

Heritage-Crystal Clean, Inc.
Form 10-Q
October 17, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 6, 2008

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
State or other jurisdiction of
incorporation

26-0351454
(I.R.S. Employer
Identification No.)

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

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

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

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

Number of shares outstanding of registrant's class of common stock as of September 30, 2008: 10,675,390

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PART I

ITEM 1. FINANCIAL STATEMENTS

Heritage-Crystal Clean, Inc.

Consolidated Balance Sheets
(In Thousands, Except Share and Par Value Amounts)
(Unaudited)

	September 6, 2008	December 29, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 363	\$ 479
Accounts receivable, net of allowance for doubtful accounts of \$849 and \$1,130 at September 6, 2008 and December 29, 2007, respectively	15,516	13,446
Inventory	14,530	10,447
Deferred income taxes	1,163	-
Prepaid and other current assets	1,937	1,208
Total Current Assets	33,509	25,580
Fixed assets, net of accumulated depreciation	20,584	19,420
Deferred offering costs	-	1,276
Deferred income taxes	132	-
Software and intangible assets, net of accumulated amortization	1,956	1,708
Total Assets	\$ 56,181	\$ 47,984
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 7,003	\$ 7,258
Accrued salaries, wages, and benefits	2,172	1,560
Taxes payable	2,115	983
Other accrued expenses	1,249	1,169
Total Current Liabilities	12,539	10,970
Note payable - bank	1,165	22,045
Total Liabilities	13,704	33,015
Redeemable Capital Units	-	2,261
STOCKHOLDERS' EQUITY:		
Preferred members' capital	-	14,704
Common members' capital	-	368
Common stock - 15,000,000 Shares authorized at \$0.01 par value, 10,675,390 shares issued and outstanding at September 6, 2008	107	-
Additional paid-in capital	42,493	-
Accumulated deficit	(123)	(2,364)
Total Stockholders' Equity	\$ 42,477	\$ 12,708
Total Liabilities and Stockholders' Equity	\$ 56,181	\$ 47,984

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

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

	Third Quarter Ended		First Three Quarters Ended	
	September 6, 2008	September 8, 2007	September 6, 2008	September 8, 2007
Sales	\$ 25,646	\$ 20,967	\$ 73,482	\$ 60,541
Cost of sales	6,020	5,480	17,936	15,361
Cost of sales - inventory impairment	-	-	-	2,182
Gross profit	19,626	15,487	55,546	42,998
Operating costs	12,523	10,100	36,640	29,270
Selling, general, and administrative expenses	4,278	3,263	15,042	9,882
Proceeds from contract termination	-	-	-	(3,000)
Operating income	2,825	2,124	3,864	6,846
Interest expense - net	24	314	395	957
Income before income taxes	2,801	1,810	3,469	5,889
Provision for income taxes	1,179	-	3,206	-
Net income	1,622	1,810	263	5,889
Preferred return	-	390	339	1,171
Net income (loss) available to common shareholders	\$ 1,622	\$ 1,420	\$ (76)	\$ 4,718
Net income (loss) per share available to common shareholders: basic	\$ 0.15	\$ 0.20	\$ (0.01)	\$ 0.66
Net income (loss) per share available to common shareholders: diluted	\$ 0.15	\$ 0.20	\$ (0.01)	\$ 0.65
Pro forma data:				
Net income	\$ 1,622	\$ 1,810	\$ 263	\$ 5,889
Pro forma provision for income taxes	-	742	497	2,415
Return on preferred and mandatorily redeemable capital units	-	401	372	1,206
Pro forma net income (loss) available to common members	\$ 1,622	\$ 667	\$ (606)	\$ 2,268
Pro forma net income (loss) per share: basic	\$ 0.15	\$ 0.09	\$ (0.06)	\$ 0.32
Pro forma net income (loss) per share: diluted	\$ 0.15	\$ 0.09	\$ (0.06)	\$ 0.31
Number of weighted average common shares outstanding: basic	10,675	7,182	9,657	7,176
Number of weighted average common shares outstanding: diluted	10,848	7,242	9,657	7,223

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

Heritage-Crystal Clean, Inc.
Consolidated Statement of Shareholders' Equity
(In Thousands)
(Unaudited)

	Units/ Shares	Members' Capital	Par Value Common	Paid-in Capital Common	Retained Earnings (Deficit)	Total
Balance, December 29, 2007	24	\$ 15,072	\$ -	\$ -	\$ (2,364)	\$ 12,708
Distribution to preferred members	-	(10,887)	-	-	-	(10,887)
Tax distributions	-	(425)	-	-	(365)	(790)
Reorganization	6,642	(3,760)	66	3,694	-	-
Income tax benefit of reorganization	-	-	-	-	2,343	2,343
Net income	-	-	-	-	263	263
Conversion of redeemable capital units	564	-	6	2,256	-	2,262
Proceeds from issuance of common stock, net	3,401	-	34	33,211	-	33,245
Share-based compensation	68	-	1	3,332	-	3,333
Balance, September 6, 2008	10,675	\$ -	\$ 107	\$ 42,493	\$ (123)	\$ 42,477

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

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

	First Three Quarters Ended	
	September 6, 2008	September 8, 2007
Cash Flows from Operating Activities:		
Net income	\$ 263	\$ 5,889
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,441	1,917
Bad debt provision	584	454
Share-based compensation	3,333	204
Non-cash inventory charge related to contract termination	-	2,182
Deferred tax expense	1,048	-
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivables	(2,654)	(2,339)
Decrease (increase) in inventory	(4,082)	(2,564)
Decrease (increase) in prepaid and other current assets	(730)	(186)
Increase (decrease) in accounts payable	210	1,093
Increase (decrease) in accrued expenses	1,824	689
Cash provided by operating activities	2,237	7,339
Cash flows from Investing Activities:		
Capital expenditures	(3,436)	(5,612)
Software and intangible asset costs	(489)	(126)
Cash used in investing activities	(3,925)	(5,738)
Cash flows from Financing Activities:		
Deferred offering costs	-	(559)
Deferred financing costs	-	(33)
Proceeds from issuance of common stock, net of offering costs	34,220	-
Proceeds from note payable - bank	30,760	19,974
Repayments of note payable - bank	(51,640)	