AMERICAN ECOLOGY CORP
Form 10-Q
April 30, 2008

Table of Contents

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended: March 31, 2008
Commission File Number: 0-11688
AMERICAN ECOLOGY CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware	95-3889638
(State of Incorporation)	(I.R.S. Employer Identification Number)
Lakepointe Centre I, 300 E. Mallard, Suite 300 Boise, Idaho	83706
(Address of Principal Executive Offices)	(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 (the Exchange Act) 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 þ No o

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

The number of shares of the registrant s common stock, $0.01 par value, outstanding as of April 29, 2008 was 18,246,240.

AMERICAN ECOLOGY CORPORATION
TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

AMERICAN ECOLOGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	March 31, 2008 (unaudited)	December 31, 2007
Assets		
Current Assets:		
Cash and cash equivalents	$ 9,365	$ 12,563
Short-term investments	999	2,209
Receivables, net	37,998	29,422
Prepaid expenses and other current assets	3,039	3,034
Income tax receivable		994
Deferred income taxes	896	667
Total current assets	52,297	48,889
Property and equipment, net	64,303	63,306
Restricted cash	4,818	4,881
Total assets	$ 121,418	$ 117,076
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 4,813	$ 4,861
Deferred revenue	4,214	4,491
Accrued liabilities	5,352	6,267
Accrued salaries and benefits	1,699	2,613
Income tax payable	2,874	
Current portion of closure and post-closure obligations	1,314	803
Current portion of capital lease obligations	10	8
Total current liabilities	20,276	19,043
Long-term closure and post-closure obligations	13,965	14,331
Long-term capital lease obligations	28	27
Deferred income taxes	716	577
Total liabilities	34,985	33,978
Contingencies and commitments		
Stockholders Equity		

Common stock $0.01 par value, 50,000 authorized; 18,246 and 18,246 shares issued and outstanding, respectively		182		182
Additional paid-in capital		59,020		58,816
Retained earnings		27,231		24,100
Total stockholders equity		86,433		83,098
Total liabilities and stockholders equity	$	121,418	$	117,076

See Notes to Consolidated Financial Statements.

1

Table of Contents

AMERICAN ECOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenue	$ 46,219	$ 38,964
Transportation costs	22,058	17,171
Other direct operating costs	10,717	10,279
Gross profit	13,444	11,514
Selling, general and administrative expenses	3,919	3,599
Operating income	9,525	7,915
Other income (expense):		
Interest income	63	211
Interest expense	(1)	(1)
Other	65	4
Total other income	127	214
Income before income taxes	9,652	8,129
Income tax	3,784	3,194
Net income	$ 5,868	$ 4,935
Earnings per share:		
Basic	$ 0.32	$ 0.27
Dilutive	$ 0.32	$ 0.27
Shares used in earnings per share calculation:		
Basic	18,229	18,209
Dilutive	18,277	18,253
Dividends paid per share	$ 0.15	$ 0.15

See Notes to Consolidated Financial Statements.

Table of Contents

AMERICAN ECOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31, 2008	2007
Cash Flows From Operating Activities:		
Net income	$ 5,868	$ 4,935
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	2,838	2,351
Deferred income taxes	(90)	1,650
Stock-based compensation expense	201	143
Accretion of interest income	(14)	(60)
Net gain on sale of property and equipment	(2)	
Changes in assets and liabilities:		
Receivables	(8,576)	(1,432)
Income tax receivable	994	650
Other assets	(5)	(238)
Accounts payable and accrued liabilities	(1,026)	(587)
Deferred revenue	(277)	57
Accrued salaries and benefits	(914)	(453)
Income tax payable	2,874	673
Closure and post-closure obligations	(164)	(119)
Net cash provided by operating activities	1,707	7,570
Cash Flows From Investing Activities:		
Purchases of property and equipment	(3,464)	(3,775)
Purchases of short-term investments	(992)	(11,943)
Maturities of short-term investments	2,216	10,364
Restricted cash	63	(61)
Proceeds from sale of property and equipment	9	
Net cash used in investing activities	(2,168)	(5,415)
Cash Flows From Financing Activities:		
Dividends paid	(2,737)	(2,734)
Tax benefit of common stock options	2	216
Proceeds from stock option exercises	1	326
Other	(3)	(2)
Net cash used in financing activities	(2,737)	(2,194)
Decrease in cash and cash equivalents	(3,198)	(39)
Cash and cash equivalents at beginning of period	12,563	3,775

Cash and cash equivalents at end of period	$	9,365	$	3,736
Supplemental Disclosures				
Income taxes paid	$	4	$	3
Interest paid		1		1
Non-cash investing and financing activities:				
Capital expenditures in accounts payable		474		953
Acquisition of equipment with capital leases		6	$	

See Notes to Consolidated Financial Statements.

3

Table of Contents

AMERICAN ECOLOGY CORPORATION
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 American Ecology Corporation and its wholly-owned subsidiaries (collectively, AEC or the Company). All material 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 2007 Annual Report on Form 10-K filed with the SEC on February 27, 2008. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of results to be expected for the entire fiscal year.

The Company s Consolidated Balance Sheet as of December 31, 2007 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.

NOTE 2 EFFECT OF RECENTLY ISSUED ACCOUNTING STANDARDS

SFAS 157. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 applies to other existing accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. While SFAS 157 does not require any new fair value measurements, its application may change the current practice for fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On February 8, 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 for nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. The adoption of SFAS 157 for financial assets and liabilities in the first quarter of 2008 had no impact on our consolidated financial statements. We are currently evaluating the impact of SFAS 157 for non-financial assets and liabilities.

SFAS 159. In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159) which permits entities to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and was adopted by the Company beginning in the first quarter of fiscal 2008. The adoption of SFAS 159 had no impact on our consolidated financial statements.

SFAS 141 R. In December 2007, the FASB issued SFAS 141(revised 2007), *Business Combinations* (SFAS 141 R) which establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree in a business combination. SFAS 141 R requires that assets and liabilities, including contingencies, be recorded at the fair value determined on the acquisition date with changes thereafter reflected in results of operations, as opposed to goodwill. Additionally, SFAS 141 R modifies the treatment of restructuring costs associated with a business combination and requires acquisition costs to be expensed as incurred. The statement also provides guidance on disclosures related to the nature and financial impact of the business combination. SFAS 141 R is effective for transactions closing after December 15, 2008 and for fiscal years beginning after December 15, 2008. SFAS 141 R will be adopted for business combinations entered into by the Company after December 31, 2008. Although the Company will continue to evaluate the application of SFAS 141 R, we do not currently believe adoption will have a material impact on our consolidated financial statements.

SFAS 160. In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS 160). This statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective prospectively, except for certain retrospective disclosure requirements, for fiscal years beginning after December 15, 2008. This statement will be effective for the Company beginning in the first quarter of 2009. Although the Company will continue to evaluate the application of SFAS 160, we do not currently believe adoption of SFAS 160 will have a material impact on our consolidated financial statements.

SFAS 161. In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 expands quarterly disclosure requirements in SFAS 133 about an entity s derivative instruments and hedging activities. SFAS is effective for fiscal years beginning after November 15, 2008. This statement will be effective for the Company beginning in the first quarter of 2009. Although the Company will continue to evaluate the application of SFAS 161, we do not currently believe the adoption will have a material impact on our consolidated financial statements.

NOTE 3 CONCENTRATION AND CREDIT RISK

Major Customers. During the three months ended March 31, 2008 and 2007, Honeywell International, Inc. (Honeywell) represented 38% and 37% of our consolidated revenue, with no other single customer representing more than 10% of our consolidated revenue. The Company has a long-term contract with Honeywell for transportation, treatment and disposal of hazardous waste for a clean-up project presently estimated to conclude in November 2009. Receivables from Honeywell represented 49% of our total trade receivables at March 31, 2008 and 50% of total receivables at December 31, 2007. No other customer s receivable balances exceeded 10% of our total trade receivables at March 31, 2008 or December 31, 2007.

Credit Risk Concentration. We maintain most of our cash and short-term investments with Wells Fargo Bank. Substantially all balances are uninsured and are not used as collateral for other obligations. Short-term investments consist of high-quality commercial paper currently with a maximum maturity of approximately three months. 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, except for receivables from Honeywell for which significant credit risk exists. Credit risk on Honeywell receivables is partially mitigated by court orders requiring that Honeywell perform activities covered by our contract. Typically, we have not required customers to provide collateral for such obligations.

Table of Contents

NOTE 4 SHORT-TERM INVESTMENTS

Short-term investments, which are accounted for as available-for-sale, were as follows:

(in thousands)	March 31, 2008	December 31, 2007
Fixed maturity securities		
Commercial paper	$ 999	$ 2,209
Total	$ 999	$ 2,209

NOTE 5 RECEIVABLES

Receivables were as follows:

(in thousands)	March 31, 2008	December 31, 2007
Trade	$ 36,928	$ 28,821
Unbilled revenue	999	613
Other	205	122
	38,132	29,556
Allowance for doubtful accounts	(134)	(134)
	$ 37,998	$ 29,422

NOTE 6 PROPERTY AND EQUIPMENT

(in thousands)	March 31, 2008	December 31, 2007
Cell development costs	$ 36,551	$ 32,492
Land and improvements	8,910	8,858
Buildings and improvements	27,204	26,547
Railcars	17,375	17,375
Vehicles and other equipment	19,938	19,823
Construction in progress	5,310	6,676
	115,288	111,771
Accumulated depreciation and amortization	(50,985)	(48,465)
	$ 64,303	$ 63,306

Depreciation expense for the three months ended March 31, 2008 and 2007 was $2.5 million and $2.1 million, respectively.

NOTE 7 RESTRICTED CASH

Restricted cash balances of $4.8 million and $4.9 million at March 31, 2008 and December 31, 2007, respectively, represent funds held in third-party managed trust accounts as collateral for our financial assurance policies for closure and post-closure obligations. These restricted cash balances are maintained by third-party trustees and are invested in money market accounts.

NOTE 8 LINE OF CREDIT

We have a line of credit with Wells Fargo Bank for $15.0 million with a maturity date of June 15, 2008. The line of credit is unsecured. Monthly interest only payments are paid based on a pricing grid, under which the interest rate decreases or increases based on our ratio of funded debt to earnings before interest, taxes, depreciation and amortization. We can elect to borrow utilizing the Prime Rate or the offshore London Inter-Bank Offering Rate (LIBOR) plus an applicable spread. The credit agreement contains certain quarterly financial covenants, including a maximum leverage ratio, a minimum current ratio, a maximum funded debt ratio and a minimum fixed-charge coverage ratio that we are required to maintain. Pursuant to our credit agreement, we may only declare quarterly or annual dividends if on the date of declaration, no event of default has occurred, or no other event or condition that would constitute an event of default, including the payment of the dividend, has occurred. At March 31, 2008, we were in compliance with all of the financial covenants in the credit agreement. We expect to enter into a new unsecured line-of-credit agreement prior to the expiration of our existing line-of-credit agreement in June 2008.

Table of Contents

At March 31, 2008 and December 31, 2007, we had no amounts outstanding on the revolving line of credit. At March 31, 2008 and December 31, 2007, the availability under the line of credit was $11.0 million with $4.0 million of the line of credit issued in the form of a standby letter of credit utilized as collateral for closure and post-closure financial assurance.

NOTE 9 CLOSURE AND POST-CLOSURE OBLIGATIONS

Closure and post-closure obligations are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated consistent with SFAS No. 5, *Accounting for Contingencies* and with the liability calculated in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations*. We perform periodic reviews of both non-operating and operating facilities and revise accruals for estimated post-closure, remediation and other costs when necessary. Our recorded liabilities are based on best estimates of future costs and are updated periodically to reflect existing environmental conditions, current technology, laws and regulations, permit conditions, inflation and other factors.

Changes to reported closure and post-closure obligations were as follows:

(in thousands)	Three Months Ended March 31, 2008	
Beginning obligation	$	15,134
Accretion expense		309
Payments		(164)
Ending obligation		15,279
Less current portion		(1,314)
Long-term portion	$	13,965

NOTE 10 INCOME TAXES

As of March 31, 2008 and December 31, 2007, we had no unrecognized tax benefits. We recognize interest assessed by taxing authorities as a component of interest expense. We recognize any penalties assessed by taxing authorities as a component of selling, general and administrative expenses. Interest and penalties for the three months ended March 31, 2008 and 2007 were not material.

Our effective income tax rate for three months ended March 31, 2008 was 39.2% compared to 39.3% for the three months ended March 31, 2007.

We file U.S. federal income tax returns with the Internal Revenue Service (IRS) as well as income tax returns in various states. We may be subject to examination by the IRS for tax years 2003 through 2007. Additionally, we may be subject to examinations by various state taxing jurisdictions for tax years 2002 through 2007. We are currently not under examination by the IRS or state taxing jurisdictions.

NOTE 11 COMMITMENTS AND CONTINGENCIES

In the ordinary course of conducting business, we are involved in judicial and administrative proceedings involving federal, state or local governmental authorities. Actions may also be brought by individuals or groups in connection with permitting of planned facility expansions, alleged violations of existing permits, or alleged damages suffered from exposure to hazardous substances purportedly released from our operated sites, as well as other litigation. We maintain insurance intended to cover property and damage claims asserted as a result of our operations. Periodically, management reviews and may establish reserves for legal and administrative matters, or fees expected to be incurred in connection therewith. As of March 31, 2008, we did not have any ongoing, pending or threatened legal action that management believes would have a material adverse effect on our financial position, results of operations or cash flows.

7

Table of Contents

NOTE 12 COMPUTATION OF EARNINGS PER SHARE

	Three Months Ended March 31,			
	2008		2007	
(in thousands, except per share data)	Basic	Diluted	Basic	Diluted
Net income	$ 5,868	$ 5,868	$ 4,935	$ 4,935
Weighted average common shares outstanding	18,229	18,229	18,209	18,209
Dilutive effect of stock options and restricted stock		48		44
Weighted average shares outstanding		18,277		18,253
Earnings per share	$ 0.32	$ 0.32	$ 0.27	$ 0.27
Anti-dilutive shares excluded from calculation		144		158

NOTE 13 OPERATING SEGMENTS

We operate within two segments, Operating Disposal Facilities and Non-Operating Disposal Facilities. The Operating Disposal Facilities segment represents facilities currently accepting waste. The Non-Operating Disposal Facilities segment represents facilities that are no longer accepting waste or formerly proposed new disposal facilities. Income taxes are assigned to Corporate, but all other items are included in the segment where they originated. Intercompany transactions have been eliminated from the segment information and are not significant between segments.

Summarized financial information concerning our reportable segments is shown in the following tables:

(in thousands)	Operating Disposal Facilities	Non-Operating Disposal Facilities	Corporate	Total
Three months ended March 31, 2008				
Revenue	$ 46,215	$ 4	$	$ 46,219
Transportation costs	22,058			22,058
Other direct operating costs	10,645	72		10,717
Gross profit	13,512	(68)		13,444
Selling, general & administration	1,322		2,597	3,919
Operating income (loss)	12,190	(68)	(2,597)	9,525
Interest income, net	(1)		63	62
Other income	65			65
Income (loss) before tax	12,254	(68)	(2,534)	9,652
Tax expense			3,784	3,784
Net income (loss)	$ 12,254	$ (68)	$ (6,318)	$ 5,868
Depreciation, amortization & accretion	$ 2,755	$ 72	$ 11	