

US ECOLOGY, INC.  
Form 10-Q  
November 08, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the Quarterly Period Ended: September 30, 2011**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 0-11688**

# US ECOLOGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State of Incorporation)

**95-3889638**  
(I.R.S. Employer Identification Number)

**Lakepointe Centre I,**  
**300 E. Mallard, Suite 300**

**Boise, Idaho**  
(Address of Principal Executive Offices)

**83706**  
(Zip Code)

**(208) 331-8400**

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller Reporting Company   
(Do not check if smaller reporting company)

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

The number of shares of the registrant's common stock, \$0.01 par value, outstanding as of November 4, 2011 was 18,317,514.



Table of Contents

US ECOLOGY, INC.

TABLE OF CONTENTS

<b><u>PART I.</u></b>	<b><u>FINANCIAL INFORMATION</u></b>	
<b><u>Item 1.</u></b>	<b><u>Financial Statements (Unaudited)</u></b>	
	<u>Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010</u>	1
	<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010</u>	2
	<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010</u>	3
	<u>Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2011 and 2010</u>	4
	<u>Notes to Consolidated Financial Statements</u>	5
	<u>Report of Independent Registered Public Accounting Firm</u>	14
<b><u>Item 2.</u></b>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	15
<b><u>Item 3.</u></b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	24
<b><u>Item 4.</u></b>	<b><u>Controls and Procedures</u></b>	25
<b><u>PART II.</u></b>	<b><u>OTHER INFORMATION</u></b>	
<b><u>Cautionary Statement</u></b>		25
<b><u>Item 1.</u></b>	<b><u>Legal Proceedings</u></b>	26
<b><u>Item 1A.</u></b>	<b><u>Risk Factors</u></b>	26
<b><u>Item 2.</u></b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	26
<b><u>Item 3.</u></b>	<b><u>Defaults Upon Senior Securities</u></b>	26
<b><u>Item 4.</u></b>	<b><u>Removed and Reserved</u></b>	26
<b><u>Item 5.</u></b>	<b><u>Other Information</u></b>	26
<b><u>Item 6.</u></b>	<b><u>Exhibits</u></b>	27
<b><u>SIGNATURE</u></b>		28



Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****US ECOLOGY, INC.****CONSOLIDATED BALANCE SHEETS****(in thousands, except per share amounts)****(unaudited)**

	September 30, 2011	December 31, 2010
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 6,059	\$ 6,342
Receivables, net	28,708	33,553
Prepaid expenses and other current assets	2,709	2,635
Income taxes receivable	29	
Deferred income taxes	872	455
Total current assets	38,377	42,985
Property and equipment, net	101,038	105,822
Restricted cash	4,115	4,115
Intangible assets, net	38,863	41,740
Goodwill	20,815	21,790
Other assets	721	897
Total assets	\$ 203,929	\$ 217,349
<b>Liabilities and Stockholders Equity</b>		
Current Liabilities:		
Accounts payable	\$ 5,516	\$ 5,033
Deferred revenue	4,076	3,620
Accrued liabilities	9,031	8,188
Accrued salaries and benefits	4,459	4,051
Income taxes payable	971	2,615
Current portion of closure and post-closure obligations	2,462	778
Current portion of capital lease obligations	3	7
Total current liabilities	26,518	24,292
Long-term closure and post-closure obligations	14,788	15,995
Long-term capital lease obligations	1	3
Reducing revolving line of credit	48,000	63,000
Other long-term liabilities	157	201
Unrecognized tax benefits	429	
Deferred income taxes	18,068	19,146

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Total liabilities	107,961	122,637
Contingencies and commitments		
Stockholders' Equity:		
Common stock \$0.01 par value, 50,000 authorized; 18,318 and 18,311 shares issued, respectively	183	183
Additional paid-in capital	62,188	61,892
Retained earnings	35,779	33,940
Treasury stock, at cost, 93 and 119 shares, respectively	(1,555)	(1,979)
Accumulated other comprehensive (loss) income	(627)	676
Total stockholders' equity	95,968	94,712
Total liabilities and stockholders' equity	\$ 203,929	\$ 217,349

See Notes to Consolidated Financial Statements.

Table of Contents

## US ECOLOGY, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue	\$ 39,670	\$ 25,984	\$ 113,350	\$ 65,356
Other direct operating costs	18,810	10,229	54,825	30,239
Transportation costs	5,571	5,383	20,689	11,027
Gross profit	15,289	10,372	37,836	24,090
Selling, general and administrative expenses	5,722	3,929	15,874	10,839
Operating income	9,567	6,443	21,962	13,251
Other income (expense):				
Interest income	6	16	21	47
Interest expense	(395)		(1,277)	(1)
Foreign currency loss	(3,661)	(35)	(2,193)	(59)
Other	73	65	245	179
Total other income (expense)	(3,977)	46	(3,204)	166
Income before income taxes	5,590	6,489	18,758	13,417
Income tax expense	1,864	2,551	7,087	5,366
<b>Net income</b>	<b>\$ 3,726</b>	<b>\$ 3,938</b>	<b>\$ 11,671</b>	<b>\$ 8,051</b>
<b>Earnings per share:</b>				
Basic	\$ 0.20	\$ 0.22	\$ 0.64	\$ 0.44
Diluted	\$ 0.20	\$ 0.22	\$ 0.64	\$ 0.44
<b>Shares used in earnings per share calculation:</b>				
Basic	18,202	18,172	18,194	18,167
Diluted	18,227	18,186	18,219	18,186
<b>Dividends paid per share</b>	<b>\$ 0.18</b>	<b>\$ 0.18</b>	<b>\$ 0.54</b>	<b>\$ 0.54</b>

See Notes to Consolidated Financial Statements.



Table of Contents

## US ECOLOGY, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)  
(unaudited)

	Nine Months Ended September 30,	
	2011	2010
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 11,671	\$ 8,051
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	9,911	5,011
Amortization of intangible assets	1,076	
Accretion of closure and post-closure obligations	970	830
Unrealized foreign currency loss	2,217	
Deferred income taxes	(904)	117
Stock-based compensation expense	623	789
Unrecognized tax benefits	429	
Net loss on sale of property and equipment	99	167
Changes in assets and liabilities:		
Receivables	4,585	(1,456)
Income tax receivable	(31)	
Other assets	80	(646)
Accounts payable and accrued liabilities	2,392	1,884
Deferred revenue	516	483
Accrued salaries and benefits	483	(78)
Income tax payable	(1,646)	861
Closure and post-closure obligations	(437)	(215)
Other		18
Net cash provided by operating activities	32,034	15,816
<b>Cash Flows From Investing Activities:</b>		
Purchases of property and equipment	(7,493)	(9,023)
Proceeds from sale of property and equipment	57	61
Purchases of short-term investments		(4,998)
Maturities of short-term investments		6,375
Restricted cash		686
Net cash used in investing activities	(7,436)	(6,899)
<b>Cash Flows From Financing Activities:</b>		
Payments on reducing revolving line of credit	(29,400)	
Proceeds from reducing revolving line of credit	14,400	
Dividends paid	(9,832)	(9,816)
Proceeds from stock option exercises	97	
Payment of capital lease obligations	(6)	(9)
Net cash used in financing activities	(24,741)	(9,825)
Effect of foreign exchange rate changes on cash	(140)	
<b>Decrease in cash and cash equivalents</b>	<b>(283)</b>	<b>(908)</b>
Cash and cash equivalents at beginning of period	6,342	31,347

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<b>Cash and cash equivalents at end of period</b>	\$	6,059	\$	30,439
<b>Supplemental Disclosures</b>				
Income taxes paid, net of receipts	\$	9,233	\$	4,387
Interest paid		986		
<b>Non-cash investing and financing activities:</b>				
Capital expenditures in accounts payable		868		868
Closure/Post-closure retirement asset				1,257
Restricted stock issued from treasury shares	\$	424	\$	611

See Notes to Consolidated Financial Statements.

Table of Contents

## US ECOLOGY, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(\$s in thousands)  
(unaudited)

	Common Shares Issued	Par Value Common Stock	Additional Paid-In Capital	Comprehensive Income	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
<b>Balance 12-31-2009</b>	<b>18,305,614</b>	<b>\$ 183</b>	<b>\$ 61,459</b>		<b>\$</b>	<b>\$ 34,446</b>	<b>\$ (2,590)</b>	<b>\$ 93,498</b>
Net income				\$ 8,051		8,051		8,051
Comprehensive income				\$ 8,051				
Dividend paid						(9,816)		(9,816)
Stock-based compensation			789					789
Issuance of restricted common stock from treasury shares			(611)				611	
<b>Balance 9-30-2010</b>	<b>18,305,614</b>	<b>\$ 183</b>	<b>\$ 61,637</b>		<b>\$</b>	<b>\$ 32,681</b>	<b>\$ (1,979)</b>	<b>\$ 92,522</b>
<b>Balance 12-31-2010</b>	<b>18,310,614</b>	<b>\$ 183</b>	<b>\$ 61,892</b>		<b>\$ 676</b>	<b>\$ 33,940</b>	<b>\$ (1,979)</b>	<b>\$ 94,712</b>
Net income				\$ 11,671		11,671		11,671
Foreign currency translation				(1,303)	(1,303)			(1,303)
Comprehensive income				\$ 10,368				
Dividend paid						(9,832)		(9,832)
Stock option exercises	6,900		97					97
Stock-based compensation			623					623
Issuance of restricted common stock from treasury shares			(424)				424	
<b>Balance 9-30-2011</b>	<b>18,317,514</b>	<b>\$ 183</b>	<b>\$ 62,188</b>		<b>\$ (627)</b>	<b>\$ 35,779</b>	<b>\$ (1,555)</b>	<b>\$ 95,968</b>

See Notes to Consolidated Financial Statements.

Table of Contents

**US ECOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 1 GENERAL**

**Basis of Presentation**

The accompanying unaudited consolidated financial statements include the results of operations, financial position and cash flows of US Ecology, Inc., and its wholly-owned subsidiaries (collectively, US Ecology or the Company ). All significant intercompany balances have been eliminated.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments necessary to present fairly, in all material respects, the results of the Company for the periods presented. These consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company s 2010 Annual Report on Form 10-K filed with the SEC on March 15, 2011. The results of operations and cash flows for the three and nine months ended September 30, 2011 are not necessarily indicative of results to be expected for the entire fiscal year.

The Company s Consolidated Balance Sheet as of December 31, 2010 has been derived from the Company s audited Consolidated Balance Sheet as of that date.

**Use of Estimates**

The preparation of the Company s consolidated financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions. Some of these estimates require difficult, subjective or complex judgments about matters that are inherently uncertain. As a result, actual results could differ from these estimates, in some cases materially. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

*Financial Instruments.* Cash and cash equivalents, accounts receivable, short-term borrowings, restricted cash, accounts payable and accrued liabilities as presented in the consolidated financial statements approximate fair value because of the short-term nature of these instruments.

**NOTE 2 ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)**

The components of accumulated other comprehensive income/(loss) were as follows (in thousands):

	September 30, 2011	December 31, 2010
Cumulative adjustment of foreign currency statements	\$ (627)	\$ 676
Accumulated other comprehensive (loss) income	\$ (627)	\$ 676

**NOTE 3 CONCENTRATION AND CREDIT RISK**

*Major Customers.* No customer represented more than 10% of total revenue for the three and nine months ended September 30, 2011. Revenue under the Company's multiple year disposal contract with the U.S. Army Corps of Engineers ( USACE ) represented 19% and 18% of total revenue for the three and nine months ended September 30, 2010, respectively. Revenue from General Electric, Inc. ( GE ) represented 11% of total revenue for the three months ended September 30, 2010. No other customer represented more than 10% of total revenue for the three and nine months ended September 30, 2010.

Table of Contents

No customers accounted for more than 10% of total trade receivables as of September 30, 2011. The following customers accounted for more than 10% of total trade receivables as of December 31, 2010:

Customer	Percent of Receivables December 31, 2010
U.S. Army Corps of Engineers	12%
Honeywell International, Inc.	10%
General Electric, Inc.	10%

Credit Risk Concentration. We maintain most of our cash and short-term investments with nationally recognized financial institutions like Wells Fargo National Association ( Wells Fargo ). Substantially all of our balances are uninsured and are not used as collateral for other obligations. Concentrations of credit risk on accounts receivable are believed to be limited due to the number, diversification and character of the obligors and our credit evaluation process.

**NOTE 4 RECEIVABLES**

Receivables were as follows:

(in thousands)	September 30, 2011	December 31, 2010
Trade	\$ 26,699	\$ 32,221
Unbilled revenue	1,434	1,463
Other	1,083	207
	29,216	33,891
Allowance for doubtful accounts	(508)	(338)
	\$ 28,708	\$ 33,553

**NOTE 5 PROPERTY AND EQUIPMENT**

(in thousands)	September 30, 2011	December 31, 2010
Cell development costs	\$ 61,510	\$ 58,944
Land and improvements	13,083	13,016
Buildings and improvements	51,017	44,228
Railcars	17,375	17,375
Vehicles and other equipment	33,051	31,252
Construction in progress	3,331	10,556
	179,367	175,371

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Accumulated depreciation and amortization	(78,329)	(69,549)
	\$ 101,038	\$ 105,822

Depreciation expense for the three months ended September 30, 2011 and 2010 was \$3.6 million and \$1.9 million, respectively. Depreciation expense for the nine months ended September 30, 2011 and 2010 was \$9.9 million and \$5.0 million, respectively.

Table of Contents**NOTE 6 BUSINESS COMBINATION**

On October 31, 2010, the Company, through a wholly-owned subsidiary, acquired 100% of the outstanding shares of Seaway TLC Inc. and its wholly-owned subsidiaries Stablex Canada Inc. and Gulfstream TLC, Inc. (collectively Stablex ). The following unaudited pro forma financial information presents the combined results of operations as if Stablex had been combined with us beginning on January 1, 2010. The pro forma financial information includes the accounting impact of the business combination, including the amortization of intangible assets, depreciation of property, plant and equipment and interest expense. The unaudited pro forma financial information is presented for informational purposes only. It is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the period presented, nor should it be taken as an indication of our future consolidated results of operations.

(in thousands, except per share data)	(unaudited) Three months ended September 30, 2010	(unaudited) Nine months ended September 30, 2010
Pro forma combined revenues	\$ 29,895	\$ 85,355
Pro forma combined net income	\$ 2,922	\$ 6,080
Earnings per share		
Basic	\$ 0.16	\$ 0.33
Dilutive	\$ 0.16	\$ 0.33

**NOTE 7 GOODWILL AND INTANGIBLE ASSETS**

Goodwill and intangible assets as of September 30, 2011 and December 31, 2010 reflect our acquisition of Stablex on October 31, 2010 (see Note 6). Prior to the acquisition of Stablex, the Company had no goodwill or intangible assets. The goodwill has been assigned to the Operating Disposal Facilities reporting segment. Changes in goodwill for the three and nine months ended September 30, 2011 were as follows:

(in thousands)	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Balance, beginning of period	\$ 22,419	\$ 21,790
Foreign currency translation	(1,604)	(975)
Balance, end of period	\$ 20,815	\$ 20,815



Table of Contents

Below is a summary of amortizable and other intangible assets:

(in thousands)	September 30, 2011	December 31, 2010
<b>Amortized intangible assets</b>		
Developed software	\$ 337	\$ 352
Database	96	100
Customer relationships	3,919	4,102
Technology - Formulae and processes	8,740	9,149
Permits, licenses and lease	26,844	28,101
	39,936	41,804
<b>Accumulated amortization</b>	<b>(1,236)</b>	<b>(235)</b>
<b>Unamortized intangible assets</b>		
Tradename	163	171
	\$ 38,863	\$ 41,740

Amortization expense for the three and nine months ended September 30, 2011 was \$358,000 and \$1.1 million, respectively. There was no amortization of intangibles in the three and nine months ended September 30, 2010.

**NOTE 8 DEBT**

We have a credit agreement (the *Credit Agreement*) with Wells Fargo which provides for borrowings in an aggregate of \$89.4 million, net of commitment reductions. The *Credit Agreement* provides a \$20.0 million revolving line of credit (the *Revolving Line of Credit*) with a maturity date of June 15, 2013 and a \$69.4 million reducing revolving line of credit (the *Reducing Revolving Line of Credit*), net of commitment reductions with a maturity date of November 1, 2015.

***Revolving Line of Credit***

The *Revolving Line of Credit* provides up to \$20 million in revolving credit loans or letters of credit for working capital needs (the *Commitment Amount*). These revolving loans are available based on the Prime Rate or LIBOR, at the Company's option, plus