

CLEAN HARBORS INC
Form 10-Q/A
November 14, 2003
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q/A Amendment No. 1

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
for the Quarterly Period Ended
June 30, 2003

Commission File Number 0-16379

Clean Harbors, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts
(State of Incorporation)

1501 Washington Street, Braintree, MA
(Address of Principal Executive Offices)

04-2997780
(IRS Employer Identification No.)

02184-7535
(Zip Code)

(781) 849-1800 ext. 4454

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

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

Common Stock, \$.01 par value

(Class)

13,846,432

(Outstanding at November 4, 2003)

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EXPLANATORY NOTE

This Amendment No. 1 of the Quarterly Report on Form 10-Q of Clean Harbors, Inc. sets forth restated Consolidated Statements of Cash Flows for the six months ended June 30, 2003, and revised related disclosures as a result of making corrections to the previously filed Consolidated Statements of Cash Flows. These corrections reclassify on the Statements of Cash Flows certain non-cash items associated with purchase accounting and increase both the previously reported net cash provided by operating activities and net cash used for investing activities by an approximately corresponding amount. See Note 11 to our unaudited consolidated financial statements for further discussion of the restatement. The restatement does not affect the previously filed Consolidated Statements of Operations, Consolidated Balance Sheets or Consolidated Statement of Stockholders' Equity. Financial Statements (Part I, Item 1) and Management's Discussion and Analysis of Financial Condition and Results of Operations (Part I, Item 2) have been revised to reflect the restatement of the Consolidated Statements of Cash Flows.

In order to preserve the nature and character of the disclosures set forth in such items as originally filed, no attempt has been made in this amendment to modify or update the disclosures in the original Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, except as required to reflect the effects of the restated Consolidated Statements of Cash Flows, to reflect the effects of the restatement on Notes 4 and 11 to the Consolidated Financial Statements, to reflect the effects of the restatement on the Liquidity and Capital Resources section of Management's Discussion and Analysis of Financial Condition and Results of Operations. As a result, this amended Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2003 contains forward-looking information that has not been updated for events subsequent to the date of the original filing of the Form 10-Q for the quarter ended June 30, 2003, and the Company directs you to its SEC filings made subsequent to that original filing date for additional information.

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

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Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****ASSETS****(in thousands)**

	June 30, 2003	December 31, 2002
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 5,405	\$ 13,682
Accounts receivable, net of allowance for doubtful accounts of \$3,211 and \$2,388, respectively	124,093	118,964
Other receivables	1,081	6,662
Due from Safety-Kleen	7,750	15,261
Unbilled accounts receivable	10,817	13,556
Deferred costs	3,359	4,430
Prepaid expenses	6,332	8,438
Supplies inventories	9,779	9,629
	<u>168,616</u>	<u>190,622</u>
Property, plant, and equipment:		
Land	18,486	17,775
Landfill assets	11,001	14,781
Buildings and improvements	85,714	90,694
Vehicles and equipment	156,806	158,820
Furniture and fixtures	2,288	2,282
Asset retirement costs	1,852	
Construction in progress	13,336	7,438
	<u>289,483</u>	<u>291,790</u>
Less accumulated depreciation and amortization	122,311	110,116
	<u>167,172</u>	<u>181,674</u>
Other assets:		
Restricted cash and cash equivalents	83,919	60,509
Deferred financing costs	6,529	7,036
Goodwill, net	19,032	19,032
Permits and other intangibles	81,964	95,694
Other	6,472	5,123
	<u>197,916</u>	<u>187,394</u>
Total assets	\$ 533,704	\$ 559,690

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

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY**

(dollars in thousands)

	June 30, 2003	December 31, 2002
	(Unaudited)	
Current liabilities:		
Uncashed checks	\$ 8,123	\$ 7,233
Revolving credit facility	40,162	17,709
Current portion of long term obligations	477	396
Accounts payable	56,967	56,360
Accrued disposal costs	1,989	1,998
Deferred revenue	18,170	24,273
Other accrued expenses	34,854	33,863
Current portion of environmental liabilities	22,216	19,821
Income taxes payable	376	1,560
Total current liabilities	183,334	163,213
Other liabilities:		
Environmental liabilities, less current portion	144,637	184,790
Long-term obligations, less current maturities	154,649	155,000
Long-term capitalized lease obligations, less current portion	1,469	1,245
Deferred tax liability	4,004	3,330
Other long-term liabilities	16,903	16,194
Accrued pension cost	662	593
Total other liabilities	322,324	361,152
Commitments and contingent liabilities		
Redeemable Series C Convertible Preferred Stock, \$.01 par value: Authorized 25,000 shares; Issued and outstanding 25,000 shares (liquidation preference of \$25.0 million), net of issuance costs and fair value of embedded derivative	14,187	13,543
Stockholders equity:		
Preferred stock, \$.01 par value:		
Series A convertible preferred stock: Authorized 894,585 shares; issued and outstanding none		
Series B convertible preferred stock: Authorized 156,416 shares; issued and outstanding 112,000 shares (liquidation preference of \$5.6 million)	1	1
Common stock, \$.01 par value:		
Authorized 20,000,000 shares; issued and outstanding 13,451,949 and 12,307,043 shares, respectively	135	123
Additional paid-in capital	64,636	65,630
Accumulated other comprehensive income (loss)	6,606	(396)
Accumulated deficit	(57,519)	(43,576)
Total stockholders equity	13,859	21,782

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Total liabilities, redeemable convertible preferred stock and stockholders' equity	\$ 533,704	\$ 559,690
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The accompanying notes are an integral part of these consolidated financial statements.

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CLEAN HARBORS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

(in thousands except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Revenues	\$ 172,035	\$ 60,105	\$ 314,340	\$ 113,424
Cost of revenues	131,797	42,048	238,411	80,990
Selling, general and administrative expenses	31,003	12,001	58,092	21,932
Accretion of environmental liabilities	2,783		5,516	
Depreciation and amortization	6,439	2,649	13,087	5,344
Restructuring			(124)	
Income (loss) from operations	13	3,407	(642)	5,158
Other income	429		446	
Interest expense, net	5,979	2,483	11,489	4,756
Income (loss) before provision for income taxes and cumulative effect of change in accounting principle	(5,537)	924	(11,685)	402
Provision for income taxes	1,262	441	2,250	161
Income (loss) before cumulative effect of change in accounting principle	(6,799)	483	(13,935)	241
Cumulative effect of change in accounting principle, net of \$0 taxes			8	
Net income (loss)	(6,799)	483	(13,943)	241
Dividends and accretion on preferred stock	814	112	1,618	224
Net income (loss) attributable to common shareholders	\$ (7,613)	\$ 371	\$ (15,561)	\$ 17
Basic income (loss) per share:				
Income (loss) before cumulative effect of change in accounting principle	\$ (0.57)	\$ 0.03	\$ (1.17)	\$ 0.00
Cumulative effect of change in accounting principle, net of income taxes	\$	\$	\$	\$
Income (loss) attributable to common shareholders	\$ (0.57)	\$ 0.03	\$ (1.17)	\$ 0.00
Diluted loss per share:				
Income (loss) before change in accounting principle	\$ (0.57)	\$ 0.03	\$ (1.17)	\$ 0.00
Cumulative effect of change in accounting principle, net of income taxes	\$	\$	\$	\$

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Income (loss) attributable to common shareholders	\$ (0.57)	\$ 0.03	\$ (1.17)	\$ 0.00
Weighted average common shares outstanding	13,436	12,064	13,353	11,932
Weighted average common shares outstanding plus potentially dilutive common shares	13,436	14,362	13,353	14,213

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

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CLEAN HARBORS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited
(in thousands)

	Six Months Ended June 30,	
	2003	2002
	(As Restated)	
	See Note 11)	
Cash flows from operating activities:		
Net income (loss)	\$ (13,943)	\$ 241
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	13,087	5,344
Allowance for doubtful accounts	1,082	375
Amortization of deferred financing costs	1,069	321
Accretion of environmental liabilities	5,516	
Cumulative effect of change in accounting principle, net of income tax	8	
Amortization of debt discount		179
Deferred income taxes	44	291
Loss (gain) on sale of fixed assets	292	(38)
Stock options expensed	14	
Gain on embedded derivative	(446)	
Foreign currency loss on intercompany transactions	801	
Changes in assets and liabilities, net of acquisition:		
Accounts and other receivables	8,596	6,311
Unbilled accounts receivable	3,117	624
Deferred costs	1,161	65
Prepaid expenses	2,210	(413)
Supplies inventories	(78)	43
Other assets	(1,229)	(96)
Accounts payable	1,934	(216)
Environmental liabilities	(4,278)	(518)
Deferred revenue	(6,571)	(740)
Accrued disposal costs	(78)	(2,409)
Other accrued expenses	91	(2,545)
Income taxes payable	(1,295)	(389)
Net cash provided by operating activities	11,104	6,430
Cash flows from investing activities:		
CSD acquisition costs	(250)	(11,668)
Additions to property, plant and equipment	(18,435)	(4,259)
Proceeds from sale (or cost) of restricted investments sold (acquired), net	(23,410)	38
Proceeds from sale of fixed assets	241	39
Net cash used in investing activities	(41,854)	(15,850)

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Cash flows from financing activities:		
Payments on Senior Loans	(351)	
Net borrowings under revolving credit facility	22,459	3,645
Additional borrowings under term notes		3,200
Payments on long-term obligations		(1,857)
Uncashed checks	890	(1,020)
Proceeds from exercise of stock options	367	697
Dividend payments on preferred stock	(974)	(224)
Additions to deferred financing costs	(562)	(127)
Proceeds from employee stock purchase plan	256	104
Payments on capital leases	(245)	
Net cash provided by financing activities	21,840	4,418
Decrease in cash and cash equivalents	(8,910)	(5,002)
Effect of exchange rate changes on cash	633	
Cash and cash equivalents, beginning of year	13,682	6,715
Cash and cash equivalents, end of period	\$ 5,405	\$ 1,713
Supplemental information:		
Non cash investing and financing activities:		
Tax benefit relating to exercise of stock options	\$	\$ 1,016
Income taxes	3,010	260
Capital leases	357	
Interest	9,073	2,630

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

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY****(Unaudited)****(in thousands)**

	Series B		Common Stock			Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders Equity
	Preferred Stock		Number of Shares	\$0.01 Par Value	Additional Paid-in Capital				
Balance at December 31, 2002	112	\$ 1	12,307	\$ 123	\$ 65,630	\$	\$ (396)	\$ (43,576)	\$ 21,782
Net loss						(13,943)		(13,943)	(13,943)
Foreign currency translation						7,002	7,002		7,002
Comprehensive loss						\$ (6,941)			
Preferred stock dividends:									
Series B					(224)				(224)
Series C					(750)				(750)
Exercise of warrants			954	9	(9)				
Stock option expense					14				14
Proceeds from exercise of stock options			162	2	365				367
Employee stock purchase plan			29	1	255				256
Amortization of issuance costs Series C preferred					(645)				(645)
Balance at June 30, 2003	112	\$ 1	13,452	\$ 135	\$ 64,636	\$	\$ 6,606	\$ (57,519)	\$ 13,859

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

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CLEAN HARBORS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

The consolidated interim financial statements included herein have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission and, in the opinion of management, include all adjustments which, except as described elsewhere herein, are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results for interim periods are not necessarily indicative of results for the entire year. The financial statements presented herein should be read in connection with the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company's management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements. These estimates and assumptions will also affect the reported amounts of certain revenues and expenses during the reporting period. Actual results could differ materially based on any changes in the estimates and assumptions that the Company uses in the preparation of its financial statements. Additionally, the estimates and assumptions used in determining landfill airspace amortization rates per yard, capping, closure and post-closure liabilities as well as environmental remediation liabilities require significant engineering and accounting input. The Company reviews these estimates and assumptions no less than annually. In many circumstances, the ultimate outcome of these estimates and assumptions may not be known for decades into the future. Actual results could differ materially from these estimates and assumptions due to changes in environmental-related regulations or future operational plans, and the inherent imprecision associated with estimating matters so far into the future. See Management's Discussion and Analysis of Financial Condition and Results of Operations in this report.

(2) ACQUISITION

Effective September 7, 2002, the Company purchased from Safety-Kleen Services, Inc. (the Seller) and certain of the Seller's domestic subsidiaries substantially all of the assets of the Chemical Services Division (the CSD) of Safety-Kleen Corp. (Safety-Kleen). The sale included the operating assets of certain of the Seller's subsidiaries in the United States and the stock of five of the Seller's subsidiaries in Canada (the CSD Canadian Subsidiaries). The sale was made pursuant to a sale order issued on June 18, 2002 (the Sale Order) by the Bankruptcy Court for the District of Delaware as part of the proceedings under Chapter 11 of the Bankruptcy Code in which Safety-Kleen and its domestic subsidiaries (including the Seller) have been operating since June 2000 as debtors in possession. The Sale Order authorized the sale of the assets of the CSD to the Company free and clear of all liens, claims, encumbrances and interests except for certain liabilities and obligations assumed by the Company as part of the purchase price.

The assets of the CSD (including the assets of the CSD Canadian Subsidiaries) acquired by the Company consist primarily of 44 hazardous waste treatment and disposal facilities including, among others, 21 treatment, storage or disposal facilities (six of which have since been closed by the Company), six wastewater treatment facilities, nine commercial landfills and four incinerators. Such facilities are located in 30 states, Puerto Rico, six Canadian provinces and Mexico. The most significant of such facilities include landfills in Buttonwillow, California with approximately 10.4 million cubic yards of remaining capacity, in Lambton, Ontario with approximately 6.0 million cubic yards of remaining capacity, which is the largest of the total of three hazardous waste landfills in Canada, and in Waynoka, Oklahoma with approximately 1.6

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million cubic yards of remaining capacity; and incinerators in Deer Park, Texas which is the largest hazardous waste incinerator in the United States, and in Aragonite, Utah. Additional significant facilities are the incinerators in Mercier, Quebec and Lambton, Ontario. The acquired assets do not include Safety-Kleen's Pinewood landfill in South Carolina, which Safety-Kleen had previously operated as part of the CSD.

The primary reasons for the acquisition of the CSD assets were to broaden the Company's disposal capabilities and geographic reach, particularly in the West Coast and Southwest regions of the United States, in Canada and in Mexico, and to significantly expand the Company's network of hazardous waste disposal facilities. In addition, the Company believes that the acquisition of hazardous waste facilities in new geographic areas will allow the Company to expand its site and industrial services which in turn could increase the utilization and profitability of the facilities. Finally, the Company believes that the acquisition will result in significant cost savings by allowing the Company to treat hazardous waste internally. The Company previously paid third parties to dispose of hazardous waste because the Company lacked the facilities required to dispose of the waste internally.

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(2) ACQUISITION (Continued)**

In accordance with the Acquisition Agreement between the Seller and the Company dated February 22, 2002, as amended through July 14, 2003 (the Acquisition Agreement), the Company purchased the assets of the CSD for \$34,330,000 in cash, and incurred direct costs related to the transaction of \$10,137,000 for a total purchase price of \$44,467,000. In addition, the Company assumed with the transaction certain environmental liabilities valued at \$160,255,000.

The Company has allocated the total purchase price for the CSD assets based upon the estimated fair value of each asset acquired and each liability assumed. The following table shows the initial allocation of the purchase price and direct costs incurred among the assets acquired, liabilities assumed, and liabilities accrued relating to the CSD assets acquired as of September 7, 2002, based on available information (in thousands):

	Acquired Assets and Liabilities as Recorded September 30, 2002	Acquired Assets and Liabilities as Revised December 31, 2002	Acquired Assets and Liabilities as Revised June 30, 2003
Current assets	\$ 85,241	\$ 81,279	\$ 87,501
Due from Safety-Kleen Corp	15,300	15,261	7,750
Property, plant and equipment	160,579	123,339	99,730
Intangible assets	114,442	87,902	71,076
Other assets	1,649	1,843	1,843
Current environmental liabilities	(23,574)	(21,200)	(12,720)
Other current liabilities	(57,655)	(52,772)	(53,440)
Environmental liabilities, long-term	(242,426)	(181,697)	(147,535)
Other long-term liabilities	(9,739)	(9,738)	(9,738)
Cost of CSD assets acquired	\$ 43,817	\$ 44,217	\$ 44,467
Cash purchase price	\$ 34,330	\$ 34,330	\$ 34,330
Estimated transaction costs	9,487	9,887	10,137
Cost of CSD assets acquired	\$ 43,817	\$ 44,217	\$ 44,467

The Company preliminarily estimated, based upon the due diligence performed and the information that it then knew, that the Company had assumed environmental liabilities of approximately \$266.0 million in the acquisition of the CSD from Safety-Kleen. The Company has revised its preliminary estimate and reduced such liability to \$160.3 million. The approximately \$105.7 million decrease in the assumed environmental liabilities consists of a net \$18.6 million reduction due to changes in estimates based on the Company's evaluation of the obligations and changes

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in plan to settle obligations, a \$40.6 million decrease due to the Company's discounting the environmental remedial liabilities in order to record the liabilities at fair value under purchase accounting and a \$46.5 million decrease as a result of adopting Statement of Accounting Standards No. 143. Accounting for Asset Retirement Obligations (SFAS No. 143) in the first quarter 2003. The implementation of SFAS No. 143 resulted in the adjustment of the carrying value of certain environmental liabilities assumed in the CSD acquisition and a corresponding reduction in the values allocated to the assets acquired under purchase accounting since there was no goodwill recorded in this transaction. The Company engaged an independent appraisal firm to assist in determining the fair values of the property, plant, equipment and intangible assets, which were acquired as part of the assets of CSD. Intangible assets recorded at \$71,076,000 consist of \$66,791,000 of permits and \$4,285,000 of customer profile databases. The valuation for intangible assets was based on discounted cash flows from operations of the acquired facilities to which those permits and customer profile databases relate. As the fair value of the assets acquired from the CSD is higher than the purchase price paid, the Company reduced the fair value of the fixed assets and intangible assets as of the acquisition date by \$305,495,000, in order to record the assets at cost as required by generally accepted accounting principles in the United States. The Company also concluded that the intangible assets acquired have finite lives and will amortize these assets over their estimated useful lives.

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CLEAN HARBORS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) ACQUISITION (Continued)

On July 14, 2003, the Fourth Amendment to Acquisition Agreement (the Fourth Amendment) was executed between the Company and the Seller. The Fourth Amendment was structured as a global settlement and resolved certain issues between the parties as to (i) the amount of working capital delivered by the Seller to the Company as required by the Acquisition Agreement and subsequent amendments thereto, (ii) the amounts due between the parties under the Transition Services Agreement, which defined services that the Company and the Seller would provide to each other, and (iii) the shortfall amount due to the Company under the Waste Disposal Agreement (as discussed below). The Fourth Amendment provided for (a) the Seller's payment to the Company of \$7,750,000 in cash (the Global Settlement Payment) plus (b) the Company's agreement to include within the working capital of the CSD as of the closing date approximately \$1,648,000 of receivables, which the Company originally deemed to be uncollectible as of the closing date but which the Company has subsequently either collected or determined to be collectible in the future. On July 28, 2003, the Company received the \$7,750,000 payment due from the Seller.

The Company was required to make estimates of the fair value of assets, the fair value of liabilities, including environmental liabilities, and the cost of planned exit activities. While the Company has made a good-faith attempt to estimate the fair value of these assets and liabilities, the fair value of environmental liabilities is difficult to estimate. Prior to the acquisition of the CSD assets, the Company performed significant due diligence regarding the environmental liabilities; however, additional facts learned subsequent to the acquisition date about the nature and extent of environmental liabilities existing at the acquisition date have resulted and could further result in adjustment to the estimate of environmental liabilities that existed as of the acquisition date. The Company recorded purchase accounting adjustments based primarily upon a plan to close duplicate facilities and functions and reduce headcount. The cost of this plan is subject to revision as the Company implements the plan. The recorded values of the fixed assets and intangible assets are subject to adjustment as a result of other purchase price adjustments.

The Company continues to gather information about the remedial environmental liabilities acquired. Remedial environmental liabilities are substantive and inherently difficult to estimate. Likewise, the Company acquired a number of contingencies, which are not estimable based on the information available at this time. As information about these contingent liabilities becomes available to the Company, the Company may record additional liabilities as part of the purchase price allocation. Liabilities may be recorded based on information gathered or based on management's plan to settle these liabilities.

In connection with the acquisition of the CSD assets, the Company recorded integration liabilities of \$12.9 million, which consisted primarily of increases in lease costs, severance, environmental closure and other exit costs to close duplicative facilities and functions. Groups of employees severed and to be severed consist primarily of duplicative selling, general and administrative personnel and personnel at offices which will be or are closed. The Company continues to evaluate its plan regarding the integration of facilities, functions, and resources and may record additional exit costs as a result. The following table summarizes the purchase accounting liabilities recorded in connection with the acquisition of the CSD assets (in thousands):

<u>Severance</u>		<u>Facilities</u>		<u>Other</u>	<u>Total</u>
<u>Number of</u>	<u>Liability</u>	<u>Number of</u>	<u>Liability</u>	<u>Liability</u>	

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	<u>Employees</u>	_____	<u>Facilities</u>	_____		
Balance December 31, 2002	223	\$ 4,776	10	\$ 3,530	\$ 230	\$ 8,536
Net change in estimate				(564)		(564)
Interest accretion				333		333
Utilized quarter ended March 31, 2003	(64)	(1,378)		(49)	(49)	(1,476)
Utilized quarter ended June 30, 2003	(46)	(1,025)		(22)	(151)	(1,198)
	_____	_____	_____	_____	_____	_____
Balance June 30, 2003	113	\$ 2,373	10	\$ 3,228	\$ 30	\$ 5,631
	_____	_____	_____	_____	_____	_____

Material business combinations require that pro forma results of operations for the current period be presented as though the business combination had been completed at the beginning of the period and corresponding prior period pro forma results of operations be presented as though the combination took place at the beginning of that period. Safety-Kleen has publicly disclosed that it has material deficiencies in many of its financial systems, processes and related internal controls. The Seller agreed in the Acquisition Agreement to provide the Company audited balance sheets for the CSD as of the end of each of the CSD's three fiscal years in the period ended August 31, 2001, and the Company filed these balance sheets as part of the Form 8-K filed by the Company with the SEC on September 25, 2002. However, due to Safety-Kleen's material deficiencies, Safety-Kleen's auditors have advised Safety-Kleen that they will not be able to provide auditors' reports with respect to the CSD's statements of operations and cash flows for such three fiscal years.

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CLEAN HARBORS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) ACQUISITION (Continued)

Additionally, Safety-Kleen's pre-existing deficiencies in financial systems, processes, and related internal controls led the Company to believe that the historical unaudited financial statements of the CSD may not be reliable or accurate. Accordingly, the Company is unable to provide pro forma results of operations reflecting the combined operations of the Company and the CSD for any periods prior to the Company's acquisition of the CSD assets.

The Company has received a no-action letter from the SEC staff with respect to the Company's inability to file audited statements of operations and cash flows for the CSD or a pro forma statement of operations based thereon. However, until the Company is able to obtain and file audited statements of operations and cash flows of the CSD (on a separate basis for any relevant periods prior to the closing and on a combined basis with the Company for periods following the closing) for at least three years (or such lesser period as the SEC staff may permit in the future), the Company will not be able to file registration statements for public securities offerings by the Company (except for offerings involving employee benefit plans and secondary offerings by holders of warrants and other securities). This could prevent the Company from being able to access the public capital markets for a period of up to three years following the closing, but it would not prevent the Company from obtaining financing through other sources such as private equity or debt placements and bank loans.

Prior to the sale of the CSD assets to the Company, the largest single customer of the CSD had been Safety-Kleen's Branch Sales and Services Division (the BSSD), which primarily serves as a front-end collection agent for approximately 400,000 clients in the industrial and commercial parts cleaning and hazardous/non-hazardous waste market, particularly with regard to waste fuel and solvent recovery and recycling. In connection with the Company's purchase of the CSD assets, the Company and the Seller entered into a Master Waste Disposal Agreement which provides that during the three-year term of the Agreement, the BSSD will continue to utilize the Company (which now owns the facilities of the CSD) to provide hazardous waste treatment and disposal services at competitive prices and, in particular, that during the first six months following the closing that the BSSD would provide the Company with at least \$15 million of disposal business. Any shortfall from the \$15 million guarantee was to result in a payment to the Company of 40% of such shortfall. However, the amount of any such shortfall payment due the Company under the Master Waste Disposal Agreement was included within Global Settlement Payment paid by the Seller to the Company on July 28, 2003 pursuant to the Fourth Amendment to the Acquisition Agreement as described above. The Master Waste Disposal Agreement also provides that during the three-year term of the Agreement, the Company will continue to use, at competitive prices, the services of the BSSD which were used by the CSD prior to the effective date of the CSD acquisition (September 7, 2002). Accordingly, both the Company and the BSSD should be significant customers of each other for at least the three years following such date.

Under Section 5.15 of the Acquisition Agreement as amended, the Company and the Seller have agreed to certain non-competition and non-solicitation provisions which are intended to separate the respective businesses of the Company and the BSSD for a period of three years after the closing. Under such Section, the Company and the Seller have also agreed during such period not to recruit or otherwise solicit, with certain exceptions, any of their respective employees to leave the employment of the other.

(3) SIGNIFICANT ACCOUNTING POLICIES

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(a) *Reclassifications*

Certain reclassifications have been made in the prior years Consolidated Financial Statements to conform with the 2003 presentation.

(b) *New Accounting Pronouncements*

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When a liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard was effective for fiscal years beginning after June 15, 2002. The Company adopted SFAS No. 143 in the first quarter of 2003. The effects of this adoption in the first quarter of 2003 are described below under Note 6, Remedial Liabilities and Changes in Accounting for Asset Retirement Obligations.

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CLEAN HARBORS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of SFAS No. 64, Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements. This Statement also rescinds SFAS No. 44, Accounting for Intangible Assets of Motor Carriers. This SFAS amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meaning, or describe their applicability under changed conditions. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. The Company has determined the adoption of SFAS No. 145 will result in the reclassification of the extraordinary loss related to early extinguishment of debt of \$24,658,000, recorded in the quarter ended September 30, 2002, to other expenses in arriving at its income or loss from operations for that period. The Company believes the adoption of SFAS No. 145 will not materially affect the Company's financial condition.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Adoption of SFAS No. 146 as of January 1, 2003 had no impact on the results of operations or financial condition for the six months ended June 30, 2003.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS 150 changed the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS 150 requires that those instruments be classified as liabilities in statements of financial position. SFAS No. 150 had no effect on the classification of liabilities or equity for the Company at June 30, 2003.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). It clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The objective of the initial measurement of the liability is the fair value of the guarantee at its inception. The initial recognition and initial measurement provisions of FIN 45 are effective for the Company on a prospective basis to guarantees issued after December 31, 2002. The Company will record the fair value of future material guarantees, if any. There were no guarantees issued in the six months ended June 30, 2003.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 requires that unconsolidated variable interest entities must be consolidated by their primary beneficiaries. A primary beneficiary is the party that absorbs a majority of the entity's expected losses or residual benefits. FIN 46 applies immediately to variable interest entities created after January 31, 2003 and to existing variable interest entities in the periods beginning after June 15, 2003. The adoption of FIN 46 had no impact on the Company's

results of operations or financial condition for the period ending June 30, 2003.

(c) *Stock Options*

The Company applies Accounting Principles Board (APB) Opinion No. 25 and related Interpretations in accounting for its stock-based employee compensation plans. Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* , defines a fair value method of accounting for stock options and other equity instruments. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. The Company elected to continue to apply the accounting provisions of APB Opinion No. 25 for stock options.

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(3) SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accordingly, no stock-based employee compensation cost is reflected in net income, as all options granted under those plans have an exercise price equal to the market value of the underlying common stock on the date of grant. Had compensation cost for the Company's stock option grants been determined based on the fair value at the grant dates, as calculated in accordance with SFAS 123, the Company's net income and net income per common share for the three and six month periods ended June 30, 2003 and 2002, would approximate the pro forma amounts as compared to the amounts reported (dollars in thousands except for per share amounts):

	<u>Three Months</u> <u>Ended June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net income (loss) attributable to common shareholders	\$ (7,613)	\$ 371	\$ (15,561)	\$ 17
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards net of related tax effects	568	164	904	328
Pro forma income (loss) attributable to common shareholders	\$ (8,181)	\$ 207	\$ (16,465)	\$ (311)
Earnings (loss) per share:				
Basic as reported	\$ (0.57)	\$ 0.03	\$ (1.17)	\$ 0.00
Basic pro forma	(0.61)	0.02	(1.23)	(0.03)
Fully diluted as reported	\$ (0.57)	\$ 0.03	\$ (1.17)	\$ 0.00
Fully diluted pro forma	(0.61)	0.01	(1.23)	(0.03)

(4) FINANCING ARRANGEMENTS

The following table is a summary of the Company's financing arrangements:

	<u>June 30,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>
	(in thousands)	
Revolving Credit Facility with a financial institution, bearing interest at June 30, 2003 at LIBOR (1.20% at June 30, 2003) plus 3.25% or prime (4.25% at June 30, 2003) plus 0.25% at the Company's election, collateralized by a first security interest in accounts receivable and a second security interest in substantially all other assets	\$ 40,162	\$ 17,709

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Senior Loans, bearing interest at June 30, 2003 at LIBOR (1.20% at June 30, 2003) plus 7.75%, collateralized by a first security or mortgage interest in substantially all of the Company's assets except for accounts receivable	114,649	115,000
Subordinated Loans, bearing interest at June 30, 2003 at 22.50%, collateralized by a first security or mortgage interest in substantially all of the Company's assets except for accounts receivable	40,000	40,000
	194,811	172,709
Less obligations classified as current	40,162	17,709
	\$ 154,649	\$ 155,000

As described in the Form 10-K for the year ended December 31, 2002, the Company has outstanding a \$100,000,000 three-year revolving credit facility (the Revolving Credit Facility), \$115,000,000 of three-year non-amortizing term loans (the Senior Loans) and \$40,000,000 of five-year non-amortizing subordinated loans (the Subordinated Loans). In addition to such financings, the Company has established a letter of credit facility (the L/C Facility) under which the Company may obtain up to \$100,000,000 of letters of credit by providing cash collateral equal to 103% of the amount of such outstanding letters of credit.

The principal terms of the Revolving Credit Facility, the Senior Loans, the Subordinated Loans, and the L/C Facility are as follows:

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(4) FINANCING ARRANGEMENTS (Continued)**

Revolving Credit Facility. The Revolving Credit Facility allows the Company to borrow up to \$100,000,000 in cash and letters of credit, based upon a formula of eligible accounts receivable. This total is separated into two lines of credit, namely a line for the Company's Canadian Subsidiaries of \$20,000,000 in Canadian dollars and a line for the Company and its US subsidiaries equal to \$100,000,000 in US dollars less the then conversion value of the Canadian line. Letters of credit outstanding at any one time under the Revolving Credit Facility may not exceed \$20,000,000. At June 30, 2003, letters of credit outstanding were \$1,044,000 and the Company had approximately \$41,893,000 available to borrow. This consisted of borrowing availability in the U.S. of approximately \$29,140,000 and availability in Canada of approximately \$12,753,000 (USD).

The Revolving Credit Facility provides for certain covenants, the most restrictive of which at June 30, 2003 required the Company to maintain a minimum consolidated annualized earnings before interest, income taxes, depreciation and amortization (EBITDA). The Company did not achieve the required level of EBITDA for the period ended June 30, 2003. The EBITDA loan covenant under the Revolving Credit Facility was waived by amending the Loan and Security Agreement. Under the terms of the Third Amendment to Loan and Security Agreement (the Third Amendment), the Company is now required to maintain consolidated EBITDA of not less than \$15,700,000 for the quarter ending September 30, 2003 and \$32,250,000 for the two quarters ending December 31, 2003. The required level of EBITDA then increases in approximately equal quarterly increments to \$64,600,000 for the year ending December 31, 2004. The Company is now also required to maintain a fixed charge coverage ratio of not less than 0.85 to 1.0 for the quarter ending September 30, 2003 and 0.90 to 1.0 for the two quarter period ending December 31, 2003, respectively. The required fixed charge coverage ratio then increases to 0.95 to 1.0 for the three quarter period ending March 31, 2004, to 1.0 to 1.0 for the four quarter period ending June 30, 2004, to 1.1 to 1.0 for the four quarter period ending March 31, 2005 and to 1.2 to 1.0 for the four quarter period ending June 30, 2005. As amended by the Third Amendment, the Revolving Credit Facility allows for up to 80% of the outstanding balance of the loans to bear interest at an annual rate of LIBOR plus 3.50%, with the balance at prime plus 0.50%. The Revolving Credit Facility requires the Company to pay an unused line fee of 0.25% per annum on the unused portion of the revolving credit.

In exchange for amending the loan covenants for future periods, the Third Amendment requires the Company to pay an amendment fee of \$250,000 and increases the interest rate under the Revolving Credit Facility from LIBOR plus 3.25% to LIBOR plus 3.50%, or from the prime rate plus 0.25% to the prime rate plus 0.50%. These increases in the interest rates became effective as of August 1, 2003 and will continue until such time as the Company delivers financial statements for three consecutive quarters that show the Company has attained a fixed charge coverage ratio of at least 1.1 to 1.0. In such event, the interest rates will revert for future periods to LIBOR plus 3.25% or prime plus 0.25%.

Senior Loans and Subordinated Loans. The Senior Loans and Subordinated Loans provide for certain covenants, the most restrictive of which required at June 30, 2003, the Company to maintain a minimum consolidated annualized EBITDA and a maximum leverage ratio. The Company did not achieve the required level of EBITDA and the Company exceeded the amount of leverage allowed for the period ended. The EBITDA and leverage loan covenants under the Financing Agreement were waived by amending the Financing Agreement. Under the terms of the Second Amendment to the Financing Agreement (the Second Amendment), the Company is now required to maintain consolidated four quarters rolling EBITDA of not less than \$52,997,000 and \$50,106,000 for the quarters ending September 30 and December 31, 2003, respectively. The required level of EBITDA then increases in approximately equal quarterly increments to \$64,610,000, \$80,270,000, \$90,930,000, and \$107,089,000 for the years ending December 31, 2004, 2005, 2006 and 2007, respectively. The Company is now also required to maintain a rolling four quarters fixed charge coverage ratio of not less than 0.93 and 0.80 to 1.0 for the fiscal quarters ending September 30 and December 31, 2003, respectively. The required fixed charge coverage ratio then increases in approximately equal quarterly increments to 1.12, 1.33, 1.43

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and 1.55 to 1.0 for the years ending December 31, 2004, 2005, 2006 and 2007, respectively. The Company is now also required to maintain a leverage ratio of 2.13 and 2.27 to 1.0 for the four consecutive quarters ending September 30 and December 31, 2003, respectively. The required leverage ratio then decreases in approximately equal quarterly increments to 1.65, 0.98, 0.62 and 0.21 to 1.0 for the years ending December 31, 2004, 2005, 2006 and 2007, respectively.

In exchange for amending the loan covenants for future periods, the Second Amendment requires the Company to pay an amendment fee of \$620,000. In addition, the Company could be required to pay an additional amendment fee of \$620,000 if the Company fails to achieve certain levels of EBITDA for the period commencing July 1, 2003 through December 31, 2003.

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CLEAN HARBORS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) FINANCING ARRANGEMENTS (Continued)

The Company negotiated the amendments to the financing agreements described above that included resetting the loan covenants to levels that the Company believes that it will be able to meet in the future. While the Company was able to renegotiate the loan covenants with the lenders and the Company believes that it will be able to meet the covenants in the future, no assurance can be given that the Company will be able to meet the loan covenants in the future or that the Company will be able to obtain waivers from the lenders if the loan covenants are violated in the future.

L/C Facility. At June 30, 2003, letters of credit outstanding under the L/C Facility were approximately \$81,441,000. The Company is currently required to provide an additional \$20,000,000 of collateral in the quarter ending September 30, 2003 to support the issuance of additional letters of credit for its financial assurance obligations. The Company funded \$10,000,000 of this amount in July 2003. The Company expects the source of additional cash collateral to be borrowings under its Revolving Credit Facility or cash flow provided from operations.

EBITDA. In addition to disclosing financial results that are determined in accordance with generally accepted accounting principles, the Company also uses the non-GAAP measure EBITDA which the Company defines in accordance with the Financing Agreement dated September 6, 2002, as amended, between the Company and Ableco Finance, LLC, which is earnings before interest expense, income taxes, depreciation and amortization, accretion of environmental liabilities, gains or losses on the embedded derivative and restructuring expenses. The Company believes that EBITDA is useful to investors because it is an indicator of the strength and performance of the ongoing business operations, including the ability to fund capital expenditures and service debt. In addition to the inclusion of EBITDA in the loan covenants, the number of common shares to which the Company's Series C Convertible Redeemable Preferred Stock can be converted into is dependent on the level of future EBITDA. The Company also uses EBITDA to measure the performance of operating units and awards management incentive bonuses based on the level of EBITDA attained.

EBITDA should not be considered an alternative to net income or loss or other measurements under accounting principles generally accepted in the United States of America as an indicator of operating performance or to cash flows from operating, investing, or financing activities as a measure of liquidity. EBITDA does not reflect working capital changes, cash expenditures for interest, taxes, capital improvements or principal payments on indebtedness. Furthermore, the Company's measurement of EBITDA might be inconsistent with similar measures presented by other companies.

(5) LEGAL PROCEEDINGS

As of the filing date of this report, there have been no material changes to the Legal Proceedings described in Note 8 to the Company's financial statements as of December 31, 2002 included in the Form 10-K as filed with the Securities and Exchange Commission on April 10, 2003.

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(6) REMEDIAL LIABILITIES AND CHANGES IN ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS**

Effective January 1, 2003, the Company adopted SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). SFAS No. 143 requires companies to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When a liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period using the credit-adjusted risk-free interest rate, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS No. 143 requires upon initial application that companies reflect in their balance sheet (1) liabilities for any existing asset retirement obligations adjusted for cumulative accretion to the date of adoption of the Statement, (2) an asset retirement cost capitalized as an increase to the carrying amount of the associated long-lived asset, and (3) accumulated depreciation on that capitalized cost adjusted for accumulated depreciation to the date of adoption of the Statement. The cumulative effect of initially applying SFAS No. 143 was recorded as a change in accounting principle, which requires that cumulative-effect adjustment be recorded in the statement of operations.

The principal changes from the implementation of SFAS No. 143 were (1) a reduction in accrued landfill closure and post-closure obligations due to discounting the accruals at the Company's credit-adjusted risk free interest rate of 14.0% as required under SFAS No. 143, instead of discounting the accruals at the risk-free interest rate of 4.9% used under purchase accounting at December 31, 2002, (2) a reduction in accrued financial assurance for closure and post-closure care of the facilities which will now be expensed in the period incurred under SFAS No. 143 and (3) a reduction due to discounting at the credit-adjusted risk-free rate previously undiscounted accrued cell closure costs. These reductions were partly offset by new closure and post-closure obligations recorded for operating non-landfill facilities determined under various probability scenarios as to when operating permits might be surrendered in the future and using the credit-adjusted risk-free rate. The reduction in the value of liabilities assumed in the CSD acquisition from the implementation of SFAS No. 143 of \$46.5 million resulted in a corresponding reduction in the value allocated to the assets acquired (see Note 2 Acquisition). The implementation also resulted in a net of tax cumulative-effect adjustment of \$8,000 recorded in the statement of operations for the six months ended June 30, 2003.

The implementation of SFAS No. 143 for companies in the hazardous waste industry is complex. Directly following is a table that summarizes the difference between the Company's historical practices and current practices of accounting for facility closure, facility post-closure care, landfill cell closure and remedial liabilities. Following the table is a detailed discussion of the accounting for environmental liabilities and tables that detail the roll-forward of the environmental liabilities from December 31, 2002 through June 30, 2003.

Description	Historical Practice	Current Practice (Effective January 1, 2003)
<i>Definitions:</i>		
Cell closure	Cell closure costs are the costs required to construct a landfill cell cap.	No change.
Landfill closure	Includes costs required to dismantle certain landfill structures and regulatory costs such as groundwater monitoring, leachate	No change, except that financial assurance is no longer included as a cost component of landfill closure but rather is expensed as

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	management and financial assurance.	incurred. The cost of financial assurance is considered in the determination of the credit-adjusted risk-free interest rate.
Landfill post-closure	Costs include routine monitoring and maintenance of a landfill after it has closed, ceased to accept waste and been certified as closed by the applicable state regulatory agency. Costs included financial assurance.	No change, except that financial assurance is no longer included as a cost component of landfill post-closure but rather is expensed as incurred. The cost of financial assurance is considered in the determination of the credit-adjusted risk-free interest rate.

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CLEAN HARBORS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) REMEDIAL LIABILITIES AND CHANGES IN ACCOUNTING FOR ASSET RETIREMENT

OBLIGATIONS (Continued)

Description	Historical Practice	Current Practice (Effective January 1, 2003)
Non-landfill closure	Costs of decontaminating waste handling equipment, pipes, enclosures, etc. contaminated in the normal course of operations. Costs included financial assurance.	No change, except that financial assurance is no longer included as a cost component of non-landfill closure but rather is expensed as incurred. The cost of financial assurance is considered in the determination of the credit-adjusted risk-free interest rate.
Non-landfill post-closure	Costs include routine monitoring and maintenance after the facility has closed, ceased to accept waste and been certified as closed by the applicable state regulatory agency. Costs included financial assurance. Post-closure care is not typically required for permitted non-landfill facilities.	No change, except that financial assurance is no longer included as a cost component of non-landfill post-closure but rather is expensed as incurred. The cost of financial assurance is considered in the determination of the credit-adjusted risk-free interest rate.
Remedial liabilities	The costs of removal or containment of contaminated material including material that became contaminated as part of normal operations.	The costs of removal or containment of contaminated material that did not arise as the result of normal operations. Certain costs previously classified as remedial costs were reclassified as closure costs based on SFAS No. 143 requiring that closure costs arising out of normal operations be accounted for as part of the asset retirement obligation.
Discount rate	Risk-free rate (4.9% at December 31, 2002) was used to discount accrued closure and post-closure obligations, and remedial obligations assumed as part of the acquisition of the CSD assets from Safety-Kleen Corp. Remedial obligations incurred in the course of operations are generally undiscounted.	Credit-adjusted, risk-free rate (14.0% at January 1, 2003) for liabilities accrued under SFAS No. 143. Remedial obligations assumed as part of the acquisition of the CSD assets from Safety-Kleen Corp. are and will continue to be discounted at the risk free interest rate at the time of the acquisition (4.9%). No change to remedial obligations incurred in the course of operations.
Cost estimates	Costs were estimated based on performance, principally by third parties, with a reasonable portion estimated at the Company's internal cost.	No change, except that the cost of any activities performed internally must be increased to represent an estimate of the amount a third party would charge to perform such activity.

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Inflation	Cost was inflated to period of performance (2.4% for the period ended December 31, 2002).	Inflation rate changed to 2.0% effective January 1, 2003.
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Recognition of Assets and Liabilities:

Cell closure	Cell closure was accrued on the units-of-consumption basis, such that the total amount required to cap the cell is accrued when that specific cell ceases accepting waste.	Each capping event is accounted for as a discrete obligation. All capping is recorded as a liability and asset, based on the discounted cash flow associated with each capping event, as airspace is consumed related to the specific capping event; spending is reflected as a change in liabilities within operating activities in the statement of cash flows.
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CLEAN HARBORS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) REMEDIAL LIABILITIES AND CHANGES IN ACCOUNTING FOR ASSET RETIREMENT

OBLIGATIONS (Continued)

Description	Historical Practice	Current Practice (Effective January 1, 2003)
Landfill closure and post-closure	Accrued over the life of the landfill; the discounted cash flow associated with such liabilities was recorded to accrued environmental liabilities, with a corresponding charge to cost of operations as airspace is consumed.	Accrued over the life of the landfill; the discounted cash flow associated with such liabilities is recorded to accrued environmental liabilities, with a corresponding increase in landfill assets as airspace is consumed.
Non-landfill closure and post-closure	Closure and post-closure costs were accrued when a decision was made to close a non-landfill facility.	At the time of facility acquisition or construction, the present value of the asset retirement obligation is recorded as an asset and a retirement liability is recorded in the same amount. The asset retirement cost is depreciated over the estimated life of the facility and the liability is accreted at the credit-adjusted risk free interest rate.
<i>Statement of Operations Expense:</i>		
Liability accrual	Expense charged to cost of operations at same amount accrued to liability.	Not applicable.
Amortization of asset retirement cost	Not applicable for cell closure, landfill and non-landfill facility closure and post-closure.	Landfill facilities are amortized to depreciation and amortization expense as airspace is consumed over the life of cell or landfill. Non-landfill facilities are amortized to depreciation and amortization expense using the straight-line method over the estimated life of the facility.
Accretion	Expense, charged to cost of operations, was accrued at risk-free rate over the life of the landfill as airspace was consumed. Remedial liabilities were accreted at the risk-free interest rate using the effective interest method.	Accretion expense for closure and post-closure liabilities is charged to operations at the credit-adjusted, risk-free rate (14%). Accretion expense relating to remedial obligations assumed as part of the acquisition of the CSD assets from Safety-Kleen Corp. are accreted at the risk-free interest rate at the time of the acquisition (4.9%). The effective interest method is used in both instances.

Landfill Accounting

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

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

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CLEAN HARBORS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) REMEDIAL LIABILITIES AND CHANGES IN ACCOUNTING FOR ASSET RETIREMENT

OBLIGATIONS (Continued)

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

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

Final closure and post-closure liabilities The Company has material financial commitments for the costs associated with requirements of the United States Environmental Protection Agency (the EPA), and the comparable regulatory agency in Canada for the final closure and post-closure activities at the majority of its facilities. In the United States, the final closure and post-closure requirements are established under the standards of the EPA, and are implemented and applied on a state-by-state basis. Estimates for the cost of these activities are developed by the Company's engineers, accountants and external consultants, based on an evaluation of site-specific facts and circumstances, including the Company's interpretation of current regulatory requirements and proposed regulatory changes. Such estimates may change in the future due to various circumstances including, but not limited to, permit modifications, changes in legislation or regulations, technological changes and results of environmental studies.

Final closure costs include the costs required to cap the final cell of the landfill and the costs required to dismantle certain structures for landfills and other landfill improvements. In addition, final closure costs include regulatory mandated groundwater monitoring, leachate management and other costs incurred in the closure process. Post-closure costs include substantially all costs that are required to be incurred subsequent to the closure of the landfill, including, among others, groundwater monitoring and leachate management. Regulatory post-closure periods are generally 30 years after landfill closure. Final closure and post-closure obligations are discounted. Final closure and post-closure obligations are accrued on a units-of-consumption basis, such that the present value of the final closure and post-closure obligations is accrued at the date the landfill discontinues accepting waste.

For landfills purchased, the Company assessed and recorded the present value of the estimated closure and post-closure liability based upon the estimated final closure and post-closure costs and the percentage of airspace consumed as of the purchase date. Thereafter, the difference between the liability recorded at the time of acquisition and the present value of total estimated final closure and post-closure costs to be

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incurred is accrued prospectively on a units of consumption basis over the estimated useful economic life of the landfill.

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

- Personnel are actively working to obtain the permit or permit modifications (land use, state and federal) necessary for expansion of an existing landfill, and progress is being made on the project.
- At the time the expansion is included in the Company's estimate of the landfill's useful economic life, it is probable that the required approvals will be received within the normal application and processing time periods for approvals in the jurisdiction in which the landfill is located. The Company expects to submit the application within the next year and expects to receive all necessary approvals to accept waste within the next five years.
- The owner of the landfill or the Company has a legal right to use or obtain land associated with the expansion plan.

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(6) REMEDIAL LIABILITIES AND CHANGES IN ACCOUNTING FOR ASSET RETIREMENT****OBLIGATIONS (Continued)**

- There are no significant known political, technical, legal, or business restrictions or issues that could impair the success of such expansion.
- A financial feasibility analysis has been completed, and the results demonstrate that the expansion has a positive financial and operational impact such that management is committed to pursuing the expansion.
- Additional airspace and related additional costs, including permitting, final closure and post-closure costs, have been estimated based on the conceptual design of the proposed expansion.

Exceptions to the criteria set forth above may be approved through a landfill-specific approval process that includes approval from the Company's Chief Financial Officer and review by the Audit Committee of the Board of Directors. As of June 30, 2003 there was one unpermitted expansion included in the Company's landfill accounting model, which represents approximately 23% of the Company's remaining airspace at this date. This expansion does not represent an exception to the Company's established criteria.

As of June 30, 2003, the Company has 11 active landfill sites (including the Company's two non-commercial landfills), which have estimated remaining lives (based on anticipated waste volumes and remaining highly probable airspace) as follows:

Facility Name	Location	Remaining lives (Years)	Remaining Highly Probable Airspace		
			(cubic yards) (in thousands)		
			Permitted	Unpermitted	Total
Altair	Texas	0.3	24		24
Buttonwillow	California	73	10,380		10,380
Deer Park	Texas	21	590		590
Deer Trail	Colorado	3	28		28
Grassy Mountain	Utah	11	923		923
Kimball	Nebraska	18	519		519
Lone Mountain	Oklahoma	13	1,588		1,588
Ryley	Alberta	29	1,071		1,071
Samia	Ontario	29	492	5,493	5,985
Sawyer		31	499		499

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	North Dakota				
Westmorland	California	46	2,732		2,732
			18,846	5,493	24,339

In addition, the Company had 2,945,000 cubic yards of permitted, but not highly probable, airspace as of June 30, 2003. Permitted, but not highly probable, airspace is permitted airspace that the Company has determined that it is unlikely to utilize.

The following table presents the remaining highly probable airspace from December 31, 2002 through June 30, 2003 (in thousands):

	Highly Probable Air Space (Cubic Yards)
Remaining capacity at December 31, 2002	25,288
Consumed six months ended June 30, 2003	(310)
Change in estimate	(639)
Remaining capacity at June 30, 2003	24,339

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CLEAN HARBORS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) REMEDIAL LIABILITIES AND CHANGES IN ACCOUNTING FOR ASSET RETIREMENT

OBLIGATIONS (Continued)

Non-Landfill Closure and Post-Closure

Final closure and post-closure obligations for facilities other than landfills. Final closure costs include costs required to dismantle and decontaminate certain structures and other costs incurred during the closure process. Post-closure costs, if required, include associated maintenance and monitoring costs and financial assurance costs as required by the closure permit. Post-closure periods are performance based and are not generally specified in terms of years in the closure permit, but may generally range from 10 to 30 years or more. Final closure and post-closure costs are increased for inflation (2.0% for the period ended June 30, 2003) and discounted at the Company's credit-adjusted risk-free interest rate (14.0% for the period ended June 30, 2003). Under SFAS No. 143, the cost of financial assurance for the closure and post-closure care periods cannot be accrued but rather is a period cost. Under SFAS No. 143, the cost of financial assurance is considered in the determination of the credit-adjusted risk-free interest rate used to discount the closure and post-closure obligations.

Remedial Liabilities

Remedial liabilities, including Superfund liabilities, include the costs of removal or containment of contaminated material, the treatment of potentially contaminated groundwater and maintenance and monitoring costs necessary to comply with regulatory requirements. SFAS No. 143 applies to asset retirement obligations that arise from normal operations. Almost all of the Company's remedial liabilities were assumed as part of the acquisition of the CSD from Safety-Kleen Corp., and the Company believes that the remedial obligations did not arise from normal operations. Remedial liabilities assumed relating to the acquisition of the CSD from Safety-Kleen are and will continue to be inflated using the inflation rate at the time of acquisition (2.4%) until the expected time of payment then discounted at the risk free interest rate at the time of acquisition (4.9%). Remedial liabilities incurred subsequent to the acquisition and remedial liabilities of the Company that existed prior to the acquisition have been and will continue to be recorded at the estimated current value of the liability which is neither increased for inflation nor reduced for discounting. Certain costs previously classified as remedial costs were reclassified as closure costs at June 30, 2003, if the Company determined that the remedial liability arose from normal operations.

Claims for Recovery

The Company records claims for recovery from third parties relating to environmental liabilities only when realization of the claim is probable. The gross environmental liability is recorded separately from the claim for recovery on the balance sheet.

Discounting Landfill Closure, Post-Closure and Remedial Liabilities

Generally, remedial liabilities are not discounted. However, under purchase accounting, acquired liabilities are recorded at fair value, which requires taking into consideration inflation and discount factors. Accordingly, as of the acquisition date, the Company recorded the environmental liabilities assumed as part of the acquisition of the CSD at their fair value, which was calculated by inflating costs in current dollars using an estimate of future inflation rates as of the acquisition date until the expected time of payment then discounted to its present value using a risk free discount rate as of the acquisition date.

Subsequent to the acquisition, discounts were and will be applied to the environmental liabilities as follows:

Final closure and post-closure liabilities at December 31, 2002 were inflated using estimates of future inflation rates (2.4% at December 31, 2002) until the time of payment, then discounted using a risk-free interest rate (4.9% at December 31, 2002). The Company adopted SFAS No. 143 in the first quarter of 2003. Under SFAS No. 143, final closure and post-closure liabilities are inflated using estimates of future inflation until the time of payment then discounted using the Company's credit adjusted risk free interest rate.

Remedial liabilities assumed relating to the acquisition of the CSD from Safety-Kleen are and will continue to be inflated using the inflation rate at the time of acquisition (2.4%) until the expected time of payment then discounted at the risk free interest rate at the time of acquisition (4.9%).

Remedial liabilities incurred subsequent to the acquisition and remedial liabilities of the Company that existed prior to the acquisition have been and will continue to be recorded at the estimated current value of the liability which is neither increased for inflation nor reduced for discounting.

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(6) REMEDIAL LIABILITIES AND CHANGES IN ACCOUNTING FOR ASSET RETIREMENT****OBLIGATIONS (Continued)**

The Company has recorded landfill and non-landfill net asset retirement costs as follows (amounts in thousands):

	June 30,	December 31,
	2003	2002
	<u> </u>	<u> </u>
Landfill and non-landfill net asset retirement costs	\$ 673	\$

The Company has recorded liabilities for closure, post-closure and remedial obligations as follows (amounts in thousands):

	June 30,	December 31,
	2003	2002
	<u> </u>	<u> </u>
Current portion of environmental liabilities	\$ 22,216	\$ 19,821
Non-current portion of environmental liabilities	144,637	184,790
	<u> </u>	<u> </u>
Total	\$ 166,853	\$ 204,611
	<u> </u>	<u> </u>

Environmental Liabilities Rollforward

The changes to environmental liabilities for the six months ended June 30, 2003 are as follows (in thousands):

December 31,	Cumulative	Purchase	Opening	Asset	Charges	Reclassifications	Payments	June 30,
2002	effect of	accounting	Balance	Retirement	to	and other	 	2003
<u> </u>	changes	adjustment	Sheet	Cost	Expense	<u> </u>	<u> </u>	<u> </u>
	in	due to	Adjustment	Offset	<u> </u>	<u> </u>		
	accounting	change in	<u> </u>	<u> </u>				
	for Asset	Accounting						
	Retirement	for Asset						
	Obligation	Retirement						

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	<u>Obligation</u>								
Landfill retirement liability	\$ 60,765	\$ (135)	\$ (38,737)	\$ 2,851	\$ 436	\$ 1,688	\$ 200	\$ (42)	\$ 27,026
Non-landfill retirement liability		1,769	7,122	737		716	(85)	(1,313)	8,946
Remedial liabilities:									
Remediation for landfill sites	4,519			26		127	188	(28)	4,832
Remediation, closure and post-closure for closed sites	105,059	233	(14,729)	(176)		2,028	430	(1,509)	91,336
Remediation (including Superfund) for non-landfill open sites	34,268			395		902	301	(1,153)	34,713
Total	\$ 204,611	\$ 1,867	\$ (46,344)	\$ 3,833	\$ 436	\$ 5,461	\$ 1,034	\$ (4,045)	\$ 166,853

In the following table, reserves for environmental obligations are classified as of each balance sheet date based on their classification at June 30, 2003. Certain reserves were reclassified on January 1, 2003 in connection with the adoption of SFAS No. 143. Reserves for closure, post-closure and remedial obligations are as follows (in thousands):

	<u>June 30, 2003</u>	<u>December 31, 2002</u>
Landfill retirement liability:		
Cell closure	\$ 17,145	\$ 20,336
Facility closure	5,210	12,125
Post-closure	4,671	28,304
	<u>27,026</u>	<u>60,765</u>
Non-landfill retirement liability:		
Facility closure and post closure	8,946	
Remedial liabilities:		
Remediation for landfill sites	4,832	4,519
Remediation, closure and post-closure for closed sites	91,336	105,059
Remediation (including Superfund) for non landfill open sites	34,713	34,268
	<u>130,881</u>	<u>143,846</u>
Total	<u>\$ 166,853</u>	<u>\$ 204,611</u>

All of the landfill facilities included in the table above are active as of June 30, 2003.

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(6) REMEDIAL LIABILITIES AND CHANGES IN ACCOUNTING FOR ASSET RETIREMENT****OBLIGATIONS (Continued)**

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

Periods ending December 31,	
Remaining period 2003	\$ 9,883
2004	27,642
2005	28,585
2006	12,874
2007	13,635
Thereafter	299,067
	<hr/>
Subtotal	391,686
Less: Reserves to be provided (including discount of \$151.6 million) over remaining site lives	(224,833)
	<hr/>
Total	\$ 166,853
	<hr/>

Remedial liabilities, including Superfund liabilities As described in the tables above under Discounted environmental liabilities, the Company has as of June 30, 2003 a total of \$130.9 million of estimated liabilities for remediation of environmental contamination, of which \$4.8 million related to the Company's landfills and \$126.1 million related to non-landfill facilities (including Superfund sites owned by third parties). The Company periodically evaluates potential remedial liabilities at sites that it owns or operates or to which the Company or the Sellers of the CSD assets (or the respective predecessors of the Company or the Sellers) transported or disposed of waste, including 54 active or Superfund sites as of June 30, 2003. As described in Note 8, Legal Proceedings, of the Company's audited financial statements for the year ended December 31, 2002 included in the Form 10-K filed with the Securities and Exchange Commission on April 10, 2003, the Company has assumed and agreed to pay as part of the purchase price for the CSD assets the Sellers' share of cleanup costs payable to governmental entities for certain other sites where one or more of the Sellers have been named or may potentially be named as a PRP. The Company periodically reviews and evaluates sites requiring remediation, including Superfund sites, giving consideration to the nature (i.e., owner, operator, transporter or generator) and the extent (i.e., amount and nature of waste hauled to the location, number of years of site operations or other relevant factors) of the Company's alleged connection with the site, the regulatory context surrounding the site, the accuracy and strength of evidence connecting the Company to the location, the number, connection and financial ability of other named and unnamed PRPs and the nature and estimated cost of the likely remedy. Where the Company concludes that it is probable that a liability has been incurred, provision is made based upon management's judgment and prior experience, for the Company's best estimate of the liability.

Remediation liabilities are inherently difficult to estimate. Estimating remedial liabilities requires that the existing environmental contamination be understood. There is a risk that the actual quantities of contaminants differ from the results of the site investigation, and there is a risk that

contaminates exist that have not been identified by the site investigation. In addition, the amount of remedial liabilities recorded are dependent on the remedial method selected. There is a risk that funds will be expended on a remedial solution that is not successful which could result in the additional incremental costs of an alternative solution. Such estimates, which are subject to change, are subsequently revised if or when additional information becomes available.

In connection with the Company's acquisition of the CSD assets, the Company performed extensive due diligence, including hiring third party engineers and attorneys to estimate accurately the aggregate liability for environmental liabilities to which the Company became subject as a result of the acquisition. Those environmental liabilities relate to the active and discontinued hazardous waste treatment and disposal facilities which the Company acquired as part of the CSD assets and 34 Superfund sites owned by third parties for which the Company agreed to indemnify certain environmental liabilities owed or potentially owed by the Sellers. In the case of each such facility and site, the Company's estimate of remediation liabilities involved an analysis of such factors as (i) the nature and extent of environmental contamination (if any), (ii) the terms of applicable permits and agreements with regulatory authorities as to clean-up procedures and whether modifications to such permits and agreements will likely need to be negotiated, (iii) the cost of performing anticipated clean-up activities based upon current technology, and (iv) in the case of Superfund and other sites where other parties will also be responsible for a portion of the clean-up cost, the likely allocation of such costs and the ability of such other parties to pay their share.

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(6) REMEDIAL LIABILITIES AND CHANGES IN ACCOUNTING FOR ASSET RETIREMENT****OBLIGATIONS (Continued)**

Based upon the Company's analysis of each of the above factors in light of currently available facts, existing technology, and presently enacted laws and regulations, the Company estimates that its aggregate liabilities as of June 30, 2003 (as calculated in accordance with generally accepted accounting principles) for future remediation and closure and post-closure liabilities for non-landfill facilities relating to all of its owned or leased facilities and the Superfund sites for which the Company has current or potential liability is approximately \$130.9 million. The Company also estimates that it is reasonably possible, as that term is defined in Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, (SFAS No. 5) (more than remote but less than likely), that the amount of such total liabilities could be up to \$20.1 million greater than such \$130.9 million. Future changes in either available technology or applicable laws or regulations could affect such estimates of environmental liabilities. Since the Company's satisfaction of the liabilities will occur over many years and in some cases over periods of 30 years or more, the Company cannot now reasonably predict the nature or extent of future changes in either available technology or applicable laws or regulations and the impact that those changes, if any, might have on the current estimates of environmental liabilities.

The following tables show, respectively, (i) the amounts of such estimated liabilities associated with the types of facilities and sites involved and (ii) the estimated amounts of such estimated liabilities associated with each facility or site which represents at least 5% of the total and with all other facilities and sites as a group.

Estimates Based on Type of Facility or Site (Dollars in Thousands):

Type of Facility or Site	Discounted Remedial Liability	% of Total	Discounted Reasonably Possible Additional Liability
Facilities now used in active conduct of the Company's business (15 facilities)	\$ 30,201	23.1%	\$ 7,439
Discontinued CSD facilities not now used in active conduct of the Company's business but acquired because assumption of remediation liabilities for such facilities was part of the purchase price for CSD assets (10 facilities)	91,336	69.8	11,001
Superfund sites for which the Company agreed to indemnify certain environmental liabilities of the Sellers as part of purchase price for CSD assets (20 sites)	7,376	5.6	1,492
Sites for which the Company had liabilities prior to the acquisition of CSD assets (28 superfund sites and 5 other sites)	1,968	1.5	203
Total:	\$ 130,881	100.0%	\$ 20,135



Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(6) REMEDIAL LIABILITIES AND CHANGES IN ACCOUNTING FOR ASSET RETIREMENT****OBLIGATIONS (Continued)**

Estimates Based on Amount of Potential Liability (Dollars in Thousands):

<u>Location</u>	<u>Type of Facility or Site</u>	<u>Discounted Remedial Liability</u>	<u>% of Total</u>	<u>Discounted Reasonably Possible Additional Liability</u>
Baton Rouge, LA	Closed incinerator and landfill	\$ 30,468	23.3%	\$ 4,454
Bridgeport, NJ	Closed incinerator	28,637	21.9	3,512
Roebuck, SC	Closed incinerator	10,737	8.2	851
Cleveland, OH	Closed wastewater treatment	8,392	6.4	766
San Jose, CA	TSDf	7,308	5.6	731
Various	All other incinerators, landfills, wastewater treatment facilities and service centers (35 facilities)	37,770	28.8	8,326
Various	Superfund sites (each representing less than 5% of total liabilities) owned by third parties to which either the Company or the Sellers (or their predecessors) shipped waste (54 facilities)	7,569	5.8	1,495
	Total:	\$ 130,881	100.0%	\$ 20,135

The estimated liabilities reflected in the above tables do not include any potential remedial liabilities which the Company might incur in the future with respect to the Ville Mercier facility or the Marine Shale site as discussed in Note 8, Legal Proceedings, to the Company's audited financial statements as of December 31, 2002, as included in the Form 10-K filed with the Securities and Exchange Commission on April 10, 2003. For the reasons there described, the Company believes that any such liabilities are not both probable and estimable at this time. See Contingent Remedial Liabilities below.

Revisions to remedial reserve requirements may result in upward or downward adjustments to income from operations in any given period. The Company believes that its extensive experience in the environmental services business, as well as its involvement with a large number of sites, provides a reasonable basis for estimating its aggregate liability. It is reasonably possible that technological, regulatory or enforcement developments, the results of environmental studies or other factors could necessitate the recording of additional liabilities and/or the revision of currently recorded liabilities that could be material. The impact of such future events cannot be estimated at the current time.

Contingent Remedial Liabilities SFAS No. 5, requires that an estimated loss from a loss contingency be accrued and recorded as a liability if it is both probable and estimable, but the Statement does not permit a company acquiring assets to record as part of the purchase price for those liabilities any liabilities which are not both probable and estimable. As described in Note 8, *Legal Proceedings*, to the Company's audited financial statements as of December 31, 2002, as included in the Form 10-K filed with the Securities and Exchange Commission on April 10, 2003, under the headings *Ville Mercier Legal Proceedings* and *Marine Shale Processors*, the Company may incur certain remedial liabilities in the future in connection with the facility and site which are the subject of those proceedings, but the amount of those potential liabilities are not both probable and estimable at this time. Accordingly, the Company has not recorded any such remedial liabilities as part of the purchase price for the CSD assets. Prior to the first anniversary on September 7, 2003 of the acquisition of the CSD assets, the Company will endeavor to estimate the cost of any remedial liabilities which the Company may incur in connection with such facility and site so that any such liabilities can be recorded as adjustments to the purchase price for the CSD assets in accordance with generally accepted accounting principles. If the Company cannot by September 7, 2003 record these contingent liabilities as an adjustment to the purchase price, then these contingent remedial liabilities could result in a material loss when they become probable and estimable.

(7) INCOME TAXES

SFAS 109, *Accounting for Income Taxes*, requires that a valuation allowance be established when, based on an evaluation of verifiable evidence, there is a likelihood that some portion or all of the deferred tax assets will not be realized. The Company continually reviews the adequacy of the valuation allowance for deferred taxes. For the three and six months ended June 30, 2003, a full valuation allowance was maintained against the Company's net U.S. deferred tax asset position and no U.S. tax benefit was recorded.

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CLEAN HARBORS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) INCOME TAXES (Continued)

In the third quarter of 2002, the Company established a \$16.9 million valuation allowance on the net U.S. deferred tax assets recorded in connection with the acquisition of the CSD assets. In the same quarter, the Company established a valuation allowance against its existing net deferred tax assets position of \$1.1 million in recognition of the difficulty posed in projecting future taxable net income in view of the acquisition. All reductions to the valuation allowance associated with the CSD acquisition in the future will be recorded as a decrease to acquisition related intangible assets, rather than a tax provision benefit.

(8) EARNINGS (LOSS) PER SHARE

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

	Three Months Ended June 30, 2003		
	Income (Numerator)	Shares (Denominator)	Per- Share
Loss before cumulative effect of change in accounting principle	\$ (6,799)		
Less preferred stock dividends and accretion	814		
Basic and diluted loss available to common shareholders before change in accounting principle	(7,613)	13,436	\$ (0.57)
Cumulative effect of change in accounting principle, net of income tax		13,436	
Loss attributable to common shareholders	\$ (7,613)	13,436	\$ (0.57)
	Three Months Ended June 30, 2002		
	Income (Numerator)	Shares (Denominator)	Per- Share
Net income	\$ 483		
Less preferred stock dividends	112		
Basic EPS (income available to shareholders)	371	12,064	\$ 0.03

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Effect of dilutive securities		2,298	
Diluted EPS			
Income available to common shareholders plus assumed conversions	\$ 371	14,362	\$ 0.03

Six Months Ended June 30, 2003

	Income (Numerator)	Shares (Denominator)	Per- Share
Loss before cumulative effect of change in accounting principle	\$ (13,935)		
Less preferred stock dividends and accretion	1,618		
Basic and diluted loss available to common shareholders before change in accounting principle	(15,553)	13,353	\$ (1.17)
Cumulative effect of change in accounting principle, net of income tax	8	13,353	
Loss attributable to common shareholders	\$ (15,561)	13,353	\$ (1.17)

Six Months Ended June 30, 2002

	Income (Numerator)	Shares (Denominator)	Per- Share
Net income	\$ 241		
Less preferred stock dividends	224		
Basic EPS			
(income available to shareholders)	17	11,932	\$ 0.00
Effect of dilutive securities		2,281	
Diluted EPS			
Income available to common shareholders plus assumed conversions	\$ 17	14,213	\$ 0.00

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(8) EARNINGS (LOSS) PER SHARE (Continued)**

The Company has issued options, warrants, convertible preferred stock and redeemable convertible preferred stock which are potentially dilutive to earnings. For the three and six months ended June 30, 2003 none of the options, warrants or convertible preferred stock have been included in the above calculations as they are anti-dilutive for those periods. For the three and six months ended June 30, 2002, the warrants then outstanding are dilutive, some of the options outstanding are dilutive while the convertible preferred stock then outstanding is not dilutive. Only those options and warrants where the exercise price was less than the average market price of the common shares for the period are included in the above calculations.

(9) RESTRUCTURING

For the year ended December 31, 2002, the Company recorded a restructuring charge of \$750,000 related to the acquisition of the assets of the CSD. The restructuring charge consisted of \$250,000 for severance for individuals that were employees of the Company prior to the acquisition, and \$500,000 of costs associated with the decision to close parts of facilities and sales offices that were operated by the Company prior to the acquisition and that became duplicative due to facilities and sales offices acquired as part of the CSD assets. The Company is in the process of completing the restructuring. The following table summarizes the activity from the acquisition date through June 30, 2003 (in thousands):

	Severance		Locations		Total
	Number of Employees	Costs	Number of Locations	Costs	
Balance at December 31, 2002	6	\$ 67	2	\$ 372	\$ 439
Change in estimate	(6)	(67)		(57)	(124)
Utilized six months ended June 30, 2003				(22)	(22)
Balance June 30, 2003		\$	2	\$ 293	\$ 293

(10) SEGMENT REPORTING

Segment information has been prepared in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Performance of the segments is evaluated on several factors, of which the primary financial measure is operating income before interest, taxes, depreciation, amortization and restructuring and other acquisition costs (EBITDA Contribution). Transactions between the segments are accounted for at the Company's estimate of fair value based on similar transactions with outside customers. In general, SFAS No.

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131 requires that business entities report selected information about operating segments in a manner consistent with that used for internal management reporting.

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

Technical Services include:

treatment and disposal of industrial wastes, which includes physical treatment, resource recovery and fuels blending, incineration, landfills, wastewater treatment, lab chemical disposal and explosives management;

collection, transportation and logistics management;

categorization, specialized repackaging, treatment and disposal of laboratory chemicals and household hazardous wastes, which are referred to as CleanPack® services; and

Apollo Onsite Services, which provides customized environmental programs at customer sites.

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

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

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(10) SEGMENT REPORTING (Continued)**

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

The following table presents information used by management by reported segment. Revenues from Technical and Site Services consist principally of external revenue from customers. Transactions between the segments are accounted for at the Company's estimate of fair value based on similar transactions with outside customers. The Company does not allocate interest expense, income taxes, depreciation, amortization, restructuring or other acquisition costs to segments (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
Revenue:				
Technical Services	\$ 111,133	\$ 31,304	\$ 213,403	\$ 60,481
Site Services	60,921	28,477	99,562	53,230
Corporate Items	(19)	324	1,375	(287)
Total	172,035	60,105	314,340	113,424
Cost of Revenues:				
Technical Services	78,778	20,632	154,889	41,321
Site Services	46,493	20,371	75,758	38,634
Corporate Items	6,526	1,045	7,764	1,035
Total	131,797	42,048	238,411	80,990
Selling, General & Administrative Expenses:				
Technical Services	15,490	3,568	29,888	7,067
Site Services	4,606	2,308	8,770	4,877
Corporate Items	10,907	6,125	19,434	9,988
Total	31,003	12,001	58,092	21,932
EBITDA:				
Technical Services	16,865	7,104	28,626	12,093
Site Services	9,822	5,798	15,034	9,719
Corporate Items	(17,452)	(6,846)	(25,823)	(11,310)

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Total EBITDA Contribution	9,235	6,056	17,837	10,502
Reconciliation to Consolidated Statement of Operations				
Accretion of environmental liabilities	2,783		5,516	
Depreciation and amortization	6,439	2,649	13,087	5,344
Restructuring			(124)	
Income (loss) from operations	13	3,407	(642)	5,158
Other income	429		446	
Interest expense, net	5,979	2,483	11,489	4,756
Income (loss) before provision for income taxes and change in accounting principle	\$ (5,537)	\$ 924	\$ (11,685)	\$ 402

See Note 4, Financing Arrangements for a discussion of the non-GAAP measure EBITDA.

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(11) RESTATEMENT OF CONSOLIDATED STATEMENTS OF CASH FLOWS

Subsequent to the filing of the Company's unaudited consolidated financial statements for the six months ended June 30, 2003, the Company determined that certain errors had been made in the preparation of the Consolidated Statements of Cash Flows for the six months ended June 30, 2003. The restatement does not affect the previously filed Consolidated Statements of Operations, Consolidated Balance Sheets or Consolidated Statement of Stockholders' Equity. The Company has restated the Consolidated Statements of Cash Flows for the period ended June 30, 2003 to correct the errors noted. The compliance with the loan covenants described in Note 4, Financing Arrangements, has also been restated due to the restatement of the Consolidated Statements of Cash Flows.

The preparation of a statement of cash flows requires that changes to balance sheet accounts be analyzed as to whether the change in balance from the beginning of the period to the end of the period are cash or non-cash. The principal error made in the preparation of the Consolidated Statement of Cash Flows for the six month period ended June 30, 2003 was that non-cash reductions relating to purchase accounting and purchase orders within property, plant and equipment were netted against cash expended for additions of property, plant and equipment. This error was then further compounded primarily by making additional errors relating to other non-cash purchase accounting adjustments. Due to the restatement, net cash provided by operating activities increased by \$6,572,000 from the \$4,532,000 previously reported to \$11,104,000 as restated; net cash used in investing activities increased by \$6,327,000 from the \$35,527,000 previously reported to \$41,854,000 as restated; and net cash provided by financing activities decreased by \$245,000 from the \$22,085,000 previously reported to \$21,840,000 as restated. There was no change in the net decrease in the amount of cash and cash equivalents previously reported of \$8,910,000.

Table of Contents**RESTATEMENT OF CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

A summary of the significant effects of the restatement is as follows (in thousands):

Consolidated Statements of Cash Flows	Six Months Ended June 30, 2003		
	(As previously reported)	(Restatements)	(As restated)
Cash flows from operating activities:			
Net income (loss)	\$ (13,943)	\$	\$ (13,943)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	13,087		13,087
Allowance for doubtful accounts	1,082		1,082
Amortization of deferred financing costs	1,069		1,069
Accretion of environmental liabilities	5,516		5,516
Cumulative effect of change in accounting principle, net of income taxes	8		8
Deferred income taxes	44		44
Loss on sale of fixed assets	292		292
Stock options expensed	14		14
Gain on embedded derivative	(446)		(446)
Foreign currency loss on intercompany transactions		801	801
Changes in assets and liabilities, net of acquisition:			
Accounts receivable	5,351	3,245	8,596
Unbilled accounts receivable	3,117		3,117
Deferred costs	1,161		1,161
Prepaid expenses	2,210		2,210
Supplies inventories	(78)		(78)
Other assets	(1,229)		(1,229)
Accounts payable	(2,321)	4,255	1,934
Environmental liabilities	(2,707)	(1,571)	(4,278)
Deferred revenue	(6,571)		(6,571)
Accrued disposal costs	(78)		(78)
Other accrued expenses	249	(158)	91
Income taxes payable	(1,295)		(1,295)
Net cash provided by operating activities	4,532	6,572	11,104
Cash flows from investing activities:			
CSD acquisition costs		(250)	(250)
Additions to property, plant and equipment	(12,054)	(6,381)	(18,435)
Cost of restricted investments acquired	(23,410)		(23,410)
Proceeds from sale of fixed assets	179	62	241
Increase in permits	(242)	242	
Net cash used in investing activities	(35,527)	(6,327)	(41,854)
Cash flows from financing activities:			
Payments on Senior Loans	(351)		(351)
Net borrowings under long-term revolving credit facility	22,459		22,459
Uncashed checks	890		890
Proceeds from exercise of stock options	367		367
Dividend payments on preferred stock	(974)		(974)

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Additions to deferred financing costs	(562)		(562)
Proceeds from employee stock purchase plan	256		256
Capital lease payments		(245)	(245)
	<u>22,085</u>	<u>(245)</u>	<u>21,840</u>
Net cash provided by financing activities			
Decrease in cash and cash equivalents	(8,910)		(8,910)
Effect of exchange rate changes on cash	633		633
Cash and cash equivalents, beginning of year	13,682		13,682
	<u>\$ 5,405</u>	<u>\$</u>	<u>\$ 5,405</u>
Cash and cash equivalents, end of period			

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

Forward-Looking Statements

In addition to historical information, this Quarterly Report contains forward-looking statements, which are generally identifiable by use of the words believes, expects, intends, anticipates, plans to, estimates, projects, or similar expressions. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Future Results. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the risk factors described herein and in other documents the Company files from time to time with the Securities and Exchange Commission.

Overview

The Company provides a wide range of environmental services and solutions to a diversified customer base in the United States, Puerto Rico, Mexico and Canada. The Company seeks to be recognized by customers as the premier supplier of a broad range of value-added environmental services based upon quality, responsiveness, customer service, information technologies, breadth of product offerings and cost effectiveness.

Effective September 7, 2002, the Company purchased from Safety-Kleen Services, Inc. (the Seller) and certain of the Seller's domestic subsidiaries substantially all of the assets of the Chemical Services Division (the CSD) of Safety-Kleen Corp. (Safety-Kleen). That acquisition broadened the Company's disposal capabilities, geographic reach and significantly expanded the Company's network of hazardous waste disposal facilities. Following the acquisition, the Company became one of the largest providers of environmental services and the largest operator of hazardous waste treatment and disposal facilities in North America. The Company believes that the acquisition of hazardous waste facilities in new geographic areas will allow the Company to expand its service area and will result in significant cost savings by allowing the Company to treat and dispose of hazardous waste internally that the Company previously paid third parties to dispose of and that further savings can be realized by eliminating redundant selling, general and administrative expenses and inefficient transportation costs.

The Company believes that significant synergies exist between the Company and the former CSD operations. The Company plans to reduce expenses by use of common information management systems to minimize disposal costs outside the integrated network of facilities by sending waste to the disposal facilities that it now owns. The Company also plans to eliminate duplicate costs relating to overlapping operations on a geographic basis. The integration of operations and reduction of the combined entities operating costs are ongoing.

In addition, as part of the acquisition, the Company assumed certain environmental liabilities valued as of June 30, 2003 in accordance with accounting principles generally accepted in the United States of America (GAAP) of approximately \$160.3 million. The Company now anticipates such liabilities will be payable over many years and that cash flows generated from operations will be sufficient to fund the payment of such liabilities when required. However, events not now anticipated (such as future changes in environmental laws and regulations) could require that such payments be made earlier or in greater amounts than now anticipated.

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As further discussed in Item 4, Controls and Procedures, Safety-Kleen has publicly disclosed that it has historically had material deficiencies in many of its financial systems, processes and related internal controls. Due to the deficiencies in these systems and the Company's belief that it will be able to utilize its own systems in order to improve the operations of the former CSD, the decision was made to integrate the U.S. operations of the former CSD into the Company's business and financial reporting systems effective as of the acquisition date. During the initial period of integration, the Company experienced deficiencies in certain of its internal controls. The Company has made significant progress in resolving but has not yet resolved all of the internal control weaknesses caused by the integration of the CSD into the Company's systems.

Table of Contents**ACQUISITION**

Effective September 7, 2002, the Company purchased from Safety-Kleen Services, Inc. (the Seller) and certain of the Seller's domestic subsidiaries substantially all of the assets of the Chemical Services Division (the CSD) of Safety-Kleen Corp. (Safety-Kleen). The sale included the operating assets of certain of the Seller's subsidiaries in the United States and the stock of five of the Seller's subsidiaries in Canada (the CSD Canadian Subsidiaries). The sale was made pursuant to a sale order issued on June 18, 2002 (the Sale Order) by the Bankruptcy Court for the District of Delaware as part of the proceedings under Chapter 11 of the Bankruptcy Code in which Safety-Kleen and its domestic subsidiaries (including the Seller) have been operating since June 2000 as debtors in possession. The Sale Order authorized the sale of the assets of the CSD to the Company free and clear of all liens, claims, encumbrances and interests except for certain liabilities and obligations assumed by the Company as part of the purchase price.

The assets of the CSD (including the assets of the CSD Canadian Subsidiaries) acquired by the Company consist primarily of 44 hazardous waste treatment and disposal facilities including, among others, 21 treatment, storage or disposal facilities (six of which have since been closed by the Company), six wastewater treatment facilities, nine commercial landfills and four incinerators. Such facilities are located in 30 states, Puerto Rico, six Canadian provinces and Mexico. The most significant of such facilities include landfills in Buttonwillow, California with approximately 10.4 million cubic yards of remaining capacity, in Lambton, Ontario with approximately 6.0 million cubic yards of remaining capacity, which is the largest of the total of three hazardous waste landfills in Canada, and in Waynoka, Oklahoma with approximately 1.6 million cubic yards of remaining capacity; and incinerators in Deer Park, Texas which is the largest hazardous waste incinerator in the United States, and in Aragonite, Utah. Additional significant facilities are the incinerators in Mercier, Quebec and Lambton, Ontario. The acquired assets do not include Safety-Kleen's Pinewood landfill in South Carolina, which Safety-Kleen had previously operated as part of the CSD.

The primary reasons for the acquisition of the CSD assets were to broaden the Company's disposal capabilities and geographic reach, particularly in the West Coast and Southwest regions of the United States, in Canada and in Mexico, and to significantly expand the Company's network of hazardous waste disposal facilities. In addition, the Company believes that the acquisition of hazardous waste facilities in new geographic areas will allow the Company to expand its site and industrial services which in turn could increase the utilization and profitability of the facilities. Finally, the Company believes that the acquisition will result in significant cost savings by allowing the Company to treat hazardous waste internally. The Company previously paid third parties to dispose of hazardous waste because the Company lacked the facilities required to dispose of the waste internally.

In accordance with the Acquisition Agreement between the Seller and the Company dated February 22, 2002, as amended through July 14, 2003 (the Acquisition Agreement), the Company purchased the assets of the CSD for \$34,330,000 in cash, and incurred direct costs related to the transaction of \$10,137,000 for a total purchase price of \$44,467,000. In addition, the Company assumed with the transaction certain environmental liabilities valued as of June 30, 2003, in accordance with generally accepted accounting principles at \$160,255,000.

The Company has allocated the total purchase price for the CSD assets based upon the estimated fair value of each asset acquired and each liability assumed. The following table shows the initial allocation of the purchase price and direct costs incurred among the assets acquired, liabilities assumed, and liabilities accrued relating to the CSD assets acquired as of September 7, 2002, based on available information (in thousands):

Acquired Assets and Liabilities as Recorded	Acquired Assets and Liabilities as Revised	Acquired Assets and Liabilities as Revised
September 30, 2002	December 31, 2002	June 30, 2003

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Current assets	\$ 85,241	\$ 81,279	\$ 87,501
Due from Safety-Kleen Corp	15,300	15,261	7,750
Property, plant and equipment	160,579	123,339	99,730
Intangible assets	114,442	87,902	71,076
Other assets	1,649	1,843	1,843
Current environmental liabilities	(23,574)	(21,200)	(12,720)
Other current liabilities	(57,655)	(52,772)	(53,440)
Environmental liabilities, long-term	(242,426)	(181,697)	(147,535)
Other long-term liabilities	(9,739)	(9,738)	(9,738)
	<u> </u>	<u> </u>	<u> </u>
Cost of CSD assets acquired	\$ 43,817	\$ 44,217	\$ 44,467
	<u> </u>	<u> </u>	<u> </u>
Cash purchase price	\$ 34,330	\$ 34,330	\$ 34,330
Estimated transaction costs	9,487	9,887	10,137
	<u> </u>	<u> </u>	<u> </u>
Cost of CSD assets acquired	\$ 43,817	\$ 44,217	\$ 44,467
	<u> </u>	<u> </u>	<u> </u>

Table of Contents**ACQUISITION (Continued)**

The Company preliminarily estimated, based upon the due diligence performed and the information that it then knew, that the Company had assumed environmental liabilities of approximately \$266.0 million in the acquisition of the CSD from Safety-Kleen. The Company has revised its preliminary estimate and reduced such liability to \$160.3 million. The approximately \$105.7 million decrease in the assumed environmental liabilities consists of a net \$18.6 million reduction due to changes in estimates based on the Company's evaluation of the obligations and changes in plan to settle obligations, a \$40.6 million decrease due to the Company's discounting the environmental remedial liabilities in order to record the liabilities at fair value under purchase accounting and a \$46.5 million decrease as a result of adopting Statement of Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143) in the first quarter 2003. The implementation of SFAS No. 143 resulted in the adjustment of the carrying value of certain environmental liabilities assumed in the CSD acquisition and in a corresponding reduction in the values allocated to the assets acquired under purchase accounting since there was no goodwill recorded in this transaction. The Company engaged an independent appraisal firm to assist in determining the fair values of the property, plant, equipment and intangible assets, which were acquired as part of the assets of CSD. Intangible assets recorded at \$71,076,000 consist of \$66,791,000 of permits and \$4,285,000 of customer profile databases. The valuation for intangible assets was based on discounted cash flows from operations of the acquired facilities to which those permits and customer profile databases relate. As the fair value of the assets acquired from the CSD is higher than the purchase price paid, the Company reduced the fair value of the fixed assets and intangible assets as of the acquisition date by \$305,495,000, in order to record the assets at cost as required by generally accepted accounting principles in the United States. The Company also concluded that the intangible assets acquired have finite lives and will amortize these assets over their estimated useful lives.

On July 14, 2003, the Fourth Amendment to Acquisition Agreement (the "Fourth Amendment") was executed between the Company and the Seller. The Fourth Amendment was structured as a global settlement and resolved certain issues between the parties as to (i) the amount of working capital delivered by the Seller to the Company as required by the Acquisition Agreement and subsequent amendments thereto, (ii) the amounts due between the parties under the Transition Services Agreement, which defined services that the Company and the Seller would provide to each other, and (iii) the shortfall amount due to the Company under the Waste Disposal Agreement (as discussed below). The Fourth Amendment provided for (a) the Seller's payment to the Company of \$7,750,000 in cash (the "Global Settlement Payment") plus (b) the Company's agreement to include within the working capital of the CSD as of the closing date approximately \$1,648,000 of receivables, which the Company originally deemed to be uncollectible as of the closing date but which the Company has subsequently either collected or determined to be collectible in the future. On July 28, 2003, the Company received the \$7,750,000 payment due from the Seller.

The Company was required to make estimates of the fair value of assets, the fair value of liabilities, including environmental liabilities, and the cost of planned exit activities. While the Company has made a good-faith attempt to estimate the fair value of these assets and liabilities, the fair value of environmental liabilities is difficult to estimate. Prior to the acquisition of the CSD assets, the Company performed significant due diligence regarding the environmental liabilities; however, additional facts learned subsequent to the acquisition date about the nature and extent of environmental liabilities existing at the acquisition date have resulted and could further result in adjustment to the estimate of environmental liabilities that existed as of the acquisition date. The Company recorded purchase accounting adjustments based primarily upon a plan to close duplicate facilities and functions and reduce headcount. The cost of this plan is subject to revision as the Company implements the plan. The recorded values of the fixed assets and intangible assets are subject to adjustment as a result of other purchase price adjustments.

The Company continues to gather information about the remedial environmental liabilities acquired. Remedial environmental liabilities are substantive and inherently difficult to estimate. Likewise, the Company acquired a number of contingencies, which are not estimable based on the information available at this time. As information about these contingent liabilities becomes available to the Company, the Company may record additional liabilities as part of the purchase price allocation. Liabilities may be recorded based on information gathered or based on management's plan to settle these liabilities.

In connection with the acquisition of the CSD assets, the Company recorded integration liabilities of \$12.9 million, which consisted primarily of increases in lease costs, severance, environmental closure and other exit costs to close duplicative facilities and functions. Groups of employees severed and to be severed consist primarily of duplicative selling, general and administrative personnel and personnel at offices which will be or

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are closed. The Company continues to evaluate its plan regarding the integration of facilities, functions, and resources and may record additional exit costs as a result. The following table summarizes the purchase accounting liabilities recorded in connection with the acquisition of the CSD assets (in thousands):

	Severance		Facilities		Other	Total
	Number of Employees	Liability	Number of Facilities	Liability	Liability	
Balance December 31, 2002	223	\$ 4,776	10	\$ 3,530	\$ 230	\$ 8,536
Net change in estimate				(564)		(564)
Interest accretion				333		333
Utilized quarter ended March 31, 2003	(64)	(1,378)		(49)	(49)	(1,476)
Utilized quarter ended June 30, 2003	(46)	(1,025)		(22)	(151)	(1,198)
Balance June 30, 2003	113	\$ 2,373	10	\$ 3,228	\$ 30	\$ 5,631

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ACQUISITION (Continued)

Material business combinations require that pro forma results of operations for the current period be presented as though the business combination had been completed at the beginning of the period and corresponding prior period pro forma results of operations be presented as though the combination took place at the beginning of that period. Safety-Kleen has publicly disclosed that it has material deficiencies in many of its financial systems, processes and related internal controls. The Seller agreed in the Acquisition Agreement to provide the Company audited balance sheets for the CSD as of the end of each of the CSD's three fiscal years in the period ended August 31, 2001, and the Company filed these balance sheets as part of the Form 8-K filed by the Company with the SEC on September 25, 2002. However, due to Safety-Kleen's material deficiencies, Safety-Kleen's auditors have advised Safety-Kleen that they will not be able to provide auditors' reports with respect to the CSD's statements of operations and cash flows for such three fiscal years.

Additionally, Safety-Kleen's pre-existing deficiencies in financial systems, processes, and related internal controls led the Company to believe that the historical unaudited financial statements of the CSD may not be reliable or accurate. Accordingly, the Company is unable to provide pro forma results of operations reflecting the combined operations of the Company and the CSD for any periods prior to the Company's acquisition of the CSD assets.

The Company has received a no-action letter from the SEC staff with respect to the Company's inability to file audited statements of operations and cash flows for the CSD or a pro forma statement of operations based thereon. However, until the Company is able to obtain and file audited statements of operations and cash flows of the CSD (on a separate basis for any relevant periods prior to the closing and on a combined basis with the Company for periods following the closing) for at least three years (or such lesser period as the SEC staff may permit in the future), the Company will not be able to file registration statements for public securities offerings by the Company (except for offerings involving employee benefit plans and secondary offerings by holders of warrants and other securities). This could prevent the Company from being able to access the public capital markets for a period of up to three years following the closing, but it would not prevent the Company from obtaining financing through other sources such as private equity or debt placements and bank loans.

Prior to the sale of the CSD assets to the Company, the largest single customer of the CSD had been Safety-Kleen's Branch Sales and Services Division (the BSSD), which primarily serves as a front-end collection agent for approximately 400,000 clients in the industrial and commercial parts cleaning and hazardous/non-hazardous waste market, particularly with regard to waste fuel and solvent recovery and recycling. In connection with the Company's purchase of the CSD assets, the Company and the Seller entered into a Master Waste Disposal Agreement which provides that during the three-year term of the Agreement, the BSSD will continue to utilize the Company (which now owns the facilities of the CSD) to provide hazardous waste treatment and disposal services at competitive prices and, in particular, that during the first six months following the closing that the BSSD would provide the Company with at least \$15 million of disposal business. Any shortfall from the \$15 million guarantee was to result in a payment to the Company of 40% of such shortfall. However, the amount of any such shortfall payment due the Company under the Master Waste Disposal Agreement was included within Global Settlement Payment paid by the Seller to the Company on July 28, 2003 pursuant to the Fourth Amendment to the Acquisition Agreement as described above. The Master Waste Disposal Agreement also provides that during the three-year term of the Agreement, the Company will continue to use, at competitive prices, the services of the BSSD which were used by the CSD prior to the effective date of the CSD acquisition (September 7, 2002). Accordingly, both the Company and the BSSD should be significant customers of each other for at least the three years following such date.

Under Section 5.15 of the Acquisition Agreement as amended, the Company and the Seller have agreed to certain non-competition and non-solicitation provisions which are intended to separate the respective businesses of the Company and the BSSD for a period of three years after the closing. Under such Section, the Company and the Seller have also agreed during such period not to recruit or otherwise solicit, with certain exceptions, any of their respective employees to leave the employment of the other.

Table of Contents**Results of Operations**

The Company's operations are managed as two segments: Technical Services and Site Services. Technical Services include treatment and disposal of industrial wastes via incineration, landfill or wastewater treatment, collection and transporting of containerized and bulk waste, categorization, specialized repackaging, treatment and disposal of laboratory chemicals and household hazardous wastes, which are referred to as CleanPack® services, and the Apollo Onsite Service, which customizes environmental programs at customer sites. This is accomplished through a network of service centers where a fleet of trucks, rail or other transport is dispatched to pick up customers' waste either on a pre-determined schedule or on demand, and then to deliver waste to a permitted facility. From the service centers chemists can also be dispatched to a customer location for the collection of chemical waste for disposal. Site Services provide highly skilled experts utilizing specialty equipment and resources to perform services, such as site decontamination, remediation projects, selective demolition, emergency response, spill cleanup and vacuum services at the customer's site or another location. These services are dispatched on a scheduled or emergency basis. The Company also offers outsourcing services for customer environmental management programs, and provides analytical testing services, information management and personnel training services.

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

	Percentage of Total Revenues			
	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2003	2002	2003	2002
Revenues	100.0%	100.0%	100.0%	100.0%
Disposal costs to third parties	5.0	10.3	4.9	10.6
Other cost of revenues	71.6	59.7	71.0	60.8
Cost of revenues	76.6	70.0	75.9	71.4
Selling, general and administrative expenses	18.0	20.1	18.4	19.3
Accretion of environmental liabilities	1.6	0.0	1.7	0.0
Depreciation and amortization	3.8	4.4	4.1	4.7
Restructuring	0.0	0.0	0.0	0.0
Income from operations	0.0	5.5	(0.1)	4.6
Other income	0.3	0.0	0.1	0.0
Interest expense, net	3.5	4.0	3.7	4.2
Income (loss) before provision for income taxes and change in accounting principle	(3.2)	1.5	(3.7)	0.4
Provision for income taxes	0.7	0.7	0.7	0.2
Income (loss) before change in accounting principle	(3.9)	0.8	(4.4)	0.2
Cumulative effect of change in accounting principle	0.0	0.0	0.0	0.0
Net income (loss)	(3.9)%	0.8	(4.4)	0.2%

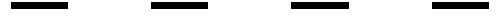


Table of Contents**Segment data**

The following table sets forth certain operating data associated with the Company's results of operations and summarizes EBITDA contribution by operating segment for the three and six months ended June 30, 2003 and 2002. The Company considers EBITDA contribution from each operating segment to include revenue attributable to each segment less operating expenses, which include cost of revenues and selling, general and administrative expenses. Revenue attributable to each segment is generally external or direct revenue from third party customers. Certain income or expenses of a non-recurring or unusual nature are not included in the operating segment EBITDA contribution. This table and subsequent discussions should be read in conjunction with Item 6, Selected Financial Data, and Item 8, Financial Statements and Supplementary Data and in particular Note 19, Segment Reporting thereto in the Company's Annual Report on Form 10-K and Item 1, Financial Statements and in particular Note 10, Segment Reporting thereto in this report.

	Summary of Operations			
	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2003	2002	2003	2002
Revenue:				
Technical Services	\$ 111,133	\$ 31,304	\$ 213,403	\$ 60,481
Site Services	60,921	28,477	99,562	53,230
Corporate Items	(19)	324	1,375	(287)
Total	172,035	60,105	314,340	113,424
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Corporate Items	6,526	1,045	7,764	1,035
Total	131,797	42,048	238,411	80,990
Selling, General & Administrative Expenses:				
Technical Services	15,490	3,568	29,888	7,067
Site Services	4,606	2,308	8,770	4,877
Corporate Items	10,907	6,125	19,434	9,988
Total	31,003	12,001	58,092	21,932
EBITDA:				
Technical Services	16,865	7,104	28,626	12,093
Site Services	9,822	5,798	15,034	9,719
Corporate Items	(17,452)	(6,846)	(25,823)	(11,310)
Total EBITDA Contribution	9,235	6,056	17,837	10,502

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Reconciliation to Consolidated Statement of Operations				
Accretion of environmental liabilities	2,783		5,516	
Depreciation and amortization	6,439	2,649	13,087	5,344
Restructuring			(124)	
Income (loss) from operations	13	3,407	(642)	5,158
Other income	429		446	
Interest expense, net	5,979	2,483	11,489	4,756
Income (loss) before provision for income taxes and change in accounting principle	\$ (5,537)	\$ 924	\$ (11,685)	\$ 402

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

In addition to disclosing financial results that are determined in accordance with generally accepted accounting principles, the Company also uses the non-GAAP measure EBITDA which the Company defines in accordance with the Financing Agreement dated September 6, 2002, as amended, between the Company and Ableco Finance, LLC, which is earnings before interest expense, income taxes, depreciation and amortization, accretion of environmental liabilities, gains or losses on the embedded derivative and restructuring expenses. The Company believes that EBITDA is useful to investors because it is an indicator of the strength and performance of the ongoing business operations, including the ability to fund capital expenditures and service debt. In addition to the inclusion of EBITDA in the loan covenants, the number of common shares to which the Company's Series C Convertible Redeemable Preferred Stock can be converted into is dependent on the level of future EBITDA. The Company also uses EBITDA to measure the performance of operating units and awards management incentive bonuses based on the level of EBITDA attained.

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EBITDA should not be considered an alternative to net income or loss or other measurements under accounting principles generally accepted in the United States of America as an indicator of operating performance or to cash flows from operating, investing, or financing activities as a measure of liquidity. EBITDA does not reflect working capital changes, cash expenditures for interest, taxes, capital improvements or principal payments on indebtedness. Furthermore, the Company's measurement of EBITDA might be inconsistent with similar measures presented by other companies.

Three months ended June 30, 2003 versus the Three months ended June 30, 2002

Revenues

Total revenues for the three months ended June 30, 2003 increased \$111,930,000 to \$172,035,000 from \$60,105,000 for the comparative period in 2002. Technical Services revenues for the three months ended June 30, 2003 increased \$79,829,000 to \$111,133,000 from \$31,304,000 for the comparative period in 2002. Site Services revenues for the three months ended June 30, 2003 increased \$32,444,000 to \$60,921,000 from \$28,477,000 for the comparative period in 2002. The Company performed one large emergency response job during the three months ended June 30, 2003 which accounted for 28.3% of Site Services revenues for that period. There was no major event in the same period of the preceding year. Other than the large emergency response event, the increases in total revenues, Technical Services revenues and Site Services revenues were primarily due to the acquisition of the CSD from Safety-Kleen. Partially offsetting the increases in revenues was a \$550,000 decrease due to resolving in the second quarter 2003 certain billing disputes with Safety-Kleen Corp. which were resolved concurrently with the global settlement agreed to in the Fourth Amendment to the Acquisition Agreement.

The Company's decision to integrate the operations of the former CSD into the Company's business and financial reporting systems, combined with the replacement of the business model of the former CSD with the Company's business model, will prevent the Company from being able to calculate meaningful changes in revenue due to volume, price or mix until after the first anniversary of the acquisition. The Company is currently making significant efforts to consolidate CSD customer master file information and analyze and resolve inconsistencies.

There are many factors which have impacted, and continue to impact, the Company's revenues. These factors include: generally weak economic conditions; integration of operations of the former CSD; competitive industry pricing; continued efforts by generators of hazardous waste to reduce the amount of hazardous waste they produce; significant consolidation among treatment and disposal companies; industry-wide overcapacity; and direct shipment by generators of waste to the ultimate treatment or disposal location.

Cost of Revenues

Total cost of revenues for the three months ended June 30, 2003 increased \$89,749,000 to \$131,797,000 compared to \$42,048,000 for the comparable period in 2002. Technical Services cost of revenue increased \$58,146,000 to \$78,778,000 from \$20,632,000 for the comparable period in 2002. Site Services cost of revenue increased \$26,122,000 to \$46,493,000 from \$20,371,000 for the comparable period in 2002. The change in cost of revenues in total and for Technical Services and Site Services are primarily a result of the CSD acquisition. As a percentage of revenues, combined cost of revenues in 2003 increased 6.6% to 76.6% from 70.0% for comparable period in 2002. One of the largest components of cost of revenues is the cost of disposal paid to third parties. Disposal costs paid to third parties in 2003 as a percentage of revenues decreased 5.3% to 5.0% from 10.3% for the comparable period in 2002. This decrease in disposal expense is due to the Company internalizing waste disposal subsequent to the acquisition that the Company sent to third parties prior to the acquisition. The Company anticipates disposal costs paid to third parties as a percentage of revenues will decrease significantly for 2003 as compared to 2002 due to the internalization of waste in the acquired end disposal facilities for the entire year 2003 as compared to the approximately four months of 2002.

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Other costs of revenues as a percentage of revenues increased 11.9 % to 71.6% from 59.7% for the comparable period in 2002 primarily as a result of reduced facility utilization due to the level of waste processed which is due to the general economic environment and the fixed cost nature of the facilities. Included in cost of revenues for the three months ended June 30, 2003 is approximately \$1,500,000 of increased health insurance expense due to higher than anticipated costs for the Company's self-insured health insurance plan.

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Accretion of Environmental Liabilities

For the three months ended June 30, 2003 the Company recorded accretion of environmental liabilities of \$2,783,000, which arose from the discounting of CSD environmental liabilities under purchase accounting and the implementation of SFAS No. 143.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended June 30, 2003 increased \$19,002,000 to \$31,003,000 from \$12,001,000 for the comparable period in 2002. The increase was primarily due to the acquisition of the CSD. The change in selling, general and administrative expenses by segment is primarily a result of the CSD acquisition. The Company expects selling, general and administrative expenses in 2003 to be significantly higher than in 2002 due to the increased size of the Company since the acquisition as compared to before the acquisition. Included in selling, general and administrative expenses for the three months ended June 30, 2003 is approximately \$1,500,000 of increased health insurance expense due to higher than anticipated costs for the Company's self-insured health insurance plan whose fiscal year ended May 31, 2003. In addition, the Company incurred significant foreign currency transaction costs of \$1,507,000 for the three month period ended June 30, 2003 due to the U.S. dollar falling 7.5% as compared to Canadian dollar for the period.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended June 30, 2003 increased \$3,790,000 to \$6,439,000 from \$2,649,000 for the comparable period in 2002. The increase was primarily due to depreciation and amortization arising from the acquisition of the CSD assets.

Depreciation and amortization expense for 2003 will be significantly higher due to the acquisition of the CSD from Safety-Kleen. The Company expects depreciation and amortization expenses in 2003 to be between \$25,000,000 and \$26,000,000.

Interest Expense, Net

Interest expense, net of interest income for the three months ended June 30, 2003, increased \$3,496,000 to \$5,979,000 from \$2,483,000 for the comparable period in 2002. The increase in interest expense was due to higher average balances outstanding for the three months ended June 30, 2003 as compared to the same period in 2002, which resulted from the Company's acquisition of the CSD assets.

Based on current interest rates, the balance of loans outstanding at June 30, 2003, the additional \$20,000,000 of borrowings that may be required in the third quarter of 2003 under the Revolving Credit Agreement in order to fund additional cash collateral for the letter of credit facility, and the increase in interest rates under the amendments to the Company's loan agreements (see Liquidity and Capital Resources below), the Company estimates that interest expense for 2003 will be approximately \$24,000,000.

Income Taxes

Income tax expense for the three months ended June 30, 2003 increased \$821,000 to \$1,262,000 from \$441,000 for the comparable period in 2002. Income tax expense for 2003 consists primarily of Canadian taxes of \$1,177,000 and state income tax expense of approximately \$85,000.

EBITDA Contribution

The combined EBITDA contribution for the three months ended June 30, 2003 increased \$3,179,000 to \$9,235,000 from \$6,056,000 for the comparable period in 2002. The increase for Technical Services was \$9,761,000 and for Site Services was \$4,024,000, which was partially offset by an increase in corporate items of \$10,606,000 that related to increases to costs of the infrastructure arising from the CSD acquisition. The combined EBITDA contribution is comprised of revenues of \$172,035,000 and \$60,105,000 net of cost of revenues of \$131,797,000 and \$42,048,000 and selling, general & administrative expenses of \$31,003,000 and \$12,001,000 for the three months ended June 30, 2003 and 2002, respectively.

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Six months ended June 30, 2003 versus the Six months ended June 30, 2002

Revenues

Total revenues for the six months ended June 30, 2003 increased \$200,916,000 to \$314,340,000 from \$113,424,000 for the comparative period in 2002. Technical Services revenues for the six months ended June 30, 2003 increased \$152,922,000 to \$213,403,000 from \$60,481,000 for the comparative period in 2002. Site Services revenues for the six months ended June 30, 2003 increased \$46,332,000 to \$99,562,000 from \$53,230,000 for the comparative period in 2002. The Company performed one large emergency response job during the six months ended June 30, 2003, which accounted for 17.3% of Site Services revenues for that period. The Company performed one large Site Services job in the first quarter of 2002. The job performed in 2002 related to the events of September 11, 2001 and were much lower than revenue for the job performed in 2003. Other than the events as discussed, the increases in total revenues, Technical Services revenues and Site Services revenues were due to the acquisition of the CSD from Safety-Kleen.

Cost of Revenues

Total cost of revenues for the six months ended June 30, 2003 increased \$157,421,000 to \$238,411,000 compared to \$80,990,000 for the comparable period in 2002. Technical Services cost of revenue increased \$113,568,000 to \$154,889,000 from \$41,321,000 for the comparable period in 2002. Site Services cost of revenue increased \$37,124,000 to \$75,758,000 from \$38,634,000 for the comparable period in 2002. The change in cost of revenues in total and for Technical Services and Site Services are primarily a result of the CSD acquisition. As a percentage of revenues, combined cost of revenues in 2003 increased 4.5% to 75.9% from 71.4% for the comparable period in 2002. One of the largest components of cost of revenues is the cost of disposal paid to third parties. Disposal costs paid to third parties in 2003 as a percentage of revenues decreased 5.7% to 4.9% from 10.6% for comparable period in 2002. This decrease in disposal expense is due to the Company internalizing waste disposal subsequent to the acquisition that the Company sent to third parties prior to the acquisition. The Company anticipates disposal costs paid to third parties as a percentage of revenues will decrease significantly for 2003 as compared to 2002 due to the internalization of waste in the acquired end disposal facilities for the entire year 2003 as compared to the approximately four months of 2002. Other costs of revenues as a percentage of revenues increased 10.2% to 71.0% from 60.8% for the comparable period in 2002 primarily as a result of reduced facility utilization due to the level of waste processed which is due to the general economic environment and the fixed cost nature of the facilities. Included in cost of revenues for the first six months of 2003 is approximately \$1,500,000 of increased health insurance expense due to higher than anticipated costs for the Company's self-insured health insurance plan.

Accretion of Environmental Liabilities

For the six months ended June 30, 2003 the Company recorded accretion of environmental liabilities of \$5,516,000, which arose from the discounting of CSD environmental liabilities under purchase accounting and the implementation of SFAS 143.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six months ended June 30, 2003 increased \$36,160,000 to \$58,092,000 from \$21,932,000 for the comparable period in 2002. The increase was primarily due to the acquisition of the CSD. The change in selling, general and administrative expenses by segment is primarily a result of the CSD acquisition. Included in selling, general and administrative expenses for the

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six months ended June 30, 2003 is approximately \$1,500,000 of increased health insurance expense due to higher than anticipated costs for the Company's self-insured health insurance plan whose fiscal year ended May 31, 2003. In addition, the Company incurred significant foreign currency transaction costs of \$2,307,000 for the six month period ended June 30, 2003 due to the U.S. dollar falling 16.5% as compared to Canadian dollar for the period.

Depreciation and Amortization

Depreciation and amortization expense for the six months ended June 30, 2003 increased \$7,743,000 to \$13,087,000 from \$5,344,000 for the comparable period in 2002. The increase was primarily due to depreciation and amortization arising from the acquisition of the CSD assets.

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Interest Expense, Net

Interest expense, net of interest income for the six months ended June 30, 2003, increased \$6,733,000 to \$11,489,000 from \$4,756,000 for the comparable period in 2002. The increase in interest expense was due to higher average balances outstanding for the six months ended June 30, 2003 as compared to the same period in 2002, which resulted from the Company's acquisition of the CSD assets.

Income Taxes

Income tax expense for the six months ended June 30, 2003 increased \$2,089,000 to \$2,250,000 from \$161,000 for the comparable period in 2002. Income tax expense for 2003 consists primarily of Canadian taxes of \$2,065,000 and state income tax expense of approximately \$185,000.

EBITDA Contribution

The combined EBITDA contribution for the six months ended June 30, 2003 increased \$7,335,000 to \$17,837,000 from \$10,502,000 for the comparable period in 2002. The increase for Technical Services was \$16,533,000 and for Site Services was \$5,315,000, which was partially offset by an increase in corporate items of \$14,513,000 that related to increases to costs of the infrastructure arising from the CSD acquisition. The combined EBITDA contribution is comprised of revenues of \$314,340,000 and \$113,424,000 net of cost of revenues of \$238,411,000 and \$80,990,000 and selling, general & administrative expenses of \$58,092,000 and \$21,932,000 for the six months ended June 30, 2003 and 2002, respectively.

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Factors that May Affect Future Results

In addition to Factors that May Affect Future Results in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Form 10-K as filed with the Securities and Exchange Commission on April 10, 2003, presented below is an additional factor that investors should consider with respect to an investment in the Company's securities. Investors should be aware that there are various risks, including those described below, which may materially impact an investment in the Company's securities or may in the future, and, in some cases, already do, materially affect the Company and its business, financial condition and results of operations. This section includes or refers to certain forward-looking statements; investors should read the explanation of the qualifications and limitations on such forward-looking statements discussed on page 27 of this report.

As discussed below under Liquidity and Capital Resources, the Company negotiated amendments to its financing agreements due to loan covenant violations that included resetting the loan covenants to levels the Company believes it will be able to meet in the future. No assurance can be given that the Company will be able to meet the loan covenants in the future or that the Company will be able to obtain waivers from the lenders if the loan covenants are violated in the future. Violating the loan covenants in future periods could result a significant decrease in the value of the Company's stock.

ENVIRONMENTAL LIABILITIES

Effective January 1, 2003, the Company adopted SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires companies to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When a liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period using the credit-adjusted risk-free interest rate, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS No. 143 requires upon initial application that companies reflect in their balance sheet (1) liabilities for any existing asset retirement obligations adjusted for cumulative accretion to the date of adoption of the Statement, (2) an asset retirement cost capitalized as an increase to the carrying amount of the associated long-lived asset, and (3) accumulated depreciation on that capitalized cost adjusted for accumulated depreciation to the date of adoption of the Statement. The cumulative effect of initially applying SFAS No. 143 was recorded as a change in accounting principle, which requires that cumulative-effect adjustment be recorded in the statement of operations.

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The principal changes from the implementation of SFAS No. 143 were (1) a reduction in accrued landfill closure and post-closure obligations due to discounting the accruals at the Company's credit-adjusted risk free interest rate of 14.0% as required under SFAS No. 143, instead of discounting the accruals at the risk-free interest rate of 4.9% used under purchase accounting at December 31, 2002, (2) a reduction in accrued financial assurance for closure and post-closure care of the facilities which will now be expensed in the period incurred under SFAS No. 143 and (3) a reduction due to discounting at the credit-adjusted risk-free rate previously undiscounted accrued cell closure costs. These reductions were partly offset by new closure and post-closure obligations recorded for operating non-landfill facilities determined under various probability scenarios as to when operating permits might be surrendered in the future and using the credit-adjusted risk-free rate. The reduction in the value of liabilities assumed in the CSD acquisition from the implementation of SFAS No. 143 of \$46.5 million resulted in a corresponding reduction in the value allocated to the assets acquired (see Acquisition under Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations). The implementation also resulted in a net of tax cumulative-effect adjustment of \$8,000 recorded in the statement of operations for the six months ended June 30, 2003.

The implementation of SFAS No. 143 for companies in the hazardous waste industry is complex. Directly following is a table that summarizes the difference between the Company's historical practices and current practices of accounting for facility closure, facility post-closure care, landfill cell closure and remedial liabilities. Following the table is a detailed discussion of the accounting for environmental liabilities and tables that detail the roll-forward of the environmental liabilities from December 31, 2002 through June 30, 2003.

<u>Description</u>	<u>Historical Practice</u>	<u>Current Practice (Effective January 1, 2003)</u>
<i>Definitions:</i>		
Cell closure	Cell closure costs are the costs required to construct a landfill cell cap.	No change.
Landfill closure	Includes costs required to dismantle certain landfill structures and regulatory costs such as groundwater monitoring, leachate management and financial assurance.	No change, except that financial assurance is no longer included as a cost component of landfill closure but rather is expensed as incurred. The cost of financial assurance is considered in the determination of the credit-adjusted risk-free interest rate.
Landfill post-closure	Costs include routine monitoring and maintenance of a landfill after it has closed, ceased to accept waste and been certified as closed by the applicable state regulatory agency. Costs included financial assurance.	No change, except that financial assurance is no longer included as a cost component of landfill post-closure but rather is expensed as incurred. The cost of financial assurance is considered in the determination of the credit-adjusted risk-free interest rate.
Non-landfill closure	Costs of decontaminating waste handling equipment, pipes, enclosures, etc. contaminated in the normal course of operations. Costs included financial assurance.	No change, except that financial assurance is no longer included as a cost component of non-landfill closure but rather is expensed as incurred. The cost of financial assurance is considered in the determination of the credit-adjusted risk-free interest rate.

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<u>Description</u>	<u>Historical Practice</u>	<u>Current Practice (Effective January 1, 2003)</u>
Non-landfill post-closure	Costs include routine monitoring and maintenance after the facility has closed, ceased to accept waste and been certified as closed by the applicable state regulatory agency. Costs included financial assurance. Post-closure care is not typically required for permitted non-landfill facilities.	No change, except that financial assurance is no longer included as a cost component of non-landfill post-closure but rather is expensed as incurred. The cost of financial assurance is considered in the determination of the credit-adjusted risk-free interest rate.
Remedial liabilities	The costs of removal or containment of contaminated material including material that became contaminated as part of normal operations.	The costs of removal or containment of contaminated material that did not arise as the result of normal operations. Certain costs previously classified as remedial costs were reclassified as closure costs based on SFAS No. 143 requiring that closure costs arising out of normal operations be accounted for as part of the asset retirement obligation.
Discount rate	Risk-free rate (4.9% at December 31, 2002) was used to discount accrued closure and post-closure obligations, and remedial obligations assumed as part of the acquisition of the CSD assets from Safety-Kleen Corp. Remedial obligations incurred in the course of operations are generally undiscounted.	Credit-adjusted, risk-free rate (14.0% at January 1, 2003) for liabilities accrued under SFAS No. 143. Remedial obligations assumed as part of the acquisition of the CSD assets from Safety-Kleen Corp. are and will continue to be discounted at the risk free interest rate at the time of the acquisition (4.9%). No change to remedial obligations incurred in the course of operations.
Cost estimates	Costs were estimated based on performance, principally by third parties, with a reasonable portion estimated at the Company's internal cost.	No change, except that the cost of any activities performed internally must be increased to represent an estimate of the amount a third party would charge to perform such activity.
Inflation	Cost was inflated to period of performance (2.4% for the period ended December 31, 2002).	Inflation rate changed to 2.0% effective January 1, 2003.
<i>Recognition of Assets and Liabilities:</i>		
Cell closure	Cell closure was accrued on the units-of-consumption basis, such that the total amount required to cap the cell is accrued when that specific cell ceases accepting waste.	Each capping event is accounted for as a discrete obligation. All capping is recorded as a liability and asset, based on the discounted cash flow associated with each capping event, as airspace is consumed related to the specific capping event; spending is reflected as a change in liabilities within operating activities in the statement of cash flows.

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<u>Description</u>	<u>Historical Practice</u>	<u>Current Practice (Effective January 1, 2003)</u>
Landfill closure and post-closure	Accrued over the life of the landfill; the discounted cash flow associated with such liabilities was recorded to accrued environmental liabilities, with a corresponding charge to cost of operations as airspace is consumed.	Accrued over the life of the landfill; the discounted cash flow associated with such liabilities is recorded to accrued environmental liabilities, with a corresponding increase in landfill assets as airspace is consumed.
Non-landfill closure and post-closure	Closure and post-closure costs were accrued when a decision was made to close a non-landfill facility.	At the time of facility acquisition or construction, the present value of the asset retirement obligation is recorded as an asset and a retirement liability is recorded in the same amount. The asset retirement cost is depreciated over the estimated life of the facility and the liability is accreted at the credit-adjusted risk free interest rate.
Statement of Operations Expense:		
Liability accrual	Expense charged to cost of operations at same amount accrued to liability.	Not applicable.
Amortization of asset retirement cost	Not applicable for cell closure, landfill and non-landfill facility closure and post-closure.	Landfill facilities are amortized to depreciation and amortization expense as airspace is consumed over the life of cell or landfill. Non-landfill facilities are amortized to depreciation and amortization expense using the straight-line method over the estimated life of the facility.
Accretion	Expense, charged to cost of operations, was accrued at risk-free rate over the life of the landfill as airspace was consumed. Remedial liabilities were accreted at the risk-free interest rate using the effective interest method.	Accretion expense for closure and post-closure liabilities is charged to operations at the credit-adjusted, risk-free rate (14%). Accretion expense relating to remedial obligations assumed as part of the acquisition of the CSD assets from Safety-Kleen Corp. are accreted at the risk-free interest rate at the time of the acquisition (4.9%). The effective interest method is used in both instances.

Landfill Accounting

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

Landfill assets Landfill assets include the costs of landfill site acquisition, permitting, preparation and improvement. These amounts are recorded at cost, which includes capitalized interest, as applicable. Landfill assets, net of amortization, are combined with management's estimate of the costs required to complete construction of the landfill to determine the amount to be amortized over the remaining estimated useful economic

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life of a site. Amortization of landfill assets is recorded on a units-of-consumption basis, such that the landfill assets should be completely amortized at the date the landfill ceases accepting waste. Changes in estimated costs to complete construction are applied prospectively to the amortization rate.

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

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

Final closure and post-closure liabilities The Company has material financial commitments for the costs associated with requirements of the United States Environmental Protection Agency (the EPA), and the comparable regulatory agency in Canada for the final closure and post-closure activities at the majority of its facilities. In the United States, the final closure and post-closure requirements are established under the standards of the EPA, and are implemented and applied on a state-by-state basis. Estimates for the cost of these activities are developed by the Company's engineers, accountants and external consultants, based on an evaluation of site-specific facts and circumstances, including the Company's interpretation of current regulatory requirements and proposed regulatory changes. Such estimates may change in the future due to various circumstances including, but not limited to, permit modifications, changes in legislation or regulations, technological changes and results of environmental studies.

Final closure costs include the costs required to cap the final cell of the landfill and the costs required to dismantle certain structures for landfills and other landfill improvements. In addition, final closure costs include regulatory mandated groundwater monitoring, leachate management and other costs incurred in the closure process. Post-closure costs include substantially all costs that are required to be incurred subsequent to the closure of the landfill, including, among others, groundwater monitoring and leachate management. Regulatory post-closure periods are generally 30 years after landfill closure. Final closure and post-closure obligations are discounted. Final closure and post-closure obligations are accrued on a units-of-consumption basis, such that the present value of the final closure and post-closure obligations is accrued at the date the landfill discontinues accepting waste.

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

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

- Personnel are actively working to obtain the permit or permit modifications (land use, state and federal) necessary for expansion of an existing landfill, and progress is being made on the project.

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- At the time the expansion is included in the Company's estimate of the landfill's useful economic life, it is probable that the required approvals will be received within the normal application and processing time periods for approvals in the jurisdiction in which the landfill is located. The Company expects to submit the application within the next year and expects to receive all necessary approvals to accept waste within the next five years.
- The owner of the landfill or the Company has a legal right to use or obtain land associated with the expansion plan.

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- There are no significant known political, technical, legal, or business restrictions or issues that could impair the success of such expansion.
- A financial feasibility analysis has been completed, and the results demonstrate that the expansion has a positive financial and operational impact such that management is committed to pursuing the expansion.
- Additional airspace and related additional costs, including permitting, final closure and post-closure costs, have been estimated based on the conceptual design of the proposed expansion.

Exceptions to the criteria set forth above may be approved through a landfill-specific approval process that includes approval from the Company's Chief Financial Officer and review by the Audit Committee of the Board of Directors. As of June 30, 2003 there was one unpermitted expansion included in the Company's landfill accounting model, which represents approximately 23% of the Company's remaining airspace at this date. This expansion does not represent an exception to the Company's established criteria.

As of June 30, 2003, the Company has 11 active landfill sites (including the Company's two non-commercial landfills), which have estimated remaining lives (based on anticipated waste volumes and remaining highly probable airspace) as follows:

Facility Name	Location	Remaining lives (Years)	Remaining Highly Probable Airspace (cubic yards) (in thousands)		
			Permitted	Unpermitted	Total
Altair	Texas	0.3	24		24
Buttonwillow	California	73	10,380		10,380
Deer Park	Texas	21	590		590
Deer Trail	Colorado	3	28		28
Grassy Mountain	Utah	11	923		923
Kimball	Nebraska	18	519		519
Lone Mountain	Oklahoma	13	1,588		1,588
Ryley	Alberta	29	1,071		1,071
Sarnia	Ontario	29	492	5,493	5,985
Sawyer	North Dakota	31	499		499
Westmorland	California	46	2,732		2,732
			18,846	5,493	24,339

In addition, the Company had 2,945,000 cubic yards of permitted, but not highly probable, airspace as of June 30, 2003. Permitted, but not highly probable, airspace is permitted airspace that the Company has determined that it is unlikely to utilize.

The following table presents the remaining highly probable airspace from December 31, 2002 through June 30, 2003 (in thousands):

	Highly Probable Air Space (Cubic Yards)
Remaining capacity at December 31, 2002	25,288
Consumed six months ended June 30, 2003	(310)
Change in estimate	(639)
Remaining capacity at June 30, 2003	<u>24,339</u>

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Non-Landfill Closure and Post-Closure

Final closure and post-closure obligations for facilities other than landfills. Final closure costs include costs required to dismantle and decontaminate certain structures and other costs incurred during the closure process. Post-closure costs, if required, include associated maintenance and monitoring costs and financial assurance costs as required by the closure permit. Post-closure periods are performance based and are not generally specified in terms of years in the closure permit, but may generally range from 10 to 30 years or more. Final closure and post-closure costs are increased for inflation (2.0% for the period ended June 30, 2003) and discounted at the Company's credit-adjusted risk-free interest rate (14.0% for the period ended June 30, 2003). Under SFAS No. 143, the cost of financial assurance for the closure and post-closure care periods cannot be accrued but rather is a period cost. Under SFAS No. 143, the cost of financial assurance is considered in the determination of the credit-adjusted risk-free interest rate used to discount the closure and post-closure obligations.

Remedial Liabilities

Remedial liabilities, including Superfund liabilities, include the costs of removal or containment of contaminated material, the treatment of potentially contaminated groundwater and maintenance and monitoring costs necessary to comply with regulatory requirements. SFAS No. 143 applies to asset retirement obligations that arise from normal operations. Almost all of the Company's remedial liabilities were assumed as part of the acquisition of the CSD from Safety-Kleen Corp., and the Company believes that the remedial obligations did not arise from normal operations. Remedial liabilities assumed relating to the acquisition of the CSD from Safety-Kleen are and will continue to be inflated using the inflation rate at the time of acquisition (2.4%) until the expected time of payment then discounted at the risk free interest rate at the time of acquisition (4.9%). Remedial liabilities incurred subsequent to the acquisition and remedial liabilities of the Company that existed prior to the acquisition have been and will continue to be recorded at the estimated current value of the liability which is neither increased for inflation nor reduced for discounting. Certain costs previously classified as remedial costs were reclassified as closure costs at June 30, 2003, if the Company determined that the remedial liability arose from normal operations.

Claims for Recovery

The Company records claims for recovery from third parties relating to environmental liabilities only when realization of the claim is probable. The gross environmental liability is recorded separately from the claim for recovery on the balance sheet.

Discounting Landfill Closure, Post-Closure and Remedial Liabilities

Generally, remedial liabilities are not discounted. However, under purchase accounting, acquired liabilities are recorded at fair value, which requires taking into consideration inflation and discount factors. Accordingly, as of the acquisition date, the Company recorded the environmental liabilities assumed as part of the acquisition of the CSD at their fair value, which was calculated by inflating costs in current dollars using an estimate of future inflation rates as of the acquisition date until the expected time of payment then discounted to its present value using a risk free discount rate as of the acquisition date.

Subsequent to the acquisition, discounts were and will be applied to the environmental liabilities as follows:

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Final closure and post-closure liabilities at December 31, 2002 were inflated using estimates of future inflation rates (2.4% at December 31, 2002) until the time of payment, then discounted using a risk-free interest rate (4.9% at December 31, 2002). The Company adopted SFAS No. 143 in the first quarter of 2003. Under SFAS No. 143, final closure and post-closure liabilities are inflated using estimates of future inflation until the time of payment then discounted using the Company's credit adjusted risk free interest rate.

Remedial liabilities assumed relating to the acquisition of the CSD from Safety-Kleen are and will continue to be inflated using the inflation rate at the time of acquisition (2.4%) until the expected time of payment then discounted at the risk free interest rate at the time of acquisition (4.9%).

Remedial liabilities incurred subsequent to the acquisition and remedial liabilities of the Company that existed prior to the acquisition have been and will continue to be recorded at the estimated current value of the liability which is neither increased for inflation nor reduced for discounting.

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The Company has recorded landfill and non-landfill net asset retirement costs as follows (amounts in thousands):

	June 30, December 31,	
	2003	2002
Landfill and non-landfill net asset retirement costs	\$ 673	\$

The Company has recorded liabilities for closure, post-closure and remedial obligations as follows (amounts in thousands):

	June 30,	December 31,
	2003	2002
Current portion of environmental liabilities	\$ 22,216	\$ 19,821
Non-current portion of environmental liabilities	144,637	184,790
Total	\$ 166,853	\$ 204,611

Environmental Liabilities Rollforward

The changes to environmental liabilities for the six months ended June 30, 2003 are as follows (in thousands):

	December 31, 2002	Cumulative effect of changes in accounting for Asset Retirement Obligation	Purchase accounting adjustment due to change in Accounting for Asset Retirement Obligation	Opening Balance Sheet Adjustment	Asset Retirement Cost Offset	Charges to Expense	Reclassifications and other	Payments	June 30, 2003
Landfill retirement liability	\$ 60,765	\$ (135)	\$ (38,737)	\$ 2,851	\$ 436	\$ 1,688	\$ 200	\$ (42)	\$ 27,026
Non-landfill retirement liability		1,769	7,122	737		716	(85)	(1,313)	8,946
Remedial liabilities:									
Remediation for landfill sites	4,519			26		127	188	(28)	4,832
Remediation, closure and post-closure for closed sites	105,059	233	(14,729)	(176)		2,028	430	(1,509)	91,336

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Remediation (including Superfund) for non-landfill open sites		34,268			395		902	301	(1,153)	34,713								
Total	\$	204,611	\$	1,867	\$	(46,344)	\$	3,833	\$	436	\$	5,461	\$	1,034	\$	(4,045)	\$	166,853

In the following table, reserves for environmental obligations are classified as of each balance sheet date based on their classification at June 30, 2003. Certain reserves were reclassified on January 1, 2003 in connection with the adoption of SFAS No. 143. Reserves for closure, post-closure and remedial obligations are as follows (in thousands):

	June 30, 2003	December 31, 2002
Landfill retirement liability:		
Cell closure	\$ 17,145	\$ 20,336
Facility closure	5,210	12,125
Post-closure	4,671	28,304
	<u>27,026</u>	<u>60,765</u>
Non-landfill retirement liability:		
Facility closure and post closure	8,946	
	<u>8,946</u>	
Remedial liabilities:		
Remediation for landfill sites	4,832	4,519
Remediation, closure and post-closure for closed sites	91,336	105,059
Remediation (including Superfund) for non landfill open sites	34,713	34,268
	<u>130,881</u>	<u>143,846</u>
Total	\$ 166,853	\$ 204,611

All of the landfill facilities included in the table above are active as of June 30, 2003.

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

Periods ending December 31,	
Remaining period 2003	\$ 9,883
2004	27,642
2005	28,585
2006	12,874
2007	13,635
Thereafter	299,067
	391,686
Subtotal	391,686
Less: Reserves to be provided (including discount of \$151.6 million) over remaining site lives	(224,833)
	\$ 166,853
Total	\$ 166,853

Remedial liabilities, including Superfund liabilities As described in the tables above under Discounted environmental liabilities, the Company has as of June 30, 2003 a total of \$130.9 million of estimated liabilities for remediation of environmental contamination, of which \$4.8 million related to the Company's landfills and \$126.1 million related to non-landfill facilities (including Superfund sites owned by third parties). The Company periodically evaluates potential remedial liabilities at sites that it owns or operates or to which the Company or the Sellers of the CSD assets (or the respective predecessors of the Company or the Sellers) transported or disposed of waste, including 54 active or Superfund sites as of June 30, 2003. As described in Note 8, Legal Proceedings, of the Company's audited financial statements for the year ended December 31, 2002 included in the Form 10-K filed with the Securities and Exchange Commission on April 10, 2003, the Company has assumed and agreed to pay as part of the purchase price for the CSD assets the Sellers' share of cleanup costs payable to governmental entities for certain other sites where one or more of the Sellers have been named or may potentially be named as a PRP. The Company periodically reviews and evaluates sites requiring remediation, including Superfund sites, giving consideration to the nature (i.e., owner, operator, transporter or generator) and the extent (i.e., amount and nature of waste hauled to the location, number of years of site operations or other relevant factors) of the Company's alleged connection with the site, the regulatory context surrounding the site, the accuracy and strength of evidence connecting the Company to the location, the number, connection and financial ability of other named and unnamed PRPs and the nature and estimated cost of the likely remedy. Where the Company concludes that it is probable that a liability has been incurred, provision is made based upon management's judgment and prior experience, for the Company's best estimate of the liability.

Remediation liabilities are inherently difficult to estimate. Estimating remedial liabilities requires that the existing environmental contamination be understood. There is a risk that the actual quantities of contaminants differ from the results of the site investigation, and there is a risk that contaminants exist that have not been identified by the site investigation. In addition, the amount of remedial liabilities recorded are dependent on the remedial method selected. There is a risk that funds will be expended on a remedial solution that is not successful which could result in the additional incremental costs of an alternative solution. Such estimates, which are subject to change, are subsequently revised if or when additional information becomes available.

In connection with the Company's acquisition of the CSD assets, the Company performed extensive due diligence, including hiring third party engineers and attorneys to estimate accurately the aggregate liability for environmental liabilities to which the Company became subject as a result of the acquisition. Those environmental liabilities relate to the active and discontinued hazardous waste treatment and disposal facilities, which the Company acquired as part of the CSD assets and 34 Superfund sites owned by third parties for which the Company agreed to indemnify certain environmental liabilities owed or potentially owed by the Sellers. In the case of each such facility and site, the Company's estimate of remediation liabilities involved an analysis of such factors as (i) the nature and extent of environmental contamination (if any), (ii) the terms of applicable permits and agreements with regulatory authorities as to clean-up procedures and whether modifications to such permits and agreements will likely need to be negotiated, (iii) the cost of performing anticipated clean-up activities based upon current technology, and

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(iv) in the case of Superfund and other sites where other parties will also be responsible for a portion of the clean-up cost, the likely allocation of such costs and the ability of such other parties to pay their share.

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Based upon the Company's analysis of each of the above factors in light of currently available facts, existing technology, and presently enacted laws and regulations, the Company estimates that its aggregate liabilities as of June 30, 2003 (as calculated in accordance with generally accepted accounting principles) for future remediation and closure and post-closure liabilities for non-landfill facilities relating to all of its owned or leased facilities and the Superfund sites for which the Company has current or potential liability is approximately \$130.9 million. The Company also estimates that it is "reasonably possible", as that term is defined in Statement of Financial Accounting Standard No. 5, "Accounting for Contingencies," SFAS No. 5 (more than remote but less than likely), that the amount of such total liabilities could be up to \$20.1 million greater than such \$130.9 million. Future changes in either available technology or applicable laws or regulations could affect such estimates of environmental liabilities. Since the Company's satisfaction of the liabilities will occur over many years and in some cases over periods of 30 years or more, the Company cannot now reasonably predict the nature or extent of future changes in either available technology or applicable laws or regulations and the impact that those changes, if any, might have on the current estimates of environmental liabilities.

The following tables show, respectively, (i) the amounts of such estimated liabilities associated with the types of facilities and sites involved and (ii) the estimated amounts of such estimated liabilities associated with each facility or site which represents at least 5% of the total and with all other facilities and sites as a group.

Estimates Based on Type of Facility or Site (Dollars in Thousands):

Type of Facility or Site	Discounted Remedial Liability	% of Total	Discounted Reasonably Possible Additional Liability
Facilities now used in active conduct of the Company's business (15 facilities)	\$ 30,201	23.1%	\$ 7,439
Discontinued CSD facilities not now used in active conduct of the Company's business but acquired because assumption of remediation liabilities for such facilities was part of the purchase price for CSD assets (10 facilities)	91,336	69.8	11,001
Superfund sites for which the Company agreed to indemnify certain environmental liabilities of the Sellers as part of purchase price for CSD assets (20 sites)	7,376	5.6	1,492
Sites for which the Company had liabilities prior to the acquisition of CSD assets (28 superfund sites and 5 other sites)	1,968	1.5	203
Total:	\$ 130,881	100.0%	\$ 20,135

Estimates Based on Amount of Potential Liability (Dollars in Thousands):

Location	Type of Facility or Site	Discounted Remedial Liability	% of Total	Discounted Reasonably Possible Additional Liability
Baton Rouge, LA	Closed incinerator and landfill	\$ 30,468	23.3%	\$ 4,454
Bridgeport, NJ	Closed incinerator	28,637	21.9	3,512

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Roebuck, SC	Closed incinerator	10,737	8.2	851
Cleveland, OH	Closed wastewater treatment	8,392	6.4	766
San Jose, CA	TSDf	7,308	5.6	731
Various	All other incinerators, landfills, wastewater treatment facilities and service centers (35 facilities)	37,770	28.8	8,326
Various	Superfund sites (each representing less than 5% of total liabilities) owned by third parties to which either the Company or the Sellers (or their predecessors) shipped waste (54 facilities)	7,569	5.8	1,495
Total:		<u>\$ 130,881</u>	<u>100.0%</u>	<u>\$ 20,135</u>

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The estimated liabilities reflected in the above tables do not include any potential remedial liabilities which the Company might incur in the future with respect to the Ville Mercier facility or the Marine Shale site as discussed in Note 8, *Legal Proceedings*, to the Company's audited financial statements as of December 31, 2002, as included in the Form 10-K filed with the Securities and Exchange Commission on April 10, 2003. For the reasons there described, the Company believes that any such liabilities are not both probable and estimable at this time. See *Contingent Remedial Liabilities* below.

Revisions to remedial reserve requirements may result in upward or downward adjustments to income from operations in any given period. The Company believes that its extensive experience in the environmental services business, as well as its involvement with a large number of sites, provides a reasonable basis for estimating its aggregate liability. It is reasonably possible that technological, regulatory or enforcement developments, the results of environmental studies or other factors could necessitate the recording of additional liabilities and/or the revision of currently recorded liabilities that could be material. The impact of such future events cannot be estimated at the current time.

Contingent Remedial Liabilities SFAS No. 5 requires that an estimated loss from a loss contingency be accrued and recorded as a liability if it is both probable and estimable, but the Statement does not permit a company acquiring assets to record as part of the purchase price for those liabilities any liabilities which are not both probable and estimable. As described in Note 8, *Legal Proceedings*, to the Company's audited financial statements as of December 31, 2002, as included in the Form 10-K filed with the Securities and Exchange Commission on April 10, 2003, under the headings *Ville Mercier Legal Proceedings* and *Marine Shale Processors*, the Company may incur certain remedial liabilities in the future in connection with the facility and site which are the subject of those proceedings, but the amount of those potential liabilities are not both probable and estimable at this time. Accordingly, the Company has not recorded any such remedial liabilities as part of the purchase price for the CSD assets. Prior to the first anniversary on September 7, 2003 of the acquisition of the CSD assets, the Company will endeavor to estimate the cost of any remedial liabilities which the Company may incur in connection with such facility and site so that any such liabilities can be recorded as adjustments to the purchase price for the CSD assets in accordance with generally accepted accounting principles. If the Company cannot by September 7, 2003 record these contingent liabilities as an adjustment to the purchase price, then these contingent remedial liabilities could result in a material loss when they become probable and estimable.

Liquidity and Capital Resources

Cash and Cash Equivalents

The Company's primary sources of liquidity are cash flows from operations, existing cash and the Revolving Credit Facility (as hereinafter defined). As of June 30, 2003, cash and cash equivalents was approximately \$5,405,000, \$40,162,000 had been drawn on the Revolving Credit Facility, and the Company had approximately \$41,893,000 available to borrow under this facility. The Company is currently required to post in the quarter ending September 30, 2003 an additional \$20,000,000 of collateral to support the issuance of additional letters of credit to support its financial assurance obligations. The Company funded \$10,000,000 of this amount in July 2003. The Company expects the source of additional cash collateral to be borrowings under its Revolving Credit Facility or cash flow generated from operations.

The Company intends to use its existing cash and cash flow from operations to fund future operating expenses and recurring capital expenditures. The Company anticipates that cash flow provided by operating activities will provide the necessary funds on a short and long-term basis to meet operating cash requirements. As part of the CSD acquisition, the Company assumed environmental liabilities of CSD valued as of June 30, 2003, in accordance with generally accepted accounting principles of approximately \$160.3 million. The Company performed extensive due diligence investigations with respect to both the amount and timing of such liabilities. The Company anticipates such liabilities will be payable over many years and that cash flow from operations will generally be sufficient to fund the payment of such liabilities when required. However, events not now anticipated (such as future changes in environmental laws and regulations) could require that such payments be made earlier or in greater amounts than now anticipated, which could adversely affect the Company's cash flow and financial condition.

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Cash Flows for the six months ended June 30, 2003

For the six months ended June 30, 2003, the Company generated approximately \$11,104,000 of cash from operating activities. Non-cash expenses recorded for the six months ended June 30, 2003 totaled \$21,112,000. These adjustments consisted primarily of non-cash expenses of \$13,087,000 for depreciation and amortization, \$5,516,000 for the accretion of environmental liabilities, \$1,082,000 for allowance for doubtful accounts and \$1,069,000 for the amortization of deferred financing costs. Other sources of cash totaled \$17,910,000 and primarily consisted of accounts receivable decreasing by \$8,596,000, prepaid expenses decreasing by \$2,210,000, deferred costs decreasing by \$1,161,000, unbilled accounts receivable decreasing by \$3,117,000 and accounts payable increasing by \$1,934,000. Partially offsetting the sources of cash was a use of cash of \$13,943,000 due to the net loss for the period and other uses of cash that totaled \$13,975,000 and consisted primarily of a decrease in deferred revenue of \$6,571,000, which was due primarily to improvements realized by the integration of the CSD into the Company's operations, a decrease in environmental liabilities of \$4,278,000, a decrease in income taxes payable of \$1,295,000 and an increase in other assets of \$1,229,000.

For the six months ended June 30, 2003, the Company used \$41,854,000 of cash in investing activities. These consisted of additions to property, plant and equipment and permits of \$18,435,000, and restricted investments of \$23,410,000 purchased to support the letters of credit issued relating to financial assurance for closure and post-closure obligations. These uses were partially offset by proceeds from the sale of fixed assets of \$241,000.

For the six months ended June 30, 2003, the Company obtained \$21,840,000 of cash from financing activities. Cash from financing activities consisted primarily of net borrowings of \$22,459,000 under the Revolving Credit Facility, \$890,000 of uncashed checks, proceeds from the exercise of stock options of \$367,000 and proceeds from the employee stock purchase plan of \$256,000. Partially offsetting these were repayments of \$351,000 on Senior Loans, dividend payments of \$974,000, additions to deferred financing costs of \$562,000 and payments on capital leases of \$245,000.

The Company used the sources of cash from financing activities of \$21,840,000 together with the \$11,104,000 of cash generated from operations and a decrease in the amount of cash on-hand of \$8,910,000 to fund the investing activities of \$41,854,000 previously discussed.

Financing Arrangements

As described in the Form 10-K for the year ended December 31, 2002, the Company has outstanding a \$100,000,000 three-year revolving credit facility (the Revolving Credit Facility), \$115,000,000 of three-year non-amortizing term loans (the Senior Loans) and \$40,000,000 of five-year non-amortizing subordinated loans (the Subordinated Loans). In addition to such financings, the Company has established a letter of credit facility (the L/C Facility) under which the Company may obtain up to \$100,000,000 of letters of credit by providing cash collateral equal to 103% of the amount of such outstanding letters of credit.

The principal terms of the Revolving Credit Facility, the Senior Loans, the Subordinated Loans, and the L/C Facility are as follows:

Revolving Credit Facility. The Revolving Credit Facility allows the Company to borrow up to \$100,000,000 in cash and letters of credit, based upon a formula of eligible accounts receivable. This total is separated into two lines of credit, namely a line for the Company's Canadian Subsidiaries of \$20,000,000 in Canadian dollars and a line for the Company and its US subsidiaries equal to \$100,000,000 in US dollars less the

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then conversion value of the Canadian line. Letters of credit outstanding at any one time under the Revolving Credit Facility may not exceed \$20,000,000. At June 30, 2003, letters of credit outstanding were \$1,044,000 and the Company had approximately \$41,893,000 available to borrow. This consisted of borrowing availability in the U.S. of approximately \$29,140,000 and availability in Canada of approximately \$12,753,000 (USD).

The Revolving Credit Facility provides for certain covenants, the most restrictive of which at June 30, 2003 required the Company to maintain a minimum consolidated annualized earnings before interest, income taxes, depreciation and amortization (EBITDA). The Company did not achieve the required level of EBITDA for the period ended June 30, 2003. The EBITDA loan covenant under the Revolving Credit Facility was waived by amending the Loan and Security Agreement. Under the terms of the Third Amendment to the Loan and Security Agreement (the Third Amendment), the Company is now required to maintain consolidated EBITDA of not less than \$15,700,000 for the quarter ending September 30, 2003 and \$32,250,000 for the two quarters ending December 31, 2003. The required level of EBITDA then increases in approximately equal quarterly increments to \$64,600,000 for the year ending December 31, 2004.

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The Company is now also required to maintain a fixed charge coverage ratio of not less than 0.85 to 1.0 for the quarter ending September 30, 2003 and 0.90 to 1.0 for the two quarter period ending December 31, 2003, respectively. The required fixed charge coverage ratio then increases to 0.95 to 1.0 for the three quarter period ending March 31, 2004, to 1.0 to 1.0 for the four quarter period ending June 30, 2004, to 1.1 to 1.0 for the rolling four quarter period ending March 31, 2005 and to 1.2 to 1.0 for the four quarter period ending June 30, 2005. As amended by the Third Amendment, the Revolving Credit Facility allows for up to 80% of the outstanding balance of the loans to bear interest at an annual rate of LIBOR plus 3.50%, with the balance at prime plus 0.50%. The Revolving Credit Facility requires the Company to pay an unused line fee of 0.25% per annum on the unused portion of the revolving credit.

In exchange for amending the loan covenants for future periods, the Third Amendment requires the Company to pay an amendment fee of \$250,000 and increases the interest rate under the Revolving Credit Facility from LIBOR plus 3.25% to LIBOR plus 3.50% or from the prime rate plus 0.25% to the prime rate plus 0.50%. These increases in the interest rates became effective as of August 1, 2003 and will continue until such time as the Company delivers financial statements for three consecutive quarters that show the Company has attained a fixed charge coverage ratio of at least 1.1 to 1.0. In such event, the interest rates will revert for future periods to LIBOR plus 3.25% or prime plus 0.25%.

Senior Loans and Subordinated Loans. The Senior Loans and Subordinated Loans provide for certain covenants, the most restrictive of which required at June 30, 2003, the Company to maintain a minimum consolidated annualized EBITDA and a maximum leverage ratio. The Company did not achieve the required level of EBITDA and the Company exceeded the amount of leverage allowed for the period ended. The EBITDA and leverage loan covenants under the Financing Agreement were waived by amending the Financing Agreement. Under the terms of the Second Amendment to the Financing Agreement (the Second Amendment), the Company is now required to maintain consolidated four quarters rolling EBITDA of not less than \$52,997,000 and \$50,106,000 for the quarters ending September 30 and December 31, 2003, respectively. The required level of EBITDA then increases in approximately equal quarterly increments to \$64,610,000, \$80,270,000, \$90,930,000, and \$107,089,000 for the years ending December 31, 2004, 2005, 2006 and 2007, respectively. The Company is now also required to maintain a rolling four quarters fixed charge coverage ratio of not less than 0.93 and 0.80 to 1.0 for the fiscal quarters ending September 30 and December 31, 2003, respectively. The required fixed charge coverage ratio then increases in approximately equal quarterly increments to 1.12, 1.33, 1.43 and 1.55 to 1.0 for the years ending December 31, 2004, 2005, 2006 and 2007, respectively. The Company is now also required to maintain a leverage ratio of 2.13 and 2.27 to 1.0 for the four consecutive quarters ending September 30 and December 31, 2003, respectively. The required leverage ratio then decreases in approximately equal quarterly increments to 1.65, 0.98, 0.62 and 0.21 to 1.0 for the years ending December 31, 2004, 2005, 2006 and 2007, respectively.

In exchange for amending the loan covenants for future periods, the Second Amendment requires the Company to pay an amendment fee of \$620,000. In addition, the Company could be required to pay an additional amendment fee of \$620,000 if the Company fails to achieve certain levels of EBITDA for the period commencing July 1, 2003 through December 31, 2003.

The Company negotiated amendments to the financing agreements that included resetting the loan covenants to levels that the Company believes that it will be able to meet in the future. While the Company was able to renegotiate the loan covenants with the lenders and the Company believes that it will be able to meet the covenants in the future, no assurance can be given that the Company will be able to meet the loan covenants in the future or that the Company will be able to obtain waivers from the lenders if the loan covenants are violated in the future.

L/C Facility. At June 30, 2003, letters of credit outstanding under the L/C Facility were approximately \$81,441,000. The Company is currently required to provide for an additional \$20,000,000 of collateral in the quarter ending September 30, 2003 to support the issuance of additional letters of credit for its financial assurance obligations. The Company funded \$10,000,000 of this

amount in July 2003. The Company expects the source of additional cash collateral to be borrowings under Revolving Credit Facility or cash flow provided from operations.

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See Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) under the heading Segment Data in

Item 2 of this report titled Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion about the non-GAAP measure EBITDA.

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Stockholder Matters

In January 2003, the Company issued 954,207 shares of common stock in exchange for 954,812 warrants that were then terminated and that were issued relating to the April 2001 issuance of the \$35 million Subordinated Notes.

Dividends on the Company's Series B Convertible Preferred Stock are payable on the 15th day of January, April, July and October, at the rate of \$1.00 per share, per quarter; 112,000 shares are outstanding. Under the terms of the Series B Preferred Stock, the Company can elect to pay dividends in cash or in common stock with a market value equal to the amount of the dividend payable. For 2003 and 2002, the Company paid the January 15 and April 15 dividends on the Series B Preferred Stock in cash. However, because of the amendment to the Company's Financing Agreement which became effective in May 2003, the Company anticipates that dividends on the Series B Preferred Stock will be paid in common stock for the foreseeable future.

New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When a liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002. The Company adopted SFAS No. 143 in the first quarter of 2003 (see Environmental Liabilities in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations).

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of SFAS No. 64, Extinguishment of Debt made to satisfy Sinking-Fund Requirements. This Statement also rescinds SFAS No. 44, Accounting for Intangible Assets of Motor Carriers. This SFAS amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meaning, or describe their applicability under changed conditions. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. The Company has determined the adoption of SFAS No. 145 will result in the reclassification of the extraordinary loss related to early extinguishment of debt of \$24,658,000, recorded in the quarter ended September 30, 2002, to other expenses in arriving at its income or loss from operations for that period. The Company believes the adoption of SFAS No. 145 will not materially affect the Company's financial condition.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Adoption of SFAS No. 146 as of January 1, 2003 had no impact on results of operations or financial condition for the six months ended June 30, 2003.

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In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS 150 changed the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS 150 requires that those instruments be classified as liabilities in statements of financial position. SFAS No. 150 had no effect on the classification of liabilities or equity for the Company at June 30, 2003.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). It clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The objective of the initial measurement of the liability is the fair value of the guarantee at its inception. The initial recognition and initial measurement provisions of FIN 45 are effective for the Company on a prospective basis to guarantees issued after December 31, 2002. The Company will record the fair value of future material guarantees, if any.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 requires that unconsolidated variable interest entities must be consolidated by their primary beneficiaries. A primary beneficiary is the party that absorbs a majority of the entity's expected losses or residual benefits. FIN 46 applies immediately to variable interest entities created after January 31, 2003 and to existing variable interest entities in the periods beginning after June 15, 2003. The adoption of FIN 46 had no impact on the results of operations or financial condition for the period ending June 30, 2003.

Table of Contents**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is subject to market risk on the interest that it pays on its debt due to changes in the general level of interest rates. The Company's philosophy in managing interest rate risk is to borrow at fixed rates for longer time horizons to finance non-current assets and to borrow at variable rates for working capital and other short term needs. The following table provides information regarding the Company's fixed rate borrowings at June 30, 2003 (dollars in thousands):

Scheduled Maturity Dates	Six Months Remaining						Total
	2003	2004	2005	2006	2007	Thereafter	
Subordinated Loans	\$	\$	\$	\$	\$ 40,000	\$	\$ 40,000
Redeemable Convertible Preferred Stock						36,673	36,673
Capital Lease Obligations	248	514	464	365	314	41	1,946
	<u>\$ 248</u>	<u>\$ 514</u>	<u>\$ 464</u>	<u>\$ 365</u>	<u>\$ 40,314</u>	<u>\$ 36,714</u>	<u>\$ 78,619</u>
Weighted average interest rate on fixed rate borrowings	15.8%	15.8%	15.6%	15.4%	11.2%	6.0%	

In addition to the fixed rate borrowings described in the table above, the Company had outstanding at June 30, 2003 Senior Loans of \$114,649,000 that bore interest at June 30, 2003 at LIBOR (1.20% at June 30, 2003) plus 7.75%, and borrowings under the Revolving Credit Facility of \$40,162,000 that bore interest at June 30, 2003 at the prime rate (4.25% at June 30, 2003) plus 0.25%. The following table presents hypothetical situations of the amount of interest expense that would be incurred on an annual basis assuming the balances outstanding at June 30, 2003 remained unchanged and assuming three scenarios for interest rates: (i) interest rates remain unchanged from those on June 30, 2003, (ii) interest rates increase by 200 basis points and (iii) interest rates decrease by 200 basis points (dollars in thousands):

Description of Debt	Principal Balance June 30, 2003	Interest if Interest Rates Remain Unchanged	Interest if Interest Rates Increase 200 b.p.	Interest if Interest Rates Decrease 200 b.p.
Senior Loans	\$ 114,649	\$ 10,261	\$ 12,554	\$ 7,968
Revolving Credit Facility	40,162	1,807	2,610	1,004
	<u>\$ 154,811</u>	<u>\$ 12,068</u>	<u>\$ 15,164</u>	<u>\$ 8,972</u>

Historically, the Company has not entered into derivative or hedging transactions, nor has the Company entered into transactions to finance debt off of its balance sheet. The Company views its investment in the Canadian subsidiaries as long-term; thus, the Company has not entered into any hedging transactions between the Canadian dollar and the U.S. dollar. The Canadian subsidiaries transact approximately 25% of their business in U.S. dollars and at any period end have cash on deposit in U.S. dollars and outstanding U.S. dollar accounts receivable related to these transactions. These cash and receivable accounts are subject to foreign currency translation gains or losses. During the three and six months ended June 30, 2003, the U.S. dollar fell approximately 7.5% and 16.5%, respectively, against the Canadian dollar resulting in foreign currency losses of \$800,000 and \$2,307,000, respectively. The Company is subject to minimal market risk arising from purchases of commodities since no significant amount of commodities are used in the treatment of hazardous waste.

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As more fully described in Note 14, Redeemable Series C Preferred Stock, in the Company's 10-K as filed with the Securities and Exchange Commission for the year ended December 31, 2002, the Company issued Series C Preferred Stock \$0.01 par value (the Series C Preferred Stock) for \$25,000,000 on September 10, 2002, and incurred \$2,891,000 of issuance costs. The Company has determined that the Series C Preferred Stock should be recorded on the Company's financial statements as though the Series C Preferred Stock consists of two components, namely (i) a non-convertible redeemable preferred stock (the Host Contract) which matures in seven years with a 6% annual dividend, and (ii) an embedded derivative (the Embedded Derivative) which reflects the right of the holders of the Series C Preferred Stock to convert into the Company's common stock on the terms set forth in the Series C Preferred Stock. The initial values of these two components were determined as of the issuance date based upon relative fair values using a discounted cash flow model and an assumed annual rate of return of 14%. Accordingly, the Series C Preferred Stock was

discounted to arrive at a fair value of \$15,677,000 for the Host Contract with the remaining cash proceeds received at issuance of \$9,323,000 assigned as the fair value of the Embedded Derivative. The Company recorded in Other Long-term Liabilities the \$9,323,000 initial fair value of the Embedded Derivative and will periodically mark that value to market until such time as the maximum number of shares of common stock which may be issued upon conversion of the Series C Preferred Stock is determined. As of June 30, 2003, the market value of the Embedded Derivative was determined to be \$8,747,000 and the Company recorded \$429,000 and \$446,000 of Other Income for the three and six months, respectively, to reflect such adjustment. The Company believes in future periods that the value of the Embedded Derivative could increase or decrease significantly based on such factors as changes in the market value of the Company's common stock, changes in prevailing interest rates and changes in the volatility of the Company's common stock.

Table of Contents**ITEM 4. CONTROLS AND PROCEDURES**

Since the acquisition of the assets of the Chemical Services Division (the CSD) of Safety-Kleen Corp. (Safety-Kleen) effective September 7, 2002 (see Note 2 to the financial statements included in this report), the Company has focused upon integrating the operations acquired into the Company's disclosure controls and procedures and internal controls. Safety-Kleen has publicly disclosed that it has historically had material deficiencies in many of its financial systems, processes and related internal controls. Due to the deficiencies in these systems and the Company's belief that it will be able to utilize its own systems in order to improve the operations of the former CSD, the decision was made to integrate the United States operations of the former CSD into the Company's business and financial reporting systems effective as of the acquisition date. As anticipated, the Company has experienced certain systems and efficiency issues during the initial period of the integration. The Company has made significant progress in integrating the CSD into the Company's business and financial reporting systems and believes that all major systems for operations within the United States and certain systems in Canada are substantially integrated and operating efficiently as of June 30, 2003. During the integration process, the Company identified the need for various enhancements to address needs that are unique to the CSD business and to improve system efficiencies and security. In addition, the significant increase in transaction volume, as well as the significant increase in the number of new users of the Company's systems, increases the risk of human error or mistake during the integration period. Likewise, the acquisition and integration of a business much larger in size and scope of operations increases the risk that conditions may have been introduced that the Company's design of its systems of control have not anticipated. The Company's decision to integrate the operations of the former CSD into the Company's business and financial reporting systems, combined with the replacement of the business model of the former CSD with the Company's business model, will prevent the Company from being able to calculate meaningful changes in revenue due to volume, price or mix until after the first anniversary of the acquisition. Furthermore, Safety-Kleen's pre-existing deficiencies in financial systems, processes and related internal controls increase the risk that the historical unaudited financial statements of the CSD's operations and cash flows which Safety-Kleen provided to the Company are not accurate. Prior to the acquisition, the Company conducted extensive due diligence investigations with respect to the operations and cash flows of the CSD; however, there is a risk due to the material deficiencies in Safety-Kleen's internal controls that undetected errors may exist in the financial statements provided by Safety-Kleen.

The Company does not expect that its disclosure controls and procedures or its internal controls will prevent all error and all fraud. Internal controls are procedures which are designed with the objective of providing reasonable assurance that (1) transactions are properly authorized; (2) assets are safeguarded against unauthorized or improper use; and (3) transactions are properly recorded and reported, all so as to permit the preparation of financial statements in conformity with generally accepted accounting principles. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. In addition, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

In October 2002, the Company established a Disclosure Committee pursuant to the provisions of the Sarbanes-Oxley Act. The Committee is chaired by the Company's General Counsel and consists of the Company's Chief Executive Officer, Chief Financial Officer, Corporate Controller, Senior Vice President of Risk Management and the vice president responsible for oversight of the environmental liabilities associated with discontinued facilities and operations. From time to time the Committee also confers with two outside consultants, one an expert in investor relations and the other an attorney specializing in SEC matters.

In connection with the audit for the year ended December 31, 2002, PricewaterhouseCoopers LLP (PwC) advised the Audit Committee of the Company's Board of Directors, and the Chief Financial Officer and the Corporate Controller advised the Disclosure Committee, that during the course of the audit of the Company's financial statements for the year ended December 31, 2002, they noted material weaknesses in internal controls relating to the documentation and the retention of documentation for the environmental liabilities, material weaknesses in internal

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controls for the process of calculating deferred revenue, and material weaknesses in internal controls over recording expenses in the appropriate period. Also, reportable conditions existed for valuation of supplies inventory and security over significant financial systems.

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Most of the deficiencies were introduced with the CSD acquisition. The Company has observed steady improvement during the months subsequent to the acquisition and anticipates further improvements as the new users of the Company's systems become more experienced and key data elements transferred from the old CSD systems are replaced with more current and accurate information from transactions processed through the Company's systems. In addition, the Company intends to create a new function headed by a senior manager focused on assessment and remediation of internal controls and procedures for financial reporting.

The Chief Financial Officer and Corporate Controller have advised the Audit Committee and the Disclosure Committee that the Company has performed substantial additional procedures designed to ensure that these internal control deficiencies do not lead to material misstatements in its Consolidated Financial Statements, notwithstanding the presence of the internal control weaknesses noted above.

In light of this information, within the 90 days prior to the filing date of this report, the Company's Disclosure Committee carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to the Securities Exchange Act Rule 13a-15.

Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed by the Company in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that while the Company's disclosure controls and procedures are substantially effective for these purposes as of the date of the evaluation, the Company should continue its efforts to further improve its disclosure controls and procedures.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, other than the ongoing actions described above, many of which were begun prior to the most recent evaluation date.

Table of Contents**CLEAN HARBORS, INC. AND SUBSIDIARIES****PART II OTHER INFORMATION****Item 1 Legal Proceedings**

As of the filing of this report, there have been no material changes to the Legal Proceedings described in Item 3 of the Company's Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on April 10, 2003.

Item 2 Changes in Securities None

Item 3 Defaults Upon Senior Securities See Note 4 to the consolidated financial statements included in this report.

Item 4 Submission of Matters to a Vote of Security Holders The Company's 2003 Annual Meeting of the Stockholders was held on May 15, 2003. At the meeting, the Stockholders elected John T. Preston and Lorne R. Waxlax to serve as directors of the Company for a three-year term, until the 2006 Annual Meeting of Stockholders. Other directors whose term of office as director continued after the meeting were: John P. DeVillars, John F. Kaslow, Daniel J. McCarthy, Alan S. McKim and Thomas J. Shields. Of the 12,311,067 shares voting at the meeting, 12,302,867 shares (99.9%) were voted in favor of the election of Mr. Preston and 12,302,017 shares (99.9%) were voted in favor of the election of Mr. Waxlax.

Item 5 Other Information None**Item 6 Exhibits and Reports on Form 8-K**

a. Exhibits

<u>Item No.</u>	<u>Description</u>	<u>Location</u>
2.5	Fourth Amendment to Acquisition Agreement by and between Safety-Kleen Services, Inc., as Seller and Clean Harbors, Inc., as Purchaser, dated as of July 14, 2003	Previously filed
4.24C	Third Amendment dated as of August 8, 2003 to the Loan and Security Agreement by and between Congress Financial Corporation (New England) as Agent, and Congress Financial Corporation (New England) and the other financial institutions party thereto from time to time as Lenders, and Clean Harbors, Inc. and its subsidiaries as Borrowers.	Previously filed

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4.25B	Second Amendment dated as of August 8, 2003 to the Financing Agreement by and among Clean Harbors, Inc., certain of its Subsidiaries signatory thereto, as Borrowers, certain of its Subsidiaries signatory thereto, as Guarantors, the Financial Institutions from time to time party thereto, as Lenders, and Ableco Finance LLC, as Agent.	Previously filed
31	Rule 13a-14a/15d-14(a) Certifications	Filed herewith
32	Section 1350 Certifications	Filed herewith

b. Reports on Form 8-K

During the fiscal quarter ended June 30, 2003, the Company filed Reports on Form 8-K dated April 1, 2003, May 14, 2003 and May 21, 2003. Pursuant to Item 9 of Form 8-K, such Reports furnished to the Securities and Exchange Commission copies of the Company's press releases dated April 1, 2003, May 14, 2003 and May 20, 2003, each of which contained earnings announcements.

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CLEAN HARBORS, INC. AND SUBSIDIARIES

SIGNATURES

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

CLEAN HARBORS, INC.

Registrant

By:

/s/ ALAN S. MCKIM

Dated: November 14, 2003

Alan S. McKim
President and Chief Executive Officer

By:

/s/ MARK S. BURGESS

Dated: November 14, 2003

Mark S. Burgess
Executive Vice President and

Chief Financial Officer