, respectively, compared to 51.0% and 69.9%, respectively, for the same periods in 2017. The decrease in the effective tax rate for the three months ended September 30, 2018 was primarily attributable to a lower federal tax rate, a decrease in unrecognized tax benefits and the recording of tax benefits for prior period returns recorded as a discrete item in the quarter. The variations in the effective income tax rates for the nine months ended September 30, 2018 and the three and nine months ended September 30, 2017, as compared to more customary relationships between pre-tax income and the provision for income taxes, were primarily due to not recognizing income tax benefits from current operating losses related to certain Canadian entities during these periods and due to the lower US federal statutory rate for 2018.

For the three and nine months ended September 30, 2018, we did not record \$0.5 million and \$6.6 million, respectively, of income tax benefits generated from losses at certain of our Canadian entities. For the three and nine months ended September 30, 2017, we did not record (\$1.0) million and \$12.1 million, respectively, of income tax benefits.

### *Liquidity and Capital Resources*

| (in thousands)                        | Nine Months Ended  |                    |
|---------------------------------------|--------------------|--------------------|
|                                       | September 30, 2018 | September 30, 2017 |
| Net cash from operating activities    | \$ 247,215         | \$ 221,469         |
| Net cash used in investing activities | (299,482)          | (121,426)          |
| Net cash used in financing activities | (50,414)           | (49,171)           |

#### *Net cash from operating activities*

Net cash from operating activities for the nine months ended September 30, 2018 was \$247.2 million, an increase of \$25.7 million from the comparable period in 2017. The increase in operating cash flows as compared to the comparable period of 2017 was most directly attributable to greater levels of operating income and lower interest payments offset by higher working capital levels due to growth in our business.

#### *Net cash used in investing activities*

Net cash used in investing activities for the nine months ended September 30, 2018 was \$299.5 million, an increase of \$178.1 million from the comparable period in 2017. The change was primarily driven by the use of cash to fund acquisitions and additions to property, plant and equipment, as well as the proceeds from the Transformer Services divestiture in June 2017.

#### *Net cash used in financing activities*

Net cash used in financing activities for the nine months ended September 30, 2018 was \$50.4 million, compared with net cash used in financing activities of \$49.2 million in the comparable period in 2017. During the nine months ended September 30, 2018, we entered into an Incremental Facility Amendment to our Term Loan Agreement, which increased the principal amount of the Term Loans outstanding under the Term Loan Agreement by \$350.0 million and borrowed \$50.0 million under our revolving credit facility. We used the proceeds of these borrowings to purchase \$400.0 million aggregate principal amount of our previously outstanding 2020 Notes. During the nine months ended September 30, 2017, there were no net proceeds from issuance of debt as we entered into a \$400.0 million senior secured Credit Agreement and used the proceeds to purchase or redeem approximately \$400.0 million aggregate principal amount of our previously outstanding 2020 Notes. In the nine months ended September 30, 2018, we had a net cash outflow due to an increase in repurchases of common stock, which was partially offset by the change in uncashed checks resulting from the timing of payments made and lower premiums paid on early extinguishment of debt.

#### *Adjusted Free Cash Flow*

Management considers adjusted free cash flow to be a measurement of liquidity which provides useful information to both management and investors about our financial strength and our ability to generate cash. Additionally, adjusted free cash flow is a metric on which management incentive compensation is based. We define adjusted free cash flow as net cash from operating activities excluding cash impacts of items derived from non-operating activities, such as taxes paid in connection with divestitures, less additions to property, plant and equipment plus proceeds from sale and disposal of fixed assets. Adjusted free cash flow should not be considered an alternative to net cash from operating activities or other measurements under GAAP. Adjusted free cash flow is not calculated identically by all companies, and therefore our measurements of adjusted free cash flow may not be comparable to similarly titled measures reported by other companies.

The following is a reconciliation of net cash from operating activities to adjusted free cash flow for the following periods (in

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thousands):

|   | Nine Months Ended<br>September 30, |                  |
|---|------------------------------------|------------------|
|   | 2018                               | 2017             |
| Net cash from operating activities              | \$ 247,215                         | \$ 221,469       |
| Additions to property, plant and equipment      | (150,722)                          | (127,736)        |
| Proceeds from sale and disposal of fixed assets | 6,111                              | 5,375            |
| Adjusted free cash flow                         | <u>\$ 102,604</u>                  | <u>\$ 99,108</u> |

*Working Capital*

At September 30, 2018, cash and cash equivalents totaled \$215.5 million, compared to \$319.4 million at December 31, 2017. At September 30, 2018, cash and cash equivalents held by our foreign subsidiaries totaled \$52.1 million and were readily convertible into other currencies including U.S. dollars. At September 30, 2018, the cash and cash equivalents balance for our U.S. operations was \$163.4 million, and our U.S. operations had net operating cash flow of \$217.2 million for the nine months ended September 30, 2018. Additionally, we have a \$400.0 million revolving credit facility of which approximately \$194.4 million was available to borrow at September 30, 2018. Based on the above and on our current plans, we believe that our U.S. operations have and will continue to have adequate financial resources to satisfy their liquidity needs without being required to repatriate earnings from foreign subsidiaries. We also believe that cash held by our foreign subsidiaries will be required to fund those foreign operations.

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing, and financing activities. Our primary ongoing cash requirements will be to fund operations, capital expenditures, interest payments and investments in line with our business strategy. We believe our future operating cash flows will be sufficient to meet our future operating and internal investing cash needs as well as any cash needs relating to our stock repurchase program. Furthermore, our existing cash balance and the availability of additional borrowings under our revolving credit facility provide additional potential sources of liquidity should they be required.

*Financing Arrangements*

The financing arrangements and principal terms of our \$845.0 million principal amount of 5.125% senior unsecured notes due 2021, \$744.1 million senior secured notes due 2024 and \$50.0 million borrowing under our \$400.0 million revolving credit facility due 2021 which were outstanding at September 30, 2018, are discussed further in Note 12, "Financing Arrangements," to our consolidated financial statements included in this report. We continue to monitor our debt instruments and evaluate opportunities where it may be beneficial to refinance or reallocate the portfolio.

As of September 30, 2018, we were in compliance with the covenants of all of our debt agreements, and we believe it is reasonably likely that we will continue to meet such covenants.

As discussed in Note 12, "Financing Arrangements," to our consolidated financial statements, we have refinanced our debt portfolio whereby the \$400.0 million of previously outstanding 5.25% senior unsecured notes due 2020 have been replaced by \$350.0 million of incremental term loans under our variable rate Term Loan Agreement and \$50.0 million of borrowings under our revolving credit facility. In connection with the addition of this variable rate debt, we entered into interest rate swap agreements in order to hedge the future risk of rising interest rates and effectively fix the interest rate on \$350.0 million of our variable rate debt.

*Environmental Liabilities*

| (in thousands)                       | September 30, 2018 | December 31, 2017 | \$ Change       | % Change     |
|--------------------------------------|--------------------|-------------------|-----------------|--------------|
| Closure and post-closure liabilities | \$ 67,381          | \$ 61,037         | \$ 6,344        | 10.4 %       |
| Remedial liabilities                 | 120,712            | 124,468           | (3,756)         | (3.0)        |
| Total environmental liabilities      | <u>\$ 188,093</u>  | <u>\$ 185,505</u> | <u>\$ 2,588</u> | <u>1.4 %</u> |

Total environmental liabilities as of September 30, 2018 were \$188.1 million, an increase of \$2.6 million, compared to December 31, 2017 primarily due to accretion of \$7.3 million and new asset retirement obligations and liabilities assumed in acquisition of \$2.4 million, partially offset by expenditures of \$7.2 million.

We anticipate our environmental liabilities, substantially all of which we assumed in connection with our acquisitions, will be payable over many years and that cash flow from operations will generally be sufficient to fund the payment of such liabilities when required. However, events not anticipated (such as future changes in environmental laws and regulations) could require that

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such payments be made earlier or in greater amounts than currently anticipated, which could adversely affect our results of operations, cash flow and financial condition.

### *Capital Expenditures*

We anticipate that 2018 capital spending, net of disposals, will be in the range of \$170.0 million to \$190.0 million. However, changes in environmental regulations or unscheduled capital needs could require us to make significant capital expenditures for our facilities and adversely affect our results of operations and cash flow.

### **Critical Accounting Policies and Estimates**

Other than described below, there were no material changes in the first nine months of 2018 to the information provided under the heading “Critical Accounting Policies and Estimates” included in our Annual Report on Form 10-K for the year ended December 31, 2017.

*Goodwill.* Goodwill is not amortized but is reviewed for impairment annually as of December 31 or when events or changes in the business environment indicate the carrying value of a reporting unit may exceed its fair value. This review is performed by comparing the fair value of each reporting unit to its carrying value, including goodwill. If the fair value is less than the carrying amount, a loss is recorded for the excess of the carrying value over the fair value up to the carrying amount of goodwill.

We conducted our annual impairment test of goodwill for all of our reporting units to which goodwill is allocated as of December 31, 2017 and determined that no adjustment to the carrying value of goodwill for any reporting unit was then necessary. As a result of changes in our organizational structure and resulting change in our operating segments discussed above, we concluded that, for purposes of reviewing for potential goodwill impairment, we had four reporting units, consisting of Environmental Sales and Service, Environmental Facilities, Kleen Performance Products and Safety-Kleen Environmental Services. The results of operations for our Environmental Sales and Service and Environmental Facilities reporting units are included in our Environmental Services segment, and the results of operations for our SK Environmental and Kleen Performance Products reporting units are included in our Safety-Kleen segment. We allocated goodwill to our new reporting units using a relative fair value approach. Due to the change in our reporting units, we completed an assessment of any potential goodwill impairment immediately prior to and subsequent to the reorganization, which was effective January 1, 2018, and determined that no impairment existed.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There were no material changes in the first nine months of 2018 to the information provided under Item 7A. “Quantitative and Qualitative Disclosures about Market Risk” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Based on an evaluation under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this Quarterly Report on 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined under Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) were effective as of September 30, 2018 to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in the Company’s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that was conducted during the quarter ending September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## CLEAN HARBORS, INC. AND SUBSIDIARIES

## PART II—OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

See Note 16, “Commitments and Contingencies,” to the financial statements included in Item 1 of this report, which description is incorporated herein by reference.

## ITEM 1A. RISK FACTORS

During the nine months ended September 30, 2018, there were no material changes from the risk factors as previously disclosed in Item 1A in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Common Stock Repurchase Program

The following table provides information with respect to the shares of common stock repurchased by us for the periods indicated.

| Period                                       | Total Number of Shares Purchased (1) | Average Price Paid Per Share (2) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (3) |
|--|--------------------------------------|----------------------------------|--|--|
| July 1, 2018 through July 31, 2018           | 615                                  | \$ 55.55                         | —  | \$ 324,670,703   |
| August 1, 2018 through August 31, 2018       | 74,875                               | \$ 67.38                         | 72,000   | \$ 319,808,070   |
| September 1, 2018 through September 30, 2018 | 34,536                               | \$ 69.80                         | 32,000   | \$ 317,571,511   |
| Total  | 110,026                              | \$ 68.07                         | 104,000  | \$ 317,571,511   |

- (1) Includes 6,026 shares withheld by us from employees to satisfy employee tax obligations upon vesting of restricted stock units granted to our employees under our long-term equity incentive programs.
- (2) The average price paid per share of common stock repurchased under the stock repurchase program includes the commissions paid to brokers.
- (3) On October 31, 2017, the Company's board of directors increased the size of the Company's current share repurchase program from \$300 million to \$600 million. We have funded and intend to fund the repurchases through available cash resources. The stock repurchase program authorizes us to purchase our common stock on the open market or in privately negotiated transactions periodically in a manner that complies with applicable U.S. securities laws. The number of shares purchased and the timing of the purchases has depended and will depend on a number of factors, including share price, cash required for business plans, trading volume and other conditions. During April 2018, the Company implemented a repurchase plan in accordance with Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended. Going forward repurchases will be made under the Rule 10b5-1 plan as well as open market or privately negotiated transactions as described above. We have no obligation to repurchase stock under this program and may suspend or terminate the repurchase program at any time.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

## ITEM 4. MINE SAFETY DISCLOSURE

Not applicable

## ITEM 5. OTHER INFORMATION

None

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**ITEM 6. EXHIBITS**

| <b>Item No.</b> | <b>Description</b>   | <b>Location</b> |
|-----------------|--|-----------------|
| 31.1            | <a href="#">Rule 13a-14a/15d-14(a) Certification of the CEO Alan S. McKim</a>  | Filed herewith  |
| 31.2            | <a href="#">Rule 13a-14a/15d-14(a) Certification of the CFO Michael L. Battles</a>   | Filed herewith  |
| 32              | <a href="#">Section 1350 Certifications</a>  | Filed herewith  |
| 101             | Interactive Data Files Pursuant to Rule 405 of Regulation S-T: Financial statements from the quarterly report on Form 10-Q of Clean Harbors, Inc. for the quarter ended September 30, 2018, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Unaudited Consolidated Statements of Operations, (iii) Unaudited Consolidated Statements of Comprehensive Income, (iv) Unaudited Consolidated Statements of Cash Flows, (v) Unaudited Consolidated Statements of Stockholders' Equity, and (vi) Notes to Unaudited Consolidated Financial Statements. | *               |

\* Interactive data files are furnished and deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.



## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Alan S. McKim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Clean Harbors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Alan S. McKim

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**Alan S. McKim**

*Chairman, President and Chief Executive Officer*

Date: October 31, 2018

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Michael L. Battles, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Clean Harbors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael L. Battles

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**Michael L. Battles**

*Executive Vice President and Chief Financial Officer*

Date: October 31, 2018



