

CLEAN HARBORS INC
Form 10-Q
May 10, 2007

UNITED STATES 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 MARCH 31, 2007 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 0-16379

CLEAN HARBORS, INC.

(Exact name of registrant as specified in its charter)

Massachusetts
(State of Incorporation)

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)

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 twelve 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one.):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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)

19,831,799
(Outstanding at May 8, 2007)

CLEAN HARBORS, INC.

QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

	Page No.
ITEM 1: Financial Statements	
<u>Consolidated Balance Sheets</u>	1
<u>Consolidated Statements of Operations</u>	3
<u>Consolidated Statements of Cash Flows</u>	4
<u>Consolidated Statements of Stockholders' Equity</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations	33
ITEM 3: Quantitative and Qualitative Disclosures About Market Risk	41
ITEM 4: Controls and Procedures	42
<u>PART II: OTHER INFORMATION</u>	
<u>Items No. 1 through 6</u>	43
<u>Signatures</u>	44

CLEAN HARBORS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

(in thousands)

	March 31, 2007 (unaudited)	December 31, 2006
Current assets:		
Cash and cash equivalents	\$ 57,948	\$ 73,550
Marketable securities	11,117	10,240
Accounts receivable, net of allowance for doubtful accounts of \$2,245 and \$2,530 respectively	160,780	169,581
Unbilled accounts receivable	15,364	16,078
Deferred costs	6,899	7,140
Prepaid expenses and other current assets	10,219	9,301
Supplies inventories	20,742	20,101
Deferred tax assets	9,281	9,238
Income taxes receivable	151	150
Properties held for sale	7,327	7,440
Total current assets	299,828	322,819
Property, plant and equipment:		
Land	15,860	15,873
Asset retirement costs (non-landfill)	1,416	1,415
Landfill assets	18,804	11,399
Buildings and improvements	105,884	105,190
Vehicles	25,469	25,192
Equipment	252,994	249,981
Furniture and fixtures	1,401	1,400
Construction in progress	17,786	24,950
	439,614	435,400
Less accumulated depreciation and amortization	198,887	191,274
	240,727	244,126
Other assets:		
Deferred financing costs	7,182	7,206
Goodwill	21,667	19,032
Permits and other intangibles, net of accumulated amortization of \$31,655 and \$30,386, respectively	65,967	65,743
Investment in joint venture		2,208
Deferred tax assets	11,464	6,388
Other	3,781	3,286
	110,061	103,863
Total assets	\$ 650,616	\$ 670,808

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

CLEAN HARBORS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
LIABILITIES AND STOCKHOLDERS' EQUITY

(in thousands except per share amounts)

	March 31, 2007 (unaudited)	December 31, 2006
Current liabilities:		
Uncashed checks	\$ 6,919	\$ 11,083
Current portion of capital lease obligations	1,193	1,391
Accounts payable	69,722	81,432
Accrued disposal costs	2,888	3,058
Deferred revenue	28,779	29,409
Other accrued expenses	42,569	53,941
Current portion of closure, post-closure and remedial liabilities	12,418	13,707
Income taxes payable	2,092	4,333
Total current liabilities	166,580	198,354
Other liabilities:		
Closure and post-closure liabilities, less current portion of \$1,900 and \$2,035, respectively	24,526	23,520
Remedial liabilities, less current portion of \$10,518 and \$11,672, respectively	136,219	136,173
Long-term obligations, less current maturities	120,549	120,522
Capital lease obligations, less current portion	2,657	2,648
Other long-term liabilities	57,673	15,609
Accrued pension cost	755	796
Total other liabilities	342,379	299,268
Stockholders' equity:		
Preferred stock, \$.01 par value:		
Series B convertible preferred stock; authorized 154,416 shares; issued and outstanding 68,810 and 69,000 shares, respectively (liquidation preference of \$3,500)	1	1
Common stock, \$.01 par value:		
Authorized 40,000,000 shares; issued and outstanding 19,796,551 and 19,685,002 shares, respectively	198	197
Treasury stock	(519))
Additional paid-in capital	153,446	151,691
Accumulated other comprehensive income	9,515	8,939
Accumulated earnings (deficit)	(20,984)) 12,358
Total stockholders' equity	141,657	173,186
Total liabilities and stockholders' equity	\$ 650,616	\$ 670,808

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

CLEAN HARBORS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share amounts)

	Three Months Ended March 31,	
	2007	2006
Revenues	\$ 205,024	\$ 184,495
Cost of revenues (exclusive of items shown separately below)	151,604	131,358
Selling, general and administrative expenses (including stock-based compensation costs of \$894 and \$557, respectively)	31,355	28,355
Accretion of environmental liabilities	2,474	2,510
Depreciation and amortization	8,938	7,279
Income from operations	10,653	14,993
Other income (expense)	6	(30)
Loss on early extinguishment of debt		(8,290)
Interest (expense), net of interest income of \$795 and \$769, respectively	(3,184)	(3,173)
Income before provision for income taxes	7,475	3,500
Provision for income taxes	3,974	695
Net income	3,501	2,805
Dividends on Series B Preferred Stock	69	69
Net income attributable to common stockholders	\$ 3,432	\$ 2,736
Earnings per share:		
Basic income attributable to common stockholders	\$ 0.17	\$ 0.14
Diluted income attributable to common stockholders	\$ 0.17	\$ 0.14
Weighted average common shares outstanding	19,750	19,390
Weighted average common shares outstanding plus potentially dilutive common shares	20,637	20,509

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

CLEAN HARBORS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 3,501	\$ 2,805
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,938	7,279
Allowance for doubtful accounts	(330)	(32)
Amortization of deferred financing costs and debt discount	474	384
Accretion of environmental liabilities	2,474	2,510
Changes in environmental estimates	(1,929)	(1,230)
Deferred income taxes	(5,056)	965
Stock-based compensation	894	557
Loss on sale of fixed assets and assets held for sale	6	32
Write-off of deferred financing costs and debt discount		2,383
Changes in assets and liabilities:		
Accounts receivable	10,586	13,691
Other current assets	(779)	(850)
Accounts payable	(11,506)	(10,756)
Other current liabilities	(9,953)	(11,360)
Environmental expenditures	(1,687)	(1,570)
Net cash (used in) provided by operating activities	(4,367)	4,808
Cash flows from investing activities:		
Additions to property, plant and equipment	(5,722)	(10,218)
Acquisition of Enesco Caribe, net of cash acquired	(1,131)	
Costs to obtain or renew permits	(64)	
Proceeds from sales of fixed assets and assets held for sale	140	366
Proceeds from sales of restricted investments		3,470
Purchase of available-for-sale securities	(877)	(43,500)
Net cash (used in) investing activities	(7,654)	(49,882)
Cash flows from financing activities:		
Change in uncashed checks	(4,158)	(197)
Proceeds from exercise of stock options	740	425
Deferred financing costs incurred	(32)	(85)
Proceeds from employee stock purchase plan	260	179
Dividend payments on preferred stock	(69)	(69)
Payments on capital leases	(437)	(737)
Other	(69)	
Excess tax benefit of stock-based compensation		53
Principal payments on debt		(52,500)
Net cash used in financing activities	(3,765)	(52,931)
Effect of exchange rate change on cash	184	(315)
(Decrease) in cash and cash equivalents	(15,602)	(98,320)
Cash and cash equivalents, beginning of period	73,550	132,449
Cash and cash equivalents, end of period	\$ 57,948	\$ 34,129
Supplemental information:		
Cash payments for interest and income taxes:		
Interest paid	\$ 5,680	\$ 8,865
Income taxes paid	5,789	568
Non-cash investing and financing activities:		
Property, plant and equipment accrued	\$ 2,255	\$ 854
Capital lease obligations		107

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

Shares remitted to settle employees' tax obligations

(519)

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

4

CLEAN HARBORS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Series B Preferred Stock Number of Shares	\$0.01 Par Value	Common Stock Number of Shares	\$0.01 Par Value	Treasury Stock	Additional Paid-in Capital	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings (Deficit)	Total Stockholder Equity
Balance at January 1, 2007	69	\$ 1	19,685	\$ 197	\$	\$ 151,691		\$ 8,939	\$ 12,358	\$ 173,186
Net income							\$ 3,501		3,501	3,501
Foreign currency translation						576		576		576
Comprehensive income						\$ 4,077				
FIN 48 cumulative effect adjustment (see Note 9)									(36,843)	(36,843)
Other						(69)				(69)
Series B preferred stock dividends						(69)				(69)
Stock-based compensation						894				894
Conversion of Series B preferred stock			1							
Issuance of restricted shares, net of shares remitted (see Note 11)			25		(519)					(519)
Exercise of stock options			79	1		739				740
Employee stock purchase plan			7			260				260
Balance at March 31, 2007	69	\$ 1	19,797	\$ 198	\$ (519)	\$ 153,446		\$ 9,515	\$ (20,984)	\$ 141,657

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

CLEAN HARBORS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

The accompanying consolidated interim financial statements include the accounts of Clean Harbors, Inc. and its wholly-owned subsidiaries (collectively, Clean Harbors or the Company) and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and, in the opinion of management, include all adjustments which, except as described elsewhere herein, 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. The results for interim periods are not necessarily indicative of results for the entire year. 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, 2006.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company's management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements. These estimates and assumptions will also affect the reported amounts of certain revenues and expenses during the reporting period. Actual results could differ materially based on any changes in the estimates and assumptions that the Company uses in the preparation of its financial statements. Additionally, the estimates and assumptions used in determining landfill airspace amortization rates per cubic yard, capping, closure and post-closure liabilities as well as environmental remediation liabilities require significant engineering and accounting input. The Company reviews these estimates and assumptions on an ongoing basis. In many circumstances, the ultimate outcome of these estimates and assumptions may not be known for decades into the future. Actual results could differ materially from these estimates and assumptions due to changes in environmental-related regulations or future operational plans, and the inherent imprecision associated with estimating matters so far into the future. Certain reclassifications have been made in the prior period's Consolidated Financial Statements to conform to the presentation for the period ended March 31, 2007.

(2) ACQUISITION

On January 3, 2007, Ensco Caribe, Inc., a Puerto Rico corporation (Ensco Caribe) then owned 50% by Clean Harbors El Dorado, LLC (CH El Dorado) and 50% by Ochoa Industrial Sales Corporation (Ochoa), redeemed the 50% stock ownership of Ochoa for \$3.0 million, of which \$300,000 was placed in escrow for a period of 14 months as security for the representations and warranties of Ochoa. Immediately after the redemption, Ensco Caribe was 100% owned by CH El Dorado, the name Ensco Caribe, Inc. was changed to Clean Harbors Caribe, Inc., and the Puerto Rico operations of Clean Harbors Environmental Services, Inc. were transferred to Clean Harbors Caribe, Inc. The primary reasons for the acquisition of Ensco Caribe was to further improve the Company's ability to service customers on the island, leverage the Company's existing waste collection and disposal capabilities in Puerto Rico and capitalize on the site services and emergency response capabilities of the Ensco Caribe operations.

The Company has accounted for this transaction (the New Investment) as a step acquisition as the original investment in Ensco Caribe was acquired as part of the acquisition of Teris LLC in August 2006. Therefore, the fair value of the original investment of \$2.1 million was separately determined as part of the purchase price allocation of the Teris LLC assets and liabilities. The value of the New Investment was allocated based on the fair value of assets acquired and liabilities assumed as of January 3, 2007. The total purchase price of \$5.1 million reflected an excess of purchase price over fair value of the net assets acquired of approximately \$2.6 million which has been recorded as goodwill.

(3) SUMMARY OF SELECTED ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company reflect the application of certain significant accounting policies as described below:

(a) Closure and Post-closure Costs

Closure and post-closure costs incurred are increased for inflation (2.57% and 2.17% for closure and post-closure liabilities incurred in the three-month periods ended March 31, 2007 and 2006, respectively). The Company uses an inflation rate published by the U.S. Department of Labor, Bureau of Labor Statistics that excludes the more volatile items of food and

energy. Closure and post-closure costs are discounted at the Company's credit-adjusted risk-free interest rate (9.0% and 9.25% for closure and post-closure liabilities incurred in the three-month periods ended March 31, 2007 and 2006, respectively). For the asset retirement obligations incurred in the three-month periods ended March 31, 2007 and 2006, the Company estimated its credit-adjusted risk-free interest rate by adjusting the then current yield based on market prices of its 11.25% Senior Secured Notes then outstanding by the difference between the yield of a U.S. Treasury Note of the same duration as the Senior Secured Notes and the yield on the 30-year U.S. Treasury Bond. Under SFAS No. 143, *Accounting for Asset Retirement Obligations*, the cost of financial assurance for the closure and post-closure care periods cannot be accrued but rather is a period cost. Prior to the adoption of SFAS No. 143, the Company accrued the cost of financial assurance relating to both landfill and non-landfill closure and to both landfill and non-landfill post-closure care, as required, under SFAS No. 5, *Accounting for Contingencies*. Under SFAS No. 143, financial assurance is no longer included as a component of closure or post-closure costs. SFAS No. 143 requires the cost of financial assurance to be expensed as incurred, and SFAS No. 143 requires the cost of financial assurance to be considered in the determination of the credit-adjusted risk-free interest rate. Under SFAS No. 143, the cost of financial assurance is considered in the determination of the credit-adjusted risk-free interest rate used to discount the closure and post-closure obligations.

Landfill Accounting

Landfill accounting The Company utilizes the life cycle method of accounting for landfill costs and the units-of-consumption method to amortize landfill construction and asset retirement costs and record closure and post-closure obligations over the estimated useful life of a landfill. Under this method, the Company includes future estimated construction and asset retirement costs, as well as costs incurred to date, in the amortization base. In addition, the Company includes probable expansion airspace that has yet to be permitted in the calculation of the total remaining useful life of the landfill.

Landfill assets Landfill assets include the costs of landfill site acquisition, permitting, preparation and improvement. These amounts are recorded at cost, which includes capitalized interest as applicable. Landfill assets, net of amortization, are combined with management's estimate of the costs required to complete construction of the landfill to determine the amount to be amortized over the remaining estimated useful economic life of a site. Amortization of landfill assets is recorded on a units-of-consumption basis, such that the landfill assets should be completely amortized at the date the landfill ceases accepting waste. Changes in estimated costs to complete construction are applied prospectively to the amortization rate.

Amortization of cell construction costs and accrual of cell closure obligations Landfills are typically comprised of a number of cells, which are constructed within a defined acreage (or footprint). The cells are typically discrete units, which require both separate construction and separate capping and closure procedures. Cell construction costs are the costs required to excavate and construct the landfill cell. These costs are typically amortized on a units-of-consumption basis, such that they are completely amortized when the specific cell ceases accepting waste. In some instances, the Company has landfills that are engineered and constructed as progressive trenches. In progressive trench landfills, a number of contiguous cells form a progressive trench. In those instances, the Company amortizes cell construction costs over the airspace within the entire trench, such that the cell construction costs will be fully amortized at the end of the trench useful life.

The design and construction of a landfill does not create a landfill asset retirement obligation. Rather, the asset retirement obligation for cell closure (the cost associated with capping each cell) is incurred in relatively small increments as waste is placed in the landfill. Therefore, the cost required to construct the cell cap is capitalized as an asset retirement cost and a liability of an equal amount is established, based on the discounted cash flow associated with each capping event, as airspace is consumed. Spending for cell capping is reflected as a change in liabilities within operating activities in the statement of cash flows.

Landfill final closure and post-closure liabilities The Company has material financial commitments for the costs associated with requirements of the U.S. Environmental Protection Agency (the EPA) and the comparable regulatory agency in Canada for landfill final closure and post-closure activities. In the United States, the landfill final closure and post-closure requirements are established under the standards of the EPA, and are implemented and applied on a

state-by-state basis. Estimates for the cost of these activities are developed by the Company's engineers, accountants and external consultants, based on an evaluation of site-specific facts and circumstances, including the Company's interpretation of current regulatory requirements and proposed regulatory changes. Such estimates may change in the future due to various circumstances including, but not limited to, permit modifications, changes in legislation or regulations, technological changes and results of environmental studies.

Final closure costs include the costs required to cap the final cell of the landfill (if not included in cell closure) and the costs required to dismantle certain structures for landfills and other landfill improvements. In addition, final closure costs include regulation-mandated groundwater monitoring, leachate management and other costs incurred in the closure process. Post-closure costs include substantially all costs that are required to be incurred subsequent to the closure of the landfill, including, among others, groundwater monitoring and leachate management. Regulatory post-closure periods are generally 30 years after landfill closure. Final closure and post-closure obligations are discounted. Final closure and post-closure obligations are accrued on a

units-of-consumption basis, such that the present value of the final closure and post-closure obligations are fully accrued at the date the landfill discontinues accepting waste.

For landfills purchased, the Company assessed and recorded the present value of the estimated closure and post-closure liability based upon the estimated final closure and post-closure costs and the percentage of airspace consumed as of the purchase date. Thereafter, the difference between the liability recorded at the time of acquisition and the present value of total estimated final closure and post-closure costs to be incurred is accrued prospectively on a units-of-consumption basis over the estimated useful economic life of the landfill.

Landfill capacity Landfill capacity, which is the basis for the amortization of landfill assets and for the accrual of final closure and post-closure obligations, represents total permitted airspace plus unpermitted airspace that management believes is probable of ultimately being permitted based on established criteria. The Company applies a comprehensive set of criteria for evaluating the probability of obtaining a permit for future expansion airspace at existing sites, which provides management a sufficient basis to evaluate the likelihood of success of unpermitted expansions. Those criteria are as follows:

- Personnel are actively working to obtain the permit or permit modifications (land use, state and federal) necessary for expansion of an existing landfill, and progress is being made on the project.
- The Company expects to submit the application within the next year and expects to receive all necessary approvals to accept waste within the next five years.
- At the time the expansion is included in the Company's estimate of the landfill's useful economic life, it is probable that the required approvals will be received within the normal application and processing time periods for approvals in the jurisdiction in which the landfill is located.
- The owner of the landfill or the Company has a legal right to use or obtain land associated with the expansion plan.
- There are no significant known political, technical, legal, or business restrictions or issues that could impair the success of such expansion.
- A financial feasibility analysis has been completed and the results demonstrate that the expansion has a positive financial and operational impact such that management is committed to pursuing the expansion.
- Additional airspace and related additional costs, including permitting, final closure and post-closure costs, have been estimated based on the conceptual design of the proposed expansion.

Exceptions to the criteria set forth above may be approved through a landfill-specific approval process that includes approval from the Company's Chief Financial Officer and review by the Audit Committee of the Board of Directors. As of March 31, 2007, there were four unpermitted expansions included in the Company's landfill accounting model, which represented 37.4% of the Company's remaining airspace at that date. Of these expansions, one represents an exception to the Company's established criteria. In March 2004, the Chief Financial Officer approved and the Audit Committee of the Board of Directors reviewed and approved this exception for the inclusion of 7.8 million cubic yards of unpermitted airspace in highly probable airspace because the Company determined that the airspace was highly probable even though the permit application would not be submitted within the next year. All of the other criteria were met for the inclusion of this airspace in highly probable airspace. At March 31, 2007, this still represents an exception to the Company's criteria. Had the Company not included the 7.8 million cubic yards of unpermitted airspace in highly probable airspace, operating expense for the three-month periods ended March 31, 2007 and 2006 would have been higher by \$179 thousand and \$163 thousand, respectively.

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

The following table presents the remaining highly probable airspace from January 1, 2007 through March 31, 2007 (in thousands):

	Highly Probable Airspace (cubic yards)
Remaining capacity at January 1, 2007	28,040
Consumed during three-months ended March 31, 2007	(191)
Remaining capacity at March 31, 2007	27,849

Changes to landfill assets for the three-month period ended March 31, 2007 were as follows (in thousands):

	Balance at January 1, 2007	Asset Retirement Costs	Capital Additions	Changes in Estimates of Closure and Post-Closure Liabilities	Currency Translations, Reclassifications, and Other	Balance at March 31, 2007
Landfill Assets	\$ 11,399	\$ 384	\$ 6,632	\$ 318	\$ 71	\$ 18,804

Changes to landfill assets for the three-month period ended March 31, 2006 were as follows (in thousands):

	Balance at January 1, 2006	Asset Retirement Costs	Capital Additions	Changes in Estimates of Closure and Post-Closure Liabilities	Currency Translations, Reclassifications, and Other	Balance at March 31, 2006
Landfill Assets	\$ 7,599	\$ 189	\$ 3,489	\$ (279)	\$ (9)	\$ 10,989

Rates used to amortize landfill assets are calculated based upon the dollar value of estimated final liabilities, the surveyed remaining airspace of the landfill, and the time estimated to consume the remaining airspace. Consequently, rates vary for each landfill and for each asset category, and are recalculated each year. During the three-month periods ended March 31, 2007, and 2006, landfill assets were depreciated at average rates of \$2.91 and \$2.42 per cubic yard, respectively. The increase in the amortization rate resulted primarily from an increase in cell closure cost estimates based on a re-evaluation of the landfill closure liabilities and amortization of new permits.

Non-Landfill Closure and Post-Closure

Non-landfill closure costs include costs required to dismantle and decontaminate certain structures and other costs incurred during the closure process. Post-closure costs, if required, include associated maintenance and monitoring costs and financial assurance costs as required by the closure permit. Post-closure periods are performance-based and are not generally specified in terms of years in the closure permit, but may generally range from 10 to 30 years or more.

The Company records its non-landfill closure and post-closure liability by: (i) estimating the current cost of closing a non-landfill facility and the post closure care of that facility, if required, based upon the closure plan that the Company is required to follow under its operating permit, or in the event the facility operates with a permit that does not contain a closure plan, based upon legally enforceable closure commitments made by the Company to various governmental agencies; (ii) using probability scenarios as to when in the future operations may cease; (iii) inflating the current cost of closing the non-landfill facility on a probability weighted basis using the inflation rate to the time of closing under each probability scenario; and (iv) discounting the future value of each closing scenario back to the present using the credit-adjusted risk-free interest rate. Non-landfill closure and post-closure obligations arise when the Company commences operations. Prior to the implementation of SFAS No. 143, these obligations were expensed in the period that a decision was made to close a facility.

(b) Remedial Liabilities

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

Remedial liabilities, including Superfund liabilities, include the costs of removal or containment of contaminated material, the treatment of potentially contaminated groundwater and maintenance and monitoring costs necessary to comply with regulatory requirements. SFAS No. 143 applies to asset retirement obligations that arise from normal operations. Almost all of the Company's remedial liabilities were assumed as part of the acquisition in 2002 of the CSD assets from Safety-Kleen and the acquisition in 2006 of Teris LLC, and the Company believes that the remedial obligations did not arise from normal operations.

9

Discounting of Remedial Liabilities

Remedial liabilities are discounted only when the timing of the payments is estimable and the amounts are determinable. The Company's experience has been that the timing of the payments is not usually estimable and therefore, generally, remedial liabilities are not discounted. However, under purchase accounting, acquired liabilities are recorded at fair value, which requires taking into consideration inflation and discount factors. Accordingly, as of the respective acquisition dates, the Company recorded the remedial liabilities assumed as part of the acquisition of the CSD assets and Teris LLC at their fair value, which was calculated by inflating costs in current dollars using an estimate of future inflation rates as of the acquisition date until the expected time of payment, then discounting the payment to its present value using a risk-free discount rate as of the acquisition date. Subsequent to the acquisition, discounts were and will be applied to the environmental liabilities as follows:

- Remedial liabilities assumed relating to the acquisition of the CSD assets and Teris LLC are and will continue to be inflated using the inflation rate at the time of acquisition (2.4% and 2.17%, respectively) until the expected time of payment, then discounted at the risk-free interest rate at the time of each acquisition (4.9%).
- Remedial liabilities incurred subsequent to the acquisitions and remedial liabilities of the Company that existed prior to the acquisitions have been and will continue to be recorded at the estimated current value of the liabilities, which is usually neither increased for inflation nor reduced for discounting.

Claims for Recovery

The Company records claims for recovery from third parties relating to remedial liabilities only when realization of the claim is probable. The gross remedial liability is recorded separately from the claim for recovery on the balance sheet. At March 31, 2007 and 2006, the Company had recorded no such claims.

(4) CLOSURE AND POST-CLOSURE LIABILITIES

Reserves for closure and post-closure obligations are as follows (in thousands):

	March 31, 2007	December 31, 2006
Landfill facilities:		
Cell closure	\$ 18,346	\$ 17,293
Facility closure	794	751
Post-closure	878	814
	20,018	18,858
Non-landfill retirement liability:		
Facility closure	6,408	6,697
	26,426	25,555
Less obligation classified as current	1,900	2,035
Long-term closure and post-closure liabilities	\$ 24,526	\$ 23,520

All of the landfill facilities included in the amounts shown above are active as of March 31, 2007.

Anticipated payments at March 31, 2007 (based on current estimated costs) and anticipated timing of necessary regulatory approvals to commence work on closure and post-closure activities for each of the next five years and thereafter are as follows (in thousands):

Periods ending December 31,	
Remaining nine months of 2007	\$ 306
2008	5,920
2009	5,105
2010	8,734
2011	1,818
Thereafter	197,885
Undiscounted closure and post-closure liabilities	219,768
Less: Reserves to be provided (including discount of \$113.1 million) over remaining site lives	(193,342)
Present value of closure and post-closure liabilities	\$ 26,426

The changes to closure and post-closure liabilities for the three months ended March 31, 2007 are as follows (in thousands):

	January 1, 2007	New Asset Retirement Obligations	Accretion	Changes in Estimate Recorded to Statement of Operations	Other Changes in Estimates Recorded to Balance Sheet	Currency Translation, Reclassifications and Other	Payments	March 31, 2007
Landfill retirement liability	\$ 18,858	\$ 384	\$ 631	\$ (169)	\$ 318	\$ 13	\$ (17)	\$ 20,018
Non-landfill retirement liability	6,697		206	(482)		3	(16)	6,408
Total	\$ 25,555	\$ 384	\$ 837	\$ (651)	\$ 318	\$ 16	\$ (33)	\$ 26,426

New asset retirement obligations incurred in 2007 are being discounted at the credit-adjusted risk-free rate of 9.0% and inflated at a rate of 2.57%.

(5) REMEDIAL LIABILITIES

Remedial liabilities are obligations to investigate, alleviate or eliminate the effects of a release (or threat of a release) of hazardous substances into the environment and may also include corrective action under RCRA. The Company's operating subsidiaries' remediation obligations can be further characterized as Legal, Superfund, Long-term Maintenance and One-Time Projects. Legal liabilities are typically comprised of litigation matters that can involve certain aspects of environmental cleanup and can include third party claims for property damage or bodily injury allegedly arising from or caused by exposure to hazardous substances originating from Company activities or operations, or in certain cases, from the actions or inactions of other persons or companies. Superfund liabilities are typically claims alleging that the Company is a potentially responsible party and /or is potentially liable for environmental response, removal, remediation and cleanup costs at/or from either an owned or third party site. As described in Note 7, Legal Proceedings, Superfund liabilities also include certain Superfund liabilities to governmental entities for which the Company is potentially liable to reimburse the Sellers in connection with the Company's 2002 acquisition of the CSD assets from Safety-Kleen. Long-term Maintenance includes the costs of groundwater monitoring, treatment system operations, permit fees and facility maintenance for inactive operations. One-Time Projects include the costs necessary to comply with regulatory requirements for the removal or treatment of contaminated materials.

The Company records environmental-related accruals for remedial obligations at both its landfill and non-landfill operations. See Note 3 in the Company's Annual Report on Form 10-K for the year ended December 31, 2006 for further discussion of the Company's methodology for estimating and recording these accruals.

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

Reserves for remedial obligations are as follows (in thousands):

	March 31, 2007	December 31, 2006
Remedial liabilities for landfill sites	\$ 4,978	\$ 4,917
Remedial liabilities for inactive sites	90,179	91,494
Remedial liabilities (including Superfund) for non-landfill operations	51,580	51,434
	146,737	147,845
Less obligations classified as current	10,518	11,672
Long-term remedial liabilities	\$ 136,219	\$ 136,173

Anticipated payments at March 31, 2007 (based on current estimated costs) and anticipated timing of necessary regulatory approvals to commence work on remedial activities for each of the next five years and thereafter are as follows (in thousands):

Periods ending December 31,	
Remaining nine months of 2007	\$ 8,174
2008	9,935
2009	11,062
2010	10,960
2011	12,659
Thereafter	137,740
Undiscounted remedial liabilities	190,530
Less: Discount	(43,793)
Total remedial liabilities	\$ 146,737

The anticipated payments for long-term maintenance range from \$4.9 million to \$8.1 million per year over the next five years. Spending on one-time projects for the next five years ranges from \$2.1 million to \$3.9 million per year with an average expected payment of \$3.1 million per year. Legal and Superfund liabilities payments are expected to be between \$0.7 million and \$1.5 million per year for the next five years. These estimates are reviewed at least quarterly and adjusted as additional information becomes available.

The changes to remedial liabilities for the three months ended March 31, 2007 are as follows (in thousands):

	January 1, 2007	Accretion	Changes in Estimate Recorded to Statement of Operations	Currency Translation, Reclassifications and Other	Payments	March 31, 2007
Remedial liabilities for landfill sites	\$ 4,917	\$ 56	\$	\$ 25	\$ (20)	\$ 4,978
Remedial liabilities for inactive sites	91,494	1,054	(1,531)	33	(871)	90,179
Remedial liabilities (including Superfund) for non-landfill operations	51,434	527	253	129	(763)	51,580
Total	\$ 147,845	\$ 1,637	\$ (1,278)	\$ 187	\$ (1,654)	\$ 146,737

The net \$1.3 million benefit from changes in estimates recorded to selling, general and administrative expenses on the consolidated statement of operations was due to: (i) regulator approval of less costly alternative remediation plan, (ii) the discounting effect of delays in certain remedial projects, and (iii) increase in utilization of a facility thus avoiding projected near-term closure.

(6) FINANCING ARRANGEMENTS

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

	March 31, 2007		December 31, 2006	
Senior Secured Notes, bearing interest at 11.25%, collateralized by a second-priority lien on substantially all of the Company's assets within the United States except for accounts receivable (maturity date of July 15, 2012)	\$	91,518	\$	91,518
Term Loan with a financial institution, bearing interest at the U.S. prime rate (8.25% at March 31, 2007) plus 1.5%, or the Eurodollar rate (5.20% at March 31, 2007) plus 2.50%, collateralized by a first-priority lien (second priority as to accounts receivable) on substantially all of the Company's assets within the United States (maturity date of December 1, 2010)		30,000		30,000
Less unamortized issue discount		(969)		(996)
Less obligations classified as current				
Long-term obligations	\$	120,549	\$	120,522

The fair value of the Senior Secured Notes at March 31, 2007 and 2006 was \$99.1 million and \$105.9 million, respectively. At March 31, 2007, the Company had no borrowings and \$45.6 million of letters of credit outstanding under the Revolving Facility, and the Company had approximately \$24.4 million available to borrow. At March 31, 2007, letters of credit outstanding under the Synthetic LC facility were \$49.9 million.

Under the Amended Credit Agreement, the Company is required to maintain certain financial covenants as follows:

Covenant	March 31, 2007 Requirement per Facility	December 31, 2006 Requirement per Facility
Leverage ratio	< 2.35 to 1	< 2.40 to 1
Interest coverage ratio	> 2.85 to 1	> 2.85 to 1
Fixed charge coverage ratio	> 1 to 1	> 1 to 1

As of March 31, 2007, the Company was in compliance with the covenants under all the Company's debt agreements.

(7) LEGAL PROCEEDINGS

The Company's waste management services 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 judicial or administrative proceedings involving all levels of governmental authorities and other interested parties. The issues involved in such proceedings generally relate to applications for permits and licenses by the Company and conformity with legal requirements, alleged violations of existing permits and licenses or requirements to clean up contaminated sites. At March 31, 2007, the Company was involved in various proceedings, the principal of which are described below, relating primarily to activities at or shipments to and /or from the Company's waste treatment, storage and disposal facilities.

Legal Proceedings Related to Acquisition of CSD Assets

Effective September 7, 2002 (the Closing Date), the Company purchased from Safety-Kleen Services, Inc. and certain of its domestic subsidiaries (collectively, the Sellers) substantially all of the assets of the Chemical Services Division (the CSD) of Safety-Kleen Corp. The Company purchased the CSD assets pursuant to a sale order (the Sale Order) issued by the Bankruptcy Court for the District of Delaware (the Bankruptcy Court) which had jurisdiction over the Chapter 11 proceedings involving the Sellers, and the Company therefore took title to the CSD assets without assumption of any liability (including pending or threatened litigation) of the Sellers except as expressly provided in the Sale Order. However, under the Sale Order (which incorporated by reference certain provisions of the Acquisition Agreement between the Company and Safety-Kleen Services, Inc.), the Company became subject as of the Closing Date to certain legal proceedings which are now either pending or threatened involving the CSD assets for two reasons as described below. As of March 31, 2007, the Company had reserves of \$25.4 million

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

(substantially all of which the Company had established as part of the purchase price for the CSD assets) relating to the Company's estimated potential liabilities in connection with such legal proceedings. At December 31, 2006, the Company estimated that it was reasonably possible as that term is defined in SFAS No. 5 (more than remote but less than likely), that the amount of such total liabilities could be up to \$3.1 million greater than the \$25.1 million reserve balance at December 31, 2006. The Company believes that as of March 31, 2007, there has been no material change in the reasonably possible amount of \$3.1 million. The Company periodically adjusts the aggregate amount of such reserves when such potential liabilities are paid or otherwise discharged or additional relevant information becomes available. Substantially all of the Company's legal proceedings liabilities are environmental liabilities and, as such, are included in the tables of changes to remedial liabilities disclosed as part of Note 5, Remedial Liabilities.

The first reason for the Company becoming subject to certain legal proceedings which are now either pending or threatened in connection with the acquisition of the CSD assets is that, as part of the CSD assets, the Company acquired all of

13

the outstanding capital stock of certain Canadian subsidiaries (the "CSD Canadian Subsidiaries") formerly owned by the Sellers (which subsidiaries were not part of the Sellers' bankruptcy proceedings), and the Company therefore became subject to the legal proceedings (which include the Ville Mercier Legal Proceedings described below) in which the CSD Canadian Subsidiaries were then and are now involved. The second reason is that, as part of the purchase price for the CSD assets, the Company agreed with the Sellers that it would indemnify the Sellers against certain current and future liabilities of the Sellers under applicable federal and state environmental laws including, in particular, the Sellers' share of certain cleanup costs payable to governmental entities under the Comprehensive Environmental Response, Compensation and Liability Act ("Superfund Act") or analogous state Superfund laws. As described below, the Company and the Sellers are not in complete agreement at this time as to the scope of the Company's indemnity obligations under the Sale Order and the Acquisition Agreement with respect to certain Superfund liabilities of the Sellers.

The principal legal proceedings which are now either pending or threatened related to the Company's acquisition of the CSD assets are as follows. While, as described below, the Company has established reserves for certain of these matters, there can be no guarantee that any ultimate liability the Company may incur for any of these matters will not exceed (or be less than) the amount of the current reserves or that it will not incur other material expenditures.

Ville Mercier Legal Proceedings. One of the CSD Canadian Subsidiaries (the "Mercier Subsidiary") owns and operates a hazardous waste incinerator in Ville Mercier, Quebec (the "Mercier Facility"). A property owned by the Mercier Subsidiary adjacent to the current Mercier Facility is now contaminated as a result of actions dating back to 1968, when the Quebec government issued to the unrelated company which then owned the Mercier Facility two permits to dump organic liquids into lagoons on the property. By 1972, groundwater contamination had been identified, and the Quebec government provided an alternate water supply to the municipality of Ville Mercier.

In 1999, Ville Mercier and three neighboring municipalities filed separate legal proceedings against the Mercier Subsidiary and certain related companies together with certain former officers and directors, as well as against the Government of Quebec. The lawsuits assert that the defendants are jointly and severally responsible for the contamination of groundwater in the region, which the plaintiffs claim was caused by contamination from the former Ville Mercier lagoons and which they claim caused each municipality to incur additional costs to supply drinking water for their citizens since the 1970s and early 1980s. The four municipalities claim a total of \$1.6 million (CDN) as damages for additional costs to obtain drinking water supplies and seek an injunctive order to obligate the defendants to remediate the groundwater in the region. The Quebec Government also sued the Mercier Subsidiary to recover approximately \$17.4 million (CDN) of alleged past costs for constructing and operating a treatment system and providing alternative drinking water supplies. The Mercier Subsidiary continues to assert that it has no responsibility for the groundwater contamination in the region.

Because the continuation of such proceedings by the Mercier Subsidiary, which the Company now owns, would require the Company to incur legal and other costs and the risks inherent in any such litigation, the Company, as part of its integration plan for the CSD assets, decided to review options which will allow the Company to establish harmonious relations with the local communities, resolve the adversarial situation with the Provincial government and spare continued legal costs. Based upon the Company's review of likely settlement possibilities, the Company anticipates that as part of any such settlement it will likely agree to assume at least partial responsibility for remediation of certain environmental contamination and certain prior costs. At March 31, 2007 and December 31, 2006, the Company had accrued \$11.1 million and \$11.2 million, respectively, for remedial liabilities and associated legal costs relating to the Ville Mercier Legal Proceedings.

Indemnification of Certain CSD Superfund Liabilities. The Company's agreement with the Sellers under the Acquisition Agreement and the Sale Order to indemnify the Sellers against certain cleanup costs payable to governmental entities under federal and state Superfund laws now relate primarily to: (i) two properties included in the CSD assets which are either now subject or proposed to become subject to Superfund proceedings; (ii) certain potential liabilities which the Sellers might incur in the future in connection with an incinerator formerly operated by Marine Shale Processors, Inc. to which the Sellers shipped hazardous wastes; and (iii) 35 active Superfund sites owned by third parties where the Sellers have been designated as Potentially Responsible Parties ("PRPs"). As described below, there are also five other Superfund sites owned by third parties where the Sellers have been named as PRPs or potential PRPs and for which the Sellers have sent demands for indemnity to the Company since the Closing Date. In the case of the two properties referenced above which were included in the CSD assets, the Company is potentially directly liable for cleanup costs under applicable environmental laws because of its ownership and operation of such properties since the Closing Date. In the case of Marine Shale Processors and the 35 other third party sites referenced above, the Company

does not have direct liability for cleanup costs but may have an obligation to indemnify the Sellers, to the extent provided in the Acquisition Agreement and the Sale Order, against the Sellers' share of such cleanup costs which are payable to governmental entities.

Federal and state Superfund laws generally impose strict, and in certain circumstances, joint and several liability for the costs of cleaning up Superfund sites not only upon the owners and operators of such sites, but also upon persons or entities which in the past have either generated or shipped hazardous wastes which are present on such sites. The Superfund laws also provide for liability for damages to natural resources caused by hazardous substances at such sites. Accordingly, the

14

Superfund laws encourage PRPs to agree to share in specified percentages of the aggregate cleanup costs for Superfund sites by entering into consent decrees, settlement agreements or similar arrangements. Non-settling PRPs may be liable for any shortfalls in government cost recovery and may be liable to other PRPs for equitable contribution. Under the Superfund laws, a settling PRP's financial liability could increase if the other settling PRPs were to become insolvent or if additional or more severe contamination were discovered at the relevant site. In estimating the amount of those Sellers' liabilities at those Superfund sites where one or more of the Sellers has been designated as a PRP and as to which the Company believes that it has potential liability under the Acquisition Agreement and the Sale Order, the Company therefore reviewed any existing consent decrees, settlement agreements or similar arrangements with respect to those sites and the Sellers' negotiated volumetric share of liability (where applicable), and also took into consideration the Company's prior knowledge of the relevant sites and the Company's general experience in dealing with the cleanup of Superfund sites.

Properties Included in CSD Assets. The CSD assets which the Company acquired include an active service center located at 2549 North New York Street in Wichita, Kansas (the Wichita Property). The Wichita Property is one of several properties located within the boundaries of a 1,400 acre state-designated Superfund site in an old industrial section of Wichita known as the North Industrial Corridor Site. Along with numerous other PRPs, the Sellers executed a consent decree relating to such site with the EPA, and the Company is continuing its ongoing remediation program for the Wichita Property in accordance with that consent decree. Also included within the CSD assets which the Company acquired are rights under an indemnification agreement between the Sellers and a prior owner of the Wichita Property, which the Company anticipates but cannot guarantee will be available to reimburse certain such cleanup costs.

The CSD assets also include a former hazardous waste incinerator and landfill in Baton Rouge, Louisiana (BR Facility) undergoing remediation pursuant to an order issued by the Louisiana Department of Environmental Quality. In December 2003, the Company received an information request from the U.S. Environmental Protection Agency (the EPA) pursuant to the Superfund Act concerning the Devil's Swamp Lake Site (Devil's Swamp) in East Baton Rouge Parish, Louisiana. On March 8, 2004, the EPA proposed to list Devil's Swamp on the National Priorities List for further investigations and possible remediation. Devil's Swamp includes a lake located downstream of an outfall ditch where wastewaters and stormwaters have been discharged from the BR Facility, as well as extensive swamplands adjacent to it. Contaminants of concern cited by the EPA as a basis for listing the site include substances of the kind found in wastewaters discharged from the BR Facility in past operations. While the Company's ongoing corrective actions at the BR Facility may be sufficient to address the EPA's concerns, there can be no assurance that additional action will not be required and that the Company will not incur material costs. The Company cannot now estimate the Company's potential liability for Devil's Swamp; accordingly, the Company has accrued no liability for remediation of Devil's Swamp beyond what was already accrued pertaining to the ongoing corrective actions and amounts sufficient to cover certain estimated legal fees and related expenses.

Marine Shale Processors. Beginning in the mid-1980s and continuing until July 1996, Marine Shale Processors, Inc., located in Amelia, Louisiana (Marine Shale), operated a kiln which incinerated waste producing a vitrified aggregate as a by-product. Marine Shale contended that its operation recycled waste into a useful product, i.e., vitrified aggregate, and therefore was exempt from regulation under the Resource Conservation Recovery Act (RCRA) and permitting requirements as a hazardous waste incinerator under applicable federal and state environmental laws. The EPA contended that Marine Shale was a sham-recycler subject to the regulation and permitting requirements as a hazardous waste incinerator under RCRA, that its vitrified aggregate by-product was a hazardous waste, and that Marine Shale's continued operation without required permits was illegal. Litigation between the EPA and Marine Shale began in 1990 and continued until July 1996 when the U.S. Fifth Circuit Court of Appeals ordered Marine Shale to shutdown its operations. During the course of its operation, Marine Shale produced thousands of tons of aggregate, some of which was sold as fill material at various locations in the vicinity of Amelia, Louisiana, but most of which was stockpiled on the premises of the Marine Shale facility. Almost all of this aggregate has since been moved to a nearby site owned by an affiliate of Marine Shale, known as Recycling Park, Inc. (RPI). In accordance with a court order authorizing the movement of this material to this offsite location, all of the materials located at RPI comply with the land disposal restrictions of RCRA. Approximately 7,000 tons of aggregate remain on the Marine Shale site. Moreover, as a result of past operations, soil and groundwater contamination may exist on the Marine Shale facility and the RPI site.

Although the Sellers never held an equity interest in Marine Shale, the Sellers were among the largest customers of Marine Shale in terms of overall incineration revenue. Based on a plan to settle obligations that was established at the time of the Company's acquisition of the CSD assets

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

in 2002, the Company obtained more complete information as to the potential status of the Marine Shale facility and the RPI site as a Superfund site or sites, the potential costs associated with possible removal and disposal of some or all of the vitrified aggregate and closure and remediation of the Marine Shale facility and the RPI site, and the respective shares of other identified potential PRPs on a volumetric basis. Accordingly, the Company determined in the third quarter of 2003 that the remedial liabilities and associated legal costs were then probable and estimable and recorded liabilities for the Company's estimate of the Sellers' proportionate share of environmental cleanup costs potentially payable to governmental entities under federal and/or state Superfund laws. In September 2006, following a public notice and comment period, the EPA and the Louisiana Department of Environmental Quality (the LDEQ) obtained

15

final federal court approval of a settlement that addressed the remediation of the RPI site with one PRP agreeing to implement and complete the remedial measures required to remediate the RPI site to the satisfaction of these regulatory agencies. The remedial measures require that PRP to consolidate, level, and install a man-made engineered containment cap on the RPI site, and to monitor the site, pursuant to a timetable and schedule specified in the consent decree, at the sole expense of that PRP. That PRP also agreed to pay \$200 thousand towards the eventual cleanup of the Marine Shale former incinerator site. As a result of this settlement and change in circumstances, the Company reflected a change in estimate by recording a \$10.3 million decrease in the reserves which the Company had established with respect to those potential liabilities in connection with the Company's acquisition of the CSD assets. This reduction was recorded to selling, general and administrative expenses during the fiscal quarter ended September 30, 2006. As at March 31, 2007, the amount of the Company's remaining reserves relating to the Marine Shale facility and the RPI site was \$3.5 million.

On December 24, 2003, the Sellers' plan of reorganization became effective under chapter 11 of the Bankruptcy Code. If the EPA or the LDEQ were in the future to designate the Marine Shale facility and/or (notwithstanding the settlement reached in 2006) the RPI site as a Superfund site or sites, the Sellers might assert that they are not responsible for potential cleanup costs associated with such site or sites, and the Company might assert that under the Sale Order the Company is not obligated to pay or reimburse cleanup and related costs associated with such site or sites. The Company cannot now provide assurances with respect to any such matters which, in the event the EPA or the LDEQ were in the future to designate the Marine Shale facility and/or the RPI site as a Superfund site or sites, would need to be resolved by future events, negotiations and, if required, legal proceedings.

Third Party Superfund Sites. Prior to the Closing Date, the Sellers had generated or shipped hazardous wastes, which are present on an aggregate of 35 sites owned by third parties, which have been designated as federal or state Superfund sites and at which the Sellers, along with other parties, had been designated as PRPs. Under the Acquisition Agreement and the Sale Order, the Company agreed with the Sellers that it would indemnify the Sellers against the Sellers' share of the cleanup costs payable to governmental entities in connection with those 35 sites, which were listed in Exhibit A to the Sale Order (the Listed Third Party Sites). At 29 of the Listed Third Party Sites, the Sellers had addressed, prior to the Company's acquisition of the CSD assets in September 2002, the Sellers' cleanup obligations to the federal and state governments and to other PRPs by entering into consent decrees or other settlement agreements or by participating in ongoing settlement discussions or site studies and, in accordance therewith, the PRP group is generally performing or has agreed to perform the site remediation program with government oversight. With respect to two of those 29 Listed Third Party Sites, certain developments have occurred since the Company's purchase of the CSD assets as described in the following three paragraphs. Of the remaining Listed Third Party Sites, the Company, on behalf of the Sellers are contesting with the governmental entities and PRP groups involved the liability at two sites: have settled the Sellers' liability at two sites, and plan to fund participation by the Sellers as settling PRPs at two sites. In addition, the Company has confirmed that the Sellers were ultimately not named as PRPs at one site. With respect to all of the 35 Listed Third Party Sites, the Company had reserves of \$4.6 million at March 31, 2007 and \$4.9 million at December 31, 2006.

With respect to one of those 35 sites (the Helen Kramer Landfill Site), the Sellers had entered (prior to the Sellers commencing their bankruptcy proceeding in June 2000) into settlement agreements with certain members of the PRP group which agreed to perform the cleanup of that site in accordance with a consent decree with governmental entities, in return for which the Sellers received a conditional release from such governmental entities. Following the Sellers' commencement of their bankruptcy proceeding, the Sellers failed to satisfy their payment obligations to those PRPs under those settlement agreements.

In November 2003, certain of those PRPs made a demand directly on the Company for the Sellers' share of the cleanup costs incurred by the PRPs with respect to the Helen Kramer Landfill Site. However, at a hearing in the Bankruptcy Court on January 6, 2004 on a motion by those PRPs seeking an order that the Company was liable to such PRPs under the terms of the Sale Order, the Bankruptcy Court declined to hear the motion on the ground that those PRPs (which are not governmental entities) have no right to seek direct payment from the Company for any portion of the cleanup costs which they have incurred in connection with that site. The Company's legal position is that when the Sellers' plan of reorganization became effective in December 2003, the Sellers likely were discharged from their obligations to those PRPs for that site. The Sellers have never made an indemnity request upon the Company for any obligations relating to that site. The PRPs indicated their intention to pursue additional recourse against the Company, but the Company filed in February 2005 a complaint with the Bankruptcy Court seeking declaratory relief that the injunction in the Sale Order is operative against those PRPs' efforts to proceed directly against the Company and seeking sanctions against those PRPs for violating that injunction.

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

In October 2005, the Bankruptcy Court granted the PRPs' motion to dismiss the count of the Company's complaint seeking sanctions against them for contempt, but the remaining counts of the Company's complaint seeking declaratory relief remain to be resolved. In November 2005, the PRPs filed a counterclaim for declaratory relief that the Company is liable to them for the Seller's obligations to them. On March 22, 2006, the PRPs moved for summary judgment on all counts, but the Court declined to grant that motion on July 24, 2006, and requested that the parties confer about setting a status conference to

16

establish a trial date. At a status conference held on February 14, 2007, the parties and the Court agreed that all pre-trial discovery would be concluded by May 15, 2007, and the matter scheduled for trial beginning on June 27, 2007.

With respect to a second of the 35 Listed Third Party Sites (the Breslube-Penn Site), which is located in Moon Township, Allegheny County, Pennsylvania, the EPA brought suit in 1997 in the U.S. District Court for the Western District of Pennsylvania against a large number of PRPs for recovery of the EPA's response costs in connection with that site. The named defendants are alleged to be jointly and severally liable for the remediation of the site and all response costs associated with the site. One of the Sellers, GSX Chemical Services of Ohio (GSX), was a named defendant in the original complaint. In August or September 2006, the EPA filed an amended complaint naming the Company as defendant, alleging that the Company was the successor in interest to the liability of GSX. The Company has filed an answer to the government's complaint, but at this time the Company is uncertain as to what, if any, liability the Company may have. The Company understands the EPA plans to submit in the near future an amended case management order that will clarify the procedural steps required to bring the case to resolution. Typically, liability among PRPs is allocated according to volumetric estimates of each PRP's contribution to the overall contamination at the site, with the larger liability PRPs typically forming a work group to oversee and pay for the response, and liability is also typically classified for certain PRPs as *de minimis* in order to encourage expeditious economic contributions from the smaller liability PRPs. At this time, the Company is uncertain which classification it will fall under, and the Company also does not have sufficient information to predict the total alleged liability of all of the PRPs.

By letters to the Company dated between September 2004 and May 2006, the Sellers identified, in addition to the 35 Listed Third Party Sites, five additional sites owned by third parties which the EPA or a state environmental agency has designated as a Superfund site or potential Superfund site and at which one or more of the Sellers have been named as a PRP or potential PRP. In those letters, the Sellers asserted that the Company has an obligation to indemnify the Sellers for their share of the potential cleanup costs associated with such five additional sites. The Company has responded to such letters from the Sellers by stating that, under the Sale Order, the Company has no obligation to reimburse the Sellers for any cleanup and related costs (if any) which the Sellers may incur in connection with such additional sites. The Company intends to assist the Sellers in providing information now in the Company's possession with respect to such five additional sites and to participate in negotiations with the government agencies and PRP groups involved. In addition, at one of those five additional sites, the Company may have some liability independently of the Sellers' involvement with that site, and the Company may also have certain defense and indemnity rights under contractual agreements for prior acquisitions relating to that site. Accordingly, the Company is now investigating that site further. However, the Company now believes that it has no liabilities with respect to the potential cleanup of those five additional sites that are both probable and estimable at this time, and the Company therefore has not established any reserves for any potential liabilities of the Sellers in connection therewith. It is expressly the Company's legal position that it is not liable at any of the five sites for any and/or all of the Sellers' liabilities. In any event, at one site the potential liability of the Seller(s) is *de minimis* and a settlement has already been offered to the Seller(s) to that effect, and at one site the Company believes that the Seller(s) shipped no wastes or substances into the site and therefore the Seller(s) have no liability. For the other three sites, the Company cannot estimate the amount of the Sellers' liabilities, if any, at this time, and irrespective of whatever liability the Sellers may or may not have, the Company reaffirms its position that the Company does not have any liability for the Sellers at any of the five sites including these three particular sites.

Other Legal Proceedings Related to CSD Assets

Plaquemine, Louisiana Facility. In addition to the legal proceedings related to the acquisition of the CSD assets described above, subsequent to the acquisition in September 2002 various plaintiffs which are represented by the same law firm have filed five lawsuits based in part upon allegations relating to ownership and operation of a deep injection well facility near Plaquemine, Louisiana which Clean Harbors Plaquemine, LLC (CH Plaquemine), one of the Company's subsidiaries, acquired as part of the CSD assets. The first such lawsuit was filed in December 2003 in the 18th Judicial District Court in Iberville Parish, Louisiana, against CH Plaquemine under the citizen suit provisions of the Louisiana Environmental Quality Act. The lawsuit alleges that the facility is in violation of state law by disposing of hazardous waste into an underground injection well that the plaintiffs allege is located within the banks or boundaries of a body of surface water within the jurisdiction of the State of Louisiana. The lawsuit also focuses on a new area of concern at the facility, which the plaintiffs allege is a source of contamination which will require environmental remediation and/or restoration. The lawsuit also alleges that CH Plaquemine's former facility manager made false representations and failed to disclose material information to the regulators about the facility after CH Plaquemine acquired it in September 2002. The plaintiffs seek an order declaring the facility to be located within the banks or boundaries of a body of surface water under state law, payment of civil penalties of \$27,500 per violation per day from and after November 17, 2003, and an additional penalty of \$1.0 million for damages to the environment, plus interest. The

plaintiffs also seek an order requiring the facility to remove all waste disposed of since September of 2002, and in general, to conduct an investigation into and remediate the alleged contamination at the facility, as well as damages for alleged personal injuries and property damage, natural resources damages, costs of litigation, and attorney's fees. Although the district court originally issued in January 2005 a preliminary injunction (which was promptly stayed pending appeal) against CH Plaquemine under this suit, the Louisiana First Circuit Court of Appeal in Baton Rouge ruled in favor of CH Plaquemine in June 2006, and in October 2006, the Louisiana Supreme Court declined to review the Circuit Court's decision.

In April 2005, this same group of plaintiffs filed a second citizen suit naming Clean Harbors, Inc. (CHI), Clean Harbors Environmental Services, Inc. (CHESI), and an employee of CHESI as defendants. The second citizen suit alleges that CHI, CHESI and the CHESI employee are liable for conduct based upon claims that are substantially similar in nature to those filed against CH Plaquemine in the original citizen suit and also alleges that CHI and CHESI are liable for certain aspects of the operations of CH Plaquemine under the lawsuit's so-called Single Business Entity Doctrine. This second lawsuit seeks civil penalties of \$10,000 per day per violation from an unspecified date. On or about January 15, 2007, CH Plaquemine filed notice of the removal of both this second suit to the U.S. District Court for the Middle District of Louisiana.

In June 2005, the same plaintiff's lawyers who filed the two lawsuits described immediately above filed a petition to add CHI, CHESI, CH Plaquemine and the two (one former, one current) employee defendants, to a lawsuit commenced in 1996 against the former owner of the site. While the allegations of that suit are slightly different from the two lawsuits described above, CHI and CHESI are again named in the petition as defendants based largely on the so-called Single Business Entity Doctrine. This third lawsuit also names as defendants certain former owners and operators of the facility and the insurance company that currently provides personal injury, property damage and general liability insurance coverage for the facility, and seeks unspecified compensatory and punitive damages and attorney's fees. On August 30, 2006, that insurance company filed a notice of removal of the suit to the Federal District Court for the Middle District of Louisiana, where that suit is currently pending.

In April 2006, the same plaintiff's lawyers who filed the three lawsuits described immediately above notified the Company of a lawsuit originally filed in the U.S. District Court for the Middle District of Louisiana in June 2004 by Claude I. Duncan, on his own behalf and on behalf of the United States of America, against a number of defendants, including the Company, alleging violations of the Federal False Claims Act. The action is based almost entirely on the same environmental law violations concerning the Plaquemine facility which are alleged in the three lawsuits described above. In accordance with the False Claims Act, Mr. Duncan originally filed his lawsuit under seal in order to afford the federal government time to decide whether it wanted to intervene in the action. In April 2006, the federal government gave the plaintiffs notice of its intent not to intervene, at which time the court unsealed a portion of the records and made the action public. On January 19, 2007, the federal court held a hearing on the defenses relating to lack of jurisdiction, improper joinder and improper venue over the Company, and those matters are presently under advisement by that federal court.

On September 15, 2006, the same law firm that represents the plaintiffs in the other four Plaquemine lawsuits described above filed suit on behalf of Walter Allen against CH Plaquemine, CHI, CHESI and a local trucking company seeking injunctive relief restricting the weight limits of waste shipments over a local pontoon bridge that connects to the CH Plaquemine facility. On October 18, 2006, the same state court judge who is presiding over the other Plaquemine related state court suits declined to grant the plaintiff any emergency relief on the ground that the plaintiff had no standing, and the Company believes the plaintiff's suit is completely without merit.

The Company believes that all five of the lawsuits described above are without merit, and is vigorously defending against the claims made. The Company further believes that, since its acquisition by CH Plaquemine, the Plaquemine facility has been and now is in full compliance with its operating permits and all applicable state laws, and that any alleged contamination in the new area of concern complained of by the plaintiffs was and is already being addressed under the corrective action provisions of its RCRA operating permit. In addition, the Company believes that many of the plaintiffs' claims relate to actions or omissions allegedly taken or caused prior to September 2002 by third parties that formerly owned and/or operated, or generated or shipped waste to, the Plaquemine facility for which the Company has no legal responsibility under the Sale Order. Nevertheless, on June 9, 2006, the state district court ruled in the first lawsuit described above that CH Plaquemine was in violation of an ex-parte restraining order issued by the court in May 2004, and ordered the parties to submit a joint plan, or alternative plans, for cleanup of the CH Plaquemine facility no later than July 10, 2006. Both sides filed an individual cleanup plan on or before July 10, 2006, and on July 25, 2006, the plaintiffs filed a motion for the district court to adopt and implement their cleanup plan. On July 26, 2006, the plaintiffs filed a motion for damages and penalties seeking the imposition of fines against CH Plaquemine in excess of \$7 million and a court-ordered deposit of \$600,000 as initial financial assurance for the implementation of a cleanup plan. A ruling on all of those pending matters has been stayed by the bankruptcy filing by CH Plaquemine described below.

The Company has incurred legal expenses in connection with defending against the first three of the lawsuits described above that satisfied the \$1.0 million deductible on the Company's environmental impairment liability insurance applicable to the Plaquemine facility. Because the Company believes the claims against CH Plaquemine, CHI and CHESI in the five lawsuits are without merit and that the Company has adequate insurance to cover any future liabilities associated with such lawsuits, the Company does not now maintain any reserves associated with the Plaquemine lawsuits. The Company has previously established and maintains a separate reserve for the ongoing corrective actions at the Plaquemine facility (which is included within the Company's reserves for remedial liabilities for its properties described in Note 5. The amount of this reserve includes the cost to cover the additional sampling and analytical testing being conducted in the vicinity of the new area of concern.).

Crowley, Louisiana Facility. On December 8, 2006, the same law firm that represents the plaintiffs in the aforementioned five suits related to the CH Plaquemine facility also filed suit on behalf of Wilbert R. Perry against Clean Harbors, Inc. (CHI), two of CHI 's subsidiaries, Clean Harbors Disposal Services, Inc. (Disposal), and Crowley Disposal, LLC (Crowley), their insurers and various individuals and entities unrelated to the Company. The suit was originally filed in the 15th Judicial District Court, Acadia Parish, Louisiana, but has since been removed to the U.S. District Court for the Western District of Louisiana, Lafayette-Opelousas Division. The plaintiff in that case alleges the release and discharge of waste into the groundwater occurring over a 28-year span between 1969 and 1997 at a closed waste oil recovery and salvage facility that Crowley purchased in 2002 from the Sellers as part of the CSD transaction. Crowley 's corporate parent is Disposal, which is in turn owned by CHI. Disposal and CHI are alleged to be liable pursuant to the Single Business Entity Doctrine. The Company has not recorded any liability for this matter on the basis that any such liability is neither probable nor estimable.

CH Plaquemine Chapter 11 Proceedings. On October 17, 2006, CH Plaquemine (which has operated at a loss during the past two years) ceased operations and filed a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the District of Massachusetts, Eastern division. The Company believes that the filing of that chapter 11 petition by CH Plaquemine will have no adverse effect on the Company 's other operations. The chapter 11 filing had the immediate effect of automatically staying all litigation against CH Plaquemine by the plaintiffs in the aforementioned five lawsuits, although such automatic stay did not protect either CHI or CHESI, or Crowley from continued litigation.

On December 28, 2006, the Mass. Bankruptcy Court transferred the venue of the CH Plaquemine bankruptcy case to the U.S. Bankruptcy Court for the Middle District of Louisiana, located in Baton Rouge, where such case is now pending. Since then, all of the first three lawsuits mentioned above have been referred by the District Court to the Bankruptcy Court for determination. On January 25, 2007, the plaintiffs filed a motion to dismiss the bankruptcy petition, or in the alternative, for the court to abstain its jurisdiction or permit the plaintiffs relief from the stay to continue their lawsuits in either state or federal court. That motion was initially heard on February 9, 2007, and continued for further hearing on March 16, 2007.

On March 16, 2007, the parties reached a tentative and conditional settlement of all litigation with the plaintiffs in the six above-described lawsuits that if successful, would be a full and complete settlement of all such litigation. In order to achieve the latter objective, it was necessary that notice be provided to all putative members of any class action against the Company or any of its subsidiaries. As a result, all of the pending lawsuits were administratively closed (i.e. suspended) while CH Plaquemine obtained Bankruptcy Court approval for a form of publication notice of a bar date for the filing of claims against CH Plaquemine, which bar date is June 22, 2007 at 4:30 p.m. CDT. The Company intends to assist CH Plaquemine to confirm a plan of reorganization that will resolve all of the foregoing litigation, and all other claims similar to those raised by the plaintiffs, as part of a comprehensive claims resolution process approved by the Bankruptcy Court for the Middle District of Louisiana. If such a plan of reorganization cannot be confirmed, or such a comprehensive claims resolution process agreed upon, the Company at present is uncertain what further participation it will have with the financial and other problems of CH Plaquemine, other than by defending against the claims of the plaintiffs. Because the conditional settlement is not yet final, management of the Company currently believes that the tentative and conditional nature of the settlement means that any liabilities associated therewith are not both probable and estimable at this time, and the Company therefore has not established any reserves for any potential liabilities in connection therewith, at present. Based on terms of the tentative agreement, the Company 's liability would not be expected to exceed \$2.15 million.

Deer Trail, Colorado Facility. On December 21, 2005, the Colorado Department of Public Health and Environment (CDPHE) granted to Clean Harbors Deer Trail, LLC (CH Deer Trail) a radioactive materials license (RAD license) to accept certain low level radioactive materials known as NORM/TENORM wastes for disposal at the CH Deer Trail facility in accordance with the license 's terms. On or about January 20, 2006, Adams County Colorado, the county where the CH Deer Trail facility is located, filed complaints in the Adams County District Court and the Denver County District Court against CDPHE seeking to vacate the CDPHE 's grant of the RAD license to CH Deer Trail. On or about February 8, 2006, the Colorado Attorney General representing CDPHE filed motions with both courts petitioning the courts to dismiss the County 's complaints on various procedural grounds. On April 5, 2006, attorneys for CH Deer Trail filed motions to intervene in both actions to protect the Company 's interest. Both the County and the

State of Colorado agreed to CH Deer Trail's motion to intervene.

On or about April 20, 2006, the Company was notified that it had been awarded a contract by the municipality of Canon City Water Treatment Plant to dispose of certain quantities of NORM/TENORM material at the CH Deer Trail facility in accordance with its RAD license. CH Deer Trail notified the State of Colorado that it had received the aforementioned contract and intended to proceed with the project and further requested confirmation that the RAD license issued by CDPHE was valid and in effect during the pendency of the two cases in the above referenced courts. By letter on April 20, 2006, CDPHE notified both the municipality of Canon City and CH Deer Trail that the license was valid and in effect. On April 21,

19

2006 the Colorado Attorney General notified the courts and the plaintiff county that Deer Trail would accept the Canon City NORM/TENORM material during the week of April 23, 2006. The plaintiff county objected and for the first time provided notice to the State of Colorado and CH Deer Trail that it had obtained a stay of the RAD license in the Adams County Court on January 20, 2006. No prior notice of such a stay had been served on the State of Colorado or CH Deer Trail. In response thereto, on April 27, 2006, the State of Colorado filed a motion with the Adams County District Court seeking a clarification of the order granting the automatic stay and seeking to narrow the order so as to allow the facility to accept NORM/TENORM materials in accordance with its RAD license.

During the pendency of this motion, CH Deer Trail, with the concurrence of its customer Canon City, Colorado, agreed to delay acceptance of Canon City's NORM/TENORM materials until a hearing on the matter can be held at the Adams County District Court. No stay of the RAD license was granted by the Denver County District Court. On May 5, 2006, the Denver District Court held a hearing to rule on the motions by the State of Colorado and the Company to dismiss the complaint of the plaintiff county. The Court ruled in favor of the State and the Company and issued an order dismissing the plaintiff county's complaint. On July 5, 2006, the Adams County District Court held a hearing on the plaintiff county's appeal and dismissed the county's complaint. The written order dismissing the complaint was executed on July 31, 2006 and it simultaneously vacates the stay that had previously been issued by that court. Adams County has appealed both rulings.

On September 1, 2006 CH Deer Trail filed a complaint for declaratory relief in the Adams County District Court asking the court to declare that the facility's Certificate of Designation (CD) defers all authority to the State regarding the materials that may be accepted, treated, and disposed of at the facility, specifically including those materials authorized by the state-issued Permit and License for the facility; and/or alternatively, declare that the acceptance of the licensed materials does not violate the facility's CD. CH Deer Trail also filed a companion motion for a preliminary injunction to enjoin the Board of County Commissioners from issuing an administrative order or initiating an administrative proceeding based on the faulty premise that the CD prohibits the acceptance, treatment and disposal of licensed and/or permitted materials. On October 4, 2006, Adams County filed a motion with the Adams County District Court to dismiss the complaint and motion for preliminary injunction for lack of jurisdiction. On October 27, 2006 the Court heard oral arguments on the County's motion and presently has the matter under advisement.

On or about December 12, 2006 the City and County of Denver notified the Company that the City intended to award it a contract to dispose of certain debris at the Clean Harbors Deer Trail Facility from a project known as the Denver Radium Streets project. Clean Harbors Deer Trail facility has been designated by the Rocky Mountain Low-Level Radioactive Waste Compact (Compact) as a Regional Facility. Accordingly, it is the only facility in the three-state Compact Region's jurisdiction (Colorado, New Mexico, Nevada) qualified to accept this material for disposal. On December 15, 2006 the Company notified the Adams County District Court and Adams County of its intention to proceed with the City and County of Denver contract and accept the aforementioned material in accordance with its State of Colorado Radioactive Materials License and Federal Compact Designation. On December 18, 2006 the original shipment of Denver Radium material was received at the facility followed by subsequent shipments on February 14 and 15, 2007. On or about February 16, 2007 Clean Harbors Deer Trail Facility received a vaguely worded Notice of Violation from Adams County, presumably as a result of accepting the aforementioned material. On February 20, 2007 the Company filed a motion with the Adams County District Court seeking a Temporary Restraining Order against Adams County from enforcing that Notice of Violation or any other enforcement based on the acceptance of material that Deer Trail is permitted, licensed and designated to receive. That motion along with the Company's prior motions is still pending before the Court.

The Company's position is that the Notice of Violation issued by Adams County is null and void ab initio as it is in conflict with the Radioactive Materials License issued by the Colorado Department of Public Health and Environment pursuant to Colorado state law and the Regional Facility Designation issued by the Compact pursuant to both Federal Law and the laws of Colorado. The Company will continue to contest the unlawful actions of Adams County and will continue to lawfully accept all materials authorized by its permits, licenses, and Compact Designation. The Company has not recorded any liability for this matter on the basis that such liability is neither probable nor estimable.

On April 25, 2007, the Adams County District Court on very narrow technical jurisdictional grounds dismissed the Company's action for declaratory judgment. On that date Adams County filed a new action against the Company essentially asserting grounds that the County has asserted in prior proceedings in its defense against the Company. The Company continues to believe that the grounds asserted by the County are factually and legally baseless and will contest the complaint vigorously.

Legal Proceedings Not Related to CSD Assets

In addition to the legal proceedings relating to the CSD assets, the Company is also involved in certain legal proceedings related to environmental matters which have arisen for other reasons.

Superfund Sites Not Related to CSD Acquisition. The Company has been named as a PRP at 29 sites that are not related to the CSD acquisition. Fourteen of these sites involve two subsidiaries which the Company acquired from ChemWaste, a former subsidiary of Waste Management, Inc. As part of that acquisition, ChemWaste agreed to indemnify the Company with respect to any liability of those two subsidiaries for waste disposed of before the Company acquired them. Accordingly, Waste Management is paying all costs of defending those two subsidiaries in those 14 cases, including legal fees and settlement costs.

The Company's subsidiary which owns the Bristol, Connecticut facility is involved in one of the 29 Superfund sites. As part of the acquisition of that facility, the seller and its now parent company, Cemex, S.A., agreed to indemnify the Company with respect to any liability for waste disposed of before the Company acquired the facility, which would include any liability arising from Superfund sites.

Eleven of the 29 Superfund sites involve subsidiaries acquired by the Company which had been designated as PRPs with respect to such sites prior to its acquisition of such subsidiaries. Some of these sites have been settled, and the Company believes its ultimate liability with respect to the remaining such sites will not be material to its result of operations, cash flow from operations or financial position.

As of March 31, 2007 and December 31, 2006, the Company had reserves of \$0.6 million and \$0.1 million, respectively, for cleanup of Superfund sites not related to the CSD acquisition or the Teris acquisition described below at which either the Company or a predecessor has been named as a PRP. However, there can be no guarantee that the Company's ultimate liabilities for these sites will not materially exceed this amount or that indemnities applicable to any of these sites will be available to pay all or a portion of related costs. Furthermore, in July 2006, the Company was informed of its involvement at a state Superfund site in Niagara Falls, New York where it may have incurred liability for past waste shipments. In February 2007, the New York State Department of Environmental Conservation issued an official Notice Letter pertaining to this site. The Company increased the reserve by \$0.5 million during the three months ended March 31, 2007 pertaining to this potential liability.

Legal Proceedings Related to the Teris Acquisition. On August 18, 2006, the Company purchased all of the outstanding membership interests in Teris LLC (Teris) and changed the name of Teris to Clean Harbors El Dorado, LLC (CH El Dorado). As a result of that purchase, CH El Dorado became a wholly-owned subsidiary of the Company. At the time of the acquisition, Teris was, and CH El Dorado now is, involved in certain legal proceedings arising from a fire on January 2, 2005, at the incineration facility owned and operated by Teris in El Dorado, Arkansas.

The fire destroyed a warehouse on the facility site but there were no personal injuries to any Teris personnel. The decision was made early after the report of the fire to let it burn itself out. Teris notified the appropriate regulatory bodies, including the Arkansas Department of Environmental Quality and the EPA, which sent personnel to the facility shortly after the fire was discovered. Continuous air monitoring during the fire and extensive soil and water sampling after the fire was extinguished have revealed no migration of hazardous materials off the plant site.

As a precautionary measure, the El Dorado police ordered a number of nearby residents to be evacuated from their homes overnight. Ultimately, certain of those residents filed three lawsuits in the Circuit Court of Union County, Arkansas against Teris claiming nuisance, property damage, personal injury, diminished value of property, and the need for future medical monitoring. All three suits claimed the right to be certified as class actions. Two of the suits also claimed violation of various federal environmental statutes. The third suit specifically stated that it was not claiming that any federal statutes or regulations were violated. The two suits claiming violation of federal law were removed to the U.S. District Court for the Western District of Arkansas. Those suits were ultimately remanded back to the state court after the federal judge found that the plaintiffs had failed to provide notice of the alleged violations of federal law to the appropriate federal agencies and that there was no other basis for federal court jurisdiction because the amount of each individual plaintiff's claim would not exceed \$75 thousand. Those lawsuits are now in state court awaiting the outcome of the appeal of class certification in the third suit. The third suit was certified as a class action by the state court judge in July 2006. That order has been appealed to the Arkansas Supreme Court. Briefing time has not yet been scheduled but it is anticipated that the appeal of class certification will not be decided until late 2007 or early 2008.

CH El Dorado intends to defend the claims vigorously, and the Company believes that the resolution of the three lawsuits described above will not have a materially adverse affect on the Company's financial position, results of operations or cash flows. In addition to CH El Dorado's defenses to the lawsuits, the Company will be entitled to rely upon an indemnification from the seller of the membership interests in Teris which is contained in the purchase agreement for those interests. Under that agreement, the seller agreed to indemnify (without any deductible amount) the Company against any damages which the Company might suffer as a result of the lawsuits to the extent that such damages are not fully

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

covered by insurance which Teris maintained or reserves which Teris had established prior to the acquisition, and the seller's parent (which is a company with substantial net worth) guaranteed that indemnification obligation of the seller to the Company.

21

State and Provincial Enforcement Actions

London, Ontario Facility. Clean Harbors Environmental Services, Inc., and one of the Company's Canadian subsidiaries, Clean Harbors Canada, Inc., received a summons from the Provincial Ministry of Labour alleging a number of regulatory offenses under the Ontario Occupational Health and Safety Act as a result of a fire in October 2003 at a Clean Harbors Canada, Inc., waste transfer facility in London, Ontario. A worker at the facility received serious injuries as a result of the fire. The matter is pending in the Ontario Court of Justice in London, Ontario. The initial appearance on this matter occurred on November 22, 2004, and in the spring of 2005 the Company filed a pre-trial motion to quash the charges based on the jurisdictional argument that the Provincial Ministry of Labour lacked jurisdiction to lay charges as the jurisdiction to do so rests with the Federal Government under the Canadian Labour Code. On October 16, 2006, the Court ruled in favor of the Company's motion and quashed all charges against the Company and its subsidiaries. On November 22, 2006, the Provincial Government appealed the decision and the Ontario Superior Court has set June 27, 2007 to hear the appeal. The Company has not recorded any liability for this matter on the basis that such liability is neither probable nor estimable.

(8) LOSS ON EARLY EXTINGUISHMENT OF DEBT

On January 12, 2006, the Company redeemed \$52.5 million principal amount of outstanding Senior Secured Notes and paid prepayment penalties and accrued interest through the redemption date. In connection with such redemption the Company recorded during the quarter ending March 31, 2006, to loss on early extinguishment of debt, an aggregate of \$8.3 million, consisting of \$1.8 million unamortized financing costs, \$0.6 million of unamortized discount on the Senior Secured Notes, and the \$5.9 million prepayment penalty required by the Indenture in connection with such redemption.

(9) INCOME TAXES

The income tax expense for the first quarter of 2007 is based on the estimated effective tax rate for the year. SFAS 109, *Accounting for Income Taxes*, requires that a valuation allowance be established when, based on an evaluation of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Accordingly, as of March 31, 2007, the Company has a valuation allowance of approximately \$12.1 million related to foreign tax credits, certain state net operating loss carryforwards and federal and state net operating loss carryforwards related to tax deductions for the exercise of non-qualified stock options.

The Company adopted FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) on January 1, 2007. As a result of the implementation of FIN 48, tax contingencies increased \$41.9 million for uncertain tax positions, which were accounted for as a decrease to retained earnings. In addition, to reflect the federal and state tax benefits upon the implementation of FIN 48, the Company also recorded an increase to the Company's deferred tax assets of \$4.7 million, which was accounted for as a \$5.1 million increase to retained earnings and a \$0.4 million decrease to the valuation allowance.

As of the date of adoption of FIN 48 and after the impact of recognizing the increase in the tax contingencies noted above, the Company's unrecognized tax benefits totaled \$57.7 million consisting of \$47.8 million of unrecognized tax benefit, \$8.0 million of interest and \$1.9 million of penalties, which are recorded on the Company's Consolidated Balance Sheet as *Other long-term liabilities*. The \$57.7 million includes \$15.8 million of contingencies previously recorded on the Company's Consolidated Balance Sheet at December 31, 2006. Included in the balance at January 1, 2007, are \$38.7 million of unrecognized tax benefits that, if recognized, would affect the annual effective income tax rate.

The Company has elected to continue its practice of recognizing interest and/or penalties related to income tax matters as a component of income tax expense. During the three months ended March 31, 2007 and 2006, the Company recognized \$1.6 million and \$0.2 million, respectively, of interest and penalties related to the Company's tax contingencies as income tax expense. The Company's January 1, 2007 tax contingencies include \$8.0 million of interest and \$1.9 million of penalties, including a \$6.1 million increase related to the Company's adoption of FIN 48. As of March 31, 2007 the Company's tax contingencies include \$9.2 million of interest and \$2.3 million of penalties.

The Company files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The Company may be subject to examination by the Internal Revenue Service (IRS) for calendar years 2003 through 2006. Additionally, any net operating losses that were generated in prior years and utilized in these years may also be subject to examination by the IRS. The Company may also be subject to examinations by state and local revenue authorities for calendar years 2002 through 2006. The Company is currently not under examination

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

by the IRS, state, local or foreign jurisdictions.

The Company does not anticipate that total unrecognized tax benefits will change significantly prior to March 31, 2008.

22

(10) EARNINGS PER SHARE

The following is a reconciliation of basic and diluted income per share computations (in thousands except for per share amounts):

	Three Months Ended March 31, 2007			Three Months Ended March 31, 2006		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic income attributable to common stockholders before effect of dilutive securities	\$ 3,432	19,750	\$ 0.17	\$ 2,736	19,390	\$ 0.14
Effect of dilutive securities	69	887		69	1,119	
Diluted income attributable to common stockholders	\$ 3,501	20,637	\$ 0.17	\$ 2,805	20,509	\$ 0.14

For the three-month periods ended March 31, 2007 and 2006, the dilutive effect of all outstanding warrants, options and Series B Preferred Stock is included in the above calculations. For the three-month period ended March 31, 2007, the performance criteria relating to 51 thousand outstanding performance stock awards had not been satisfied, therefore the dilutive effect of such 51 thousand shares is excluded from the above calculation. For the three-month period ended March 31, 2006, the performance criteria relating to 71 thousand outstanding performance stock awards had not been satisfied, therefore the dilutive effect of such 71 thousand shares is excluded from the above calculation.

(11) STOCK-BASED COMPENSATION

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

The following table summarizes the total number and type of awards granted during the first quarter of each year as well as the related weighted-average grant-date fair values:

	Three Months Ended March 31, 2007		Three Months Ended March 31, 2006	
	Shares	Weighted- Average Grant-Date Fair Value	Shares	Weighted- Average Grant-Date Fair Value
Stock options	2,500	\$ 27.67		
Performance stock awards	50,598	\$ 52.30	71,292	\$ 31.73
Total awards	53,098		71,292	

The performance stock awards granted in 2007 are subject to performance criteria such as predetermined revenue and EBITDA targets for a specified period of time and also include continued service conditions. If the Company does not achieve the performance goals by the end of 2008, the shares will be forfeited in their entirety. For the three months ended March 31, 2007, no compensation has been recorded for these awards. During the three months ended March 31, 2007, \$519 thousand was recorded as treasury stock for 10,718 shares of the Company's common stock that employees had remitted to the Company as payment for payroll taxes previously paid by the Company on the employees behalf in connection with the employees vesting of certain performance stock awards.

The following weighted-average assumptions were used in calculating the grant date fair value of the stock options awards granted during the three months ended March 31, 2007 (no options were granted during the same period in 2006):

	2007	
Expected volatility	81.36	%
Risk-free interest rate	4.9	%
Expected life (years)	2.6	
Dividend yield	none	

(12) SEGMENT REPORTING

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

Performance of the segments is evaluated on several factors, of which the primary financial measure is operating income before interest, taxes, depreciation, amortization, restructuring, non-recurring severance charges, other non-recurring refinancing-related expenses, (gain) loss on disposal of assets held for sale, other (income) expense, and loss on refinancing (Adjusted EBITDA Contribution). Transactions between the segments are accounted for at the Company's estimate of fair value based on similar transactions with outside customers.

The Company has two reportable segments: Technical Services and Site Services.

Technical Services include:

23

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

- treatment and disposal of industrial wastes, which includes physical treatment, resource recovery and fuels blending, incineration, landfills, wastewater treatment, lab chemical disposal and explosives management;
- collection, transportation and logistics management;
- categorization, specialized repackaging, treatment and disposal of laboratory chemicals and household hazardous wastes, which are referred to as CleanPack® services; and
- Apollo Onsite Services, which provide customized environmental programs at customer sites.

These services are provided through a network of service centers where a fleet of trucks, rail or other transport is dispatched to pick up customers' waste either on a pre-determined schedule or on demand, and then to deliver waste to a permitted facility. From the service centers, chemists can also be dispatched to a customer location for the collection of chemical waste for disposal.

Site Services provide highly skilled experts utilizing specialty equipment and resources to perform services, such as industrial maintenance, surface remediation, groundwater restoration, site and facility decontamination, emergency response, site remediation, PCB disposal, oil disposal, analytical testing services, information management services and personnel training. The Company offers outsourcing services for customer environmental management programs as well, and provides analytical testing services, information management and personnel training services.

The Company markets these services through its sales organizations and, in many instances, services in one area of the business support or lead to work in other service lines. Expenses associated with the sales organizations are allocated based on direct revenues by segment.

The operations not managed through the Company's two operating segments are presented herein as Corporate Items. Corporate Items revenues consist of two different operations where the revenues are insignificant. Corporate Items cost of revenues represents certain central services that are not allocated to the 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 two segments.

Certain reclassifications have been made to prior year information to conform to the current year presentation.

The following table reconciles third party revenues to direct revenues for the three-month periods ended March 31, 2007 and 2006 (in thousands). Outside or Third party revenue is revenue billed to our customers by a particular segment. Direct revenue is the revenue allocated to the segment performing the provided service. The Company analyzes results of operations based on direct revenues because the Company believes that these revenues and related expenses best reflect the manner in which operations are managed.

	For the Three Months Ended March 31, 2007			
	Technical Services	Site Services	Corporate Items	Total
Third party revenues	\$ 139,721	\$ 65,304	\$ (1)	\$ 205,024
Intersegment revenues	43,424	5,545	188	49,157
Gross revenues	183,145	70,849	187	254,181
Intersegment expenses	(39,940)	(8,665)	(552)	(49,157)
Direct revenues	\$ 143,205	\$ 62,184	\$ (365)	\$ 205,024

	For the Three Months Ended March 31, 2006			
	Technical Services	Site Services	Corporate Items	Total
Third party revenues	\$ 117,770	\$ 66,755	\$ (30)	\$ 184,495
Intersegment revenues	40,859	4,205	146	45,210
Gross revenues	158,629	70,960	116	229,705
Intersegment expenses	(36,298)	(8,861)	(51)	(45,210)
Direct revenues	\$ 122,331	\$ 62,099	\$ 65	\$ 184,495

The following table presents information used by management by reported segment (in thousands). Revenues from Technical Services and Site Services consist principally of external revenue from customers. Transactions between the segments are accounted for at the Company's estimate of fair value based on similar transactions with outside customers. Corporate Items revenues consist of revenues for miscellaneous services that

are not part of a reportable segment. The

24

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

Company does not allocate interest expense, income taxes, depreciation, amortization, accretion of environmental liabilities, non-recurring severance charges, (gain) loss on disposal of assets held for sale, other (income) expense, and loss on refinancing to segments. Certain reporting units have been reclassified to conform to the current year presentation.

	For the Three Months Ended March 31,	
	2007	2006
Direct Revenues:		
Technical Services	\$ 143,205	\$ 122,331
Site Services	62,184	62,099
Corporate Items	(365)	65
Total	205,024	184,495
Cost of Revenues:		
Technical Services	103,252	84,325
Site Services	48,186	45,642
Corporate Items	166	1,391
Total	151,604	131,358
Selling, General and Administrative Expenses:		
Technical Services	14,623	12,968
Site Services	5,377	6,046
Corporate Items	11,355	9,341
Total	31,355	28,355
Adjusted EBITDA:		
Technical Services	25,330	25,038
Site Services	8,621	10,411
Corporate Items	(11,886)	(10,667)
Total	22,065	24,782
Reconciliation to Consolidated Statement of Operations:		
Accretion of environmental liabilities	2,474	2,510
Depreciation and amortization	8,938	7,279
Income from operations	10,653	14,993
Other (income) expense	(6)	30
Loss on early extinguishment of debt		8,290
Interest expense, net of interest income	3,184	3,173
Income before provision for income taxes	\$ 7,475	\$ 3,500

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

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

	March 31, 2007	December 31, 2006
Properties held for sale:		
Technical Services	\$ 526	\$ 520
Site Services	373	492
Corporate or other assets	6,428	6,428
	\$ 7,327	\$ 7,440
Property, plant and equipment, net		
Technical Services	\$ 204,482	\$ 207,271
Site Services	18,240	19,502
Corporate or other assets	18,005	17,353
	\$ 240,727	\$ 244,126
Intangible assets:		
Technical Services		
Goodwill	\$ 21,519	\$ 18,884
Permits, net	61,930	61,497
Customer profile database, net	367	584
	83,816	80,965
Site Services		
Goodwill	148	148
Permits, net	3,634	3,604
Customer profile database, net	36	58
	3,818	3,810
	\$ 87,634	\$ 84,775

The following table presents the total assets by reported segment (in thousands):

	March 31, 2007	December 31, 2006
Technical Services	\$ 346,584	\$ 346,220
Site Services	35,013	36,656
Corporate Items	269,019	287,932
Total	\$ 650,616	\$ 670,808

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

	March 31, 2007	December 31, 2006
United States	\$ 545,810	\$ 561,486
Canada	104,806	109,322
Total	\$ 650,616	\$ 670,808

(13) GUARANTOR AND NON-GUARANTOR SUBSIDIARIES

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

On June 30, 2004, \$150.0 million of Senior Secured Notes were issued by the parent company, Clean Harbors, Inc., and were guaranteed by all of the parent's material subsidiaries organized in the United States. The notes are not guaranteed by the Company's Canadian and Mexican subsidiaries. The following presents condensed consolidating financial statements for the parent company, the guarantor subsidiaries and the non-guarantor subsidiaries, respectively.

In addition, as part of the refinancing of the Company's debt, one of the parent's Canadian subsidiaries made a \$91.7 million (U.S.) investment in the preferred stock of one of the parent's domestic subsidiaries and issued, in partial payment for such investment, a promissory note for \$89.4 million (U.S.) payable to one of the parent's domestic subsidiaries. The dividend rate on such preferred stock is 11.125% per annum and the interest rate on such promissory note is 11.0% per annum. The effect of this transaction was to increase stockholders' equity of a U.S. guarantor subsidiary, to increase interest income of a U.S. guarantor subsidiary, to increase debt of a foreign non-guarantor subsidiary, and to increase interest expense of a foreign non-guarantor subsidiary.

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

Following is the condensed consolidating balance sheet at March 31, 2007 (in thousands):

	Clean Harbors, Inc.	U.S. Guarantor Subsidiaries	Foreign Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets:					
Cash and cash equivalents	\$ 116	\$ 32,992	\$ 24,840	\$	\$ 57,948
Marketable securities	10,950	167			11,117
Accounts receivable, net	27	143,021	17,732		160,780
Unbilled accounts receivable		13,646	1,718		15,364
Intercompany receivables	35,154		23,558	(58,712)	
Deferred costs		6,224	675		6,899
Prepaid expenses		1,167	9,052		10,219
Supplies inventories		19,380	1,362		20,742
Income taxes receivable			151		151
Properties held for sale		6,801	526		7,327
Property, plant and equipment, net		215,822	24,905		240,727
Deferred financing costs	7,180		2		7,182
Goodwill		19,032	2,635		21,667
Permits and other intangibles, net		42,531	23,436		65,967
Investments in subsidiaries	264,654	68,969	91,654	(425,277)	
Deferred tax assets	18,655		2,090		20,745
Intercompany note receivable		104,076	3,701	(107,777)	
Other assets		1,501	2,280		3,781
Total assets	\$ 336,736	\$ 675,329	\$ 230,317	\$ (591,766)	\$ 650,616
Liabilities and Stockholders Equity:					
Uncashed checks	\$	\$ 6,306	\$ 613	\$	\$ 6,919
Accounts payable		60,837	8,885		69,722
Accrued disposal costs		1,599	1,289		2,888
Deferred revenue		26,078	2,701		28,779
Other accrued expenses	22,631	14,729	5,209		42,569
Income taxes payable	6,299	(3,199)	(1,008)		2,092
Intercompany payables		58,712		(58,712)	
Closure, post-closure and remedial liabilities		156,269	16,894		173,163
Long-term obligations	120,549				120,549
Capital lease obligations		3,275	575		3,850
Other long-term liabilities	41,899		15,774		57,673
Intercompany note payable	3,701		104,076	(107,777)	
Accrued pension cost			755		755
Total liabilities	195,079	324,606	155,763	(166,489)	508,959
Stockholders Equity:					
Series B convertible preferred stock	1				1
Common stock	198		2,235	(2,235)	198
Treasury stock	(519)				(519)
Additional paid-in capital	153,446	180,496	4,049	(184,545)	153,446
Accumulated other comprehensive income	9,515	16,676	7,613	(24,289)	9,515
Accumulated earnings (deficit)	(20,984)	153,551	60,657	(214,208)	(20,984)
Total stockholders equity	141,657	350,723	74,554	(425,277)	141,657
Total liabilities and stockholders equity	\$ 336,736	\$ 675,329	\$ 230,317	\$ (591,766)	\$ 650,616

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

Following is the condensed consolidating balance sheet at December 31, 2006 (in thousands):

	Clean Harbors, Inc.	U.S. Guarantor Subsidiaries	Foreign Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets:					
Cash and cash equivalents	\$ 822	\$ 44,854	\$ 27,874	\$	\$ 73,550
Marketable Securities	10,100	140			10,240
Accounts receivable, net	27	152,732	16,822		169,581
Unbilled accounts receivable		13,932	2,146		16,078
Intercompany receivables	39,602		5,773	(45,375)	
Deferred costs		6,296	844		7,140
Prepaid expenses and other current assets		7,919	1,382		9,301
Supplies inventories		18,906	1,195		20,101
Income taxes receivable			150		150
Properties held for sale		6,920	520		7,440
Property, plant and equipment, net		219,024	25,102		244,126
Deferred financing costs	7,202		4		7,206
Goodwill		19,032			19,032
Permits and other intangibles, net		42,254	23,489		65,743
Investments in subsidiaries	253,877	56,757	91,654	(402,288)	
Equity interest in joint venture		2,208			2,208
Deferred tax asset	13,597		2,029		15,626
Intercompany note receivable		102,986	3,701	(106,687)	
Other assets		1,705	1,581		3,286
Total assets	\$ 325,227	\$ 695,665	\$ 204,266	\$ (554,350)	\$ 670,808
Liabilities and Stockholders Equity:					
Uncashed checks	\$	\$ 8,343	\$ 2,740	\$	\$ 11,083
Accounts payable		72,576	8,856		81,432
Accrued disposal costs		1,810	1,248		3,058
Deferred revenue		26,033	3,376		29,409
Other accrued expenses	24,805	26,213	2,923		53,941
Income taxes payable	3,013	(1,417)	2,737		4,333
Intercompany payables		45,375		(45,375)	
Closure, post-closure and remedial liabilities		156,751	16,649		173,400
Long-term obligations	120,522				120,522
Capital lease obligations		3,511	528		4,039
Other long-term liabilities			15,609		15,609
Intercompany note payable	3,701		102,986	(106,687)	
Accrued pension cost			796		796
Total liabilities	152,041	339,195	158,448	(152,062)	497,622
Stockholders Equity:					
Series B convertible preferred stock	1				1
Common stock	197		2,236	(2,236)	197
Additional paid-in capital	151,691	183,417	4,049	(187,466)	151,691
Accumulated other comprehensive income	8,939	15,298	(5,195)	(10,103)	8,939
Retained earnings (deficit)	12,358	157,755	44,728	(202,483)	12,358
Total stockholders equity	173,186	356,470	45,818	(402,288)	173,186

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

Total liabilities and stockholders equity	\$	325,227	\$	695,665	\$	204,266	\$	(554,350)	\$	670,808
---	----	---------	----	---------	----	---------	----	-----------	----	---------

28

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

Following is the consolidating statement of operations for the three months ended March 31, 2007 (in thousands):

	Clean Harbors, Inc.	U.S. Guarantor Subsidiaries	Foreign Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	\$	\$ 177,591	\$ 30,982	\$ (3,549)	\$ 205,024
Cost of revenues		133,593	21,560	(3,549)	151,604
Selling, general and administrative expenses		24,593	6,762		31,355
Accretion of environmental liabilities		2,258	216		2,474
Depreciation and amortization		7,153	1,785		8,938
Income from operations		9,994	659		10,653
Other income (expense)		6			6
Interest income (expense)	(3,413)	(77)	306		(3,184)
Equity in earnings of subsidiaries	10,199	(18)		(10,181)	
Intercompany dividend income (expense)			2,921	(2,921)	
Intercompany interest income (expense)		2,820	(2,820)		
Income before provision for income taxes	6,786	12,725	1,066	(13,102)	7,475
Provision for income taxes	3,285		689		3,974
Net income	\$ 3,501	\$ 12,725	\$ 377	\$ (13,102)	\$ 3,501

Following is the consolidating statement of operations for the three months ended March 31, 2006 (in thousands):

	Clean Harbors, Inc.	U.S. Guarantor Subsidiaries	Foreign Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	\$	\$ 156,728	\$ 31,490	\$ (3,723)	\$ 184,495
Cost of revenues		112,879	22,202	(3,723)	131,358
Selling, general and administrative expenses		23,683	4,672		28,355
Accretion of environmental liabilities		2,297	213		2,510
Depreciation and amortization		6,162	1,117		7,279
Income from operations		11,707	3,286		14,993
Other income (expense)	2	(3)	(29)		(30)
Loss on extinguishment of debt	(8,290)				(8,290)
Interest income (expense)	(3,519)	271	75		(3,173)
Equity in earnings of subsidiaries	14,451	2,681		(17,132)	
Intercompany dividend income (expense)			2,963	(2,963)	
Intercompany interest income (expense)		2,858	(2,858)		
Income before provision for income taxes	2,644	17,514	3,437	(20,095)	3,500
Provision for (benefit from) income taxes	(161)	163	693		695
Net income	\$ 2,805	\$ 17,351	\$ 2,744	\$ (20,095)	\$ 2,805

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

Following is the condensed consolidating statement of cash flows for the three months ended March 31, 2007 (in thousands):

	Clean Harbors, Inc.	U.S. Guarantor Subsidiaries	Foreign Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net cash (used in) provided by operating activities	\$ 10,644	\$ (2,745)	\$ (2,085)	\$ (10,181)	\$ (4,367)
Cash flows from investing activities:					
Additions to property, plant and equipment		(5,211)	(511)		(5,722)
Costs to obtain or renew permits		(64)			(64)
Proceeds from sales of fixed assets		140			140
Cost of available-for-sale securities	(850)	(27)			(877)
Acquisition of EnSCO Caribe	(1,131)				(1,131)
Investment in subsidiaries	(10,199)	18		10,181	
Net cash (used in) provided by investing activities	(12,180)	(5,144)	(511)	10,181	(7,654)
Cash flows from financing activities:					
Change in uncashed checks		(2,037)	(2,121)		(4,158)
Proceeds from exercise of stock options	740				740
Deferred financing costs incurred	(32)				(32)
Proceeds from employee stock purchase plan	260				260
Dividend payments on preferred stock	(69)				(69)
Payments of capital leases		(382)	(55)		(437)
Other	(69)				(69)
Interest (payments) / received		10,223	(10,223)		
Dividends (paid) received		(11,777)	11,777		
Net cash (used in) provided by financing activities	830	(3,973)	(622)		(3,765)
Effect of exchange rate change on cash			184		184
Increase (decrease) in cash and cash equivalents	(706)	(11,862)	(3,034)		(15,602)
Cash and cash equivalents, beginning of period	822	44,854	27,874		73,550
Cash and cash equivalents, end of period	\$ 116	\$ 32,992	\$ 24,840	\$	\$ 57,948

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

Following is the condensed consolidating statement of cash flows for the three months ended March 31, 2006 (in thousands):

	Clean Harbors, Inc.	U.S. Guarantor Subsidiaries	Foreign Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net cash (used in) provided by operating activities	\$ 63,094	\$ (38,306)	\$ (2,848)	\$ (17,132)	\$ 4,808
Cash flows from investing activities:					
Additions to property, plant and equipment		(9,018)	(1,200)		(10,218)
Proceeds from sales of fixed assets		366			366
Proceeds from sales of restricted investments	3,470				3,470
Cost of available-for-sale securities	(10,000)	(33,500)			(43,500)
Investment in subsidiaries	(14,451)	(2,681)		17,132	
Net cash (used in) provided by investing activities	(20,981)	(44,833)	(1,200)	17,132	(49,882)
Cash flows from financing activities:					
Change in uncashed checks		359	(556)		(197)
Proceeds from exercise of stock options	425				425
Excess tax benefit of stock-based compensation	53				53
Deferred financing costs incurred	(85)				(85)
Proceeds from employee stock purchase plan	179				179
Dividend payments on preferred stock	(69)				(69)
Payments of capital leases		(676)	(61)		(737)
Principal payments on debt	(52,500)				(52,500)
Dividends (paid) received		(11,810)	11,810		
Net cash (used in) provided by financing activities	(51,997)	(12,127)	11,193		(52,931)
Effect of exchange rate change on cash					
			(315)		(315)
Increase (decrease) in cash and cash equivalents	(9,884)	(95,266)	6,830		(98,320)
Cash and cash equivalents, beginning of period	10,391	110,649	11,409		132,449
Cash and cash equivalents, end of period	\$ 507	\$ 15,383	\$ 18,239	\$	\$ 34,129

(14) THOROLD FIRE

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

On February 19, 2007, an explosion and fire occurred at our Thorold facility in Ontario during non-business hours destroying a storage warehouse and damaging several nearby buildings on site. No employee casualties or injuries were reported. The Company has established business operations at alternative facilities to ensure business continuity and minimize disruption to its customers. The Company continues to evaluate the financial impact resulting from this incident and currently believes the Company is adequately insured and therefore does not expect to incur a material loss from this incident. As of March 31, 2007, the Company had recognized \$0.6 million of expenses in income from operations.

32

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 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 in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2007 under the heading Risk Factors and in other documents we file from time to time with the Securities and Exchange Commission. 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 provide a wide range of environmental services and solutions to a diversified customer base in the United States, Puerto Rico, Mexico and Canada. Throughout North America, we perform environmental services through a network of service locations, and operate incineration facilities, commercial landfills, wastewater treatment operations, and transportation, storage and disposal facilities, as well as polychlorinated biphenyls (PCB) management facilities and oil and used oil products recycling facilities. We seek to be recognized by customers as the premier supplier of a broad range of value-added environmental services based upon quality, responsiveness, customer service, information technologies, breadth of product offerings and cost effectiveness.

The wastes handled include materials that are classified as hazardous because of their unique properties, as well as other materials subject to federal and state environmental regulation. We provide final treatment and disposal services designed to manage hazardous and non-hazardous wastes, which cannot be economically recycled or reused. We transport, treat and dispose of industrial wastes for commercial and industrial customers, health care providers, educational and research organizations, other environmental services companies and governmental entities.

Our Technical Services collects and transports containerized and bulk waste; performs categorization, specialized repackaging, treatment and disposal of laboratory chemicals and household hazardous wastes, which are referred to as CleanPack® services; and offers Apollo Onsite Services, which customize environmental programs at customer sites. This is accomplished through the network of service centers where a fleet of trucks, rail or other transport is dispatched to pick up customers' waste either on a pre-determined schedule or on demand, and then to deliver waste to a permitted facility. From the service centers, chemists can also be dispatched to a customer location for the collection of chemical waste for disposal.

Our Site Services provide highly skilled experts utilizing specialty equipment and resources to perform services, such as industrial maintenance, surface remediation, groundwater restoration, site and facility decontamination, emergency response, site remediation, PCB disposal and oil disposal at the customer's site or another location. These services are dispatched on a scheduled or emergency basis.

On August 18, 2006, we purchased all of the membership interests in Teris LLC. As a result of that purchase, we acquired a hazardous waste incineration facility in Arkansas and a licensed transportation, storage and disposal facility in California. Subject to certain closing adjustments, the purchase price for Teris was approximately \$51.5 million. On January 3, 2007, Ensco Caribe, Inc., a Puerto Rico corporation (Ensco Caribe) then owned 50% by Clean Harbors El Dorado, LLC (CH El Dorado) and 50% by Ochoa Industrial Sales Corporation (Ochoa), redeemed the 50% stock ownership of Ochoa for \$3.0 million, of which \$300,000 was placed in escrow for a period of 14 months as security for the representations and warranties of Ochoa. Immediately after the redemption, Ensco Caribe was 100% owned by CH El Dorado, the name Ensco Caribe, Inc. was changed to Clean Harbors Caribe, Inc., and the Puerto Rico operations of Clean Harbors Environmental Services, Inc. were transferred to Clean Harbors Caribe, Inc.

We have accrued environmental liabilities, as of March 31, 2007, of approximately \$173.2 million, substantially all of which we assumed as part of the acquisition of CSD assets and Teris LLC. We anticipate such liabilities will be payable over many years and that cash flows generated from operations will be sufficient to fund the payment of such liabilities when required. However, events not now anticipated (such as future changes in environmental laws and regulations) could require that such payments be made earlier or in greater amounts than currently anticipated.

Environmental Liabilities**Closure and Post-closure Liabilities**

The changes to closure and post-closure liabilities for the three months ended March 31, 2007 are as follows (in thousands):

	January 1, 2007	New Asset Retirement Obligations	Accretion	Changes in Estimate Recorded to Statement of Operations	Other Changes in Estimates Recorded to Balance Sheet	Currency Translation, Reclassifi- cations and Other	Payments	March 31, 2007
Landfill retirement liability	\$ 18,858	\$ 384	\$ 631	\$ (169)	\$ 318	\$ 13	\$ (17)	\$ 20,018
Non-landfill retirement liability	6,697		206	(482)		3	(16)	6,408
Total	\$ 25,555	\$ 384	\$ 837	\$ (651)	\$ 318	\$ 16	\$ (33)	\$ 26,426

Remedial Liabilities

The changes to remedial liabilities for the three months ended March 31, 2007 are as follows (in thousands):

	January 1, 2007	Accretion	Changes in Estimate Recorded to Statement of Operations	Currency Translation, Reclassifications and Other	Payments	March 31, 2007
Remedial liabilities for landfill sites	\$ 4,917	\$ 56	\$	\$ 25	\$ (20)	\$ 4,978
Remedial liabilities for inactive sites	91,494	1,054	(1,531)	33	(871)	90,179
Remedial liabilities (including Superfund) for non-landfill operations	51,434	527	253	129	(763)	51,580
Total	\$ 147,845	\$ 1,637	\$ (1,278)	\$ 187	\$ (1,654)	\$ 146,737

The net \$1.3 million benefit from changes in estimates recorded to selling, general and administrative expenses on the consolidated statement of operations was due to: (i) regulator approval of less costly alternative remediation plan, (ii) the discounting effect of delays in certain remedial projects, and (iii) increase in utilization of a facility thus avoiding projected near-term closure.

Stock-based Compensation

As of March 31, 2007, there was \$1.4 million, \$0.7 million and \$0.8 million of total unrecognized compensation cost arising from non-vested compensation related to stock options, restricted stock awards, and performance stock awards under our stock incentive plans, respectively. These costs are expected to be recognized over the weighted-average periods of 0.9 years, 4.1 years and 0.8 years, respectively, for stock options, restricted stock awards and performance stock awards.

Results of Operations

Our operations are managed as two segments: Technical Services and Site Services.

Technical Services include treatment and disposal of industrial wastes via incineration, landfill or wastewater treatment; collection and transporting of all containerized and bulk waste; categorization, specialized repackaging, treatment and disposal of laboratory chemicals and household hazardous wastes, which are referred to as CleanPack® services; and the Apollo Onsite Services, which customize environmental programs at customer sites. This is accomplished through a network of service centers where a fleet of trucks, rail or other transport is dispatched to pick up customers' waste either on a pre-determined schedule or on demand, and then to deliver waste to a permitted facility. From the service centers, chemists can also be dispatched to a customer location for the collection of chemical waste for disposal.

Site Services provide highly skilled experts utilizing specialty equipment and resources to perform services, such as industrial maintenance, surface remediation, groundwater restoration, site and facility decontamination, emergency response, site remediation, PCB disposal and oil disposal at the customer's site or another location. These services are dispatched on a scheduled or emergency basis. We also offer outsourcing services for customer environmental management programs and provide analytical testing services, information management and personnel training services.

The following table sets forth for the periods indicated certain operating data associated with our results of operations. This table and subsequent discussions should be read in conjunction with Item 6, Selected Financial Data, and Item 8, Financial Statements and Supplementary Data, of our Annual Report on Form 10-K for the year ended December 31, 2006 and Item 1, Financial Statements, in this report.

	Percentage of Revenues For the Three Months Ended March 31,			
	2007		2006	
		%		%
Revenues	100.0	%	100.0	%
Cost of revenues:				
Disposal costs to third parties	2.8		3.0	
Other cost of revenues	71.1		68.2	
Total cost of revenues	73.9		71.2	
Selling, general and administrative expenses	15.3		15.4	
Accretion of environmental liabilities	1.2		1.4	
Depreciation and amortization	4.4		3.9	
Income from operations	5.2		8.1	
Other income (expense)				
Loss on early extinguishment of debt			(4.5)
Interest expense, net	(1.6)	(1.7)
Income before provision for income taxes	3.6		1.9	
Provision for income taxes	1.9		0.4	
Net income	1.7	%	1.5	%

Earnings before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA)

We define Adjusted EBITDA (a measure not defined under generally accepted accounting principles) as the term EBITDA is defined in our current credit agreement and indenture for covenant compliance purposes. This definition is net income (loss) plus accretion of environmental liabilities, depreciation and amortization, net interest expense, provision for (benefit from) income taxes, non-recurring severance charges, other non-recurring refinancing-related expenses, gain (loss) on sale of fixed assets, loss on early extinguishment of debt, and cumulative effect of change in accounting principle, net of tax.

Our 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 or loss or other measurements under accounting principles generally accepted in the United States. Because Adjusted EBITDA is not calculated identically by all companies, our measurements of Adjusted EBITDA may not be comparable to similarly titled measures reported by other companies.

The following is a reconciliation of net income to Adjusted EBITDA for the three-month period ended March 31, 2007:

Net income	\$ 3,501
Accretion of environmental liabilities	2,474
Depreciation and amortization	8,938
Interest expense, net	3,184
Provision for income taxes	3,974
Other (income) loss	(6)
Adjusted EBITDA	\$ 22,065

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

The following reconciles Adjusted EBITDA to cash provided for operations for the three-month period ended March 31, 2007:

Adjusted EBITDA	\$ 22,065
Interest expense, net	(3,184)
Provision for income taxes	(3,974)
Allowance for doubtful accounts	(330)
Amortization of deferred financing costs and debt discount	474
Change in environmental estimates	(1,929)
Deferred income taxes	(5,056)
Stock-based compensation	894
Changes in assets and liabilities	
Accounts receivable	10,586
Other current assets	(779)
Accounts payable	(11,506)
Environmental expenditures	(1,687)
Other current liabilities	(9,941)
Net cash (used in) operating activities	\$ (4,367)

Segment data

Performance of our segments is evaluated on several factors of which the primary financial measure is Adjusted EBITDA. The following table sets forth certain operating data associated with our results of operations and summarizes Adjusted EBITDA contribution by operating segment for the three months ended March 31, 2007 and 2006 (in thousands). We consider the Adjusted EBITDA contribution from each operating segment to include revenue attributable to each segment less operating expenses, which include cost of revenues and selling, general and administrative expenses. Revenue attributable to each segment is generally external or direct revenue from third party customers. Certain income or expenses of a non-recurring or unusual nature are not included in the operating segment Adjusted EBITDA contribution. This table and subsequent discussions should be read in conjunction with Item 6, Selected Financial Data, and Item 8, Financial Statements and Supplementary Data and in particular Note 22, Segment Reporting of our Annual Report on Form 10-K for the year ended December 31, 2006 and Item 1, Financial Statements and in particular Note 12, Segment Reporting in this report.

	For the Three Months Ended March 31,	
	2007	2006
Direct Revenues:		
Technical Services	\$ 143,205	\$ 122,331
Site Services	62,184	62,099
Corporate Items	(365)	65
Total	205,024	184,495
Cost of Revenues:		
Technical Services	103,252	84,325
Site Services	48,186	45,642
Corporate Items	166	1,391
Total	151,604	131,358
Selling, General and Administrative Expenses:		
Technical Services	14,623	12,968
Site Services	5,377	6,046
Corporate Items	11,355	9,341
Total	31,355	28,355
Adjusted EBITDA:		
Technical Services	25,330	25,038
Site Services	8,621	10,411
Corporate Items	(11,886)	(10,667)

Total	22,065	24,782
-------	--------	--------

36

Three months ended March 31, 2007 versus the three months ended March 31, 2006

Revenues

Total revenues for the three months ended March 31, 2007 increased \$20.5 million to \$205.0 million from \$184.5 million for the comparable period in 2006. Technical Services revenues for the three months ended March 31, 2007 increased \$20.9 million to \$143.2 million from \$122.3 million for the comparable period in 2006. The primary increases in Technical Services revenues consisted of increases in the volume and pricing of waste processed through our facilities of \$10.5 million and \$2.6 million, respectively. The increase was also attributable to new business from the Teris acquisition in 2006, stronger performance in the Canada regions as well as existing base business holding strong across all regions. These increases are partially offset by \$0.4 million due to the weakening in the Canadian dollar.

Site Services revenues for the three months ended March 31, 2007 increased \$0.1 million to \$62.2 million from \$62.1 million for the comparable period in 2006. In the first quarter of 2007, Site Services continued to perform emergency response work in the Gulf region related to hurricanes Katrina and Rita. This work accounted for \$2.7 million of outside revenues, offset by intercompany costs of \$0.5 million, resulting in direct revenue of \$2.2 million, or 3.5% of direct revenue for this segment. In the first quarter of 2006, Site Services performed major emergency response work accounting for \$13.2 million, offset by intercompany costs of \$1.7 million, resulting in direct revenue of \$11.5 million, or 18.5% of direct revenue for this segment. Base Site Services revenue increased \$9.4 million from the first quarter of 2006 compared to the first quarter of 2007. This increase was due to large project work in the Engineering Group, an increase in mid-size emergency response projects, as well as higher PCB/Oil volumes and increased oil and metal pricing as well as favorable volumes in the chemical recycling and distribution group. These increases were augmented by strong base and project business in the Midwest and West regions.

Corporate Items revenues for the three months ended March 31, 2007 decreased \$0.5 million to \$(365) thousand from \$65 thousand for the comparable period in 2006. This decrease results entirely from higher intercompany disposal costs connected with remedial projects on closed operations.

There are many factors which have impacted, and continue to impact, our revenues. These factors include: economic conditions; competitive industry pricing; continued efforts by generators of hazardous waste to reduce the amount of hazardous waste they produce; significant consolidation among treatment and disposal companies and industry-wide capacity utilization.

Cost of Revenues

Total cost of revenues for the three months ended March 31, 2007 increased \$20.3 million to \$151.6 million compared to \$131.3 million for the comparable period in 2006. Technical Services cost of revenues increased \$18.9 million to \$103.2 million from \$84.3 million for the comparable period in 2006. Cost of revenues for Technical Services increased \$7.1 million in employee labor and related costs, \$3.6 million in building and equipment repairs and maintenance expense, \$3.4 million in materials and supplies costs, \$1.3 million in outside transportation and rail costs, \$0.8 million in turnaround expense, \$0.7 million in transportation and discharge fees, \$0.6 million in subcontractor costs, \$0.6 million in utility expense, \$0.5 million in deferred costs and \$0.4 million in taxes and insurance. These increases were offset \$0.2 million due to a favorable foreign exchange fluctuation relating to the Canadian dollar.

Site Services cost of revenues increased \$2.6 million to \$48.2 million from \$45.6 million for the comparable period in 2006. Cost of revenues for the first quarter of 2007 related to the performance of major emergency response jobs decreased by \$5.1 million to \$1.6 million in 2007, as compared to \$6.7 million for comparable period of 2006. Non-event Site Services cost of revenue increased \$1.7 million in materials and supplies primarily due to increased volume and acquisition costs of recycling materials in our PCB business; increases of \$1.6 million in labor and related costs, \$1.8 million in vehicle expense and equipment rental and repair, \$1.5 million in outside disposal and transportation costs, \$0.7 million for subcontracting expenses, and \$0.4 million for travel costs due to increased business levels from large projects and base business.

Corporate Items cost of revenues for the three months ended March 31, 2007 decreased \$1.2 million to \$0.2 million from \$1.4 million for the comparable period in 2006. The decrease in Corporate Items cost of revenue was primarily due to a \$0.4 million reduction in external disposal costs connected with remedial projects on closed operations, unfavorable general insurance cost adjustments of \$0.4 million in 2006, and health insurance rebates and favorable adjustments of \$0.4 million in 2007.

We believe that our ability to manage operating costs is an important factor in our ability to remain price competitive. We continue to upgrade the quality and efficiency of our waste treatment services through the development of new technology and continued modifications and upgrades at our facilities, and implementation of strategic initiatives. We plan to continue to focus on achieving cost savings relating to purchased goods and services through the strategic sourcing initiative. However, we cannot assure that our efforts to manage future operating expenses will be successful.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses for the three months ended March 31, 2007 increased \$2.9 million to \$31.3 million from \$28.4 million for the comparable period in 2006. Technical Services selling, general and administrative expenses for the three months ended March 31, 2007 increased \$1.6 million to \$14.6 million from \$13.0 million for the comparable period in 2006 primarily due to increased headcount and related labor costs required to support business growth.

Site Services selling, general and administrative expenses decreased \$0.7 million to \$5.4 million for the three-month period ended March 31, 2007 from \$6.1 million for the corresponding period of the preceding year. The decrease was primarily due to a reduction in environmental reserves at one of our PCB facilities of \$0.5 million in the first quarter of 2007.

Corporate Items selling, general and administrative expenses for the three months ended March 31, 2007 increased \$2.0 million to \$11.3 million from \$9.3 million for the comparable period in 2006. The increase resulted primarily from accrued severance costs of \$1.8 million, and increased stock-based compensation costs.

Accretion of Environmental Liabilities

Accretion of environmental liabilities was \$2.5 million for each of the three-month periods ended March 31, 2007 and 2006, respectively.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended March 31, 2007 increased \$1.6 million to \$8.9 million from \$7.3 million for the comparable period in 2006. The increase was primarily due to depreciation of assets acquired as part of Teris, LLC, \$0.8 million, increased volumes at our landfill sites, \$0.5 million, and we also expensed \$0.3 million in connection with an insurance loss deductible.

Loss on Early Extinguishment of Debt

On January 12, 2006, we redeemed \$52.5 million principal amount of outstanding Senior Secured Notes and paid prepayment penalties and accrued interest through the redemption date. In connection with such redemption, we recorded during the quarter ending March 31, 2006, to loss on early extinguishment of debt, an aggregate of \$8.3 million, consisting of the \$1.8 million unamortized portion of such financing costs, \$0.6 million of unamortized discount on the Senior Secured Notes and the \$5.9 million prepayment penalty required by the Indenture in connection with such redemption.

Interest Expense, Net

Interest expense, net of interest income for the three months ended March 31, 2007, at \$3.2 million was broadly comparable with the same period in 2006.

Income Taxes

Income tax expense for the three months ended March 31, 2007 increased \$3.3 million to \$4.0 million from \$0.7 million for the comparable period in 2006. Income tax expense for the first quarter of 2007 consisted of: a current tax expense relating to the Canadian operations of \$0.4 million; federal income tax of \$1.9 million; a state income tax expense of \$0.5 million; and interest and penalties related to tax contingencies of \$1.2 million. Income tax expense for the first quarter of 2006 consisted of: a current tax expense relating to the Canadian operations of \$0.2 million, including withholding taxes; federal income tax of \$0.1 million; a state income tax expense of \$0.2 million relating to profitable operations in certain legal entities; and interest related to tax contingencies of \$0.2 million.

SFAS 109, Accounting for Income Taxes, requires that a valuation allowance be established when, based on an evaluation of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Accordingly, as of March 31, 2007 and December 31, 2006, we had a valuation allowance of approximately \$12.1 million and \$12.4 million, respectively. The allowance relates to foreign tax credits, certain state net operating loss carryforwards and federal and state net operating loss carryforwards related to tax deductions for the exercise of non-qualified stock options.

Adjusted EBITDA Contribution

Edgar Filing: CLEAN HARBORS INC - Form 10-Q

The combined Adjusted EBITDA contribution by segment for the three months ended March 31, 2007 decreased \$2.7 million to \$22.1 million from \$24.8 million for the comparable period in 2006. The contribution of Technical Services increased \$0.4 million, Site Services contribution decreased \$1.8 million and Corporate Items costs increased \$1.3 million.

38

The combined Adjusted EBITDA contribution was comprised of revenues of \$205.0 million and \$184.5 million, net of cost of revenues of \$151.6 million and \$131.3 million and selling, general and administrative expenses of \$31.3 million and \$28.4 million for the three-month periods ended March 31, 2007 and 2006, respectively.

Liquidity and Capital Resources

We believe that our primary sources of liquidity are cash flows from operations, existing cash, marketable securities, and funds available to borrow under our Revolving Facility. As of March 31, 2007, cash and cash equivalents were \$57.9 million, marketable securities were \$11.1 million, funds available to borrow under the Revolving Facility were \$24.4 million, and properties held for sale were \$7.3 million.

We intend to use our existing cash, marketable securities and cash flow from operations to provide for our working capital needs, for potential acquisitions, and to fund recurring capital expenditures. We anticipate that our cash flow provided by operating activities will provide the necessary funds on a short and long-term basis to meet operating cash requirements. In addition, we project that we will continue to meet our debt covenant requirements for the foreseeable future. We have accrued environmental liabilities as of March 31, 2007 of approximately \$173.2 million, substantially all of which we assumed in connection with the acquisitions of the CSD assets and Teris LLC. We performed extensive due diligence investigations with respect to both the amount and timing of such liabilities. We anticipate such liabilities 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 now anticipated (such as future changes in environmental laws and regulations) could require that 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.

Cash Flows for the three months ended March 31, 2007

For the three months ended March 31, 2007, we had a net use of cash of \$4.4 million in our operating activities. We reported net income for the period of \$3.5 million. In addition, we reported non-cash expenses during this period totaling \$5.5 million. These non-cash expenses consisted primarily of \$8.9 million for depreciation and amortization, \$2.5 million for the accretion of environmental liabilities, a loss of \$5.1 million of deferred income taxes, and a loss of \$2.0 million in our environmental estimate. Sources of cash for working capital purposes totaled \$27.6 million, reducing cash flow from operations by the same amount, and consisted primarily of a decrease of \$11.5 million in accounts payable, an \$11.9 million decrease in other accrued expenses, \$1.7 million decrease in environmental expenditures, \$0.7 million decrease in prepaid expenses, and a \$0.7 million decrease in deferred revenue. Uses of cash for working capital purposes totaled \$14.3 million, and consisted primarily of an increase in assets and liabilities of \$10.6 million and an increase in income tax payable of \$2.8 million.

For the three-month period ended March 31, 2007, we used \$7.7 million of cash in our investing activities. Uses of cash totaled \$7.8 million and consisted of the acquisition of Ensco Caribe assets of \$1.1 million, additions to property, plant, and equipment of \$5.7 million, and \$0.9 in the purchase of available-for-sale securities. Sources of cash totaled \$0.1 million.

For the three-month period ended March 31, 2007, our financing activities resulted in a net use of cash of \$3.8 million and consisted primarily of \$4.2 million in a decrease in uncashed checks.

Cash Flows for the three months ended March 31, 2006

For the three months ended March 31, 2006, we generated approximately \$4.8 million of cash from operating activities. We reported net income for the period of \$2.8 million. In addition, we reported non-cash expenses during this period totaling \$12.8 million. These non-cash expenses consisted primarily of \$7.3 million for depreciation and amortization, \$2.5 million for the accretion of environmental liabilities and \$2.4 million for the non-cash portion of the loss on early extinguishment of debt. Uses of cash for working capital purposes totaled \$10.8 million, reduced cash flow from operations by the same amount, and consisted primarily of a decrease in accounts payable of \$10.8 million and a decrease in other accrued expenses of \$11.2 million. These uses of cash were partially offset by sources of cash from working capital that totaled \$15.1 million and consisted primarily of a decrease in accounts receivable of \$13.7 million.

For the three-month period ended March 31, 2006, we used \$49.9 million of cash in our investing activities. Sources of cash totaled \$3.8 million and consisted of the sales of restricted investments of \$3.5 million and proceeds from the sale of assets of \$0.4 million. Cash used in investing activities totaled \$53.7 million and consisted of purchases of property, plant and equipment of \$10.2 million and purchases of marketable securities of \$43.5 million.

For the three-month period ended March 31, 2006, our financing activities resulted in a net use of cash of \$53.0 million and consisted primarily of principal payments on our debt of \$52.5 million.

Financing Arrangements

At March 31, 2007, we had outstanding \$91.5 million of eight-year Senior Secured Notes due 2012 (the Senior Secured Notes), a \$70.0 million revolving credit facility (the Revolving Facility), a \$50.0 million synthetic letter of credit facility (the Synthetic LC Facility), and a \$30.0 million term loan (the Term Loan). The financing arrangements and principal terms of each are discussed further in our 2006 Annual Report on Form 10-K. There have not been any material changes in our terms and conditions during the first three months of 2007.

The Indenture under which our Senior Secured Notes are outstanding provides for certain covenants, the most restrictive of which requires us, within 120 days after the close of each twelve-month period ending on June 30 of each year (beginning June 30, 2005 and ending on June 30, 2011) to apply an amount equal to 50% of the period's Excess Cash Flow (as defined below) to either prepay, repay, redeem or purchase our first-lien obligations under the Revolving Facility and Synthetic LC Facility or to make offers (Excess Cash Flow Offers) to repurchase all or part of the then outstanding Senior Secured Notes at an offering price equal to 104% of their principal amount plus accrued interest. Excess Cash Flow is defined in the Indenture as consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) less interest expense, all taxes paid or accrued in the period, capital expenditures made in cash during the period, and all cash spent on environmental monitoring, remediation or relating to our environmental liabilities.

Excess Cash Flow for the nine months ended March 31, 2007 was \$31.8 million, and we anticipate Excess Cash Flow will be generated from operations during the three-month period ending June 30, 2007. Accordingly, we anticipate being required, within 120 days following June 30, 2007, to offer to repurchase the Senior Secured Notes in the amount of 50% of the Excess Cash Flow generated during the twelve-month period ending June 30, 2007. However, during the quarter ended March 31, 2007, the market price of the Senior Secured Notes was consistently in excess of the 104% of principal amount at which we are required and permitted by the Indenture and the Credit Agreement to make Excess Cash Flow Offers for outstanding Senior Secured Notes. Holders of Senior Secured Notes may therefore not accept an Excess Cash Flow Offer made in accordance with the Indenture and the Credit Agreement unless the trading price of the Senior Secured Notes declines prior to the time in 2007 at which we will be required to make such an offer. To the extent the Note holders do not accept an Excess Cash Flow Offer based on the Excess Cash Flow earned through June 30, 2007, such Excess Cash Flow will not be included in the amount of Excess Cash Flow earned in subsequent periods. However, the Indenture's requirement to make Excess Cash Flow Offers in respect of Excess Cash Flow earned in subsequent twelve-month periods will remain in effect.

Liquidity Impacts of Uncertain Tax Positions

As discussed in Note 9, Income Taxes, we have significant contingent liabilities associated with potential tax liabilities and related interest and penalties. These liabilities are classified as Other long-term liabilities in our Consolidated Balance Sheet in accordance with the provision of FIN 48 adopted on January 1, 2007 because of the uncertainties involved. We are not able to reasonably estimate when we would make any cash payments to settle these liabilities to the extent, if any, required.

Stockholder Matters

Stockholders' equity was \$141.7 million at March 31, 2007, or \$6.86 per weighted average share outstanding plus potentially dilutive common shares, compared to \$173.2 million at December 31, 2006, or \$8.38 per weighted average share outstanding plus potentially dilutive common shares. Stockholders' equity decreased due to: (i) the unfavorable effect of the FIN 48 cumulative effect adjustment of \$36.8 million; (ii) the payment of dividends on the Series B Preferred Stock of \$0.1 million; (iii) remittance of restricted shares of \$0.5 million; and (iv) other charges of \$0.1 million. Partially offsetting these decreases to stockholders' equity were: (i) the profit for three months ended March 31, 2007 of \$3.5 million; (ii) exercise of stock options, stock purchases under the employee stock purchase plan and related tax effects that totaled \$1.1 million; (iii) the issuance and vesting of restricted stock awards that totaled \$0.3 million; (iv) the vesting of performance stock awards that totaled \$0.4 million; (v) the issuance and vesting of service-based stock option awards that totaled \$0.1 million; and (vi) the effect of foreign currency translation of \$0.6 million. During the three months ended March 31, 2007, \$519 thousand was recorded as treasury stock for 10,718 shares of our common stock that employees had remitted to us as payment for payroll taxes previously paid by us on the employees' behalf in connection with the employees' vesting of certain performance stock awards.

Dividends on the Series B Preferred Stock are payable on the 15th day of January, April, July and October, at the rate of \$1.00 per share, per quarter. Under the terms of the Series B Preferred Stock, we can elect to pay dividends in cash or in common stock with a market value equal to the amount of the dividends payable. The dividends due on January 15, 2007 and 2006 were paid in cash.

On February 22, 2007, 190 shares of Series B Preferred Stock were converted into 578 shares of Common Stock. As of March 31, 2007, the Company had 68,810 shares of Series B Preferred Stock outstanding.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risk on the interest that we pay on our debt due to changes in the general level of interest rates. Our philosophy in managing interest rate risk is to borrow at fixed rates for longer time horizons to finance non-current assets and to borrow (to the extent, if any, required) at variable rates for working capital and other short-term needs. The following table provides information regarding our fixed rate borrowings at March 31, 2007 (in thousands):

Scheduled Maturity Dates	Nine Months Remaining 2007	2008	2009	2010	2011	Thereafter	Total
Senior Secured Notes	\$	\$	\$	\$	\$	\$ 91,518	\$ 91,518
Capital Lease Obligations	1,405	1,180	653	478	113	21	3,850
	\$ 1,405	\$ 1,180	\$ 653	\$ 478	\$ 113	\$ 91,539	\$ 95,368
Weighted average interest rate on fixed rate borrowings	11.5	% 11.5	% 11.5	% 11.5	% 11.5	% 11.5	%

In addition to the fixed rate borrowings described in the above table, at March 31, 2007, we had (i) a revolving facility (the Revolving Facility) which allows us to borrow or obtain letters of credit for up to \$70.0 million, based upon a formula of eligible accounts receivable, (ii) a \$50.0 million synthetic letter of credit facility (the Synthetic LC Facility) which allows us to have issued up to \$50.0 million of additional letters of credit, and (iii) a \$30.0 million term loan (the Term Loan). At March 31, 2007, we had: (i) no borrowings and \$45.6 million of letters of credit outstanding under the Revolving Facility and (ii) \$49.9 million of letters of credit outstanding under the Synthetic LC Facility. Borrowings outstanding under the Revolving Facility bear interest at an annual rate of either the U.S. or Canadian prime rate (depending on the currency of the underlying loan), or the Eurodollar rate plus 1.50%, and we are required to pay fees at an annual rate of 1.5% on the amount of letters of credit outstanding under the Revolving Facility and an unused line fee of 0.125% per annum on the unused portion of the Revolving Facility. As of December 31, 2006, we were required to pay a quarterly participation fee at the annual rate of 2.85% on the \$50.0 million maximum amount of the Synthetic LC Facility and a quarterly fronting fee at an annual rate of 0.30% of the average daily aggregate amount of letters of credit outstanding under the Synthetic LC Facility. The Term Loan bears interest, at our option, at either the Eurodollar rate plus 2.5% or the U.S. prime rate plus 1.5%.

Historically, we have not entered into derivative or hedging transactions, nor have we entered into transactions to finance off-balance sheet debt. We view our investment in our Canadian and Mexican subsidiaries as long-term; thus, we have not entered into any hedging transactions between the Canadian dollar and the U.S. dollar or between the Mexican peso and the U.S. dollar. During the three-month periods ended March 31, 2007 and 2006, total foreign currency gains were less than \$0.1 million and \$0.1 million, respectively, primarily between U.S. and Canadian dollars. Our Canadian subsidiaries transact approximately 23.2% of their business in U.S. dollars and at any period end have cash on deposit in U.S. dollars and outstanding U.S. dollar accounts receivable related to these transactions. These cash and receivable accounts are vulnerable to foreign currency translation gains or losses. During the three-month-period ended March 31, 2007, the U.S. dollar fell approximately 0.6% against the Canadian dollar, resulting in foreign currency exchange losses of \$0.1 million. During the three-month-period ended March 31, 2006, the U.S. dollar rose approximately 0.4% against the Canadian dollar, resulting in foreign currency exchange gains of \$0.1 million. The average exchange rate for the three-month periods ended March 31, 2007 and 2006 was 1.17 and 1.16 Canadian dollars to the U.S. dollar, respectively. Had the Canadian dollar been 10.0% stronger against the U.S. dollar, we would have reported increased net income by approximately \$0.1 million and \$0.3 million for the three-month periods ended March 31, 2007 and 2006, respectively. Had the Canadian dollar been 10.0% weaker against the U.S. dollar, we would have reported decreased net income by approximately \$0.1 million and \$0.3 million for the three-month periods ended March 31, 2007 and 2006, respectively. We are subject to minimal market risk arising from purchases of commodities since no significant amount of commodities are used in the treatment of hazardous waste.

ITEM 4. CONTROLS AND PROCEDURES

We believe based on our knowledge that 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 as of, and for, the periods presented in this report. We cannot provide assurance that new problems will not be found in the future. We do not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud because no control system can provide absolute assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some person or by collusion of two or more people.

As of the end of the period covered by this report, our senior management performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the CEO and CFO, concluded that these disclosure procedures and controls are effective.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2007, that has materially affected, or is 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 7, Legal Proceedings, to the financial statements included in this report, which description is incorporated herein by reference.

Item 1A Risk Factors

During the three months ended March 31, 2007, 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, 2006.

Item 2 Unregistered Sale of Equity Securities and Use of Proceeds None.

Item 3 Defaults Upon Senior Debt None.

Item 4 Submission of Matters to a Vote of Security Holders None

Item 5 Other Information None

Item 6 Exhibits

Item No.	Description	Location
31	Rule 13a-14a/15d-14(a) Certifications	Filed herewith.
32	Section 1350 Certifications	Filed herewith.

CLEAN HARBORS, INC. AND SUBSIDIARIES

SIGNATURES

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

CLEAN HARBORS, INC.
Registrant

By:

/s/ ALAN S. MCKIM
Alan S. McKim
President and Chief Executive Officer

Date: May 10, 2007

By:

/s/ JAMES M. RUTLEDGE
James M. Rutledge
Executive Vice President and
Chief Financial Officer

Date: May 10, 2007

44
