Heritage-Crystal Clean, Inc.
Form 10-Q
October 19, 2017

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

FORM 10-Q

(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended September 9, 2017
	OR
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from _________________to _________________

Commission File Number 001-33987

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

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

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

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

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

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

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

Large accelerated filer o		Accelerated filer x
Non-accelerated filer o	(Do not check if a smaller reporting company)	Smaller reporting company o
		Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

On October 16, 2017, there were outstanding 22,879,830 shares of Common Stock, $0.01 par value, of Heritage-Crystal Clean, Inc.

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PART I

ITEM 1. FINANCIAL STATEMENTS

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

	September 9, 2017 (unaudited)	December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 33,452	$ 36,610
Accounts receivable - net	45,881	47,533
Inventory - net	20,934	18,558
Other current assets	6,832	6,094
Total Current Assets	107,099	108,795
Property, plant and equipment - net	128,123	131,175
Equipment at customers - net	23,052	23,033
Software and intangible assets - net	17,607	19,821
Goodwill	31,580	31,483
Total Assets	$ 307,461	$ 314,307
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 26,730	$ 30,984
Current maturities of long-term debt	—	6,936
Accrued salaries, wages, and benefits	5,693	6,312
Taxes payable	7,601	6,729
Other current liabilities	2,725	3,245
Total Current Liabilities	42,749	54,206
Long-term debt, less current maturities	28,651	56,518
Deferred income taxes	13,210	5,314
Total Liabilities	$ 84,610	$ 116,038
STOCKHOLDERS' EQUITY:		
Common stock - 26,000,000 shares authorized at $0.01 par value, 22,879,830 and 22,300,007 shares issued and outstanding at September 9, 2017 and December 31, 2016, respectively	$ 229	$ 223
Additional paid-in capital	192,416	185,099
Retained earnings	29,638	12,227
Total Heritage-Crystal Clean, Inc. Stockholders' Equity	222,283	197,549
Noncontrolling interest	568	720
Total Equity	$ 222,851	$ 198,269
Total Liabilities and Stockholders' Equity	$ 307,461	$ 314,307

See accompanying notes to financial statements.

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

	Third Quarter Ended,		First Three Quarters Ended,	
	September 9, 2017	September 10, 2016	September 9, 2017	September 10, 2016
Revenues				
Product revenues	$29,283	$ 27,182	$88,095	$ 75,582
Service revenues	54,048	54,690	162,071	165,295
Total revenues	$83,331	$ 81,872	$250,166	$ 240,877
Operating expenses				
Operating costs	$63,649	$ 61,695	$188,210	$ 187,654
Selling, general, and administrative expenses	10,955	10,726	33,871	34,455
Depreciation and amortization	4,186	4,196	12,501	12,442
Other (income) expense - net	(3,078)	1,439	(11,112)	1,238
Operating income	7,619	3,816	26,696	5,088
Interest expense – net	276	463	775	1,432
Income before income taxes	7,343	3,353	25,921	3,656
Provision for income taxes	2,586	942	9,361	1,140
Net income	4,757	2,411	16,560	2,516
Income attributable to noncontrolling interest	53	76	158	117
Net income attributable to Heritage-Crystal Clean, Inc. common stockholders	$4,704	$ 2,335	$16,402	$ 2,399
Net income per share: basic	$0.21	$ 0.10	$0.73	$ 0.11
Net income per share: diluted	$0.20	$ 0.10	$0.72	$ 0.11
Number of weighted average shares outstanding: basic	22,686	22,267	22,515	22,246
Number of weighted average shares outstanding: diluted	22,970	22,550	22,813	22,417

See accompanying notes to financial statements.

Heritage-Crystal Clean, Inc.
Condensed Consolidated Statement of Stockholders' Equity
(In Thousands, Except Share Amounts)
(Unaudited)

	Shares	Par Value Common	Additional Paid–in Capital	Retained Earnings	Total Heritage-Crystal Clean, Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2016	22,300,007	$ 223	$ 185,099	$ 12,227	$ 197,549	$ 720	$ 198,269
Adjustment adopting ASU 2016-09	—	—	—	1,009	1,009	—	1,009
Net income	—	—	—	16,402	16,402	158	16,560
Distribution	—	—	—	—	—	(310)	(310)
Issuance of common stock – ESPP	21,397	—	303	—	303	—	303
Exercise of stock options	484,531	5	5,407	—	5,412	—	5,412
Share-based compensation	73,895	1	1,607	—	1,608	—	1,608
Balance at September 9, 2017	22,879,830	$ 229	$ 192,416	$ 29,638	$ 222,283	$ 568	$ 222,851

See accompanying notes to financial statements.

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

	For the First Three Quarters Ended,	
	September 9, 2017	September 10, 2016
Cash flows from Operating Activities:		
Net income	$16,560	$ 2,516
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,501	12,442
Net (gain) on disposition of assets	(2,506)	(158)
Non-cash inventory impairment	—	1,651
Bad debt provision	105	714
Share-based compensation	1,608	890
Deferred taxes	8,904	973
Amortization of deferred gain on lease conversion	—	(201)
Other, net	513	541
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	1,534	(6,131)
(Increase) decrease in inventory	(2,376)	2,428
Increase in other current assets	(739)	(1,753)
(Decrease) increase in accounts payable	(3,749)	8,890
(Decrease) increase in accrued expenses	(336)	1,197
Cash provided by operating activities	$32,019	$ 23,999
Cash flows from Investing Activities:		
Capital expenditures	$(9,465)	$ (12,594)
Business acquisitions, net of cash acquired	—	(2,400)
Proceeds from the disposal of assets	4,129	304
Cash used in investing activities	$(5,336)	$ (14,690)
Cash flows from Financing Activities:		
Payments on Term loan	$(64,195)	$ (3,371)
Proceeds from new Term Loan	30,000	—
Proceeds under revolving credit facility	4,000	—
Payments of revolving credit facility	(4,000)	—
Proceeds from the exercise of stock options	5,412	—
Proceeds from the issuance of common stock	303	341
Payments of debt issuance costs	(1,051)	—
Distributions to noncontrolling interest	(310)	(120)
Cash used in financing activities	$(29,841)	$ (3,150)
Net (decrease) increase in cash and cash equivalents	(3,158)	6,159
Cash and cash equivalents, beginning of period	36,610	23,608
Cash and cash equivalents, end of period	$33,452	$ 29,767

Supplemental disclosure of cash flow information:

Income taxes paid	$208	$ 315
Cash paid for interest	970	1,473
Supplemental disclosure of non-cash information:		
Payables for construction in progress	$386	$ 287

See accompanying notes to financial statements.

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HERITAGE-CRYSTAL CLEAN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

September 9, 2017

(1) ORGANIZATION AND NATURE OF OPERATIONS

Heritage-Crystal Clean, Inc., a Delaware corporation and its subsidiaries (collectively the “Company”), provide parts cleaning, hazardous and non-hazardous containerized waste, used oil collection, vacuum, antifreeze recycling and field services primarily to small and mid-sized industrial and vehicle maintenance customers. The Company owns and operates a used oil re-refinery where it re-refines used oils and sells high quality base oil for lubricants as well as other re-refinery products. The Company also has multiple locations where it dehydrates used oil. The oil processed at these locations is sold as recycled fuel oil. The company also operates multiple wastewater treatment plants and antifreeze recycling facilities at which it produces virgin-quality antifreeze. The Company's locations are in the United States and Ontario, Canada. The Company conducts its primary business operations through Heritage-Crystal Clean, LLC, its wholly owned subsidiary, and all intercompany balances have been eliminated in consolidation.

The Company’s fiscal year ends on the Saturday closest to December 31. The most recent fiscal year ended on December 31, 2016. Each of the Company's first three fiscal quarters consists of twelve weeks while the last fiscal quarter consists of sixteen or seventeen weeks.

In the Company's Environmental Services segment, product revenues include sales of solvent, machines, absorbent, accessories, and antifreeze; service revenues include servicing of parts cleaning machines, drum waste removal services, vacuum truck services, field services, and other services. In the Company's Oil Business segment, product revenues include sales of re-refined base oil, recycled fuel oil, used oil, and other products; service revenues include revenues from used oil collection activities, collecting and disposing of waste water and removal and disposal of used oil filters. Due to the Company's integrated business model, it is impracticable to separately present costs of tangible products and costs of services.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2, "Summary of Significant Accounting Policies," in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016. There have been no material changes in these policies or their application.

Recently Issued Accounting Pronouncements

Standard	Issuance Date	Description	Our Effective Date	Effect on the Financial Statements
ASU 2014-09 “Revenue from Contracts with Customers (Topic 606),” ASU 2014-15 “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,” ASU 2016-08 “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” ASU 2016-10 “ Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,” and ASU 2016-12 “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients”	May 2014 and subsequent	These standards outline a single comprehensive model for entities to use in accounting for revenue using a five-step process that supersedes virtually all existing revenue guidance. The underlying principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities have the option of using either a full retrospective approach or a modified retrospective approach to adopt the guidance. Early adoption is permitted.	December 31, 2017	The Company is continuing to evaluate the effect that this accounting standard will have on our consolidated financial position and results of operations. To date, certain personnel have attended technical training concerning this new revenue recognition standard. The Company has identified the portfolios of contracts with customers and the various performance obligations associated with each portfolio of contracts. The Company has also concluded that the timing of revenue recognition will change for certain of our portfolios of contracts upon adoption of ASC 606 as compared to our current revenue recognition. The Company is also assessing the changes that will be necessary to our information systems to enable us to capture the information necessary to recognize revenue in accordance with the new standard and comply with the additional disclosure requirements. The Company will adopt the standard in the first quarter of fiscal 2018 with the modified retrospective approach, with the cumulative effect of initially applying the guidance recognized at the date of initial application.
ASU 2016-02 Leases (Topic 842)	February 2016	This update was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and	January 4, 2019	The Company is currently evaluating the effect that implementation of this update will have on its consolidated financial position and results of operations. The Company anticipates that implementation of this standard will result in an increase to assets and

	disclosing key information about leasing arrangements. Early application of the amendments in this update is permitted for all entities.		an increase to liabilities.

Recently issued accounting standards adopted

Standard	Issuance Date	Description	Effective Date	Effect on the Financial Statements
ASU 2016-09 Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting. (Topic 718)	March 2016	This update addresses the simplification of accounting for employee share-based payment transactions as it pertains to income taxes, the classification of awards as equity or liabilities, accounting for forfeitures, statutory tax withholding requirements, and certain classifications on the statement of cash flows. Early adoption is permitted.	January 1, 2017	ASU 2016-09 simplified the treatment for employee share-based compensation by allowing an entity to recognize excess tax benefits in the current period whether or not current taxes payable are reduced. Prior to 2017 the Company could not recognize windfall tax benefits associated with employee share-based compensation because it was in an NOL position and current taxes payable would not be reduced by the excess tax benefits. As a result of ASU 2016-09 the Company recognized excess tax benefits of $2.5 million from share-based compensation from prior years, resulting in cumulative-effect increases to retained earnings and deferred tax assets of approximately $1.0 million.
ASU 2015-11, Simplifying the Measurement of Inventory. (Topic 330)	July 2015	This update requires the measurement of inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation.	January 1, 2017	The adoption of ASU 2015-11 at the start of fiscal 2017 resulted in no impact to our consolidated financial statements.
ASU 2014-15 Presentation of Financial Statements - Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. (Subtopic 205-40)	August 2014	This update provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Early adoption is permitted.	December 31, 2016	The adoption of ASU 2014-15 in fiscal 2016 resulted in no impact to our consolidated financial statements.
2015-03 Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs, and 2015-15	April 2015	These updates require debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt, and	January 3, 2016	The adoption of ASU 2015-03 resulted in the reclassification of $1.4 million of unamortized debt issuance costs from "Other current assets" to "Term loan, less current maturities" as of January 2, 2016.

Interest—Imputation of Interest (Subtopic 835-30)	allows for the presentation of debt issuance costs as an asset regardless of whether or not there is an outstanding balance on the line-of-credit arrangement.

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2015-16 Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments (Topic 805)	September 2015	This update simplifies the accounting for measurement-period adjustments in a business combination by requiring the acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined. The acquirer is also required to record in the reporting period in which the adjustments are determined the effect on earnings of changes in depreciation, amortization, and other items resulting from the change to the provisional amounts.	January 3, 2016	The Company early adopted the amendments of this ASU No. 2015-16 in fiscal 2015 and it did not have an impact on our consolidated financial condition and results of operations.

(3) BUSINESS COMBINATIONS

On December 2, 2016, the Company purchased the assets of Recycle Engine Coolant, Inc. ("REC"). The purchase price for the acquisition was $0.7 million, including $0.1 million placed into escrow. The Company purchased the assets of REC in order to expand its antifreeze recycling capabilities.

On March 24, 2016, the Company purchased the assets of Phoenix Environmental Services, Inc. and Pipeline Video and Cleaning North Corporation (together "Phoenix Environmental"). The purchase price for the acquisition was $2.7 million, including $0.3 million placed into escrow. The Company purchased the assets of Phoenix Environmental in order to expand its service coverage area into the Pacific Northwest. During the measurement period, the Company made adjustments to the provisional amounts reported as the estimated fair values of assets acquired as part of the Phoenix Environmental business combination. Compared to the provisional value reported as of December 31, 2016, the fair values presented in the table below reflect a decrease to accounts receivable of $12 thousand, a decrease to property, plant, & equipment of $77 thousand, and an increase to goodwill of $89 thousand. Factors leading to goodwill being recognized are the Company's expectations of synergies from integrating Phoenix Environmental into the Company as well as the value of intangible assets that are not separately recognized, such as assembled workforce.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, net of cash acquired, related to each acquisition:

(Thousands)	Phoenix Environmental	REC
Accounts receivable	$ 260	$80
Inventory	27	56
Property, plant, & equipment	398	457
Equipment at customers	38	—
Intangible assets	700	132
Goodwill	1,245	—
Total purchase price, net of cash acquired	$ 2,668	$725

(4) ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

(Thousands)	September 9, 2017	December 31, 2016
Trade	$ 44,907	$ 42,332
Less: allowance for doubtful accounts	1,719	2,176
Trade - net	43,188	40,156
Related parties	1,213	1,324
Other	1,480	6,053
Total accounts receivable - net	$ 45,881	$ 47,533

The following table provides the changes in the Company's allowance for doubtful accounts for the first three quarters ended September 9, 2017, and the fiscal year ended December 31, 2016:

(Thousands)	For the First Three Quarters Ended, September 9, 2017	For the Fiscal Year Ended, December 31, 2016
Balance at beginning of period	$ 2,176	$ 2,207
Provision for bad debts	105	687
Accounts written off, net of recoveries	(562)	(718)
Balance at end of period	$ 1,719	$ 2,176

(5) INVENTORY

The carrying value of inventory consisted of the following:

(Thousands)	September 9, 2017	December 31, 2016
Used oil and processed oil	$ 6,765	$ 5,493
Solvents and solutions	5,663	5,014
Drums and supplies	4,071	3,790
Machines	3,163	2,576
Other	1,762	1,899
Total inventory	21,424	18,772
Less: machine refurbishing reserve	(490)	(214)
Total inventory - net	$ 20,934	$ 18,558

Inventory consists primarily of used oil, processed oil, solvents and solutions, new and refurbished parts cleaning machines, drums and supplies, and other items. Inventories are valued at the lower of first-in, first-out (FIFO) cost or market, net of any reserves for excess, obsolete, or unsalable inventory. The Company routinely monitors its inventory levels at each of its locations and evaluates inventories for excess or slow-moving items. If circumstances indicate the cost of inventories exceed their recoverable value, inventories are reduced to net realizable value. The Company had no inventory write downs during the third quarters of fiscal 2017 and fiscal 2016. There were no inventory write-downs in the first three quarters of fiscal 2017 compared to $1.7 million of inventory write-downs in the first three quarters of fiscal 2016.

(6) PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following:

(Thousands)	September 9, 2017	December 31, 2016
Machinery, vehicles, and equipment	$ 79,221	$ 78,592
Buildings and storage tanks	68,938	69,977
Land	9,563	10,363
Leasehold improvements	4,997	4,876
Construction in progress	13,343	8,646
Assets held for sale	60	177
Total property, plant and equipment	176,122	172,631
Less: accumulated depreciation	(47,999)	(41,456)
Property, plant and equipment - net	$ 128,123	$ 131,175

(Thousands)	September 9, 2017	December 31, 2016
Equipment at customers	$ 66,634	$ 63,502
Less: accumulated depreciation	(43,582)	(40,469)
Equipment at customers - net	$ 23,052	$ 23,033

Depreciation expense for both third quarters ended September 9, 2017 and September 10, 2016 was $3.4 million. Depreciation expense for the first three quarters ended September 9, 2017, and September 10, 2016 was $10.2 million.

(7) GOODWILL AND OTHER INTANGIBLE ASSETS

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

The following table shows changes to our goodwill balances by segment from December 31, 2016, to September 9, 2017:

(Thousands)	Oil Business	Environmental Services	Total
Goodwill at January 2, 2016			
Gross carrying amount	$ 3,952	$ 30,325	$ 34,277
Accumulated impairment loss	(3,952)	—	(3,952)
Net book value at January 2, 2016	$ —	$ 30,325	$ 30,325
Acquisitions	—	1,158	1,158
Goodwill at December 31, 2016			
Gross carrying amount	3,952	31,483	35,435
Accumulated impairment loss	(3,952)	—	(3,952)
Net book value at December 31, 2016	$ —	$ 31,483	$ 31,483
Measurement period adjustments	—	97	97
Goodwill at September 9, 2017			
Gross carrying amount	3,952	31,580	35,532
Accumulated impairment loss	(3,952)	—	(3,952)
Net book value at September 9, 2017	$ —	$ 31,580	$ 31,580

The following is a summary of software and other intangible assets:

	September 9, 2017			December 31, 2016		
(Thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer & supplier relationships	$ 23,069	$ 8,310	$ 14,759	$ 23,045	$ 6,682	$ 16,363
Software	4,604	3,822	782	4,573	3,655	918
Non-compete agreements	2,950	2,489	461	2,934	2,180	754
Patents, formulae, and licenses	1,769	622	1,147	1,769	576	1,193
Other	1,348	890	458	1,348	755	593
Total software and intangible assets	$ 33,740	$ 16,133	$ 17,607	$ 33,669	$ 13,848	$ 19,821

Amortization expense was $0.8 million for the third quarter ended September 9, 2017, and $0.7 million for third quarter ended September 10, 2016. Amortization expense was $2.3 million for both the first three quarters ended

September 9, 2017, and the first three quarters ended September 10, 2016. The weighted average useful lives of software; customer & supplier relationships; patents, formulae, and licenses; non-compete agreements, and other intangibles were 9 years, 10 years, 15 years, 5 years, and 6 years, respectively.

The expected amortization expense for the remainder of fiscal 2017 and for fiscal years 2018, 2019, 2020, and 2021 is $1.0 million, $3.0 million, $2.6 million, $2.5 million, and $2.4 million, respectively. The preceding expected amortization expense is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, disposal of intangible assets, accelerated amortization of intangible assets, and other events.

(8) DEBT AND FINANCING ARRANGEMENTS

Bank Credit Facility

On February 21, 2017, the Company entered into a new Credit Agreement ("Credit Agreement") replacing the prior Credit Agreement ("Prior Credit Agreement") dated as of June 29, 2015. The Credit Agreement provides for borrowings of up to $95.0 million, subject to the satisfaction of certain terms and conditions, comprised of a term loan of $30.0 million and up to $65.0 million of borrowings under the revolving loan portion. The actual amount of borrowings available under the revolving loan portion of the Credit Agreement is limited by the Company's total leverage ratio. The amount available to draw at any point in time would be further reduced by any standby letters of credit issued.

Loans made under the New Credit Agreement may be Base Rate Loans or LIBOR Rate Loans, at the election of the Company subject to certain exceptions. Base Rate Loans have an interest rate equal to (i) the higher of (a) the federal funds rate plus 0.5%, (b) the London Interbank Offering Rate (“LIBOR”) plus 1%, or (c) Bank of America's prime rate, plus (ii) a variable margin of between 0.75% and 1.75% depending on the Company's total leverage ratio, calculated on a consolidated basis. LIBOR rate loans have an interest rate equal to (i) the LIBOR rate plus (ii) a variable margin of between 1.75% and 2.75% depending on the Company's total leverage ratio. Amounts borrowed under the New Credit Agreement are secured by a security interest in substantially all of the Company's tangible and intangible assets. In June 2017, the Company entered into a First Amendment to the Credit Agreement that expands the Company's ability to make dispositions without bank group approval.

As of the Effective date of February 21, 2017, the effective interest rate on the term loan was 3.28% and the effective rate on the revolving loan was 3.28%.
The Credit Agreement contains customary terms and provisions (including representations, covenants, and conditions) for transactions of this type. Certain covenants, among other things, restrict the Company's and its subsidiaries' ability to incur indebtedness, grant liens, make investments and sell assets. The Credit Agreement also contains customary events of default, covenants and representations and warranties. Financial covenants include:

- An interest coverage ratio (based on interest expense and EBITDA) of at least 3.5 to 1.0;

- A total leverage ratio no greater than 3.0 to 1.0, provided that in the event of a permitted acquisition having an aggregate consideration equal to $10.0 million or more, at the Borrower’s election, the foregoing 3.00 to 1.00 shall be deemed to be 3.25 to 1.00 for the fiscal quarter in which such permitted acquisition occurs and the three immediately following fiscal quarters and will thereafter revert to 3.00 to 1.00; and

- A capital expenditures covenant limiting capital expenditures to $100.0 million plus, if the capital expenditures permitted have been fully utilized, an additional amount for the remaining term of the Credit Agreement equal to 35% of EBITDA for the thirteen “four-week” periods most recently ended immediately prior to the full utilization of such $100.0 million basket

The Credit Agreement places certain limitations on acquisitions and the payment of dividends.

During the first three quarters of fiscal 2017, the Company paid and capitalized $1.1 million of debt issuance costs pertaining to the New Credit Agreement and charged $0.2 million of unamortized debt issuance costs pertaining to the Prior Credit Agreement to selling, general, and administrative expenses.

Debt at September 9, 2017 and December 31, 2016 consisted of the following:

(thousands)	September 9, 2017	December 31, 2016
Principal amount	$ 30,000	$ 64,195
Less: unamortized debt issuance costs	1,349	741
Debt less unamortized debt issuance costs	$ 28,651	$ 63,454

During the third quarter of fiscal 2017, the Company recorded interest of $0.3 million on the term loan. During the first three quarters of fiscal 2017, the Company recorded interest of $1.2 million on the term loan.

During the third quarter of fiscal 2016, the Company recorded interest of $0.5 million on the Prior Credit Agreement term loans and capitalized less than $0.1 million for various capital projects. During the first three quarters of fiscal 2016, the Company recorded interest of $1.5 million on the term loan, of which less than $0.1 million was capitalized for various capital projects. The Company's weighted average interest rate for all debt as of September 9, 2017 and September 10, 2016