

Heritage-Crystal Clean, Inc.
Form 10-K
March 03, 2017

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO
☒ SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
TRANSITION REPORT PURSUANT TO
☐ SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from
_____ to _____

Commission File Number 001-33987

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

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

2175 Point Boulevard
Suite 375
Elgin, IL 60123
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (847) 836-5670

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of Class	Name of each exchange on which registered
Common Stock, \$0.01 par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
☒

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

Large accelerated filer ☐ Accelerated filer ☒
Non-accelerated filer ☐ Smaller reporting company ☐

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

On June 17, 2016 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the common stock of the registrant held by non-affiliates of the registrant was approximately \$168.4 million, based on the closing price of such common stock as of that date on the NASDAQ Global Select Market.

On March 1, 2017, there were outstanding 22,456,968 shares of Common Stock, \$0.01 par value, of Heritage-Crystal Clean, Inc.

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Disclosure Regarding Forward-Looking Statements

In addition to historical information, this annual report contains forward-looking statements that are based on current management expectations and that involve substantial risks and uncertainties, which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as “aim,” “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “should,” “will be,” “will continue,” “would,” and other words and terms of similar meaning in conjunction with a discussion of future or estimated operating or financial performance. You should read statements that contain these words carefully, because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other “forward-looking” information.

The factors listed under “Risk Factors,” as well as any cautionary language in this annual report, provide examples of risks, uncertainties, and events that may cause our actual results to differ materially from the expectations or estimates we describe in our forward-looking statements. Although we believe that our expectations are based on reasonable assumptions, actual results may differ materially from those in the forward-looking statements as a result of various factors, including, but not limited to, those described under the heading “Risk Factors” and elsewhere in this annual report.

Forward-looking statements speak only as of the date of this annual report. We do not have any intention, and do not undertake, to update any forward-looking statements. As a result of these risks and uncertainties, readers are cautioned not to place undue reliance on the forward-looking statements included in this annual report or that may be made elsewhere from time to time by, or on behalf of, us. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

PART I

ITEM 1. BUSINESS

Overview

Heritage-Crystal Clean, LLC. (herein collectively referred to as “we,” “us,” “our,” “HCC” or “the Company”) is a wholly owned subsidiary of Heritage-Crystal Clean, Inc. (herein referred to as HCCI). HCC provides full-service parts cleaning, containerized waste management, used oil collection, vacuum truck services, antifreeze recycling, and owns and operates a used oil re-refinery. We believe that we are the second largest provider of parts cleaning and hazardous and non-hazardous waste services to small and mid-sized customers in both the manufacturing and vehicle maintenance sectors in North America, and we are the second largest used oil re-refiner by capacity in North America. We operate our business through our Environmental Services and Oil Business segments.

Environmental Services Segment

Our Environmental Services segment consists of our parts cleaning, containerized waste management, vacuum truck, antifreeze, and field services. These services allow our customers to outsource their handling and disposal of parts cleaning solvents as well as other hazardous and non-hazardous waste. Many of these substances are subject to extensive and complex regulations, and mismanagement can result in citations, penalties, and substantial direct costs both to the service provider and also to the generator. We allow our customers to focus more on their core business and devote fewer resources to industrial and hazardous waste management and its related administrative burdens.

We have adopted innovative approaches in our Environmental Services segment to minimize the regulatory burdens for our customers and have made “ease of use” of our services and products a priority. Our company has pioneered two different programs whereby our customers' used solvent may be excluded from the U.S. Environmental Protection Agency's ("EPA") definition of hazardous waste. These two programs not only simplify the management of used solvent generated by our customers, but also reduce the total volume of hazardous waste generated at many of our customers' locations. This can allow the customer to achieve a lower “generator status” with the EPA and thereby reduce their overall regulatory burden, including reduced reporting obligations and inspections.

Our focus on providing ease of use for our customers is also part of our containerized waste management, vacuum services, antifreeze services, and field services offerings. As part of our containerized waste and vacuum service programs, we assist our customers in identifying and characterizing their regulated wastes as well as providing the proper labeling and shipping documentation for their regulated materials. Our antifreeze recycling services offer our customers a fully-compliant

method to safely manage their used antifreeze while providing a high quality, environmentally friendly, remanufactured product. Similarly, our field services allow our customers to focus on their core business activities while we manage non-core activities such as tank cleanings and spill clean-up.

Oil Business Segment

The Oil Business segment consists of used oil collection activities, sale of recycled fuel oil, re-refining activities, and oil filter removal and disposal services. Through our re-refining process, we recycle used oil into high quality lubricant base oil and other products, and we are a supplier to firms that produce and market finished lubricants. We operate a used oil re-refinery with an annual nameplate capacity of 75 million gallons. We are currently feeding the re-refinery with a combination of used oil collected from our customers and used oil that we purchase from third parties.

Industry

We operate within markets for industrial and hazardous waste services in the U.S. and a portion of Ontario, Canada. Specifically, we focus on the parts cleaning, containerized waste management, used oil collection and re-refining, vacuum truck services, antifreeze recycling, and field services areas of the industrial and hazardous waste services markets for small to mid-sized establishments. These establishments have a need to remove grease and dirt from machine and engine parts and include businesses involved in vehicle maintenance operations, such as car dealerships, automotive repair shops, and trucking firms, as well as small manufacturers, such as metal product fabricators and printers. These businesses also generate waste materials such as used oil, waste paint, or antifreeze that generally cannot be legally discarded as municipal trash or poured down a standard drain.

Environmental Services Segment

Parts cleaning machines and solvent are used by mechanics in industrial plants and automotive technicians in garages to clean dirty machine parts. Through use, the solvent becomes contaminated with oil and sediment and must be replaced regularly. This replacement of solvent is subject to environmental regulations prohibiting disposal with municipal trash or by pouring down the drain. Vehicle maintenance facilities as well as small to medium sized manufacturers generate other regulated materials which cannot be legally disposed of in the municipal trash or poured down the drain, such as used oil, waste paint, antifreeze, used oil filters, discarded fluorescent light tubes, spent batteries, etc. Because the management of these wastes is subject to changing regulatory requirements, most businesses need specialized knowledge to prepare required paperwork, maintain records, and ensure compliance with environmental laws. Large businesses, which generate substantial volumes of industrial and hazardous wastes, may find it more efficient to employ highly trained employees to manage this waste. Small and mid-sized businesses that generate lesser quantities of waste often cannot justify such personnel investments and typically prefer to outsource these services to providers that can assist them in their disposal of used solvent and other wastes subject to environmental regulations.

Oil Business Segment

Through our used oil collection services, we compete in the used oil collection market. Automotive shops generate used oil as a result of performing oil changes on passenger cars and trucks. Industrial plants also generate used oil, often as a result of changing lubricants used in heavy machinery. Environmental regulations prohibit the disposal of used oil into sewers or landfills, so most commercial generators arrange to have their used oil picked up periodically

by a used oil collector.

Since fiscal 2012, we have produced and sold lubricating base oil from our re-refinery. Most lubricating base oil is produced at refineries that process crude oil, and lubricating base oil is just one of the many products of the refining process along with gasoline, diesel fuel, jet fuel, asphalt, and other hydrocarbon products. Major refining companies such as Chevron, ExxonMobil, and Motiva produce a significant share of the total U.S. base oil output. They use some of this material in producing their own branded lubricant products and also sell base oil to other firms that focus on the blending and packaging of lubricants. Historically, base oil has been sold for prices based on the market price of the crude oil feedstock plus a premium. However, the level of supply and demand for base oil can also affect the market price.

As of December 31, 2016, we operate 13 oil processing operations. Certain locations remove excess water from the used oil and separate oil from oily water mixtures using thermal treatment, gravity separation, and mechanical filtration. The finished product from this process is called Recycled Fuel Oil ("RFO"). The RFO we produce is sold to industrial burners and used oil processors, such as Vacuum Gas Oil ("VGO") producers and used oil re-refiners, or sold as a blend or cutter stock. We also operate four wastewater treatment operations that service our Environmental Services segment. These facilities allow us to

remove oil from some of the wastewater we collect, treat the wastewater, and then discharge it according to the standards in the applicable discharge permits. Some of the oil removed in the wastewater treatment process may become RFO.

The Crystal Clean Solution

Through our network of 83 branches, as of December 31, 2016, we provided parts cleaning, used oil collection, industrial waste removal, vacuum services, antifreeze recycling services, and field services to approximately 107,000 active customer locations.

Environmental Services Segment

During fiscal 2016, we performed more than 300,000 parts cleaning services. We believe our services are highly attractive to our customers, who value features such as assistance in preparing waste manifests and drum labels, regularly-scheduled service visits to check inventories and remove accumulated waste, and minimizing the number of vendors they must deal with related to the management of these materials. Our focus is to meet the service requirements of small and mid-sized clients, which we define as firms that generally spend less than \$50,000 per year on industrial and hazardous waste services. Small and mid-sized clients have needs that are often highly differentiated from the needs of larger accounts. We believe that our company is structured to meet these particular needs. Revenues in our Environmental Services segment accounted for approximately 65% of our revenues for fiscal 2016 and are generated primarily from providing parts cleaning services, industrial waste removal, and vacuum services for our clients.

Oil Business Segment

Through our used oil collection service, we collect the used oil generated by our customers when they replace used lubricating oil in vehicles and machinery. Most customers store the used oil that they generate in tanks, which must be emptied regularly to mitigate the risk of overflow or termination of their oil change activities. As a result, these customers have a strong need for timely used oil service. We have designed our services to deliver regularly-scheduled pickups, and we also have the capability to respond to unscheduled requests on short notice. The used oil we collect is either transported to our used oil re-refinery or processed into RFO. When we re-refine or recycle their used oil, we are able to provide our customers with the satisfaction that their used oil is re-refined into high quality lubricants, using the approach cited as preferred by the EPA, or recycled by being used in the production of RFO.

We operate our used oil re-refinery in Indianapolis, Indiana where we re-refine used oil, which we collect from our customers or purchase from other oil collection service providers, into lubricating base oil, which we sell to firms who then blend, package, and market finished lubricants. The nameplate capacity is 75 million gallons of annual input of used oil feedstock including the impact of periodic shutdowns to perform routine maintenance. In fiscal 2016, we collected approximately 61 million gallons of used oil from our customers. Revenues in our Oil Business segment accounted for approximately 35% of our total revenues in fiscal 2016.

Services

Across our full range of services, we focus on reducing our customers' burdens associated with their generation of hard-to-handle wastes. Many of these wastes are subject to extensive and complex regulations, and mismanagement

can result in citations, penalties, and substantial direct costs, both to the service provider and the generator. Many customers are familiar with “Superfund liability” and the possibility that they will be required to pay for future cleanups if their waste is mismanaged in a way that leads to environmental damage. Our services allow customers to focus more on their core business and devote fewer resources to industrial and hazardous waste management. A majority of our customers use our parts cleaning, waste management, and/or used oil collection services, and these services are offered at most of our branches.

Environmental Services Segment

In our full-service parts cleaning business, we provide customers with parts cleaning equipment and chemicals to remove oil, grease, and other contaminants from engine parts and machine parts. Most commonly, we provide a parts cleaning machine that contains a petroleum-based solvent in a reservoir. The customer activates a pump that circulates the solvent through a nozzle where it is used to clean parts. The solvent can be reused for a period of time, after which it becomes too dirty and requires replacement. We typically visit our customers every 4 to 12 weeks to remove the used solvent and replace it with clean solvent, while at the same time cleaning and inspecting the parts cleaning equipment to ensure that it is functioning properly

and assisting our customers with relevant regulatory paperwork. We believe that many of the parts cleaning services performed in the U.S. are structured as hazardous waste services, meaning that when the solvent has been used, it is managed as a regulated hazardous waste subject to numerous laws and regulatory filings. We reduce this burden for our customers by offering three alternative parts cleaning programs (our non-hazardous and reuse programs for solvent parts cleaning and our aqueous parts cleaning program) that do not subject the customer to the same hazardous waste regulations. These low-burden approaches help our customers achieve regulatory compliance while minimizing the paperwork and bureaucracy associated with hazardous waste management - ultimately saving them time and money. For example, these programs currently enable many of our customers to reduce their generation of hazardous wastes below the 220 pounds per month maximum threshold for retaining the EPA generator status of Conditionally Exempt Small Quantity Generator ("CESQG"). For our customers, maintaining a CESQG status provides significant savings associated with not having to maintain an EPA identification number; prepare, track, and file transportation manifests; or produce other reports related to the use, storage, and disposal of used solvents. We offer a wide variety of different models of parts cleaning machines from which our customers may choose the machine that best fits their specific parts cleaning needs. While the majority of our customers are provided or sold machines directly from us, we also offer parts cleaning services for customers who purchase their parts cleaning machines from other sources. We offer a variety of petroleum solvents and aqueous chemicals for use in parts cleaning machines. We also have a wide range of service schedules from weekly service visits to triannual service visits.

In our containerized waste services, we collect drums, pails, boxes, and other containers of hazardous and non-hazardous waste materials from our customers. Typical wastes from vehicle maintenance include used antifreeze, used oil filters, waste paint, and used absorbent material. Typical wastes from manufacturing operations include waste paint and solvents, oily water wastes, used absorbents, and discarded fluorescent lighting tubes. We endeavor to find the lowest burden regulatory approach for managing each of these materials for our clients. In some cases, we can develop lower burden alternatives based on recycling materials for component recovery, such as with oil filters, or by following the less onerous universal waste regulations, such as with fluorescent tubes and waste paint. In other cases, the hazardous waste regulations may apply, in which case we assist customers with the complete hazardous waste disposal process, including performing analysis to characterize their waste, preparing manifests and drum labels, and selecting the appropriate destination facility. As part of our full-service approach, we visit our customers periodically to check their inventory of used or waste materials and remove full containers as appropriate. Because there are statutory limits on the amount of time that customers can store these waste materials, these service visits are valuable to help customers stay in compliance. To the extent that we can coordinate these service visits together with a regularly scheduled parts cleaning service, we are able to perform both tasks during the same visit, with the same truck and service employee.

In selected branch locations, we provide vacuum truck services for the removal of mixtures of oil, water, and sediment from wastewater pretreatment devices and other sources. Many shops and plants have floor drain systems that lead to pits, sumps, or separators that are designed to separate and retain oil and dirt, but allow clear water to flow out to a municipal sewer. Periodically, these drains and collection points accumulate excess oil or sediment needing removal. Because some of the material is very thick, a specialized vacuum truck is utilized for efficient removal of the material. Our vacuum truck service includes the removal of the oil, water, and sediment so that the customer's equipment operates as intended. We also offer bulk oily water removal. These services are scheduled on a regular basis. Because our efforts to expand vacuum truck services have started more recently than some of our other offerings in the Environmental Services segment, these services are currently offered at 51 of our branches. We operate four waste water treatment facilities that allow us to remove oil from some of the wastewater we collect, treat the wastewater, and discharge it according to the standards in the applicable discharge permits.

Through our antifreeze recycling service, we offer customers a legally-compliant method to safely manage their used antifreeze while providing a high quality, environmentally friendly, remanufactured product. We offer responsive, on-time scheduled or on-demand collection and transportation of used automotive antifreeze to our four antifreeze

recycling facilities, where it is recycled into high quality clean antifreeze. We then sell a variety of formulations of this antifreeze to our vehicle maintenance customers.

We also offer a variety of Field Services to assist customers with on-site equipment cleaning and the removal and proper management of various types of waste. Typical projects include lab pack services, the cleaning of above ground storage tanks, sumps, separators, ship-to-shore fluid transfers, and other environmental remediation services. We typically serve as contractor and engage contract labor or outsourced labor to provide our field services.

Oil Business Segment

As of the end of fiscal year 2016, we offered bulk used oil collection services in 74 of our branch locations. Although we manage some used oil through our containerized waste program, most customers who generate used oil (typically from vehicle engine oil changes) produce large quantities that are stored in bulk tanks, and these volumes are handled more efficiently via

bulk tank trucks such as those that we utilize. We pump the customer's material into our tank truck for proper management. We transfer a majority of the used oil we collect to our re-refinery to be recycled into lubricating base oil. We recycle the remaining used oil into RFO, some of which is sold to industrial burners, such as asphalt plants that use the RFO as a less expensive substitute for other fuels, and some of which is sold to used oil processors such as VGO producers and used oil re-refiners and some of it is sold for use as blend or cutter stock. As with our other services, we offer to visit customers on a regularly scheduled basis to arrange for the removal of their accumulated oil.

Competitive Strengths

We believe that we are the second largest provider of full-service parts cleaning services and used oil collection services in the U.S., and a leading provider of containerized waste services to small and medium sized customers. From our base of 83 branch locations, we implement an organized and disciplined approach to increasing our market share, taking advantage of the following competitive strengths:

Excellent Customer Service. Since our founding, we have instilled a standardized, sales-oriented approach to our customers across our branch network. Our branch personnel are focused on local sales and service delivery, and a significant portion of their compensation is linked to sales growth and new business development. In order to achieve this sales growth, our personnel understand that they must retain existing business, which is best achieved by providing a very high level of customer service which can lead to cross-selling opportunities and referrals to new prospects. During fiscal 2016, approximately 88% of our Environmental Services revenues were generated from customers that we also served during fiscal 2015.

Cost-Efficient Branch Rollout Model. Our branch model allows us to consolidate operational and administrative functions not critical to sales and service at either a regional hub or at our headquarters. This model has been the foundation for our new branch rollout as we have expanded from 14 branches in 1999, and we expect to extend this model to new locations. Furthermore, as we grow within each branch, we improve our route density, which is an important contribution to profitability in our business.

Large Branch Network. We have spent over seventeen years building up and developing a large network of branches that has enabled us to rapidly grow our environmental services and used oil collection services efficiently and cost effectively. Our investments in this network help us to rapidly open new branches and cross sell products and services through existing branches.

Large and Highly Diverse Customer Base. Our focus on small and mid-sized businesses has enabled us to attract a variety of customers engaged in a range of businesses spread across the spectrum of the manufacturing, vehicle service, and transportation industries which helps insulate us from disruption caused by the possible loss of a single large account. Our customer base consists of over 107,000 active customer locations. In fiscal 2016, our largest single customer in our Environmental Services segment represented 1.2% of our consolidated revenues, and our largest ten customers represented approximately 3.2% of our consolidated revenues. In the Oil Business segment, revenues from one customer accounted for 5.2% of our consolidated revenues for fiscal 2016, and our largest ten customers represented 17.8% of our consolidated revenues for fiscal 2016.

Experience in Re-Refining Technology. Our management team has substantial experience in the development and operation of used oil re-refineries, as several members of our management team were significant contributors to the development of approximately 65% of the used oil re-refining capacity in North America. Our team is able to design and construct re-refining capacity for a comparatively low capital cost. In 2012 we began operating our re-refinery

which had an original nameplate capacity of 50 million gallons of used oil. We were able to construct the original re-refining capacity for approximately \$54 million, or approximately \$1 per gallon of capacity. In 2015, we completed the re-refinery expansion from 50 million to 75 million gallons of annual capacity for approximately \$1 of capital cost per gallon of annual capacity. We believe other re-refineries recently constructed in the United States have had a capital cost of substantially more than \$1 per gallon of capacity.

Innovative Services that Reduce Customers' Regulatory Burdens. We have designed our service programs to meet the needs of our target customers. In particular, these customers desire to minimize their regulatory compliance burdens, and we have developed innovative methods to help our customers achieve this objective. For example, we have created parts-cleaning service programs which exempt our customers from certain hazardous waste regulations and filing requirements:

Non-hazardous Program for Parts Cleaning. In our non-hazardous program for parts cleaning, we provide our customers with an alternative solvent that is not included in the EPA's definition of hazardous waste due to its

increased flashpoint, and we educate each participating customer to prevent harmful contaminants from being added to the solvent during use. Because of the reduced solvent flammability, as long as the customer does not add toxic or flammable contaminants during use, neither the clean solvent that we supply nor the resulting used solvent generated by customers participating in the program is classified as hazardous waste by the EPA, and as a result can be managed as non-hazardous waste. To participate in this program, our customers must provide certification that no hazardous wastes have been added to the parts cleaning solvent. After we collect the used solvent from customers participating in our non-hazardous program for parts cleaning, we recycle it via distillation for re-delivery to our parts cleaning customers. The recycling process removes oil, water, and other impurities, resulting in solvent suitable to be re-used by our customers for parts cleaning. At the same time, this process minimizes the burdensome hazardous waste regulations faced by our customers and allows us to minimize our virgin solvent purchases. Our solvent recycling system located in Indianapolis is capable of recycling up to six million gallons per year of used solvent generated by customers participating in our non-hazardous program. This provides significant capacity in excess of our current requirements.

Product Reuse Program for Parts Cleaning. Rather than managing used solvent as a waste, we have developed a program that uses the solvent as an ingredient in the manufacture of asphalt roofing materials. Used solvent generated by customers participating in our product reuse program for parts cleaning is sold as a direct substitute for virgin solvent that is otherwise used in the manufacturing process for asphalt roofing materials. Because the used solvent is destined for reuse, it is not deemed a waste, and therefore it is not subject to hazardous waste regulations. To enhance the marketing of these programs, in the past 20 plus years we and our predecessor, Heritage Environmental Services, have voluntarily obtained concurrence letters from more than 30 state environmental agencies to validate this approach.

Aqueous Program. In addition to our petroleum-based solvent, we offer a full suite of proprietary aqueous-based parts cleaning solutions, including our patented aqueous parts cleaning equipment and patented filtration technology for water-based fluids, which we believe is the most comprehensive aqueous-based solutions offering in the industry. After our customer is finished using the solution, we remove the used solution and almost exclusively manage it as non-hazardous waste. Similar to the two solvent-based programs described above, our customers' used cleaning material will not be included in the EPA's definition of a hazardous waste, which helps reduce our customers' regulatory burdens. In addition, our patented Aqua Filtration Unit provides our customers with an innovative method to remove contaminants from their water-based fluids.

Experienced Management Team. Our management team has substantial experience in the industry and possesses particular expertise in the small to mid-sized customer segment. Our senior managers have on average more than 30 years of industry experience and our middle managers have on average more than 20 years of industry experience. Many of our managers held key positions with Safety-Kleen between 1986 and 1998, during which time Safety-Kleen grew from \$255 million to over \$1.0 billion in annual revenue.

Growth Strategies

We intend to grow by providing environmental solutions that meet the needs of our customers. We have several different strategies to accomplish this and they include:

Same-Branch Sales Growth. We seek to generate year-over-year growth in existing markets by obtaining new customers and by cross-selling multiple services to existing customers. Our sales and marketing strategy includes providing significant incentives to our field sales and service personnel to find and secure new business. These incentives include commission compensation for individuals and managers as well as prize awards and contests at the individual and team level. Our company culture is designed to consistently emphasize the importance of sales and service excellence and to build and maintain enthusiasm that supports continued sales success. Additionally, we intend

to drive profitability by leveraging fixed costs against incremental sales growth at our existing branches.

Expanded Service Offerings. Of our 83 branches, all branches currently offer parts cleaning and containerized waste management services, 74 offer used oil collection services, and 51 offer vacuum truck services. As our business grows and we achieve sufficient market penetration, we have the opportunity to expand our used oil collection and vacuum truck services to each branch location. We also have other new business programs in various stages of development which have the potential to be offered through our branch locations in the future.

Geographic Expansion. We currently operate from 83 branch locations that offer all or portions of our service menu to customers in the vast majority of the United States, the District of Columbia, and parts of Ontario, Canada. We have historically

been able to install new branches at a relatively low cost, although installation of branches in the Western U.S. is relatively more costly. Within the contiguous United States, we believe that there are opportunities to open more branches and provide convenient local service to additional markets.

Selectively Pursue Acquisition Opportunities. Our management team has significant experience in identifying and integrating acquisition targets. Given the number of small competitors in our business, there are generally multiple acquisition opportunities available to us at any given time. In fiscal 2013, we made various strategic acquisitions to help grow our used oil collection business and to enter the antifreeze recycling business, and in fiscal 2014, we acquired Sav-Tech in order to enter into business in Canada. In fiscal 2016, we acquired Phoenix Environmental Services, Inc. and Recycled Engine Coolant, Inc. in order to expand our operations into the Pacific Northwest and to increase our used antifreeze recycling capabilities, respectively. Our growth plan is not dependent on acquisitions, but we will continue to pursue acquisitions that leverage our established infrastructure.

Sales and Marketing

Our mission and culture emphasize sales and service excellence and entrepreneurship, and our sales philosophy starts with the principle of “sales through service.” We assign a territory to each of our Sales & Service Representatives ("SSRs"), and require and encourage them to grow their business on their routes by delivering excellent service to existing customers. This helps our SSRs retain business, sell more services to satisfied customers, and obtain valued referrals to potential new customers. In addition to the efforts of our SSRs, we employ a branch manager at each of our branches, and we also employ branch sales managers, all of whom have dedicated sales territories and responsibilities.

Suppliers and Recycling/Disposal Facilities

We purchase goods such as parts cleaning machines, solvent (petroleum naphtha mineral spirits), cleaning chemicals, bulk used oil, bulk antifreeze (ethylene glycol), and absorbent from a limited group of suppliers. We also have arrangements with various firms that can recycle, burn, or dispose of the waste materials we collect from customers. These suppliers and disposal

facilities are important to our business, and we have identified backup suppliers in the event that our current suppliers and disposal facilities cannot satisfy our supply or disposal needs. Heritage Environmental Services, an affiliate of The Heritage Group, Fred Fehsenfeld and the Fehsenfeld family trusts, which collectively beneficially owned 33.8% of our common stock as of December 31, 2016, operates one of the largest privately-owned hazardous waste treatment businesses in the U.S. We have used their hazardous waste services in the past, and it is likely that we will continue some level of use in the future.

We operate four waste water treatment facilities. These facilities allow us to remove oil from some of the waste water we collect, treat the waste water, and then discharge it according to the standards in the applicable discharge permits. These facilities allow us the flexibility to dispose of our oily water and vacuum services waste water collected from certain branches internally.

Competition

The markets for parts cleaning, containerized waste management, used oil collection, vacuum truck services, antifreeze recycling, and field services in which we participate are intensely competitive. While numerous small companies provide these services, our largest competitor, Safety-Kleen (a wholly-owned subsidiary of Clean Harbors, Inc.), has held substantial market share in the full-service parts cleaning industry for the last four decades and has developed significant market share in used oil collection and containerized waste management. We believe that Safety-Kleen has greater financial and other resources and greater name recognition than us. We estimate that in the full-service portion of the parts cleaning market, Safety-Kleen is significantly larger than us, and that we are substantially larger than the next largest competitor.

Many of our smaller competitors tend to be regional firms or parts cleaning companies that operate in a single city. Although many of these smaller competitors lack the resources to offer clients a full menu of services, they generally offer parts cleaning services ancillary to a primary line of business, such as used oil collection, in order to present a more complete menu to customers. In addition, companies involved in the waste management industry, including waste hauling, separation, recovery, and recycling, may have the expertise, access to customers, and financial resources that would encourage them to develop and market services and products competitive with those offered by us. We also face competition from alternative services that provide similar benefits to our customers as those provided by us.

Price, service quality and timeliness, breadth of service offering, reputation, financial strength, and compliance history are the principal competitive factors in the markets in which we compete. While we feel that most market competitors compete primarily on price, we believe that our competitive strength comes from our focus on customer service and our broad menu of services. Although we employ a pricing structure that controls discounts, we are able to deliver a sound value proposition through the reduced regulatory burden achieved through our programs. We could lose a significant number of customers if Safety-Kleen or other competitors materially lower their prices, improve service quality, develop more competitive product and service offerings, or offer a non-hazardous or reuse program for parts cleaning more appealing to customers than ours.

We have the second largest used oil re-refinery, by capacity, in North America. We believe that our largest competitor, Safety-Kleen, currently controls a majority of the used oil re-refining capacity in North America.

Seasonality

Our operations may be affected by seasonal fluctuations due to weather cycles influencing the timing of customers' need for products and services. Typically during the first quarter and the end of the fourth quarter of each year there is less demand for most of our products and services due to the lower levels of activities by our customers as a result of the cold weather, particularly in the Northern and Midwestern regions of the United States. This lower level of activity also results in lower volumes of used oil generated for collection by us in the first quarter. In the winter months there is less construction activity, which reduces demand for certain re-refinery products. In addition, factory closings for the year-end holidays reduce the volume of industrial waste generated, which results in lower volumes of waste handled by us during the first quarter of the following year. However, we generally experience the opposite seasonality (higher levels of activity in the first quarter and end of the fourth quarter) in our antifreeze business.

Information Technology

We believe that automation and technology can enhance customer convenience, lower labor costs, improve cash management, and increase overall profitability. We are constantly evaluating opportunities to develop technologies that can improve our sales and service processes. Our commitment to the application of technology has resulted in the creation of a

custom web-based application for scheduling, tracking, and management of customer services, billing, and collections. This system has been used as an integral part of our business operations for more than nine years. We believe that our standardized processes and controls enhance our ability to successfully add new branches and expand our operations into new markets. Mobile devices are used by our employees in the field to access customer service information. In our used oil collection and vacuum services businesses, these devices are also used to capture service transactions and inventory movements. Statistics are gathered and reported on a daily and weekly basis. These capabilities provide timely, automated data measurement and control for service activities to accelerate response to market and operational change.

Employees

As of December 31, 2016, we employed 1,124 full time and 71 part time employees. None of our employees are represented by a labor union or covered by a collective bargaining agreement. We believe that our employee relations are good.

Intellectual Property

We regard our intellectual property as important to our success and we rely on trademark, copyright, and other intellectual property laws in the United States to protect our proprietary rights. We have, in the past, successfully defended our patents against infringement, and we intend to continue to defend our intellectual property rights. In addition, we seek to protect our proprietary rights through the use of confidentiality agreements with employees, consultants, vendors, advisors, and others.

Our intellectual property includes the Crystal Clean brand and logo as well as our patented aqueous parts cleaning equipment, chemistry formulae, and filtration technology. Our patents expire at various times through 2034. Although we do not regard any single trade secret or component of our proprietary know-how to be material to our operations as a whole, if one or more of our competitors were to use or independently develop such know-how or trade secrets, our market share, sales volumes and profit margins could be adversely affected.

Regulation

Substantially all of our services and products involve the collection, transportation, storage, recycling and/or disposal of industrial and hazardous waste or hazardous materials, including solvents used in parts cleaners; containerized waste including waste paint, inks, adhesives, used antifreeze, used oil, and used oil filters; and bulk waste including used oil, oily water, and antifreeze. Our services are highly regulated by various governmental agencies at the federal, state, and local levels, as described in more detail below. Regulations govern matters such as the disposal of residual chemical wastes, operating procedures, storm water and wastewater discharges, fire protection, worker and community right-to-know, and emergency response plans.

Our services and products require us to comply with these laws and regulations and to obtain federal, state, and local environmental permits or approvals for some of our operations. Some of these permits must be renewed periodically, and governmental authorities have the ability to revoke, deny, or modify these permits. Zoning and land use restrictions also apply to all of our facilities. Siting and other state-operating approvals also apply in some states.

We are subject to federal and state regulations governing hazardous and solid wastes. The Resource Conservation and Recovery Act ("RCRA") is the principal federal statute governing hazardous waste generation, treatment, transportation, storage, and disposal. Under RCRA, the EPA has established comprehensive "cradle-to-grave"

regulations for the management of a wide range of materials identified as hazardous or solid waste. The regulations impose technical and operating requirements that must be met by facilities that generate, store, treat, transport, and dispose of these wastes. A number of states have regulatory programs governing the operations and permitting of hazardous and solid waste facilities. In addition, some states classify as hazardous some wastes that are not regulated under RCRA. Accordingly, we must comply with the state requirements for handling state regulated wastes.

In 2013, the EPA issued preliminary regulations regarding its plans to replace paper manifests with an electronic manifesting system and electronic database that will be developed and maintained by the EPA. Users of the system will pay transaction fees to the EPA for maintaining the system. Congress established a statutory deadline of October 2015 for the EPA to have a functioning "e-manifest" system. However, the EPA estimates that the availability of a functioning system has been delayed until approximately spring 2018. We intend to develop systems that will allow us to utilize the EPA's "e-manifest" system for shipments of hazardous wastes and other waste materials and that will be linked to the EPA's data management system once the designs, requirements, and schedules are finalized.

Our operations are governed by 10-day transfer requirements and do not typically require a hazardous waste facility permit. All of our branches and distribution hubs in the U.S. operate as 10-day transfer facilities. Under RCRA, states are delegated to implement the regulatory programs through state regulations, which can be more stringent than those of the federal EPA. We have obtained a facility waste permits for our locations in certain states and are currently pursuing waste permits in other states that do not allow the typical 10-day transfer option.

The Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended ("CERCLA") governs the cleanup of inactive hazardous waste sites and imposes liability for the cleanup on "responsible parties" generating or transporting waste to a site. CERCLA further provides for immediate response and removal actions coordinated by the EPA to releases of hazardous substances into the environment and authorizes the government to respond to the release or threatened release of hazardous substances or to order responsible persons to perform any necessary cleanup. CERCLA imposes strict liability on current or former owners and operators of facilities that release hazardous substances into the environment as well as on businesses that generate those substances or transport them to the facilities. Responsible parties may be liable for substantial investigation and cleanup costs even if they operated their businesses properly and complied with applicable federal and state laws and regulations. Liability under CERCLA may be joint and several. Certain of our customers' and third-party contractors' facilities have been in operation for many years and, over time, the operators of these facilities may have generated, used, handled, and disposed of hazardous and other regulated wastes or other hazardous substances. Environmental liabilities could therefore exist under CERCLA, including cleanup obligations at these facilities or off-site locations where materials from our operations were disposed. In the past, we have been involved as a potentially responsible party ("PRP") at CERCLA cleanup sites, and it is possible that we may be involved at similar cleanup sites in the future.

In addition to regulations under RCRA and CERCLA, the EPA has adopted regulations under the Clean Air Act ("CAA") and the Clean Water Act ("CWA"). The CAA regulates emissions of pollutants into the air from mobile and stationary sources. CAA permits limit the emissions from parts cleaning units. One of our distribution hubs, our used oil re-refinery, and several of our oily water treatment operations are subject to facility based permits under the CAA. The used oil re-refinery was constructed and is operating under CAA New Source Performance Standards and an associated permit. This air permit was modified to accommodate the ongoing expansion of the re-refinery. Our transportation fleet of trucks is regulated for emissions as mobile sources. Regulations under the CWA govern the discharge of pollutants into surface waters and sewers and require discharge permits and sampling and monitoring requirements. The CWA also requires specific spill plans governing the storage of waste and product hydrocarbons. A more detailed spill plan is also required at the used oil re-refinery because of the large volume of certain storage tanks. All of our recycling, used oil and oily water processing facilities currently hold CWA National Pollution Discharge Elimination System ("NPDES") permits for stormwater runoff and water pollution prevention. Our operations are also regulated pursuant to state statutes and implementing regulations, including those addressing clean water and clean air.

Our transportation fleet, truck drivers, and the transportation of hazardous materials are regulated by the U.S. Department of Transportation ("DOT") Motor Carrier and the Federal Railroad Administration ("FRA"), as well as by the regulatory agencies of each state in which we operate or through which our vehicles pass. Governmental regulations apply to the vehicles used by us to transport the chemicals we distribute to customers and the waste and other residuals collected from customers. These vehicle requirements include the licensing requirements for the vehicles and the drivers, vehicle safety requirements, vehicle weight limitations, shipping papers, and vehicle placarding requirements.

The Department of Labor Occupational Safety & Health Administration ("OSHA") safety standards are applicable to all of our operations. The used oil re-refinery and mineral spirits distillation facility are also subject to OSHA Process Safety Management standards that govern the operation of the facilities.

In August 1997, the South Coast Air Quality Management District in California (the "SCAQMD"), enacted Rule 1171, which prohibits the use of certain types of solvents that we currently sell for parts cleaning operations. In the areas of California affected by this or similar regulations (including Los Angeles, San Francisco, and Sacramento), aqueous parts cleaning is the primary substitute. We currently have one branch located in Los Angeles, California. Although other states have not passed regulations similar to Rule 1171, we cannot predict if or when other state and/or local governments will promulgate similar regulations which may restrict or prevent the use of solvent for parts cleaning. Pending air regulation laws in the northeastern United States may restrict, or possibly eliminate, the use of our typical parts washer solvent in cold parts cleaners. Due to the size of the states in the northeastern U.S. and the transport of pollutants over state boundaries, the Ozone Transport Commission ("OTC") develops overarching air pollution programs for member states to adopt. While there has been some delay in implementation of the regulations throughout the northeastern OTC states, additional regulations limiting the use of certain solvents and other ozone forming chemicals are expected to begin going into effect within the next five years. The OTC

states include twelve states in the far northeastern U.S. as well as the District of Columbia. Among the OTC states, Maryland and Delaware have initiated development of rules to limit the use of ozone pollution forming compounds.

More specifically to our traditional parts cleaning services, federal and state laws and regulations dictate and restrict to varying degrees what types of cleaning solvents may be used, how a solvent may be stored, and the manner in which contaminated or used solvents may be handled, transported, disposed of, or recycled. These legal and regulatory mandates have been instrumental in shaping the parts cleaning industry. We have developed methods of managing solvent as non-hazardous so as to significantly reduce the regulatory burden on us and on our customers. Any changes to, relaxation of, or repeal of federal or state laws and regulations affecting the parts cleaning industry may significantly affect the demand for our products as well as our competitive position in the market.

The EPA has promulgated regulations that govern the management of used oils. Although used oil is not classified as a hazardous waste under federal law, certain states do regulate used oil as state-regulated waste. Our used oil collection services require compliance with both federal and state regulations. As with our parts cleaning services, we make use of various programs to reduce the administrative burden associated with our customers' compliance with used oils regulations. Any used oil contaminated with polychlorinated biphenyls ("PCBs") is regulated under the Toxic Substances Control Act ("TSCA"). The rules set minimum requirements for storage, treatment, and disposal of PCB wastes. Used oil contaminated with a certain level of PCBs may require incineration or special TSCA authorization or permits. The EPA has recently proposed CAA regulations requiring more stringent air permits governing the burning of certain recyclable materials, including non-specification used oil. We do not anticipate any negative impacts to the Company from this pending court ordered regulation.

One of the products of the re-refining process is Vacuum Tower Asphalt Extender ("VTAE"). VTAE is sold for use as an ingredient in asphalt used in the construction of roadways. State Departments of Transportation may regulate the characteristics of materials that are used as ingredients in roadway asphalt. A small number of states have banned the use of VTAE as an ingredient in asphalt used on roadways. We believe, when used in the proper proportion, the VTAE produced at our re-refinery can be used in a paving asphalt formulation that meets ALL relevant performance standards. Regulatory restrictions on the use of VTAE have negatively impact the marketability of this product and the profitability of our oil business.

Governmental authorities have the power to enforce compliance with these and other regulations, and violators are subject to civil and criminal penalties. Private individuals may also have the right to sue to enforce compliance with certain of the governmental requirements.

Available Information

We maintain a website at the following Internet address: <http://www.crystal-clean.com>. Through a link on this website to the SEC website, <http://www.sec.gov>, we provide free access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after electronic filing with the SEC. The public can obtain copies of these materials by visiting the SEC's Public Reference Room at 100 F Street, NE, Washington DC 20549 or by accessing the SEC's website at <http://www.sec.gov>. The public may obtain information on the operation of the SEC's Public Reference Room by calling 1-800-SEC-0330. Our guidelines on corporate governance, the charters for our Board Committees, and our code of ethics are also available on our website, and we will post on our website any waivers of, or amendments to, such code of ethics. Our website and the information contained therein or connected thereto are not incorporated by reference into this annual report.

Executive Officers of Registrant

The following table sets forth the names, ages and titles, as well as a brief account of the business experience of each person who is an executive officer of Heritage-Crystal Clean.

Name	Age	Position
Brian Recatto	52	President, Chief Executive Officer, and Director
Gregory Ray	56	Chief Operating Officer and Secretary
John Lucks	63	Senior Vice President of Sales and Marketing
Mark DeVita	48	Chief Financial Officer
Ellie Bruce	53	Vice President of Business Management and Marketing
Tom Hillstrom	56	Vice President of Operations

Brian Recatto
President, Chief Executive Officer, and Director

On February 1, 2017, Mr. Recatto was appointed President and Chief Executive Officer. Mr. Recatto will also continue in his role as Director. From 2014 to January 2017, Mr. Recatto served as President U.S. Operations for Gibson Energy Inc., one of the largest independent midstream energy companies in Canada and a major U.S. crude oil logistics operator. Mr. Recatto joined Gibsons through its acquisition of OMNI Energy Services, where he had served in various executive positions since 2007, including Vice President and Chief Operating Officer, and President and Chief Executive Officer. Mr. Recatto was President from 2004 to 2007 of Charles Holston, Inc., a waste management and environmental cleaning company, which OMNI acquired. He served in various operating and executive positions from 1997 to 2004 with Philip Services Corporation, an environmental and industrial services company, including roles as General Manager of Gulf Coast Waste Operations, Senior Vice President By-Products Services Group and President Industrial Services. Mr. Recatto joined Philip Services Corporation through its acquisition of Meklo, Inc., an industrial waste management company, where he had served as President for six years. Mr. Recatto holds a bachelor's degree in Finance from Louisiana State University.

Gregory Ray
Chief Operating Officer

Mr. Ray has been our Chief Operating Officer since 2012. Before that, Mr. Ray served as Chief Financial Officer since June 2007, and as Vice President, Business Management since 1999. In addition, Mr. Ray has served as our Secretary from 2004. From 1994 to 1999, Mr. Ray served in various roles at Safety-Kleen, including Vice President, Business Management, where he was in charge of and oversaw a \$700 million revenue business unit. While at Safety-Kleen, Mr. Ray was responsible for managing and expanding the used oil collection service and establishing the first nationwide used oil program, and he led the development of that firm's vacuum services business. From 1983 to 1993, Mr. Ray helped establish the used oil recycling business of Evergreen Oil. Mr. Ray has over 30 years of experience in the industrial and hazardous waste services industry, and he holds an A.B. in economics and an M.S. in industrial engineering from Stanford University.

John Lucks

Senior Vice President of Sales and Marketing

Mr. Lucks has been our Senior Vice President of Sales and Marketing since 2012. Before that, Mr. Lucks served as our Vice President of Sales and Marketing from 2010, and prior to that as our Vice President of Sales from 2000 - 2010. From 1988 to 1997, Mr. Lucks served as the Vice President of Industrial Marketing and Business Management of Safety-Kleen, where he was in charge of and oversaw a \$300 million revenue business unit. Mr. Lucks also led the development of several lines of business, in particular the industrial parts cleaning and drum waste business which became the largest segment of Safety-Kleen. Mr. Lucks has over 30 years of experience in the industrial and hazardous waste services industry.

Mark DeVita
Chief Financial Officer

Mr. DeVita has been our Chief Financial Officer since 2012. He served as Vice President, Business Management in 2011. Mr. DeVita has been with the Company since 2000 and has served in a variety of roles related to business management, finance, and acquisitions. He took the lead in developing multi-million dollar lines of business for the Company. Mr. DeVita has 20 years of experience in the industrial and hazardous waste services industry. Mr. DeVita earned his Bachelor of Science in Accountancy with honors from the University of Illinois and his MBA from Northern Illinois University. Mr. DeVita earned his CPA and worked in public accounting for four years.

Ellie Bruce
Vice President of Business Management and Marketing

Ms. Bruce became Vice President Business Management and Marketing in 2016. Prior to this, Ms. Bruce was Vice President of Sales from 2012 to 2015. She has also served as Vice President Oil from 2010 to 2015. She served as Chief Accounting Officer from June of 2007 to 2012 and has been with the Company since March 2006. She began her career in the used oil collection and re-refining business in 1988 when she joined Safety-Kleen, working at the oil re-refinery in Breslau Canada and served in a number of positions, including Controller of Safety-Kleen Canada Inc., responsible for the accounting and business management for all of the branch lines of business.

Tom Hillstrom
Vice President of Operations

Mr. Hillstrom has served in various capacities since joining Heritage-Crystal Clean, LLC in 2002 and is currently our Vice President of Operations. From 1983 to 2000, Mr. Hillstrom served in various functions at Safety-Kleen. He was a member of the planning and design team for the construction of Safety-Kleen's used oil re-refinery in East Chicago, Indiana and held the position of Facility Manager during the re-refinery's start-up and through its first years of operation. From 1996 to 1998, he was Director of Planning and Evaluation, where he was responsible for strategic planning and acquisitions. Mr. Hillstrom holds a Bachelor's degree in Chemical Engineering from the University of Notre Dame, and has over 25 years of experience in the industrial and hazardous waste services industry.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following factors, as well as other information contained or incorporated by reference in this report, before deciding to invest in shares of our common stock. The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of those risks actually occurs, our business, financial condition and results of operations would suffer. In that event, the trading price of our common stock could decline, and you may lose all or part of your investment. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements" included elsewhere in this document.

Risks Relating to Our Business

Our operating margins and profitability may be negatively impacted by the volatility in crude oil, solvent, fuel, energy, and commodity prices.

The price at which we sell oil-based products in our Oil Business segment, such as re-refined base oil, hydrotreated fuel, VTAE, and RFO is affected by changes in certain oil indices, such as the price for crude oil. If the relevant oil indices rise or fall, we can typically expect a corresponding increase or decrease in prices for the oil products we sell to reflect the change in the relevant oil indices. However there may be a lag between the time an oil index increases or decreases and the time when we are able to increase or decrease the price of the oil products we sell. The costs to collect used oil, including the amounts we must pay or charge to obtain used oil and the fuel costs of our oil collection fleet, generally increases or decreases when the relevant index increases or decreases. As with the prices for the oil products we sell there may be a time lag between when an oil index increases or decreases and when we are able to adjust the amounts we pay or charge to obtain used oil. Even though the prices we can charge for the oil products we sell and the costs to collect and re-refine used oil generally correlate, they do not always increase or decrease by the same magnitude, and we cannot assure you that any increased costs we experience can

be passed through to the prices we charge for the oil products we sell or that the costs to collect and re-refine used oil will decline when re-refined oil prices decline. Because of the competitive nature of the oil collection industry, we may not be able to adjust the amounts we pay or charge for used oil in a timely manner or to fully compensate for decreases in the prices for the oil products we sell which could materially and negatively impact our operating results and profitability. Any increases in our costs to collect used oil could adversely affect the profitability of our Oil Business segment.

Increased costs of crude oil can significantly increase our operating costs in our Environmental Services segment. Because solvent is a product of crude oil, we are also susceptible to increases in solvent costs when crude oil costs increase. During a period of rising crude oil costs, we typically experience increases in the cost of solvent, fuel, and other petroleum-based products. We have in the past been able to mitigate increased solvent and fuel costs through the imposition of price increases and energy surcharges to customers. However, because of the competitive nature of the industry, there can be no assurance that we will be able to pass on future price increases. Due to political instability in oil-producing countries, oil prices could increase significantly in the future. A significant or sudden increase in solvent or fuel costs could lower our operating margins and negatively impact our profitability. We currently do not use financial instruments to hedge against fluctuations in oil, solvent, or energy prices. If this volatility continues, our operating results could be volatile and adversely affected.

In addition, a significant portion of our inventory consists of new and used solvents and oil products. Volatility in the price of crude oil has impacted in the past and can significantly impact in the future the value of this inventory and our operating margins. Further, because we apply a first-in first-out accounting method, volatility in oil prices and solvent can significantly impact our operating margins.

The price of crude oil and related commodities continued to fall during the first quarter of 2016 from the significant declines in the fourth quarter of fiscal 2015. As a result, in fiscal 2016, we recorded non-cash inventory impairment charges of \$0.7 million on that portion of our oil inventory that was held for sale, reflecting the lower market value of such inventory. We also recorded a non-cash inventory impairment charge of \$1.0 million to reflect the lower value of the solvent inventory held for use in our service programs. If volatility in the price of crude oil continues, our operating results will be difficult to predict and could be adversely affected. If we do not increase how much we charge to generators to acquire their used oil as quickly as the price for our oil products declines, the profitability of our Oil Business segment would be negatively impacted.

Many small automotive repair shops and manufacturing companies burn used oil as a source of heat as an alternative to using natural gas. If the price of natural gas were to increase significantly, these potential customers may choose to retain their used oil for fuel purposes rather than allowing us to collect their used oil. This could make it difficult to supply our re-refinery with internally collected feedstock at competitive prices. In addition, increases in the cost of natural gas may increase the cost to operate our used oil re-refinery.

The liabilities that we assumed as a result of our acquisition of FCC Environmental on October 16, 2014, may prove to be greater than anticipated and may negatively affect our operating results.

As a result of our acquisition of FCC Environmental (the "Acquisition"), we have assumed all of FCC Environmental's liabilities, except as provided in indemnifications and remedies in the Stock Purchase Agreement. We may learn additional information about FCC Environmental's business that adversely affects us, such as unknown or contingent liabilities, including environmental liabilities. We are currently in a dispute with the seller of FCC Environmental with respect to indemnification amounts owed to us. If FCC Environmental's liabilities are greater than projected, or if we are not successful in our indemnification claims, our business could be materially adversely affected.

Our indebtedness could harm our operating flexibility and competitive position as well as adversely affect our financial condition and ability to fulfill our obligations, and expose us to interest rate risk.

As of December 31, 2016, we had \$64.2 million outstanding under the Credit Agreement in the form of Term A Loans. Amounts borrowed under the Credit Agreement are secured by a security interest in substantially all of our tangible and intangible assets. The Credit Agreement requires us to maintain a specified total leverage ratio and has an excess cash flow provision that requires additional principal payments on the term loan if the excess EBITDA for the fiscal year exceeds the formula rate set forth in the facility. Our ability to comply with these ratios or tests may be affected by events beyond our control, including prevailing economic, financial, and industry conditions. A breach of any of these covenants, ratios, or tests could result in a default under the Credit Agreement. Our level of debt and the limitations imposed on us by the debt agreements related to such indebtedness could adversely affect our operating flexibility and put us at a competitive disadvantage. Our substantial debt level may adversely affect our future performance, because, among other things:

- we may be placed at a competitive disadvantage relative to our competitors, some of which have lower debt service obligations and greater financial resources than we do;
- our ability to complete future acquisitions may be limited;
- we will have to use a portion of our cash flow for debt service rather than for operations;
- we may not be able to obtain further debt financing and may have to pay more for financing;
- we may not be able to take advantage of business opportunities;
- the indebtedness may bear interest at variable interest rates, making us vulnerable to increases in interest rates; and
- we will be more vulnerable to adverse economic conditions.

Our Credit Agreement also contains restrictions on the total amount of capital expenditures that we can incur in any year. While we were completing the expansion of our Indianapolis, Indiana re-refinery to 75 million gallons per year of input capacity, our credit agreement also included restrictions on the amount of capital expenditures we were allowed to incur as part of the expansion project. Since we completed the expansion project during fiscal 2015, these additional restrictions were no longer applicable beginning in fiscal year 2016. If we plan to enter into capital-intensive projects, we may need to amend our credit facility to permit capital expenditures in excess of current limits. We cannot assure you that we will receive any waivers of our credit facility in the future to complete projects we may have.

The indebtedness will require significant interest and principal payments. Our ability to make scheduled payments of principal, to pay interest on, or to refinance our indebtedness and to satisfy our other debt obligations will depend upon our future operating performance, which may be affected by factors beyond our control. In addition, there can be no assurance that future borrowings or equity financing will be available to us on favorable terms or at all for the payment or refinancing of our indebtedness. If we are unable to service our indebtedness, our business, financial condition and results of operations would be materially adversely affected. Borrowings under our Credit Agreement are tied to the various stated interest rates. In the event of an increase in interest rates or an increase in the amount of our indebtedness, our interest expense will increase and could have a material adverse effect on our net income.

Our used oil re-refinery may not generate the operating results that we anticipate and may lead to greater volatility in our revenue and earnings.

There can be no assurance that unforeseen market conditions, such as the significant drop in crude oil prices, will not adversely impact the operation or profitability of our re-refinery. Our success in operating our re-refinery at capacity and realizing the anticipated benefits therefrom in a timely manner, or at all, may be affected by the following factors:

- 1 Operation of the Re-refinery - Operating at capacity depends on the ability of our employees and management to run the re-refinery at design rates safely and in compliance with all relevant regulations. Nameplate capacity includes the impact of periodic shutdowns for routine maintenance. Any extended or unscheduled shutdowns may inhibit our ability to operate the re-refinery at or near capacity.
- 1 Base Lube Oil Demand - Operating at capacity depends on the demand for base lube oil in general and specifically the base lube oil produced at our Indianapolis site. Additional capacity has been constructed by virgin lubricating base oil producers. Additional production capacity might depress the prices for the base oil that we produce. In addition, we may experience increased downward pricing pressure when compared to suppliers of virgin lubricating

base oil, which has historically sold at a premium to re-refined lubricating base oil.

1 Logistics - Operating at capacity depends on our ability to efficiently transport used oil to our Indianapolis site and to transport base lube oil and related products out of our Indianapolis site as well as on our access to adequate storage facilities for raw materials and products.

1 Base Lube Oil Pricing - The price at which we sell oil-based products from our used oil re-refinery is affected by changes in certain oil indices. If the relevant oil indices decline, we would typically reduce prices for our re-refined lubricating base oil, even if our costs do not experience a similar decline. If we reduce prices for our products, we may not realize expected results, and our operating margins may be adversely impacted.

1 Used Oil Feedstock - Operating at capacity depends on our ability to obtain the required volume from either Company customers or third party collectors and to acquire the feedstock at competitive rates.

Our operations are subject to numerous environmental, transportation, and other laws and regulations and, to the extent we are found to be in violation of any such laws and regulations, we may be subject to involuntary shutdowns and/or significant financial penalties.

Our operations are subject to extensive federal, state, and local laws and regulations relating to the protection of the environment which, among other things:

- 1 regulate the collection, sale, transportation, handling, processing, and disposal of the hazardous and non-hazardous wastes that we collect from our customers;
- 1 regulate the treatment and processing of waste material that we collect from our customers and the discharge of treated material;
- 1 impose liability on persons involved in generating, handling, processing, transporting, or disposing hazardous materials; and
- 1 impose joint and several liability for the remediation and clean-up of environmental contamination

We are also subject to various transportation rules and regulations enforced by the DOT, Federal Railroad Administration (FRA), the Federal Motor Carrier Safety Administration, and the Department of Homeland Security. The breadth and complexity of these laws and regulations affecting our business make consistent compliance extremely difficult and often result in increased operating and compliance costs. Even with these programs, we and other companies in the industry are routinely faced with legal and administrative proceedings which can result in civil and criminal penalties (including the loss of certain licenses and permits that are required for our business), interruption of business operations, fines or other sanctions, and require expenditures for remedial work at our and third-party facilities. Under current law, we may be held liable for damage caused by conditions that existed before we acquired the assets or operations involved or if we arrange for the transportation, disposal, or treatment of hazardous substances that cause environmental contamination. We may also be held liable for the mishandling of waste streams resulting from the misrepresentations by a customer as to the nature of such waste streams. We may be subject to monetary fines, civil or criminal penalties, remediation, clean-up or stop orders, injunctions, orders to cease or suspend certain practices, or denial of permits we require to operate our facilities.

We are also required to obtain and maintain permits, licenses, and approvals to conduct our operations in compliance with such laws and regulations. If we are unable to maintain our currently held permits, licenses, and approvals, we may not be able to continue certain of our operations. If we are unable to obtain additional permits, licenses, and approvals which may be required as we expand our operations, we may not be able to grow our business.

We have in the past been subject to penalties and fines for noncompliance with environmental regulations and could be subject to penalties and fines in the future. For example, as described in "Legal Proceedings," on July 1, 2015, we received a grand jury subpoena from the U.S. Department of Justice ("DOJ"), along with the U.S. Environmental Protection Agency ("EPA"), requesting certain materials related to the transportation and disposal of wastewater by International Petroleum Corp. of Delaware ("IPC"), a company acquired along with the acquisition of FCC Environmental, LLC (FCCE), and the due diligence documents provided to us in connection with our acquisition of IPC. In 2016 we received indirect communication that the City of Wilmington, Delaware was also seeking to recover amounts related to municipal services allegedly incurred prior to our acquisition of IPC. The portion of the IPC operation that was the subject of the investigation was not operating at the time of our acquisition of IPC. In October 2016 we reached a settlement with the DOJ, EPA and the City of Wilmington, Delaware to settle the above referenced investigation. As part of the settlement IPC pleaded guilty to two criminal counts related to activity which occurred prior to our acquisition of IPC and pay a fine of \$1.3 million. The two counts include conspiracy to violate the Clean Water Act, 33 U.S.C. § 1319(c)(2) and violation of the Resource Conservation and Recovery Act, 42 U.S.C. §

6928(d)(5). The settlement also includes payment of an additional \$2.2 million by IPC to the City of Wilmington, Delaware for restitution related to underpayment of sewer fees which occurred prior to our acquisition of IPC. On February 2, 2017, the settlement and plea agreement was accepted in U.S. District court and the aforementioned fines and restitution were paid. The expenses for the fine and restitution were included in our third quarter financial results. The consequences from this investigation could have a material effect on our business, financial condition, and results of operations, including the potential loss of permits, licenses, and approvals to conduct our business and the potential inability to obtain additional permits, licenses, and approvals which may be required as we expand our operations.

In addition, the operation of our used oil re-refinery exposes us to risks related to the potential loss of permits, contamination of feedstock, adverse environmental impact of a spill or other release, the risk of explosion or fire or other hazards, the risk of injury to our employees or others, as well as the negative publicity due to public concerns regarding our operation. The occurrence of any of these events could result in reduced production rates, loss of inventory, operational

inefficiencies, clean-up costs, or other items that might negatively affect the operating results of the Company. While these risks are in some respects similar to risks that we have experienced in our traditional service businesses, the magnitude of exposure may be greater due to the nature of the used oil re-refining industry and the greater volumes, temperatures, and pressures involved. While we may maintain some insurance that covers portions of these exposures, in many cases the risks are uninsurable or we will not choose to procure insurance at levels that will cover all potential exposure.

CERCLA and similar state laws impose strict liability on current or former owners and operators of facilities that release hazardous substances into the environment, as well as on the businesses that generate those substances or transport them to the facilities. As a potentially responsible party, or PRP, we may be liable under CERCLA for substantial investigation and cleanup costs even if we operate our business properly and comply with applicable federal and state laws and regulations. Liability under CERCLA may be joint and several, which means that if we were found to be a business with responsibility for a particular CERCLA site, we could be required to pay the entire cost of the investigation and cleanup, even though we were not the party responsible for the release of the hazardous substance and even though other companies might also be liable. Even if we were able to identify who the other responsible parties might be, we may not be able to compel them to contribute to the remediation costs, or they might be insolvent or unable to contribute due to lack of financial resources. Our facilities and the facilities of our customers and third party contractors may have generated, used, handled and/or disposed of hazardous substances and other regulated wastes. Environmental liabilities could exist, including cleanup obligations at these facilities or at off-site locations where materials from our operations were disposed of, which could result in future expenditures that cannot be currently quantified and which could materially reduce our profits. It is also possible that government officials responsible for enforcing environmental laws may view an environmental liability as more significant than we then currently estimate, or that we will fail to identify or fully appreciate an existing liability before we become legally responsible to address it.

Our pollution liability insurance excludes certain liabilities under CERCLA. Thus, if we were to incur liability under CERCLA that was not covered by our insurance, and if we could not identify other parties responsible under the law whom we are able to compel to contribute to the liabilities, the cost to us could be substantial and could impair our profitability, reduce our liquidity, and have a material adverse effect on our business. Although our customer service agreements typically provide that the customer is responsible for ensuring that only appropriate materials are disposed of, we could be exposed to third party claims if customers dispose of improper waste, and we might not be successful in recovering our damages from those customers. In addition, new services or products offered by us could expose us to further environmental liabilities for which we have no historical experience and cannot estimate our potential exposure to liabilities.

In addition, there currently exists a high level of public concern over hazardous waste operations, including with respect to the siting and operation of transfer, processing, storage, and disposal facilities. For example, under the DOT's Compliance, Safety, Accountability (CSA) initiative, a compliance and enforcement initiative designed to monitor commercial motor vehicle safety, the fleets and drivers in our network are evaluated and ranked based on certain safety-related standards. A poor fleet ranking or a reduction in eligible drivers could impact our ability to service our customers and could cause our customers to use a competitor with higher fleet rankings than ours, which could have a material adverse effect on our business, financial condition and results of operations.

Part of our business strategy is to increase our re-refining capacity through the operation of our facility and by adding new branch operations. Each of these efforts requires us to undergo an intensive regulatory approval process that could be time consuming and impact the success of our business strategy. Zoning, permit, and licensing applications and proceedings, as well as regulatory enforcement proceedings, are all matters open to public scrutiny and comment. Accordingly, from time to time we have been, and may in the future be, subject to public opposition and publicity which may damage our reputation and delay or limit the expansion and development of our operating properties or

impair our ability to renew existing permits which could prevent us from implementing our growth strategy and have a material adverse effect on our business, financial condition or results of operations.

If current environmental laws and regulations are changed, we may be forced to significantly alter our business model, which could have a material adverse effect on our financial performance.

Environmental laws and regulations are subject to change and may become increasingly stringent or relaxed. Interpretation or enforcement of existing laws and regulations, or the adoption of new laws and regulations, may require us to modify or curtail our operations or replace or upgrade our facilities or equipment at substantial costs which we may not be able to pass on to our customers. On the other hand, if new laws and regulations are less stringent, then our customers or competitors may be able to manage waste more effectively without reliance on our service, which could decrease the need for our services and/or increase competition which could adversely affect our revenues and profitability.

For example, the EPA currently excludes waste used as an ingredient in the production of a product from being defined as hazardous waste. Our product reuse program for parts cleaning operates under this exclusion and provides an advantage by excluding our customers' used solvent from being regulated as hazardous waste. Similarly, under our non-hazardous program for parts cleaning, we provide our customers with a different solvent that has a higher flashpoint than traditional solvents. The resulting used solvent is not considered to be hazardous waste so long as our customers ensure that no inappropriate contaminants were contributed to the used solvent.

If the EPA were to broaden the definition of hazardous waste to include used solvents generated by our customers under our product reuse and/or non-hazardous programs for parts cleaning, the value of our offerings may be significantly reduced, which could have a material adverse effect on our financial performance. Examples of changes by the EPA that could adversely affect our services include, but are not limited to, the following:

- 1 elimination of the reuse exception to the definition of hazardous waste;
- 1 increase in the minimum flashpoint threshold at which solvent becomes included in the definition of hazardous waste;
- 1 increased requirements to test the used solvent that we pick up from our customers for the presence of toxic or more flammable contaminants; and
- 1 adoption of regulations similar to those enacted in some California air quality districts that prohibit the use of the solvents of the type that we sell for parts cleaning operations.

Similarly, if current environmental laws were changed so as to ban the use of mineral spirits in parts cleaning, we may be forced to discontinue offering mineral spirits-based parts cleaning services. This could lead to a write-down in the value of our inventory of mineral spirits and our parts cleaning machines designed to utilize mineral spirits, as well as our mineral spirits-based parts cleaning machines at our customers.

One of the products produced at the re-refinery process is Vacuum Tower Asphalt Extender ("VTAE"). VTAE is sold for use as an ingredient in asphalt used in the construction of roadways. State Departments of Transportation may regulate the characteristics of materials that are used as ingredients in roadway asphalt. A small number of states have banned the use of VTAE as an ingredient in asphalt used on roadways. We believe, when used in the proper proportion, the VTAE produced at our re-refinery can be used in a paving asphalt formulation that meets all relevant performance standards. Regulatory restrictions on the use of VTAE have negatively impacted the marketability of this product and the profitability of our oil business.

In addition, new laws and regulations, new interpretations of existing laws and regulations, increased governmental enforcement, or other developments could require us to make additional unforeseen expenditures. We are not able to predict the impact of new or changed laws or regulations or changes in the ways that such laws or regulations are administered, interpreted, or enforced. The requirements to be met, as well as the technology and length of time available to meet those requirements, continue to develop and change. To the extent that our costs associated with meeting any of these requirements are substantial and cannot adequately be passed through to our customers, our earnings and cash flows could suffer.

A decline in expected profitability of the Company or individual reporting units of the Company could result in the impairment of assets, including goodwill, other long-lived assets, and deferred tax assets.

We hold material amounts of goodwill, other long-lived assets, and deferred tax assets on our balance sheet. A decline in expected profitability of one of our operating segments or a decline in the global economy, could call into question

the recoverability of our related goodwill, other long-lived tangible and intangible assets, or deferred tax assets and require us to write down or write off these assets or, in the case of deferred tax assets, recognize a valuation allowance through a charge to income. Such an occurrence could have a material adverse effect on our annual results of operations and financial position.

Expansion of our business may result in unanticipated adverse consequences.

In the future, we may seek to grow our business by investing in new or existing facilities, making acquisitions, entering into partnerships and joint ventures, or constructing or expanding facilities such as the used oil re-refinery. Acquisitions, partnerships, joint ventures, investments, or construction projects may require significant managerial attention, which may divert our management from our other activities and may impair the operation of our existing businesses. Any future acquisitions of businesses or facilities or the development of a new business line could entail a number of additional risks.

We may not be able to realize the expected benefits from any recent or future acquisitions, new facility developments, partnerships, joint ventures or other investments.

We operate our business through many locations, and if we are unable to effectively oversee all of these locations, our business reputation and operating results could be materially adversely affected.

Because we rely on our extended network of 83 branch locations to operate independently to carry out our business plan, we are subject to risks related to our ability to oversee these locations. If in the future we are unable to effectively oversee our branch locations, our results of operations could be materially adversely affected, we could fail to comply with environmental regulations, we could lose customers, we could lose control of inventory and other assets, and our business could be materially adversely affected.

We may be unable to manage our growth.

Our growth to date has placed and may continue to place significant strain on our management and operational and financial resources. We anticipate that continued growth will require us to recruit, hire, and retain new managerial, finance, sales, marketing, and operational personnel. We cannot be certain that we will be successful in recruiting, hiring, or retaining those personnel. Our ability to compete effectively and to manage our future growth, if any, will depend on our ability to maintain and improve operational, financial and management information systems on a timely basis and to expand, train, motivate, and manage our work force. If we continue to grow, we cannot be certain that our personnel, systems, procedures, and controls will be adequate to support our operations.

Our results of operations and financial condition have been and could in the future be materially adversely impacted by an economic downturn.

The overall levels of demand for our parts cleaning products and supplies and other services are influenced by fluctuations in levels of end-user demand, which depend in large part on general macroeconomic conditions in the U.S. and the regional economic conditions affecting our branches. Our customers and suppliers may face severe financial difficulties, causing them to cease some or all their business operations or to reduce the volume of products or services they purchase from us in the future. We may have accounts receivable from customers who may not be able to honor their obligations to us. Failure to collect a significant portion of amounts due on those receivables could have a material adverse effect on our results of operations and financial condition. Many of our customers are heavily dependent on general economic conditions, including the availability of affordable energy sources, employment levels, interest rates, financial credit availability, consumer confidence, and housing demand. Downturns in these general economic conditions can significantly affect the business of our customers, which in turn affects demand, volumes, pricing, and operating margins for our services and products. In past economic downturns, demand from our services has declined as our customers' reduced their costs which in turn reduced their demand for our services. During 2016 we felt the impact of a downturn in economic activity for businesses in, and doing business with, the oil industry due to the continued decline in the price of crude oil. Such downturns in the oil industry negatively impact the operating results of our Environmental Services segment.

In addition, adverse economic and financial market conditions may cause our suppliers to be unable to provide materials and components to us or may cause suppliers to make changes in the credit terms they extend to us, such as shortening the required payment period for our amounts owing them or reducing the maximum amount of trade credit available to us. Such changes could adversely affect our liquidity and could have a material adverse effect on our results of operations and financial condition. If we are unable to successfully anticipate changing economic and

financial market conditions, we could be adversely affected.

We face intense competition in the industrial and hazardous waste services industries and from other used oil re-refiners.

The markets for parts cleaning, containerized waste management, used oil collection, vacuum truck services, antifreeze recycling, and field services are intensely competitive. Numerous small companies provide these services at a regional or local level and may be able to compete with lower overhead and operating costs. In addition, Safety-Kleen, a wholly-owned subsidiary of Clean Harbors, Inc. and our largest competitor, has held substantial market share in the full-service parts cleaning industry for the last four decades and has developed a significant market share in used oil services, including used oil collection and containerized waste management. Safety-Kleen has greater financial and other resources and greater name recognition than us. Our business growth, financial performance, and prospects may be adversely affected if we cannot effectively compete against these competitors, or if any of our competitors develop products or services superior to those offered by us. We could

lose a significant number of customers if Safety-Kleen or other competitors materially lower their prices, improve service quality, or develop more competitive product and service offerings.

In addition, companies involved in the waste management industry, including waste hauling, separation, recovery, and recycling, may have the expertise, access to customers, and financial resources that would encourage them to develop and market services and products competitive with those offered by us. We also face competition from alternative services that provide similar benefits to our customers as those provided by us. In addition, new technology regarding the treatment and recycling of used solvent may lead to functionally equivalent or superior products becoming available, which may decrease the demand for our services and products or cause our products and services to become obsolete.

In the past many of our competitors announced plans to enter the used oil re-refining or base oil production business or expand their existing used oil re-refining or base oil producing businesses by adding additional capacity. If crude oil price and the price for re-refined oil products increases, competitors may again consider these plans. The additional competition may make it harder for us to sell our re-refined base lube oil. In addition, extra competition in the collection of used oil feedstock may require us to pay more for our used oil or prevent us from collecting enough feedstock to operate the used oil re-refinery at capacity.

Consolidation and/or declines in the U.S. vehicle repair and U.S. manufacturing industries could cause us to experience lower sales volumes which could materially affect our growth and financial performance.

Our business relies on continued demand for our parts cleaning and waste management services in the U.S. vehicle repair and U.S. manufacturing industries, which may suffer from declining market size and number of locations, due in part to the uncertainty of economic conditions, international competition, and consolidation in U.S. markets. Industry trends affecting our customers have caused our customers' businesses to contract. Additional decline could reduce the demand for our parts cleaning and other services and products and have a material adverse impact on our business. As a result, we may not be able to continue to grow our business by increasing penetration into the industries which we serve, and our ability to retain our market share and base of sales could become more difficult.

Our focus on small business customers causes us to be subject to the trends and downturns impacting small businesses, which could adversely affect our business.

Our customer base is primarily composed of small companies in the vehicle repair and manufacturing industries. The high concentration of our customers that are small businesses exposes us to some of the broad characteristics of small businesses across the U.S. Small businesses start, close, relocate, and get purchased or sold frequently. In addition, small businesses tend to be more significantly affected by economic recessions than larger businesses. This leads to a certain amount of ongoing turnover in the market. As a result, we must continually identify new customers and expand our business with existing customers in order to sustain our growth. If we experience a rise in levels of customer turnover, it may have a negative impact on the profitability of our business.

We depend on the service of key individuals, the loss of whom could materially harm our business.

Our success will depend, in part, on the efforts of our executive officers and other key employees, including Brian Recatto, President, Chief Executive Officer, and Director; Gregory Ray, our Chief Operating Officer and Secretary; John Lucks, our Senior Vice President of Sales and Marketing; Tom Hillstrom, our Vice President of Operations; Mark DeVita, our Chief Financial Officer; Ellie Bruce, our Vice President of Business Management and Marketing;

and Glenn Casbourne, our Vice President of Engineering. These individuals possess extensive experience in our markets and are critical to the operation and growth of our business. If we lose or suffer an extended interruption in the services of one or more of our executive officers or other key employees, our business, results of operations, and financial condition may be negatively impacted. Moreover, the market for qualified individuals is highly competitive and we may not be able to attract and retain qualified personnel to succeed members of our management team or other key employees, should the need arise. We do not maintain key man life insurance policies on any of our named executive officers.

In addition, our operations and growth strategy rely on the expansion of our business through the creation and growth of new and existing branches. In order for us to create and grow new and existing branches properly, we must continually recruit and train a pool of hardworking and motivated sales and service representatives, or SSRs, to develop new customer leads as well as support our existing customer base. If we are not able to retain and recruit a sufficient number of SSRs, or if we experience an increase in the turnover of existing SSRs, we may not be able to support the continued growth of our business, which could have a material adverse impact on our financial performance.

We carry inventory of used solvents generated by customers participating in our product reuse program for parts cleaning.

Our inventory of used solvent has fluctuated and it may continue to fluctuate. If we are unable to sell our reuse inventory, we may be required to write down the value of the inventory, and we may incur additional costs for storage and/or disposal which would adversely impact our operating results. In addition, while we sold enough used solvent to satisfy speculative accumulation requirements of the EPA for fiscal 2016 and prior years, we may not in future years.

Our future capital needs are uncertain and our ability to access additional financing may be negatively impacted by the volatility and disruption of the capital and credit markets and adverse changes in the global economy.

Our capital requirements in the future will depend on many factors, including:

- acceptance of and demand for and pricing of our products and services;
- the extent to which we invest in new technology and product development;
- the costs of developing new products, services or technologies;
- our interest and principal payment obligations under the additional indebtedness that we incurred in connection with acquisition of FCC Environmental; and
- the costs associated with the growth of our business, if any.

If global economic conditions worsen, we could experience a decrease in cash flows from operations and may need additional financing to fund operations and access to additional debt or equity may not be available on acceptable terms or at all. In addition, the terms of the Credit Agreement restrict our ability to incur additional indebtedness. If we cannot raise funds on acceptable terms when necessary, we may not be able to develop or enhance products and services, execute our business plan, take advantage of future opportunities or respond to competitive pressures or unanticipated customer requirements.

Our insurance policies do not cover all losses, costs, or liabilities that we may experience.

We maintain insurance coverage, but these policies do not cover all of our potential losses, costs, or liabilities. We could suffer losses for uninsurable or uninsured risks or in amounts in excess of our existing insurance coverage which would significantly affect our financial performance. For example, our pollution legal liability insurance excludes costs related to fines, penalties, or assessments. Our insurance policies also have deductibles and self-retention limits that could expose us to significant financial expense. Our ability to obtain and maintain adequate insurance may be affected by conditions in the insurance market over which we have no control. The occurrence of an event that is not fully covered by insurance could have a material adverse effect on our business, financial condition, and results of operations. In addition, our business requires that we maintain various types of insurance. If such insurance is not available or not available on economically acceptable terms, our business could be materially and adversely affected.

We are subject to potential liability claims relating to our services and products.

We offer our customers specific guarantees that we will be responsible for all expenses resulting from any spill that occurs while we are transporting, processing, or disposing of customers' used solvent and other waste. Accordingly, we may be required to indemnify our customers for any liability under CERCLA or other environmental, employment, health and safety laws and regulations. We may also be exposed to product liability claims by our customers, users of our parts cleaning products, or third parties claiming damages stemming from the mechanical failure of parts cleaned with solvents and/or equipment provided by us. Although we maintain product liability insurance coverage, if our insurance coverage proves inadequate or adequate insurance becomes unreasonably costly or otherwise unavailable, future claims may not be fully insured. An uninsured or partially insured successful claim against us could have a material adverse effect on our business, financial condition, and results of operations.

Litigation related to personal injury from exposure to solvents and the operation of our business may result in significant liabilities and affect our profitability.

We have been and in the future may be involved in claims and litigation filed on behalf of persons alleging injury predominantly as a result of exposure to hazardous chemicals that are a part of the solvents that we provide. In addition, the hazards and risks associated with the use, transport, storage, handling, and disposal of our customers' waste by us and our customers (such as fires, natural disasters, explosions, and accidents) and our customers' improper or negligent use or misuse of solvent to clean parts may also expose us to personal injury claims, property damage claims, and/or products liability claims from our customers or third parties. As protection against such claims and operating hazards, we maintain insurance coverage against some, but not all, potential losses. However, we could sustain losses for uninsurable or uninsured risks, or in amounts in excess of existing insurance coverage. Due to the unpredictable nature of personal injury litigation, it is not possible to predict the ultimate outcome of these claims and lawsuits, and we may be held liable for significant personal injury or damage to property or third parties, or other losses, that are not fully covered by our insurance, which could have a material adverse effect on our business.

Our fixed cost structure may result in reduced earnings or a loss.

Our network, including our re-refinery and other facilities, fleet, and personnel, subjects us to fixed costs, which makes our margins and earnings sensitive to changes in revenues. In periods of declining demand, our fixed cost structure may limit our ability to cut costs, which may put us at a competitive disadvantage to firms with lower cost structures, or may result in reduced operating margins and operating losses.

We are dependent on third parties to supply us with the necessary components and materials to service our customers. We are also dependent on third party transport, including rail, recycling, and disposal contractors.

In the operation of our business, we supply a large amount of virgin solvent and parts cleaning equipment to our customers. We do not maintain extensive inventories for most of these products. If we become unable to obtain, or experience delays in the transportation of, adequate supplies and components in a timely and/or cost-effective manner, we may be unable to adequately provide sufficient quantities of our services and products to our customers, which could have a material adverse effect on our financial condition and results of operations.

We are dependent on third parties for the disposal of most of our customers' non-used oil waste streams. We and our third party transporters ship waste collected from our customers to a number of third party recycling and disposal facilities, including incinerators, landfill operators, and waste-to-energy facilities. We generally do not have long-term fixed price contracts with our third party contractors. If our current disposal vendors or subcontractors cannot perform up to our standards, our reputation with our customers could be damaged, and we may be required to replace these vendors. Although we believe there are a number of potential replacement disposal vendors and subcontractors that could provide such services, we may incur additional costs and delays in identifying and qualifying such replacements. In addition, any mishandling of our customers' waste streams by disposal vendors or subcontractors could expose both us and our customers to liability. Any failure by disposal vendors or subcontractors to properly collect, transport, handle or dispose of our customers' waste streams, or any insolvency or business closure of disposal vendors or subcontractors, could expose us to liability, damage our reputation and generally have a material adverse effect on our business, financial condition, or results of operations.

The operation of our antifreeze recycling centers and oily water processing facilities expose us to risks that may be uninsurable.

Similar to our re-refining operation, the operations of our antifreeze recycling centers and oily water processing facilities expose us to risks related to the potential contamination of feedstock, adverse environmental impact of a spill or other release, or the risk of injury to our employees or others. While we may maintain some insurance that covers portions of these exposures, in many cases the risks are uninsurable, or we will not choose to procure insurance at levels that will cover all potential exposure.

A system failure could delay or interrupt our ability to provide services and products and could increase our costs and reduce our sales.

Our operations are dependent upon our ability to support our branch infrastructure. Our business operates through four hubs that service our 83 local branches. Any damage or failure that causes interruptions in our operations could result in the loss of customers. To date, we have not experienced any significant interruptions or delays which have affected our ability to provide services and products to our customers. The occurrence of a natural disaster, technological, transportation, or operational disruption or other unanticipated problem could cause interruptions in the services we provide and impair our ability to generate sales and achieve profits.

We may not be able to protect our intellectual property adequately.

We rely upon know-how and technological innovation and other trade secrets to develop and maintain our competitive position. We rely, to a significant extent, on trade secrets, confidentiality agreements, and other contractual provisions to protect our proprietary technology, and such agreements may not adequately protect us. Our competitors could gain knowledge of our know-how or trade secrets, either directly or through one or more of our employees or other third parties. Although we do not regard any single trade secret or component of our proprietary know-how to be material to our operations as a whole, if one or more of our competitors were to use or independently develop such know-how or trade secrets, our market share, sales volumes and profit margins could be adversely affected.

In the event we become involved in defending or pursuing intellectual property litigation, such action may increase our costs and divert management's time and attention from our business. In addition, any potential intellectual property litigation could force us to take specific actions, including, but not limited to, the following:

- 1 cease selling products that use the challenged intellectual property;
- 1 obtain from the owner of the infringed intellectual property a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or
- 1 redesign those products that use infringing intellectual property.

We have substantial financial assurance requirements, and increases in the costs of obtaining adequate financial assurance could negatively impact our business, financial condition or results of operations.

We are required by environmental laws to provide financial assurance that funds will be available when needed for closure and post-closure remediation costs at some of our treatment and storage facilities, the costs of which could be substantial. We typically have several options to demonstrate satisfactory financial assurance requirements, including letters of credit, surety bonds, trust funds, and a financial (net worth) test. The financial assurance instrument is provided for the benefit of the permitting authority and is not available for use at our discretion. The amount of financial assurance required varies by facility and is subject to potentially significant increases by regulators. The cost of financial assurance instruments is difficult to accurately predict and depends on many factors, some of which are outside of our control, including the availability of instruments in the marketplace, the amount and form of financial assurance required by a state, our creditworthiness and our operating history. General economic factors, including developments within the insurance industry, may adversely affect the cost of our current financial assurance instruments and changes in regulations may impose stricter requirements on the types of financial assurance that will be accepted. In the event the cost of financial assurance instruments we are required to provide increases or we are otherwise unable to obtain sufficient coverage, our business, financial condition, or results of operations could be materially adversely affected. Our ability to continue conducting our industrial waste management operations could be adversely affected if we should become unable to obtain sufficient insurance and/or financial assurance to meet our business and regulatory requirements in the future.

A cyber incident could result in information theft, data corruption, operational disruption, and/or financial loss.

We are increasingly dependent on digital technology, including information systems and related infrastructure, to process and record financial and operating data, and communicate with our employees and business partners. Cyber

incidents, including deliberate attacks or unintentional events, have increased. A cyber-attack could include gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption or result in denial of service on websites.

Our technologies, systems, networks, and those of our business partners may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss, or destruction of proprietary and other information, or other disruption of our business operations. Any cyber attack on our business could materially harm our business and operating results. While we carry insurance for cyber security and network interruption risks there is no guarantee that any losses we may suffer in the future will not exceed coverage amounts or that all cyber incidents will be covered by our insurance.

As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Climate change legislation or regulations restricting emissions of “Greenhouse Gases” could result in increased operating costs and reduced demand for our services.

In 2009, the EPA published its findings that emissions of carbon dioxide, methane, and other greenhouse gases (“GHGs”), present an endangerment to public health and the environment because emissions of such gases are, according to the EPA, contributing to the warming of the earth's atmosphere and other climate changes. These findings allow the EPA to adopt and implement regulations that would restrict emissions of GHGs under existing provisions of the federal Clean Air Act. The EPA has adopted two sets of regulations under the existing Clean Air Act that would require a reduction in emissions of GHGs from motor vehicles and could trigger permit review for GHG emissions from certain stationary sources. In addition, both houses of Congress have actively considered legislation to reduce emissions of GHGs, and almost one-half of the states have taken legal measures to reduce emissions of GHGs, primarily through the planned development of GHG emission inventories and/or regional GHG cap and trade programs. Most of these cap and trade programs work by requiring either major sources of emissions or major producers of fuels to acquire and surrender emission allowances, with the number of allowances available for purchase reduced each year until the overall GHG emission reduction goal is achieved. The adoption and implementation of any regulations imposing GHG reporting obligations on, or limiting emissions of GHGs from, our equipment and operations could require us to incur costs to monitor emissions and to reduce emissions of GHGs associated with our operations.

Risks Related to our Common Stock

The price of our shares of common stock may be volatile.

The trading price of shares of our common stock may fluctuate substantially. In particular, it is possible that our operating results may be below the expectations of public market analysts and investors, including the results of our entry into the used oil re-refining industry, and, as a result of these and other factors, the price of our common stock may decline. These fluctuations could cause you to lose part or all of your investment in shares of our common stock. Factors that could cause fluctuations include, but are not limited to, the following:

- 1 variations in our operating results, including variations due to changes in the price of crude oil or base lubricating oil;
- 1 announcements by us, our competitors, or others of significant business developments, changes in customer relationships, acquisitions, or expansion plans;
- 1 analysts' earnings estimates, ratings, and research reports;
- 1 the depth and liquidity of the market for our common stock;
- 1 speculation in the press;
- 1 strategic actions by us or our competitors, such as sales promotions or acquisitions;
- 1 actions by our large stockholders or by institutional and other stockholders;
- 1 material litigation;

1 conditions in the industrial and hazardous waste services industry as a whole and in the geographic markets served by our branches; and

1 domestic and international economic factors unrelated to our performance.

The stock markets, in general, periodically experience volatility that is sometimes unrelated to the operating performance of particular companies. These broad market fluctuations may cause the trading price of our common stock to decline.

The small public float for our shares may make it difficult to sell your shares and may cause volatility in our stock price.

A substantial portion of our shares of common stock are closely held by certain inside investors, and our common stock has experienced limited trading volume since our initial public offering. As of December 31, 2016, our directors and executive officers, and stockholders affiliated with our directors and executive officers, beneficially owned 40.9% of our common stock. In addition, under a participation rights agreement between us and The Heritage Group, an affiliate of our Chairman Fred Fehsenfeld ("Heritage"), Heritage has the right, except in limited circumstances, to purchase shares from us when we issue common stock so that its percentage ownership interest in our common stock does not decrease. Therefore, if Heritage purchases all of the shares reserved for sale to Heritage when we issue common stock, Heritage will maintain its ownership interests in our common stock. Consequently, our public float is expected to remain small for a public company, the availability

of our shares may be limited, and you may encounter difficulty selling your shares or obtaining a suitable price at which to sell your shares. In addition, as a result of the small float, you could experience meaningful volatility in the trading price of our common stock.

There may be future sales or issuances of our common stock, which will dilute the ownership interests of stockholders and may adversely affect the market price of our common stock.

We may issue additional common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or substantially similar securities, which may result in dilution to our stockholders. In addition, our stockholders may be further diluted by future issuances, or exercises or vesting of outstanding equity awards, under our equity incentive plans. Sales of substantial amounts of common stock by us or our stockholders in the public market could adversely affect the market price of the common stock. The market price of our common stock could decline as a result of sales or issuances of a large number of our common stock or similar securities in the market after this offering or the perception that such sales or issuances could occur.

If securities or industry analysts do not publish research or reports about our business or publish unfavorable research, or our results are below analysts' estimates, our stock price and trading volume could decline.

The trading market for our common stock may depend on the research and reports that industry or securities analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our stock or our results are below analysts' estimates, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if our operating results do not meet the expectations of the investor community, it is possible that the analysts who cover us may change their recommendations regarding our company, and our stock price could decline.

Heritage, the Fehsenfeld family trusts, and Mr. Fehsenfeld are affiliates of each other and have significant influence over our company, and their influence could delay or deter a change of control or other business combination or otherwise cause us to take actions with which you may disagree.

As of December 31, 2016, Heritage, the Fehsenfeld family trusts and Mr. Fehsenfeld, who are all affiliates of each other (collectively, the "Heritage Stockholders"), collectively beneficially own over 33.8% of our common stock. As a result, the Heritage Stockholders have significant influence over the outcome of matters requiring a stockholder vote, including the election of directors and the approval of significant matters and their interests may not align with the interest of other stockholders. This concentration of voting power could have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to our stockholders.

We are required to evaluate our internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and could have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to furnish a report by our management on our internal control over financial reporting. Such report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to

whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. Each year we must prepare or update the process documentation and perform the evaluation needed to comply with Section 404. During this process, if our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert such internal control is effective. Ensuring that we have adequate internal financial and accounting controls and procedures in place is a costly and time-consuming effort that needs to be re-evaluated frequently. We and our independent auditors may in the future discover areas of our internal controls that need further attention and improvement, particularly with respect to any other businesses that we decide to acquire in the future. Implementing any appropriate changes to our internal controls may require specific compliance training of our directors, officers, and employees, entail substantial costs in order to modify our existing accounting systems, and take a significant period of time to complete. Such changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could harm our ability to operate our business. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Investor perception that our internal controls are

inadequate or that we are unable to produce accurate financial statements on a timely, consistent basis may adversely affect our stock price. Failure to comply with Section 404 could also potentially subject us to sanctions or investigations by the Securities and Exchange Commission, ("SEC"), NASDAQ, or other regulatory authorities.

We do not currently intend to pay cash dividends on our common stock to our stockholders and any determination to pay cash dividends in the future will be at the discretion of our Board of Directors.

We currently intend to retain any profits to provide capacity for general corporate uses and growth of our business. Our Board of Directors does not intend to declare cash dividends in the foreseeable future. Any determination to pay dividends to our stockholders in the future will be at the discretion of our Board of Directors and will depend on our results of operations, financial condition, and other factors deemed relevant by our Board of Directors. Further, our Credit Agreement restricts the payment of dividends. Consequently, it is uncertain when, if ever, we will declare dividends to our stockholders. If we do not pay dividends, investors will only obtain a return on their investment if the value of our shares of common stock appreciates. In addition, the terms of our existing or future borrowing arrangements may limit our ability to declare and pay dividends.

Provisions in our certificate of incorporation and bylaws and under Delaware law could prevent or delay transactions that stockholders may favor.

Our company is incorporated in Delaware. Our certificate of incorporation and bylaws, as well as Delaware corporate law, contain provisions that could delay or prevent a change of control or changes in our management that a stockholder might consider favorable, including a provision that authorizes our Board of Directors to issue preferred stock with such voting rights, dividend rates, liquidation, redemption, conversion, and other rights as our Board of Directors may fix and without further stockholder action. The issuance of preferred stock with voting rights could make it more difficult for a third party to acquire a majority of our outstanding voting stock. This could frustrate a change in the composition of our Board of Directors, which could result in entrenchment of current management. Takeover attempts generally include offering stockholders a premium for their stock. Therefore, preventing a takeover attempt may cause you to lose an opportunity to sell your shares at a premium. If a change of control or change in management is delayed or prevented, the market price of our common stock could decline.

Delaware law also prohibits a corporation from engaging in a business combination with any holder of 15% or more of its capital stock until the holder has held the stock for three years unless, among other possibilities, the Board of Directors approves the transaction. This provision may prevent changes in our management or corporate structure. Also, under applicable Delaware law, our Board of Directors is permitted to and may adopt additional anti-takeover measures in the future.

Our certificate of incorporation provides that the affirmative vote of at least seventy-five percent (75%) of our total voting power is required to amend our certificate of incorporation or to approve mergers, consolidations, conversions, or the sale of all or substantially all of our assets. Given the voting power of the Heritage Stockholders, we would need the approval of two of the Heritage Stockholders for any of these transactions to occur.

Our bylaws provide for the division of our Board of Directors into three classes with staggered three year terms. The classification of our Board of Directors could have the effect of making it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Corporate Headquarters. Our headquarters is based in a 31,935 square foot leased facility in Elgin, Illinois and is leased with a term expiring in 2022.

Re-refinery and recycling operations. We own and operate a used oil re-refinery in Indianapolis, IN, with an annual nameplate capacity of approximately 75 million gallons of used oil feedstock and we own and operate a solvent recycling facility at the same site which has an annual capacity of approximately six million gallons. We operate four antifreeze recycling centers, and own the property where two are located and lease the property where the other two are located. In addition, we operate thirteen oil processing facilities, of which four also perform waste water treatment, and one processes used oil filters. Our wastewater treatment operations have the capacity to process approximately 150 million gallons per year. We own the properties where twelve of our oil processing operations are located, including all of our waste water treatment operations and

one of our used oil filter processing operations. We lease the remaining oil processing facility with a term of year to year tenancy.

Hubs. We operate four hubs. One in Indianapolis, IN; Shreveport, LA; Philadelphia, PA; and Atlanta, GA. All of our hubs are leased with terms ranging two to ten years. These operating hubs are warehouse operations with the capability to receive and unload multiple trailers. The used solvent that arrives at the hubs is bulked and stored for future sale or stored for future recycling at our solvent recycling unit, depending on whether the used solvent came from our non-hazardous program or our reuse program. Drums of hazardous and non-hazardous waste that arrive at the hubs are organized based on the destination facility. These drums are staged and loaded back into trailers for reshipment to recyclers, incinerators, landfills, and waste-to-energy facilities.

Branches. We operate 83 branches that vary in size and serve customer locations in vast majority of the United States, the District of Columbia, and parts of Ontario, Canada. Depending on the maturity of our branches, our branch facilities range from small locations that only provide space to park a few vehicles and semi-trailers to larger locations that provide office space and warehouse storage as well as additional parking. We own 11 branches, and the remaining 72 are leased with terms ranging from month-to-month to up to nine years.

ITEM 3. LEGAL PROCEEDINGS

We are a party to various general legal proceedings that arise in the ordinary course of business. We are not currently party to any legal proceedings that we expect, either individually or in the aggregate, to have a material adverse effect on our business, financial condition, results of operations, and cash flows, except as provided below. From time to time, we are involved in lawsuits that are brought against us in the normal course of business.

On February 11, 2016, the Company received an information request from the U.S. EPA ("EPA") regarding the operation of our Indianapolis, IN re-refinery in relation to our Clean Air Act permit for the facility. We have responded fully and are cooperating with the EPA's information request.

On October 16, 2014, we purchased the outstanding stock of FCC Environmental, LLC ("FCCE"), pursuant to a stock purchase agreement ("Agreement") between the Company and Dédalo Patrimonial S.L.U. ("Seller") for \$90.0 million in cash subject to various adjustments including a working capital adjustment. The initial working capital adjustment, agreed upon between the Company and the Seller, was \$1.2 million, which decreased the purchase price to \$88.8 million as of the closing date of the transaction. According to the terms of the Agreement, we prepared a final working capital statement, along with supporting information. The Seller disputed our final working capital statement, which showed a significant deficit in working capital. As a result of this dispute, both parties have entered into an arbitration to determine the final working capital adjustment amount, as well as other routine post-closing items related to our acquisition of FCCE. On February 21, 2017, the Company received notification of a partial award with respect to the arbitration proceedings brought against the Seller. On February 24, 2017, the Company received funds totaling \$5.5 million from the Seller pursuant to the aforementioned partial award pertaining to the price adjustment claim related to working capital together with pre-judgment interest. We will record a gain related to this portion of the partial award during the first quarter of fiscal 2017. The arbitration process pertaining to another claim is ongoing, and we expect the process to conclude in 2017.

On October 16, 2014, we purchased all stock in International Petroleum Corp. of Delaware ("IPC") as part of the acquisition of FCCE. IPC operated a wastewater facility in Wilmington, Delaware ("Facility"). We were informed that IPC had entered into an agreement with the City of Wilmington ("City") regarding permit violations from 2011-2012 related to water and waste disposal activities at the Facility. Prior to our acquisition of IPC, a fine was paid by IPC, and its wastewater discharge permit at the Facility was voluntarily surrendered. In February 2015, we learned that an investigation of such prior activities at the Facility by the EPA and DOJ was continuing. In October 2016, we reached a settlement with the DOJ, EPA and the City of Wilmington, Delaware to settle the above referenced investigation. As part of the settlement IPC pled guilty to two criminal counts related to activity which occurred prior to our acquisition of IPC and agreed to pay a fine of \$1.3 million. The two counts include violations of the Clean Water Act (18 U.S.C. § 371, 33 U.S.C. § 1319(c)(2) and (c)(4), 42 U.S.C. § 6928(d)(2)(B)), and violation of the Resource Conservation and Recovery Act (42 U.S.C. § 6928(d)(5)). The settlement also included a payment of an additional \$2.2 million by IPC to the City of Wilmington, Delaware for restitution related to underpayment of sewer fees which occurred prior to our acquisition of IPC. On February 2, 2017, the U.S. District Court in Wilmington, DE accepted IPC's plea agreement and the fine and restitution outlined above were paid. Our acquisition of IPC is governed by the Agreement which obligates the Seller to indemnify us for the above discussed costs. Approximately \$1.6 million was charged to other expense (income) - net in our fiscal 2016 results pertaining to the aforementioned fine and restitution. We are seeking reimbursement from the Seller of costs pertaining to the fine and restitution as well as legal expenses incurred in conjunction with this matter and legal expenses incurred in order to enforce our rights under the Agreement. We expect the arbitration process for this matter to be completed in 2017.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock

Our common stock trades on the NASDAQ Global Select Market under the symbol "HCCI". The following table sets forth the high and low sales prices of our common stock for the indicated periods as reported by NASDAQ.

2015	High	Low
First Quarter	\$13.39	\$10.70
Second Quarter	\$15.69	\$11.06
Third Quarter	\$16.11	\$10.43
Fourth Quarter	\$12.76	\$8.90

2016	High	Low
First Quarter	\$10.45	\$7.19
Second Quarter	\$13.10	\$8.90
Third Quarter	\$14.20	\$11.21
Fourth Quarter	\$16.75	\$11.85

On March 1, 2017, the closing price of our common stock on the NASDAQ Global Select Market was \$15.75 per share. On March 1, 2017, there were 405 stockholders of record of our common stock. Several brokerage firms, banks, and other institutions ("nominees") are listed once on the stockholders of record listing. However, in most cases, the nominees' holdings represent blocks of our common stock held in brokerage accounts for a number of individual stockholders. As such, our actual number of beneficial stockholders would be higher than the number of registered stockholders of record.

We have never declared nor paid any cash dividends on our common stock, and we do not intend to pay any dividends on our common stock in the foreseeable future. We intend to retain any future earnings for use in the operation and expansion of our business and payment of our outstanding debt. In addition, our current credit agreement limits the amount of dividends we can pay on our common stock (see "Liquidity and Capital Resources" under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations").

Unregistered Sales of Equity Securities and Use of Proceeds

All repurchase activity of equity securities during the period covered by this Annual Report were previously disclosed in our current Quarterly Reports on Form 10-Q. The Company had no unregistered sales of equity securities during 2016.

Performance Graph

The graph set forth below compares the cumulative total stockholder return on our common stock between December 31, 2011 and December 31, 2016, with the cumulative total return of (i) the NASDAQ Composite Index and (ii) the NASDAQ Industrial Index, over the same period. This graph assumes the investment of \$100 on December 31, 2011 in our common stock, in the NASDAQ Composite Index, and in the NASDAQ Industrial Index, and assumes the reinvestment of dividends, if any.

The comparisons shown in the graph below are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.

	December 31, 2011	December 29, 2012	December 28, 2013	January 3, 2015	January 2, 2016	December 31, 2016
Heritage-Crystal Clean, Inc.	\$ 100.00	\$ 90.00	\$ 120.00	\$ 74.00	\$ 64.00	\$ 95.00
NASDAQ Composite Index	\$ 100.00	\$ 112.00	\$ 160.00	\$ 181.00	\$ 192.00	\$ 207.00
NASDAQ Industrial Index	\$ 100.00	\$ 117.00	\$ 170.00	\$ 174.00	\$ 189.00	\$ 205.00

Securities Authorized for Issuance under Equity Compensation Plans

See Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," for a description of the securities which are authorized for issuance under our equity compensation plans.

ITEM 6. SELECTED FINANCIAL DATA

The following summary of consolidated financial information has been derived from the audited consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data," of this report. This information should be reviewed in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the consolidated financial statements and the notes thereto included in Item 8, "Financial Statements and Supplementary Data" of this report. Our fiscal year ends on the Saturday closest to December 31. "Fiscal 2016" represents the 52-week period ended December 31, 2016. "Fiscal 2015" represents the 52-week period ended January 2, 2016. "Fiscal 2014" represents the 53-week period ended January 3, 2015. "Fiscal 2013" represents the 52-week period ended December 28, 2013.

"Fiscal 2012" represents the 52-week period ended December 29, 2012. We have derived the statement of operations for the fiscal years ended December 28, 2013 and December 29, 2012 and the balance sheet data at January 3, 2015, December 28, 2013, and December 29, 2012, from our audited consolidated financial statements not included in this report.

Fiscal Year
(Dollars in thousands, except per share data)
2016 2015 2014 2013 2012

STATEMENTS OF OPERATIONS DATA

Revenues

Product revenues	111,729	134,320	160,079	132,409	119,470
Service revenues	235,898	215,698	178,973	150,727	133,021
Total revenues	\$347,627	\$350,018	\$339,052	\$283,136	\$252,491

Operating Expenses

Operating Costs	\$267,503	\$280,708	\$290,622	\$234,638	\$213,568
Selling, general, and administrative expenses	49,823	45,269	45,646	30,274	26,194
Depreciation and amortization	17,991	17,197	12,877	9,524	8,141
Impairment of goodwill	—	3,952	—	—	—
Other expense (income) - net	1,416	(1,297)	(434)	210	6
Operating income (loss)	10,894	4,189	(9,659)	8,490	4,582
Interest expense - net	2,069	1,880	689	417	585
Income (loss) before income taxes	\$8,825	\$2,309	\$(10,348)	\$8,073	\$3,997
Provision (benefit from) for income taxes	2,811	899	(3,483)	3,428	1,743
Net income (loss)	6,014	1,410	(6,865)	4,645	2,254
Income attributable to noncontrolling interest	172	160	143	100	—
Income (loss) attributable to Heritage-Crystal Clean, Inc. common stockholders	\$5,842	\$1,250	\$(7,008)	\$4,545	\$2,254

Net income (loss) per share available to common stockholders: basic	\$0.26	\$0.06	\$(0.38)	\$0.25	\$0.13
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Net income (loss) per share available to common stockholders: diluted	\$0.26	\$0.06	\$(0.38)	\$0.24	\$0.13
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Number of weighted average common shares outstanding :

Basic	22,258	22,146	18,604	18,224	16,921
Diluted	22,516	22,408	18,604	18,552	17,363

Fiscal Year
2016 2015 2014 2013 2012

OTHER OPERATING DATA (UNAUDITED):

Average revenues per working day - Environmental Services (in thousands)	885	895	740	615	550
Number of branches at end of fiscal year	83	82	84	74	71

(thousands)	At Fiscal Year End				
	2016	2015	2014	2013	2012
BALANCE SHEET DATA:					
Cash and cash equivalents	\$36,610	\$23,608	\$21,555	\$22,632	\$47,766
Total assets	314,307	301,848	319,819	215,958	199,111
Debt, net of unamortized issuance costs	63,454	69,478	77,045	20,564	20,818
Total stockholders' equity	\$198,269	\$189,833	\$187,414	\$159,304	\$149,391

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Disclosure Regarding Forward-Looking Statements

You should read the following discussion in conjunction with our consolidated financial statements and related notes in our Annual Report on Form 10-K. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties, and assumptions that could cause actual results to differ materially from our expectations. Factors that could cause such differences include those described in the section titled "Risk Factors" and elsewhere in our Annual Report on Form 10-K. We undertake no obligation to update any of the forward-looking statements. Certain tabular information may not foot due to rounding. Our fiscal year ends on the Saturday closest to December 31. "Fiscal 2016" represents the 52-week period ended December 31, 2016. "Fiscal 2015" represents the 52-week period ended January 2, 2016. "Fiscal 2014" represents the 53-week period ended January 3, 2015.

Overview

We provide parts cleaning, containerized waste management, used oil collection, vacuum truck services, antifreeze recycling, and field services, and we own and operate a used oil re-refinery where we re-refine used lubricating oils into high quality lubricant base oil and other products. We are the second largest provider of industrial and hazardous waste services to small and mid-sized customers in both the vehicle maintenance and manufacturing services industries, and we have the second largest used oil re-refining capacity in North America. Our services help our customers manage their used chemicals and liquid and solid wastes, while also helping to minimize their regulatory burdens. We operate from a network of 83 branch facilities providing services to customers in 45 states and parts of Canada. We conduct business through two principal operating segments: Environmental Services and Oil Business.

Our Environmental Services segment revenues are generated primarily from providing parts cleaning, containerized waste management, vacuum truck, antifreeze recycling services, and field services. Revenues from this segment accounted for approximately 65% of our total company revenues for fiscal 2016. In the Environmental Services segment, we define and measure same-branch revenues for a given period as the subset of all our branches that have been open and operating throughout and between the periods being compared, and we refer to these as established branches. We calculate average revenues per working day by dividing our revenues by the number of non-holiday weekdays in the applicable fiscal year or fiscal quarter.

Our Oil Business segment consists of our used oil collection and used oil re-refining activities, which accounted for approximately 35% of our fiscal 2016 total company revenues.

No single customer accounted for more than 10% of consolidated revenues in fiscal 2016, 2015, or 2014. There were no intersegment revenues during fiscal 2016.

We have established prices for our services, based on the relevant business variables for each service. With respect to our parts cleaning services, our pricing reflects the type of parts cleaning machine we provide (if any), the frequency of service visits, and the quantity and grade of solvent or other cleaning chemistry required. For our other services, our pricing typically reflects the nature and quality of the waste materials removed. Our customer agreements typically provide for annual renewal and price increases. With respect to our oil product sales, some prices are set through contracts or purchase orders with customers, which may be based on the market prices of an underlying commodity or market indicator.

Our operating costs include the costs of the materials we use in our products and services, such as used oil collected from customers or purchased from third party collectors, solvent, and other chemicals. The used solvent that we retrieve from customers in our product reuse program is accounted for as a reduction in our net cost of solvent under operating costs, whether placed in inventory or sold to a purchaser for reuse. Changes in the price of crude oil can impact operating costs indirectly as it may impact the price we pay for solvent or used oil, although we attempt to offset volatility in the oil markets by managing the spread between the costs we pay for our materials and the prices we charge for our products and services. Operating costs also include transportation of solvents and waste, payments to third parties to recycle or dispose of the waste materials that we collect, and the costs of operating our re-refinery, recycling centers, hubs, and branch system including personnel costs (including commissions), facility rent, truck leases, fuel, and maintenance. Our operating costs as a percentage of sales generally increase in relation to the number of new branch openings. As new branches achieve route density and scale efficiencies, our operating costs as a percentage of sales generally decrease.

We use profit before corporate selling, general, and administrative expenses ("SG&A") as a key measure of segment profitability. We define profit before SG&A as revenue less operating costs and depreciation and amortization from operations.

Our selling, general, and administrative expenses include the costs of performing centralized business functions, including sales management at or above the regional level, business management, billing, receivables management, accounting and finance, information technology, environmental health and safety, and legal.

We operate a used oil re-refinery located in Indianapolis, Indiana, through which we recycle used oil into high quality lubricant base oil and other products. We supply the base oil to firms that produce and market finished lubricants. Our re-refinery has an annual nameplate capacity of approximately 75 million gallons of used oil feedstock, allowing it to produce approximately 45 million gallons of lubricating base oil per year when operating at full capacity.

On October 16, 2014, we acquired the outstanding stock of FCC Environmental LLC and International Petroleum Corp. of Delaware (together, "FCC Environmental") from Dédalo Patrimonial S.L.U. for \$88.8 million in cash, subject to customary post-closing adjustments (the "Acquisition" or the "FCC Environmental Acquisition"). In 2013, FCC Environmental was a significant collector of used oil by volume in the United States. FCC Environmental also offered oily water disposal and treatment, parts cleaning, vacuum services, antifreeze recycling, oil filter recycling, on-site cleaning, and waste management services in 21 states in the South and along the Eastern seaboard of the United States. The financial data of FCC Environmental prior to October 16, 2014 is not incorporated into our audited financial statements for fiscal 2014.

For further discussion on these acquisitions, see Note 3 in our consolidated financial statements and the notes thereto included in Item 8.

Critical Accounting Policies

Critical accounting policies are those that both are important to the accurate portrayal of a company's financial condition and results and require subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

In order to prepare financial statements that conform to accounting principles generally accepted in the United States, commonly referred to as GAAP, we make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may be significantly different from our expectations.

We have identified the following accounting policies as those that require us to make the most subjective or complex judgments in order to fairly present our consolidated financial position and results of operations. Actual results in these areas could differ materially from management's estimates under different assumptions and conditions.

Acquisitions

We account for acquired businesses using the purchase method of accounting, which requires that the assets acquired, liabilities assumed, and contingent consideration be recorded as of the date of acquisition at their respective fair values. It further requires acquisition-related costs to be recognized separately from the acquisition and expensed as incurred and restructuring costs to be expensed in periods subsequent to the acquisition date.

Identifiable Intangible Assets

The fair value of intangible assets may be based on significant judgments made by management. We sometimes engage third party valuation appraisal firms to assist us in determining the fair values and useful lives of the assets acquired. Such valuations and useful life determinations require us to make significant estimates and assumptions. These estimates and assumptions are based on historical experience and information obtained from the management of the acquired companies, and also include, but are not limited to, future expected cash flows to be earned from the continued operation of the acquired business and discount rates applied in determining the present value of those cash flows. Unanticipated events and circumstances may occur that could affect the accuracy or validity of such assumptions, estimates, or actual results. These intangible assets are amortized on a straight-line basis over their estimated economic lives.

Goodwill

Goodwill is measured as a residual amount as of the acquisition date, which in most cases results in measuring goodwill as an excess of the purchase consideration transferred plus the fair value of any noncontrolling interest in the acquiree over the fair value of the net assets acquired, including any contingent consideration. The Company tests goodwill for impairment annually in the fourth quarter and in interim periods if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company's determination of fair value requires certain assumptions and estimates, such as margin expectations, market conditions, growth expectations, expected changes in working capital, etc., regarding expected future profitability and expected future cash flows. The Company tests goodwill for impairment at each of its two reporting units, Environmental Services and Oil Business, and the Company does not aggregate reporting units for purposes of impairment testing.

In fiscal 2015, we tested goodwill for impairment. In fiscal 2015, the fair value of the Environmental Services reporting unit was substantially in excess of its carrying value. In fiscal 2015, our tests indicated impairment of all of the goodwill in our Oil Business reporting unit. Therefore during the fourth quarter of fiscal 2015 we recorded a charge of approximately \$4.0 million related to impairment of goodwill in our Oil Business reporting unit. The facts and circumstances leading to the impairment are primarily related to the deterioration of market conditions in the markets in which the Company's Oil Business reporting unit operates. The deterioration of those market conditions is manifested in lower average selling prices for the Company's re-refined lubricating base oil, recycled fuel oil, and byproducts within the Oil Business. The method for determining the fair value of the Oil Business reporting unit was a combination of an income approach using a discounted cash flow method in combination with a market approach using a guideline company method. There is a moderate degree of uncertainty associated with key Oil Business fair value assumptions such as the selling prices of our oil products and byproducts, the price paid or charged for raw material inputs such as used oil, operating efficiency of the used oil re-refinery, etc. A contraction of the spread between the selling prices of our oil products and the price paid or charged to vendors for raw material inputs could reasonably be expected to negatively affect the key assumptions used to determine fair value.

In fiscal 2016, we tested goodwill for impairment. In fiscal 2016, the fair value of the Environmental Services reporting unit was substantially in excess of its carrying value. The Oil Business reporting unit had zero goodwill throughout fiscal 2016.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Consistent with industry practices, we require payment from most customers within 30 days of invoice date. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on analysis of customer creditworthiness, historical losses, and general economic trends and conditions. We perform periodic credit evaluations of our customers and typically do not require collateral. We have an estimation procedure, based on historical data and recent changes in the aging of these receivables that we use to record reserves throughout the year. In the last five years, our provisions for doubtful accounts have averaged 0.3% of sales. We do not have any off-balance sheet credit exposure related to our customers.

Inventory

Inventory consists primarily of used oil, processed oil, catalyst, new and used solvents, new and used antifreeze products, new and refurbished parts cleaning machines, drums, and other items. Inventories are valued at the lower of first-in, first-out ("FIFO") cost or market, net of any reserves for excess, obsolete, or unsalable inventory. We perform a physical inventory count on a periodic basis and use the results of these counts to determine inventory quantities. The quantities are used to help determine the value of our inventory. We continually monitor our inventory levels at each of our distribution locations and evaluate inventories for excess or slow-moving items.

In evaluating inventory for impairment, the Company considers factors that impact the lower-of-cost-or-market valuation of inventory, including declines in replacement cost and declines in net realizable value. In evaluating inventory for impairment, the Company assumes that current market conditions such as replacement cost per unit and net realizable value per unit shall remain stable throughout the period of time over which the inventory on hand turns. If circumstances indicate the cost of inventories exceed their recoverable value, inventories are reduced to net realizable value. In fiscal 2016, we recorded inventory impairment charges totaling \$1.7 million to reflect the lower value of our used oil and processed oil, and solvents and solutions inventory.

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated.

RESULTS OF OPERATIONS

General

Fiscal Year Ended December 31, 2016 versus Fiscal Year Ended January 2, 2016

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

(Thousands)	For the Fiscal Years Ended,					
	December 31, 2016			January 2, 2016		
Revenues						
Product revenues	\$ 111,729	32.1 %		\$ 134,320	38.4 %	
Service revenues	235,898	67.9 %		215,698	61.6 %	
Total Revenues	\$ 347,627	100.0 %		\$ 350,018	100.0 %	
Operating expenses -						
Operating costs	\$ 267,503	77.0 %		\$ 280,708	80.2 %	
Selling, general and administrative expenses	49,823	14.3 %		45,269	12.9 %	
Depreciation and amortization	17,991	5.2 %		17,197	4.9 %	
Impairment of goodwill	—	— %		3,952	1.1 %	
Other expense (income) - net	1,416	0.4 %		(1,297)	(0.4) %	
Operating income	10,894	3.1 %		4,189	1.2 %	
Interest expense – net	2,069	0.6 %		1,880	0.5 %	
Income before income taxes	\$ 8,825	2.5 %		\$ 2,309	0.7 %	
Provision for income taxes	2,811	0.8 %		899	0.3 %	
Net income	6,014	1.7 %		1,410	0.4 %	
Income attributable to noncontrolling interest	172	— %		160	— %	
Net income attributable to Heritage-Crystal Clean, Inc. common stockholders	\$ 5,842	1.7 %		\$ 1,250	0.4 %	

Revenues

In fiscal 2016, revenues decreased \$2.4 million, or 0.7%, to \$347.6 million from \$350.0 million in fiscal 2015. Revenues in the Environmental Services segment decreased primarily due to lower volumes with customers directly and indirectly involved in the energy sector and lower energy surcharge revenue. In particular our solvent parts cleaning and vacuum service lines-of-businesses were negatively impacted by the above factors. Oil Business revenues of \$123.2 million remained flat year over year as lower selling prices for our base oil and RFO products were offset by both a higher volume of base oil sold and higher used oil collection charges.

During fiscal 2016, the average spot market price for the Group II base oil product we produce declined approximately 19% compared to fiscal 2015.

Operating costs

Operating costs decreased \$13.2 million, or 4.7%, in fiscal 2016 versus fiscal 2015. The decrease in operating costs was primarily a result of significantly lower inventory write-downs, significantly less expense for used oil, and lower disposal costs throughout fiscal 2016. In addition, lower crude oil prices resulted in lower solvent cost in our Environmental Services segment and lower fuel cost for our vehicle fleet in both segments. The overall decrease in

operating cost was partially offset by higher transportation costs in the Environmental Services segment as we continued to expand geographically, and rollout some of our newer service offerings to existing branches. We expect that in the future our operating costs in the Environmental Services business will continue to increase as our service volume increases, however, a decrease in crude oil prices could partially offset this cost increase because a decrease in price could cause a decline in the price we pay for parts cleaning solvent

and diesel fuel. In the Oil Business segment, our operating costs could increase or decrease in the future depending on changes in the price for crude oil which could directly impact our used oil collection costs and processing costs at our re-refinery.

Selling, general, and administrative expenses

Selling, general, and administrative expenses increased \$4.6 million, or 10.1%, in fiscal 2016 versus fiscal 2015. Overall, selling, general and administrative expenses as a percentage of revenues increased to 14.3% in fiscal 2016 from 12.9% in fiscal 2015. The increase in SG&A is mainly due to higher legal fees of \$4.2 million relating to routine and non-routine matters stemming from the acquisition of FCC Environmental and International Petroleum Corp., along with \$1.8 million higher management incentive compensation, partially offset by \$1.0 million of lower outsourcing expenses year over year.

Interest expense

Interest expense for fiscal 2016 was \$2.1 million, compared \$1.9 million in fiscal 2015. The increase in interest expense in fiscal 2016 was mainly the result of a higher annual effective interest rate in fiscal 2016 compared to fiscal 2015.

Provision for income taxes

Our effective tax rate for fiscal 2016 was 31.9% compared to 38.9% in fiscal 2015. The rate difference is principally attributable to the differing treatment of transaction related costs for financial reporting purposes and for purposes of determining income tax liabilities.

Segment Information

The following table presents revenues by operating segment:

	For the Fiscal Year		Increase	
	Ended,		(Decrease)	
(thousands)	December 31, 2016	January 2, 2016	\$	%
Revenues:				
Environmental Services	\$224,378	\$226,313	\$(1,935)	(0.9)%
Oil Business	123,249	123,705	(456)	(0.4)%
Total	\$347,627	\$350,018	\$(2,391)	(0.7)%

In fiscal 2016, Environmental Services revenues decreased \$1.9 million, or 0.9%, compared to fiscal 2015. The decline in revenue was mainly due to a downturn in activity at customers directly involved in, or related to, the energy sector and lower energy surcharge revenue.

In fiscal 2016, Oil Business revenues decreased \$0.5 million, or 0.4%, mainly driven by a 19% decrease in the spot market price for the type of lube oil we sell compared to fiscal 2015, partially offset by an increase from used oil collection services. During fiscal 2016, we sold approximately 42 million gallons of base oil compared to 37.8 million gallons in fiscal 2015 which helped to partially offset the decline from lower pricing.

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

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

	For the Fiscal Year Ended,		Increase (Decrease)	
	December 31, 2016	January 2, 2016	\$	%
(Thousands)				
Profit (loss) before corporate SG&A*				
Environmental Services	\$65,001	\$63,524	\$1,477	2.3 %
Oil Business	822	(7,695)	8,517	NA
Total	\$65,823	\$55,829	\$9,994	17.9 %

*Includes depreciation and amortization related to operating activity but not depreciation and amortization related to corporate selling, general, and administrative activity. For further discussion see Note 12 in our consolidated financial statements and the notes thereto included in Item 8.

In fiscal 2016, Environmental Services profit before SG&A increased 2.3% while revenues declined 0.9%. The decline in revenues was due to lower service volume provided to customers directly involved in, or related to the energy sector. However, operating margin in the Environmental Services segment was 29% in fiscal 2016 compared to 28.1% in fiscal 2015 mainly due to lower solvent and fuel costs as a result of lower crude oil prices, as well as lower disposal costs.

The sale of used solvent generated by customers participating in our product reuse program for parts cleaning is not accounted for as revenues, but rather as a reduction in our net cost of solvent under operating costs. In both fiscal 2016 and 2015, the impact of reused solvent sales was immaterial.

In fiscal 2016, the Oil Business generated profit before corporate SG&A of \$0.8 million compared to a loss of \$7.7 million during fiscal 2015. The improvement in profitability of the Oil Business during fiscal 2016 was primarily due to significantly lower inventory write-downs year over year, and our ability to switch from paying for used oil to charging our used oil collection customers for removal of their used oil at the end of fiscal 2015. We began doing this in a significant manner during the first quarter of fiscal 2016 and continued this practice throughout the year. As a result we increased our revenue from used oil collection services by over \$17 million during fiscal 2016 compared to fiscal 2015 and significantly decreased our expenses to procure used oil feedstock.

Fiscal Year Ended January 2, 2016 versus Fiscal Year Ended January 3, 2015

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

(Thousands) Revenues	For the Fiscal Years Ended,					
	January 2, 2016			January 3, 2015		
Product revenues	\$134,320	38.4	%	\$160,079	47.2	%
Service revenues	215,698	61.6	%	178,973	52.8	%
Total Revenues	\$350,018	100.0	%	\$339,052	100.0	%
Operating expenses -						
Operating costs	\$280,708	80.2	%	\$290,622	85.7	%
Selling, general and administrative expenses	45,269	12.9	%	45,646	13.5	%
Depreciation and amortization	17,197	4.9	%	12,877	3.8	%
Impairment of goodwill	3,952	1.1	%	—	—	%
Other (income) - net	(1,297)	(0.4)	%	(434)	(0.1)	%
Operating income (loss)	4,189	1.2	%	(9,659)	(2.8)	%
Interest expense – net	1,880	0.5	%	689	0.2	%
Income (loss) before income taxes	\$2,309	0.7	%	\$(10,348)	(3.1)	%
Provision (benefit of) for income taxes	899	0.3	%	(3,483)	(1.0)	%
Net income (loss)	1,410	0.4	%	(6,865)	(2.0)	%
Income attributable to noncontrolling interest	160	—	%	143	—	%
Net income (loss) attributable to Heritage-Crystal Clean, Inc. common stockholders	\$1,250	0.4	%	\$(7,008)	(2.1)	%

Revenues

In fiscal 2015, revenues increased \$11.0 million, or 3.2%, to \$350.0 million from \$339.1 million in fiscal 2014. Revenues in the Environmental Services segment increased through increased volume and improved pricing from existing customers. Conversely, Oil Business revenues decreased as a result of a decrease in lube oil revenues

resulting from lower average selling prices in fiscal 2015 compared to fiscal 2014. During the second half of fiscal 2013, we began a project to expand the capacity of the re-refinery to an annual used oil input capacity of 75 million gallons per year. Late in the fourth quarter of 2015, we completed that expansion of the re-refinery which yields an annual input capacity of approximately 75 million gallons of used oil feedstock, allowing it to produce about 45 million gallons of lubricating base oil per year when operating at full capacity. Overall in fiscal 2015, and especially during the fourth quarter, the increase in base oil sales volume continued to be offset by

lower base oil prices compared to fiscal 2014. During fiscal 2015, the average spot market price for the Group II base oil product we produce declined approximately 39% compared to fiscal 2014. During the fourth quarter of fiscal 2015, the average spot market price for the Group II base oil we produce declined approximately 41% compared to the fourth quarter of fiscal 2014.

Operating costs

Operating costs decreased \$9.9 million, or 3.4%, in fiscal 2015 versus fiscal 2014. The decrease in operating costs was primarily a result of significantly lower market value of the Company's oil-based inventory due to the significant drop in crude oil prices throughout fiscal 2015. In addition, lower crude oil prices resulted in lower solvent cost in our Environmental Services segment and lower fuel cost for our vehicle fleet in both segments. The overall decrease in operating cost was partially offset by higher volume driven costs in the Environmental Services segment as we continued to expand geographically, add customers, and add to our service offerings. We expect that in the future our operating costs in the Environmental Services business will continue to increase as our service volume increases, however, a decrease in crude oil prices could partially offset this cost increase because a decrease in price could cause a decline in the price we pay for parts cleaning solvent and diesel fuel. In the Oil Business, we expect our operating costs will also increase in the future as a result of our completion of the re-refinery expansion project, which increased the throughput capacity at our re-refinery. We expect a change in the price for crude oil could impact our used oil collection costs and processing costs at our re-refinery either favorably or unfavorably.

Selling, general, and administrative expenses

Selling, general, and administrative expenses decreased \$0.4 million, or 0.8%, in fiscal 2015 versus fiscal 2014. Overall, selling, general and administrative expenses as a percentage of revenues decreased to 12.9% in fiscal 2015 from 13.5% in fiscal 2014. The decrease in SG&A is the result of the approximately \$2.0 million charge related to the planned reduction in work force from the FCC Environmental acquisition in 2014, versus only \$0.2 million of charges in fiscal 2015, and transaction-related costs incurred in 2014 in connection with the acquisition of FCC Environmental, partially offset by higher SG&A costs from having owned FCC Environmental for the entirety of fiscal 2015 versus only a portion of fiscal 2014.

Interest expense

Interest expense for fiscal 2015 was \$1.9 million, compared \$0.7 million in fiscal 2014. The increase in interest expense in fiscal 2015 was a result of higher average debt outstanding in fiscal 2015 versus fiscal 2014 as a result of amending our credit facility in order to complete the acquisition of FCC Environmental. In fiscal 2015 and 2014, we capitalized \$0.6 million and \$0.4 million in interest, respectively, as a result of our work on the expansion of the re-refinery.

Provision for income taxes

Our effective tax rate for fiscal 2015 was 38.9% compared to 33.7% in fiscal 2014. The rate difference is attributable to the impact of non-deductible expenses in an income year as compared to the impact of those non-deductible expenses in a loss year.

Segment Information

The following table presents sales by operating segment:

For the Fiscal Year	Increase
Ended,	

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(Thousands)	January 2, 2016	January 3, 2015	\$	%
Revenues:				
Environmental Services	\$226,313	\$189,731	\$36,582	19.3 %
Oil Business	123,705	149,321	(25,616)	(17.2)%
Total	\$350,018	\$339,052	\$10,966	3.2 %

In fiscal 2015, Environmental Services revenues increased \$36.6 million, or 19.3%, compared to fiscal 2014. Revenues grew in all Environmental Services product lines which included parts cleaning, containerized waste, and vacuum truck services. We continued to add customers through the expansion of our branch network and increased penetration of markets at our existing branches. In addition we realized revenue growth from a combination of higher pricing and volume, including significant volume added from our acquisition of FCC Environmental.

In fiscal 2015, Oil Business revenues decreased \$25.6 million, or 17.2%, mainly driven by a 38% decrease in lube oil prices compared to fiscal 2014, which was partially offset by an increase in RFO gallons sold compared to fiscal 2014. During fiscal 2015, we sold approximately 37.8 million gallons of base oil compared to 35.8 million gallons in fiscal 2014. Throughout fiscal 2015, Oil Business revenues experienced negative pressure from lower base oil pricing with the greatest decline occurring in the fourth quarter of fiscal 2015.

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

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

	For the Fiscal Year Ended,		Increase (Decrease)	
	January 2, 2016	January 3, 2015	\$	%
(Thousands)				
Profit (loss)				
before corporate SG&A*				
Environmental Services	\$63,524	\$47,620	\$15,904	33.4%
Oil Business	(7,695)	(9,990)	2,295	NA
Total	\$55,829	\$37,630	\$18,199	48.4%

*Includes depreciation and amortization related to operating activity but not depreciation and amortization related to corporate selling, general, and administrative activity. For further discussion see Note 12 in our consolidated financial statements and the notes thereto included in Item 8.

In fiscal 2015, Environmental Services profit before SG&A increased 33.4% on increased revenues of 19.3%. Revenues grew as a result of increased pricing and volume and from the FCC Environmental acquisition. Operating margin in the Environmental Services segment increased due to lower solvent and fuel costs as a result of lower crude oil prices, as well as the realization of synergies resulting from the acquisition of FCC Environmental.

The sale of used solvent generated by customers participating in our product reuse program for parts cleaning is not accounted for as revenues, but rather as a reduction in our net cost of solvent under operating costs. In both fiscal 2015 and 2014, the impact of reused solvent sales was immaterial.

In fiscal 2015, the Oil Business operating loss before corporate SG&A of \$7.7 million was lower by \$2.3 million compared to the fiscal 2014 loss of \$10.0 million.

In our Oil Business segment throughout fiscal 2015, we were engaged in a program to reduce the price paid to generators for used oil, and during the fourth quarter we aggressively increased this effort. At the end of fiscal 2015, we were on average charging the majority of our oil customers a nominal amount for performing a service by picking up their used oil. With the recent further decline in crude oil prices in early 2016, to the majority of our oil customers we have increased our average charge to collect used oil to over \$0.30 per gallon during the month of February 2016 in order to offset the continued decline in base oil and recycled fuel oil pricing. We have also focused on increasing our service fees to collect and handle oil filters.

FINANCIAL CONDITION

Liquidity and Capital Resources

Cash and Cash Equivalents

As of December 31, 2016 and January 2, 2016, cash and cash equivalents were \$36.6 million and \$23.6 million, respectively. Our primary sources of liquidity are cash flows from operations and funds available to borrow under our term loan and revolving bank credit facility.

Our Amended and Restated Credit Agreement, as amended ("Credit Agreement"), provides for borrowings of up to \$140.0 million, consisting of Term A loans totaling \$80.0 million and a revolving loan of up to \$60.0 million. As of December 31, 2016, \$64.2 million was outstanding as a term loan having a maturity date of February 5, 2018, and \$30.6 million was available under the revolving loan. As of December 31, 2016 and January 2, 2016 we had \$64.2 million and \$70.9 million of borrowings outstanding under our term loans, respectively, and no amounts outstanding under the revolver. During fiscal 2016, we recorded interest of \$2.2 million on the term loan compared to \$2.4 million in fiscal 2015. In fiscal 2016 and fiscal 2015, we capitalized \$0.1 million and \$0.6 million in interest, respectively. The Term A loans have a maturity date of February 5, 2018. The actual amount available under the revolving loan portion of the Credit Agreement is limited by our total leverage ratio. The amount available to draw at any point in time would be further reduced by any standby letters of credit issued.

Loans made under the Credit Agreement may be Base Rate Loans or LIBOR Rate Loans, at the election of the Company subject to certain exceptions. Base Rate Loans have an interest rate equal to (i) the higher of (a) the federal funds rate plus 0.5%, (b) the British Bankers Association LIBOR rate plus 1%, or (c) Bank of America's prime rate, plus (ii) a variable margin of between 1.0% and 2.0% depending on the Company's total leverage ratio, calculated on a consolidated basis. LIBOR rate loans have an interest rate equal to the (i) British Bankers Association LIBOR Rate plus (ii) a variable margin of between 2.0% and 3.0% depending on the Company's total leverage ratio. Amounts borrowed under the Credit Agreement are secured by a security interest in substantially all of the Company's tangible and intangible assets.

Certain covenants of the Credit Agreement, among other things, restrict our ability to incur indebtedness, grant liens, make investments, and sell assets. The Credit Agreement, as amended by the amendments, contains customary events of default, covenants, and representations and warranties. Financial covenants include:

- ▲ An interest coverage ratio (based on interest expense and EBITDA) of at least 3.5 to 1.0;
 - ▲ A total leverage ratio no greater than 3.0 to 1.0
 - ▲ A capital expenditures covenant limiting capital expenditures to \$15.0 with additional capital spending allowed for the expansion of our re-refinery to 75 million gallons of nameplate capacity if our leverage ratio was above 3.5 to 1.0.
- The Credit Agreement places certain limitations on acquisitions and includes a prohibition on the payment of dividends.

As of December 31, 2016 and January 2, 2016, we were in compliance with all covenants of our credit facility then in effect. As of December 31, 2016, and January 2, 2016, we had \$3.0 million and \$4.4 million of standby letters of credit issued, respectively, and \$27.6 million and \$34.5 million was available for borrowing under the bank credit facility, respectively.

Please see Footnote 19 "Subsequent Events" in our consolidated financial statements and the notes thereto included in Item 8 for information regarding the Company's Second Amended and Restated Credit Agreement dated February 21, 2017.

We believe that our existing cash, cash equivalents, available borrowings, and other sources of financings will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. We cannot assure you that this will be the case or that our assumptions regarding revenues and expenses underlying this belief will be accurate. If, in the future, we require more liquidity than is available to us under our credit facility, we may need to raise additional funds through debt or equity offerings. Adequate funds may not be available when needed or may not be available on terms favorable to us, especially given the current condition of the financial credit markets. If additional funds are raised by issuing equity securities, dilution to existing stockholders may result. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operational flexibility, and would also require us to fund additional interest expense. If funding is insufficient at any time in the future, we may be unable to develop or enhance our products or services, take advantage of business opportunities, or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

Summary of Cash Flow Activity

(thousands)	For the Fiscal Years Ended,		
	December 31, 2016	January 2, 2016	January 3, 2015
Net cash provided by (used in):			
Operating activities	\$38,099	\$28,877	\$14,677
Investing activities	(18,901)	(18,535)	(107,105)
Financing activities	(6,196)	(8,289)	91,351
Net increase (decrease) in cash and cash equivalents	\$13,002	\$2,053	\$(1,077)

The most significant items affecting the comparison of our operating activities for fiscal 2016 and fiscal 2015 are summarized below:

Net Cash Provided by Operating Activities —

Earnings increase — Our increase in net income for fiscal 2016 favorably impacted our net cash provided by operating activities by \$4.6 million compared to fiscal 2015.

Accounts Payable — The increase in accounts payable favorably affected cash flows from operations by \$15.5 million in fiscal 2016 compared to fiscal 2015. The increase in accounts payable year over year was mainly driven by higher legal fees and amounts payable in conjunction with the settlement described in Part II, Item 1 "Legal Proceedings." In fiscal 2015, accounts payable decreased significantly due to the lower unit cost of raw materials such as used oil and solvent.

Inventory — The decrease in inventory had a favorable impact on cash provided by operating activities of \$8.0 million in fiscal 2016 compared to fiscal 2015 primarily due to significantly lower ending used oil inventory levels year over year.

Accounts Receivable — The increase in accounts receivable had a negative impact on cash provided by operating activities of \$9.7 million in fiscal 2016 compared to fiscal 2015 primarily due to a net increase in the selling price of oil products and used oil collection services in fiscal 2016 compared to a net decrease in the selling price of oil products in fiscal 2015.

Net Cash Used in Investing Activities —

Capital expenditures and software and intangible assets — We used \$15.9 million and \$19.7 million for capital expenditures and software and intangible assets during fiscal 2016 and fiscal 2015, respectively. In fiscal 2016, we spent \$8.0 million for capital improvements and expansion to the re-refinery, compared to \$9.8 million on capital improvements and expansion at the re-refinery in fiscal 2015. Additionally, we spent approximately \$4.3 million for purchases of parts cleaning machines in fiscal 2016 compared to \$5.3 million in fiscal 2015. The remaining \$3.6 million spend in fiscal 2016 was for leasehold improvements and other items compared to approximately \$4.6 million spent in fiscal 2015.

Acquisitions — In fiscal 2016, we spent \$3.4 million on acquisitions. For additional information on our acquisitions see Footnote 3 in the consolidated financial statements and the notes thereto included in Item 8.

Net Cash Provided by (Used in) Financing Activities —

Term loan — In fiscal 2016 total cash outflows from financing activities were \$6.2 million resulting mainly from \$6.7 million of repayments of our term loan compared to \$8.0 million of repayments of our term loan in fiscal 2015. There were no offerings of common stock, or increases to our Term A loan in fiscal 2016 or in fiscal 2015.

The most significant items affecting the comparison of our operating activities for fiscal 2015 and fiscal 2014 are summarized below:

Net Cash Provided by Operating Activities —

Earnings increase — Our increase in net income for fiscal 2015 favorably impacted our net cash provided by operating activities by \$8.3 million compared to fiscal 2014.

Accounts Payable — The decrease in accounts payable negatively affected cash flows from operations by \$9.2 million in fiscal 2015 compared to fiscal 2014. The decrease in accounts payable was mainly due to lower payables for used oil, solvent, and fuel.

Inventory — In fiscal 2015, we took a non-cash inventory impairment charge of \$9.2 million due to rapidly declining oil prices. Excluding the impact of the inventory impairment charge, the increase in inventory negatively affected cash flows from operations by \$1.7 million in fiscal 2015 compared to fiscal 2014. Inventory volumes increased as a result of increased activity in both segments.

Net Cash Used in Investing Activities —

Capital expenditures and software and intangible assets— We used \$19.7 million and \$20.4 million for capital expenditures and software and intangible assets during fiscal 2015 and fiscal 2014, respectively. During fiscal 2015, we spent approximately \$5.3 million toward the expansion of the re-refinery and \$4.5 million on capital improvements at the re-refinery. In addition, in fiscal 2015, we spent approximately \$5.3 million toward part cleaning machine purchases. During fiscal 2014, we spent approximately \$8.2 million on the expansion of the re-refinery and approximately \$2.2 million on capital improvements at the re-refinery. In addition, we spent approximately \$6.3 million of capital expenditures toward parts cleaning machine purchases.

Net Cash Provided by (Used in) Financing Activities —

Term loan and Follow-on Public Offering — In fiscal 2015 total cash outflows were \$8.3 million. Cash outflows from financing activities result mainly from \$8.0 million of repayments of our term loan, and \$0.3 million of repayment on our note payable. There were no offerings of common stock, or increases to our Term A loan in fiscal 2015. In the fourth quarter of fiscal 2014, in connection with our purchase of FCC Environmental, we increased our Term A loan by \$62.1 million. During the fourth quarter of fiscal 2014, we received approximately \$33.4 million in net proceeds from a follow-on public offering of common stock. We used a portion of these proceeds to pay off the outstanding balance of our revolving credit facility of approximately \$9.0 million.

Contractual Obligations

Our contractual commitments consist of operating leases and short-term purchasing commitments. We anticipate that we will experience an increase in our lease commitments consistent with anticipated growth in operations, infrastructure, and personnel and additional resources devoted to building our network of hubs and branches.

The following table summarizes our existing obligations as of December 31, 2016:

Payments Due by Fiscal Year

(In thousands)

Contractual Obligations	Total	2017	2018	2019	2020	2021	Thereafter
Operating lease obligations ⁽¹⁾	\$68,049	18,885	16,903	12,694	7,984	5,562	6,021
Future maturities of long term debt ⁽²⁾	64,195	6,936	57,259	—	—	—	—
Interest on long term debt ⁽³⁾	2,339	2,136	203	—	—	—	—
Purchase obligations ⁽⁴⁾	9,738	9,738	—	—	—	—	—
Total	\$144,321	\$37,695	\$74,365	\$12,694	\$7,984	\$5,562	\$6,021

(1) We lease office space, equipment and vehicles under noncancelable operating lease agreements which expire at various dates through 2023.

(2) Excludes interest payments.

(3) Interest on long term debt is calculated at the contractual rate or, in the case of the Term A loan, at the effective rate as of December 31, 2016.

Our purchase obligations are open purchase orders as of December 31, 2016, and are primarily for capital expenditures, catalyst, disposal, and solvent. They represent expected payments to third party service providers and other commitments entered into during the normal course of our business. While our purchase obligations are generally cancelable with or without notice without penalty, certain vendor agreements provide for cancellation fees or penalties depending on the terms of the contract.

We offer a guarantee for our services. To date, costs relating to this guarantee have not been material.

Off-Balance Sheet Arrangements

As of the end of fiscal 2016, we had no off-balance sheet arrangements, other than operating leases reported above under "Contractual obligations."

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate risks primarily through borrowings under our bank credit facility. Interest on these borrowings is based upon variable interest rates. Our weighted average borrowings under our bank credit facility during fiscal 2016 were \$68.3 million, and the annual effective interest rate for fiscal 2016 was 3.3%. We currently do not hedge against interest rate risk. Based on the foregoing, a hypothetical 1.0% increase or decrease in interest rates would have resulted in a \$0.7 million change to our interest expense in fiscal 2016.

ITEM 8. FINANCIAL STATEMENTS AND OTHER SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of Heritage-Crystal Clean, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2016 and January 2, 2016, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heritage-Crystal Clean, Inc. and subsidiaries as of December 31, 2016 and January 2, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 3, 2017, expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP
Chicago, IL
March 3, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Heritage-Crystal Clean, Inc.

We have audited the internal control over financial reporting of Heritage-Crystal Clean, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2016, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying “Management’s Report on Internal Control over Financial Reporting.” Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 Internal Control-Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2016, and our report dated March 3, 2017, expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Chicago, IL

March 3, 2017

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

	December 31, 2016	January 2, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 36,610	\$23,608
Accounts receivable - net	47,533	41,592
Inventory - net	18,558	24,774
Other current assets	6,094	4,810
Total Current Assets	108,795	94,784
Property, plant and equipment - net	131,175	131,365
Equipment at customers - net	23,033	23,172
Software and intangible assets - net	19,821	22,202
Goodwill	31,483	30,325
Total Assets	\$ 314,307	\$ 301,848
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 30,984	\$25,129
Current maturities of long-term debt and term loan	6,936	6,700
Accrued salaries, wages, and benefits	6,312	4,330
Taxes payable	6,729	6,735
Other current liabilities	3,245	3,617
Total Current Liabilities	54,206	46,511
Term loan, less current maturities - net	56,518	62,778
Deferred income taxes	5,314	2,726
Total Liabilities	\$ 116,038	\$ 112,015
Commitments and contingencies (Note 13)		
STOCKHOLDERS' EQUITY:		
Common stock - 26,000,000 shares authorized at \$0.01 par value, 22,300,007 and 22,213,364 shares issued and outstanding at December 31, 2016 and January 2, 2016, respectively	\$ 223	\$222
Additional paid-in capital	185,099	182,558
Retained earnings	12,227	6,385
Total Heritage-Crystal Clean, Inc. Stockholders' Equity	197,549	189,165
Noncontrolling Interest	720	668
Total Equity	198,269	189,833
Total Liabilities and Stockholders' Equity	\$ 314,307	\$ 301,848

See accompanying notes to consolidated financial statements.

Heritage-Crystal Clean, Inc.
Consolidated Statements of Operations
(In Thousands, Except per Share Amounts)

For the
Fiscal
Years
Ended,