

US ECOLOGY, INC.
Form 10-Q
October 31, 2013
[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 September 30, 2013

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: 0000-11688

US ECOLOGY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

95-3889638
(I.R.S. Employer Identification No.)

251 E. Front St., Suite 400
Boise, Idaho
(Address of principal executive offices)

83702
(Zip Code)

Registrant's telephone number, including area code: **(208) 331-8400**

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 (§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 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
(Do not check if a smaller reporting company)

Smaller reporting company

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

At October 25, 2013, there were 18,534,510 shares of the registrant's Common Stock outstanding.

Table of Contents

US ECOLOGY, INC.

FORM 10-Q

TABLE OF CONTENTS

| Item | | Page |
|------|--|------|
| | <u>PART I FINANCIAL INFORMATION</u> | |
| 1. | <u>Financial Statements (Unaudited)</u> | 3 |
| | <u>Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012</u> | 3 |
| | <u>Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012</u> | 4 |
| | <u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012</u> | 5 |
| | <u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012</u> | 6 |
| | <u>Notes to Consolidated Financial Statements</u> | 7 |
| | <u>Report of Independent Registered Public Accounting Firm</u> | 17 |
| 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 18 |
| 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 27 |
| 4. | <u>Controls and Procedures</u> | 27 |
| | <u>PART II OTHER INFORMATION</u> | |
| | <u>Cautionary Statement</u> | 28 |
| 1. | <u>Legal Proceedings</u> | 28 |
| 1A. | <u>Risk Factors</u> | 28 |
| 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 29 |
| 3. | <u>Defaults Upon Senior Securities</u> | 29 |
| 4. | <u>Mine Safety Disclosures</u> | 29 |
| 5. | <u>Other Information</u> | 29 |
| 6. | <u>Exhibits</u> | 29 |
| | <u>SIGNATURE</u> | 30 |

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

US ECOLOGY, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value amount)

| | September 30, 2013 | December 31, 2012 |
|---|--------------------|-------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 4,378 | \$ 2,120 |
| Receivables, net | 40,794 | 33,947 |
| Prepaid expenses and other current assets | 4,076 | 3,161 |
| Deferred income taxes | 888 | 1,276 |
| Total current assets | 50,136 | 40,504 |
| Property and equipment, net | 115,284 | 109,792 |
| Restricted cash | 4,111 | 4,111 |
| Intangible assets, net | 38,354 | 40,771 |
| Goodwill | 22,359 | 23,105 |
| Other assets | 487 | 411 |
| Total assets | \$ 230,731 | \$ 218,694 |
| Liabilities And Stockholders Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 8,070 | \$ 6,333 |
| Deferred revenue | 6,439 | 3,919 |
| Accrued liabilities | 8,291 | 7,322 |
| Accrued salaries and benefits | 5,925 | 7,570 |
| Income taxes payable | 3,168 | 426 |
| Current portion of closure and post-closure obligations | 894 | 1,913 |
| Total current liabilities | 32,787 | 27,483 |
| Long-term closure and post-closure obligations | 16,286 | 15,449 |
| Reducing revolving line of credit | 35,500 | 45,000 |
| Other long-term liabilities | 80 | 114 |
| Unrecognized tax benefits | 477 | 467 |
| Deferred income taxes | 15,693 | 18,159 |
| Total liabilities | 100,823 | 106,672 |
| Commitments and contingencies | | |

Edgar Filing: US ECOLOGY, INC. - Form 10-Q

Stockholders Equity:

| | | | | |
|---|----|----------------|----|----------------|
| Common stock \$0.01 par value, 50,000 authorized; 18,534 and 18,385 shares issued, respectively | | 185 | | 184 |
| Additional paid-in capital | | 65,838 | | 63,969 |
| Retained earnings | | 64,723 | | 48,424 |
| Treasury stock, at cost, 19 and 71 shares, respectively | | (319) | | (1,183) |
| Accumulated other comprehensive income (loss) | | (519) | | 628 |
| Total stockholders equity | | 129,908 | | 112,022 |
| Total liabilities and stockholders equity | \$ | 230,731 | \$ | 218,694 |

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

Table of Contents

US ECOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|-----------|---------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenue | \$ 53,090 | \$ 45,739 | \$ 141,766 | \$ 118,732 |
| Direct operating costs | 20,902 | 19,893 | 61,745 | 56,164 |
| Transportation costs | 10,568 | 7,257 | 24,091 | 14,577 |
| Gross profit | 21,620 | 18,589 | 55,930 | 47,991 |
| Selling, general and administrative expenses | 6,108 | 6,196 | 18,353 | 18,167 |
| Operating income | 15,512 | 12,393 | 37,577 | 29,824 |
| Other income (expense): | | | | |
| Interest income | 4 | 4 | 11 | 13 |
| Interest expense | (208) | (231) | (651) | (659) |
| Foreign currency gain (loss) | 683 | 1,605 | (1,448) | 1,775 |
| Other | 77 | 70 | 268 | 672 |
| Total other income (expense) | 556 | 1,448 | (1,820) | 1,801 |
| Income before income taxes | 16,068 | 13,841 | 35,757 | 31,625 |
| Income tax expense | 5,740 | 5,179 | 12,813 | 12,078 |
| Net income | \$ 10,328 | \$ 8,662 | \$ 22,944 | \$ 19,547 |
| Earnings per share: | | | | |
| Basic | \$ 0.56 | \$ 0.48 | \$ 1.25 | \$ 1.07 |
| Diluted | \$ 0.56 | \$ 0.47 | \$ 1.24 | \$ 1.07 |
| Shares used in earnings per share calculation: | | | | |
| Basic | 18,459 | 18,236 | 18,395 | 18,228 |
| Diluted | 18,533 | 18,270 | 18,475 | 18,262 |
| Dividends paid per share | \$ 0.18 | \$ 0.18 | \$ 0.36 | \$ 0.54 |

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

Table of Contents

US ECOLOGY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|----------|---------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | \$ 10,328 | \$ 8,662 | \$ 22,944 | \$ 19,547 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation gain (loss) | 782 | 944 | (1,147) | 1,079 |
| Comprehensive income | \$ 11,110 | \$ 9,606 | \$ 21,797 | \$ 20,626 |

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

Table of Contents

US ECOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

| | Nine Months Ended September 30, | |
|---|---------------------------------|-----------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net income | \$ 22,944 | \$ 19,547 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of property and equipment | 10,792 | 10,222 |
| Amortization of intangible assets | 1,092 | 1,096 |
| Accretion of closure and post-closure obligations | 927 | 1,018 |
| Unrealized foreign currency (gain) loss | 1,706 | (2,034) |
| Deferred income taxes | (1,646) | (785) |
| Share-based compensation expense | 601 | 564 |
| Unrecognized tax benefits | 10 | 10 |
| Net (gain) loss on sale of property and equipment | 12 | (34) |
| Changes in assets and liabilities: | | |
| Receivables | (7,218) | (1,994) |
| Income tax receivable | | 187 |
| Other assets | (833) | (213) |
| Accounts payable and accrued liabilities | 1,004 | (3,485) |
| Deferred revenue | 2,564 | (112) |
| Accrued salaries and benefits | (1,541) | 875 |
| Income tax payable | 2,752 | 515 |
| Closure and post-closure obligations | (989) | (544) |
| Net cash provided by operating activities | 32,177 | 24,833 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (15,590) | (12,433) |
| Business acquisition, net of cash acquired | | (10,743) |
| Proceeds from sale of property and equipment | 64 | 465 |
| Restricted cash | | 5 |
| Net cash used in investing activities | (15,526) | (22,706) |
| Cash flows from financing activities: | | |
| Payments on reducing revolving line of credit | (19,000) | (17,000) |
| Proceeds from reducing revolving line of credit | 9,500 | 26,000 |
| Proceeds from exercise of stock options | 2,192 | |
| Deferred financing costs paid | (185) | |
| Dividends paid | (6,645) | (9,850) |
| Other | (58) | (259) |
| Net cash used in financing activities | (14,196) | (1,109) |
| Effect of foreign exchange rate changes on cash | (197) | 217 |
| Increase in cash and cash equivalents | 2,258 | 1,235 |
| Cash and cash equivalents at beginning of period | 2,120 | 4,289 |

Edgar Filing: US ECOLOGY, INC. - Form 10-Q

| | | | | |
|---|----|--------|----|--------|
| Cash and cash equivalents at end of period | \$ | 4,378 | \$ | 5,524 |
| Supplemental Disclosures | | | | |
| Income taxes paid, net of receipts | \$ | 11,467 | \$ | 12,155 |
| Interest paid | \$ | 547 | \$ | 616 |
| Non-cash investing and financing activities: | | | | |
| Closure and post-closure retirement asset | \$ | 550 | \$ | 956 |
| Capital expenditures in accounts payable | \$ | 2,526 | \$ | 973 |
| Restricted stock issued from treasury shares | \$ | 864 | \$ | 372 |

The accompanying notes are an integral part of these 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. All significant intercompany balances have been eliminated. Throughout these financial statements words such as we, us, our, US Ecology and the Company refer to US Ecology, Inc. and its subsidiaries.

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 (GAAP) 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2012. The results of operations and cash flows for the nine months ended September 30, 2013 are not necessarily indicative of results to be expected for the entire fiscal year.

The Company s Consolidated Balance Sheet as of December 31, 2012 has been derived from the Company s audited Consolidated Balance Sheet as of that date.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements. As it relates to estimates and assumptions in amortization rates and environmental obligations, significant engineering, operations and accounting judgments are required. We review these estimates and assumptions no less than annually. In many circumstances, the ultimate outcome of these estimates and assumptions will not be known for decades into the future. Actual results could differ materially from these estimates and assumptions due to changes in applicable regulations, changes in future operational plans and inherent imprecision associated with estimating environmental impacts far into the future.

Financial Instruments

Cash on deposit, accounts receivable, short-term borrowings, accounts payable and accrued liabilities as presented in the consolidated financial statements approximate fair value because of the short-term nature of these instruments. The carrying amount of our long-term debt approximates fair value because interest rates are variable and, accordingly, approximate current market rates for instruments with similar risk and maturities. Restricted cash balances represent funds held in third-party managed trust accounts as collateral for our financial assurance obligations for post-closure activities at our non-operating facilities. Restricted cash balances are maintained by third-party trustees and are invested in money market accounts. The balances are adjusted monthly to fair market value based on quoted prices in active markets for identical assets.

Table of Contents**NOTE 2. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Changes in accumulated other comprehensive income (loss), comprised entirely of foreign currency translation adjustments, consisted of the following:

| \$s in thousands | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|--------|---------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Balance, beginning of period | \$ (1,301) | \$ 18 | \$ 628 | \$ (117) |
| Foreign currency translation gain (loss) in other comprehensive income | 782 | 944 | (1,147) | 1,079 |
| Balance, end of period | \$ (519) | \$ 962 | \$ (519) | \$ 962 |

NOTE 3. CONCENTRATIONS AND CREDIT RISK*Major Customers*

Revenue from a single customer accounted for 14% of total revenue for the three months ended September 30, 2013. No other customer accounted for more than 10% of total revenue for the three months ended September 30, 2013 or 2012. No customer accounted for more than 10% of total revenue for the nine months ended September 30, 2013 or 2012.

Receivables from a single customer accounted for approximately 18% of total trade receivables as of September 30, 2013. No other customer accounted for more than 10% of total trade receivables as of September 30, 2013. No customer accounted for more than 10% of total trade receivables as of December 31, 2012.

Credit Risk Concentration

We maintain most of our cash with nationally recognized financial institutions like Wells Fargo Bank, National Association (Wells Fargo). Substantially all 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 consisted of the following:

Edgar Filing: US ECOLOGY, INC. - Form 10-Q

| \$s in thousands | September 30, 2013 | December 31, 2012 |
|---------------------------------|-------------------------------|------------------------------|
| Trade | \$ 39,031 | \$ 32,787 |
| Unbilled revenue | 1,489 | 1,529 |
| Other | 681 | 99 |
| Total receivables | 41,201 | 34,415 |
| Allowance for doubtful accounts | (407) | (468) |
| Receivables, net | \$ 40,794 | \$ 33,947 |

Table of Contents**NOTE 5. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

| \$s in thousands | September 30, 2013 | December 31, 2012 |
|---|-----------------------|----------------------|
| Cell development costs | \$ 65,708 | \$ 64,994 |
| Land and improvements | 18,166 | 14,920 |
| Buildings and improvements | 56,605 | 55,177 |
| Railcars | 17,375 | 17,375 |
| Vehicles and other equipment | 42,985 | 39,689 |
| Construction in progress | 18,891 | 12,454 |
| Total property and equipment | 219,730 | 204,609 |
| Accumulated depreciation and amortization | (104,446) | (94,817) |
| Property and equipment, net | \$ 115,284 | \$ 109,792 |

Depreciation and amortization expense for each of the three months ended September 30, 2013 and 2012 was \$3.7 million and \$3.4 million, respectively. Depreciation and amortization expense for the nine months ended September 30, 2013 and 2012 was \$10.8 million and \$10.2 million, respectively.

NOTE 6. BUSINESS COMBINATION

On May 31, 2012, the Company acquired 100% of the outstanding shares of US Ecology Michigan, Inc. (US Ecology Michigan), formerly Dynecol, Inc., a chemical and industrial byproducts treatment and reuse facility located in Detroit, Michigan. The following unaudited pro forma financial information presents the combined results of operations as if US Ecology Michigan had been combined with us beginning on January 1, 2012. 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 and 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.

| \$s in thousands, except per share amounts | (unaudited) Nine Months Ended September 30, 2012 |
|--|--|
| Pro forma combined: | |
| Revenue | \$ 124,233 |
| Net income | \$ 19,402 |
| Earnings per share | |
| Basic | \$ 1.06 |
| Diluted | \$ 1.06 |

Edgar Filing: US ECOLOGY, INC. - Form 10-Q

The amounts of revenue and operating income from US Ecology Michigan included in US Ecology's consolidated statements of operations for the nine months ended September 30, 2013 were \$9.4 million and \$255,000, respectively.

NOTE 7. GOODWILL AND INTANGIBLE ASSETS

The Company's entire goodwill balance has been assigned to the Operating Disposal Facilities reporting segment. Changes in goodwill for the nine months ended September 30, 2013 consisted of the following:

| \$s in thousands | Goodwill | |
|--------------------------------------|-----------------|--------|
| Balance at December 31, 2012 | \$ | 23,105 |
| Foreign currency translation | | (746) |
| Balance at September 30, 2013 | \$ | 22,359 |

Table of Contents

Intangible assets consisted of the following:

| \$s in thousands | September 30, 2013 | December 31, 2012 |
|---|-----------------------|----------------------|
| Amortizing intangible assets: | | |
| Developed software | \$ 340 | \$ 352 |
| Database | 97 | 100 |
| Customer relationships | 5,128 | 5,269 |
| Technology - Formulae and processes | 8,831 | 9,144 |
| Permits, licenses and lease | 27,123 | 28,085 |
| Non-compete agreements | 20 | 20 |
| Total amortizing intangible assets | 41,539 | 42,970 |
| Accumulated amortization | (4,100) | (3,120) |
| Nonamortizing intangible assets: | | |
| Permits and licenses | 750 | 750 |
| Tradename | 165 | 171 |
| Total intangible assets, net | \$ 38,354 | \$ 40,771 |

Amortization expense for the three months ended September 30, 2013 and 2012 was \$362,000 and \$372,000, respectively. Amortization expense for each of the nine month periods ended September 30, 2013 and 2012 was \$1.1 million.

NOTE 8. DEBT

On October 29, 2010, we entered a credit agreement with Wells Fargo which, as amended, provides for an aggregate commitment from Wells Fargo of \$95.0 million (the Credit Agreement). The Credit Agreement provides for a \$20.0 million revolving line of credit (the Revolving Line of Credit) with a maturity date of November 1, 2015 and a \$75.0 million reducing revolving line of credit (the Reducing Revolving Line of Credit) with a maturity date of November 1, 2015.

Revolving Line of Credit

The Revolving Line of Credit provides up to \$20.0 million in revolving credit loans or letters of credit for working capital needs (the Commitment Amount). Under the Revolving Line of Credit, revolving loans are available based on the Prime Rate or the LIBOR, at the Company's option, plus an applicable margin which is determined according to 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 (EBITDA). At September 30, 2013, the effective interest rate on the Revolving Line of Credit was 1.43%. Interest only payments are due either monthly or on the last day of any interest period, as applicable. At September 30, 2013, there were no borrowings outstanding under the Revolving Line of Credit. The availability under the Revolving Line of Credit was \$16.0 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.

Reducing Revolving Line of Credit

The Reducing Revolving Line of Credit provides an initial commitment amount of \$75.0 million (the Reducing Revolving Commitment Amount). Proceeds from the Reducing Revolving Line of Credit were used to acquire all of the shares of Stablex in 2010 and to acquire US Ecology Michigan in 2012. Remaining borrowings are available for working capital needs. The Reducing Revolving Commitment Amount is reduced by \$2.8 million on the last day of each March, June, September and December beginning March 31, 2013, continuing through November 1, 2015. Under the Reducing Revolving Line of Credit revolving loans are available based on the Prime Rate or LIBOR, at the Company's option, plus an applicable margin, which is determined according to a pricing grid under which the interest rate decreases or increases based on our ratio of funded debt to EBITDA. At September 30, 2013, the effective interest rate of the Reducing Revolving Line of Credit was 1.43%. Interest only payments are due either monthly or on the last day of any interest period, as applicable. At September 30, 2013, \$35.5 million was outstanding on the Reducing Revolving Line of Credit with \$31.2 million available for additional borrowings.

In addition to standard fees, origination fees and commitment fees apply to the average daily unused portion of the Commitment Amount and the Reducing Revolving Commitment Amount. The Credit Agreement contains certain quarterly financial covenants, including a maximum funded debt ratio, a maximum fixed charge coverage ratio, a minimum required tangible net worth and a minimum current ratio. We may only declare quarterly or annual dividends if on the date of declaration, no event of default has occurred and no other event or condition has occurred that would constitute default due to the payment of the dividend. Obligations under the Credit Agreement are guaranteed by US Ecology and all of its subsidiaries.

Table of Contents

At September 30, 2013, we were in compliance with all of the financial covenants in the Credit Agreement.

NOTE 9. CLOSURE AND POST-CLOSURE OBLIGATIONS

Our accrued closure and post-closure obligations represent the expected future costs, including corrective actions, associated with closure and post-closure of our operating and non-operating disposal facilities. Liabilities are recorded when work is probable and the costs can be reasonably estimated. We perform periodic reviews of both non-operating and operating facilities and revise accruals for estimated closure and post-closure, remediation or other costs as necessary. Recorded liabilities are based on our best estimates of current costs and are updated periodically to include the effects of existing technology, presently enacted laws and regulations, inflation and other economic factors.

Changes in closure and post-closure obligations consisted of the following:

| \$s in thousands | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013 |
|---|--|---|
| Closure and post-closure obligations, beginning of period | \$ 17,252 | \$ 17,362 |
| Accretion expense | 314 | 927 |
| Payments | (369) | (1,539) |
| Adjustments | | 550 |
| Currency translation | (17) | (120) |
| Closure and post-closure obligations, end of period | 17,180 | 17,180 |
| Less current portion | (894) | (894) |
| Long-term portion | \$ 16,286 | \$ 16,286 |

NOTE 10. INCOME TAXES

During the nine months ended September 30, 2013, there were no material changes to our unrecognized tax benefits disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. We do not anticipate our total unrecognized tax benefits to increase or decrease materially within the next twelve months.

Our effective tax rate for the three months ended September 30, 2013 was 35.7%, down from 37.4% for the three months ended September 30, 2012. Our effective tax rate for the nine months ended September 30, 2013 was 35.8%, down from 38.2% for the nine months ended September 30, 2012. The decrease for both the three and nine months ended September 30, 2013 reflects a higher proportion of earnings from our Canadian operations, which are taxed at a lower corporate tax rate, partially offset by higher U.S. state income taxes.

We file a consolidated U.S. federal income tax return with the Internal Revenue Service as well as income tax returns in various states and Canada. We may be subject to examination by taxing authorities in the U.S. and Canada for tax years 2010 through 2012. Additionally, we may be subject to examinations by various state and local taxing jurisdictions for tax years 2008 through 2012.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Litigation and Regulatory Proceedings

In the ordinary course of business, we are involved in judicial and administrative proceedings involving federal, state, provincial or local governmental authorities, including regulatory agencies that oversee and enforce compliance with permits. Fines or penalties may be assessed by our regulators for non-compliance. Actions may also be brought by individuals or groups in connection with permitting of planned facilities, modification or 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 other fees expected to be incurred in relation to these matters.

Table of Contents

In 2012, we settled allegations by the United States Environment Protection Agency (U.S. EPA) that the thermal recycling operation at our Robstown, Texas facility did not comply with certain rules and regulations of the Resource Conservation and Recovery Act of 1976 (RCRA). As part of the settlement, we agreed to pay a civil penalty and to submit an application to the State of Texas for a RCRA Subpart X permit. The Company and the thermal recycling unit s owner-operator also agreed to a set of interim operating conditions that allow the facility to continue providing recycling services to customers until the RCRA Subpart X permit is issued.

In connection with this matter, in June 2013 the U.S. EPA asserted various related technical compliance and permitting violations of the Clean Air Act of 1970. Negotiations on the merits of a proposed settlement are ongoing with the U.S. EPA. We recognized a charge of \$238,000 during the second quarter of 2013 in Selling, general and administrative expenses in the Consolidated Statement of Operations related to this pending enforcement matter.

Other than as disclosed above, we are not currently a party to any material pending legal proceedings and are not aware of any other claims that could have a materially adverse effect on our financial position, results of operations or cash flows.

Operating Leases

In May 2013, we executed a new lease for corporate office space in Boise, Idaho. Future minimum lease payments on this non-cancelable operating lease as of September 30, 2013 consisted of the following:

| \$s in thousands | Payments | |
|-------------------------|-----------------|-------|
| 2013 | \$ | 17 |
| 2014 | | 245 |
| 2015 | | 301 |
| 2016 | | 310 |
| 2017 | | 318 |
| Thereafter | | 382 |
| | \$ | 1,573 |

Table of Contents**NOTE 12. EARNINGS PER SHARE**

| \$s and shares in thousands, except per share amounts | Three Months Ended September 30, | | | | | |
|---|----------------------------------|-----------|----|--------|----------|--|
| | 2013 | | | 2012 | | |
| | Basic | Diluted | | Basic | Diluted | |
| Net income | 10,328 | \$ 10,328 | \$ | 8,662 | \$ 8,662 | |
| Weighted average basic shares outstanding | 18,459 | 18,459 | | 18,236 | 18,236 | |
| Dilutive effect of stock options and restricted stock | | 74 | | | 34 | |
| Weighted average diluted shares outstanding | | 18,533 | | | 18,270 | |
| Earnings per share | \$ 0.56 | \$ 0.56 | \$ | 0.48 | \$ 0.47 | |
| Anti-dilutive shares excluded from calculation | | 174 | | | 324 | |

| \$s and shares in thousands, except per share amounts | Nine Months Ended September 30, | | | | | |
|---|---------------------------------|-----------|----|--------|-----------|--|
| | 2013 | | | 2012 | | |
| | Basic | Diluted | | Basic | Diluted | |
| Net income | \$ 22,944 | \$ 22,944 | \$ | 19,547 | \$ 19,547 | |
| Weighted average basic shares outstanding | 18,395 | 18,395 | | 18,228 | 18,228 | |
| Dilutive effect of stock options and restricted stock | | 80 | | | 34 | |
| Weighted average diluted shares outstanding | | 18,475 | | | 18,262 | |
| Earnings per share | \$ 1.25 | \$ 1.24 | \$ | 1.07 | \$ 1.07 | |
| Anti-dilutive shares excluded from calculation | | 197 | | | 324 | |

NOTE 13. EQUITY

During the nine months ended September 30, 2013, option holders exercised 242,970 options with a weighted-average exercise price of \$18.93 per option. Option holders exercised 127,652 of these options via net share settlement. During the nine months ended September 30, 2013, the Company issued 51,800 shares of restricted stock from our treasury stock at an average cost of \$16.68 per share.

Table of Contents**NOTE 14. OPERATING SEGMENTS**

We operate within two segments, Operating Disposal Facilities and Non-Operating Disposal Facilities. These segments reflect our internal reporting structure and nature of services offered. The Operating Disposal Facility segment represents disposal facilities accepting hazardous and radioactive waste. The Non-Operating Disposal Facility segment represents facilities which are not accepting hazardous and/or radioactive waste or formerly proposed new facilities.

Income taxes are assigned to Corporate, but all other items are included in the segment where they originated. Inter-company 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:

| Three Months Ended September 30, 2013 (in thousands) | Operating Disposal Facilities | Non- Operating Disposal Facilities | Corporate | Total |
|--|-------------------------------------|---|------------|------------|
| Revenue - Treatment and disposal | \$ 42,489 | \$ 6 | \$ | \$ 42,495 |
| Revenue - Transportation services | 10,595 | | | 10,595 |
| Total revenue | 53,084 | 6 | | 53,090 |
| Direct operating costs | 20,847 | 55 | | 20,902 |
| Transportation costs | 10,568 | | | 10,568 |
| Gross profit (loss) | 21,669 | (49) | | 21,620 |
| Selling, general & administrative expense | 2,611 | | 3,497 | 6,108 |
| Operating income (loss) | 19,058 | (49) | (3,497) | 15,512 |
| Interest income (expense), net | 4 | | (208) | (204) |
| Foreign currency gain (loss) | (233) | | 916 | 683 |
| Other income | 75 | 2 | | 77 |
| Income (loss) before income taxes | 18,904 | (47) | (2,789) | 16,068 |
| Income tax expense | | | 5,740 | 5,740 |
| Net income (loss) | \$ 18,904 | \$ (47) | \$ (8,529) | \$ 10,328 |
| Depreciation, amortization & accretion | \$ 4,336 | \$ 52 | \$ 9 | \$ 4,397 |
| Capital expenditures | \$ 2,915 | \$ | \$ 145 | \$ 3,060 |
| Total assets | \$ 222,503 | \$ 87 | \$ 8,141 | \$ 230,731 |

| Three Months Ended September 30, 2012 (in thousands) | Operating Disposal Facilities | Non- Operating Disposal Facilities | Corporate | Total |
|--|-------------------------------------|---|-----------|-----------|
| Revenue - Treatment and disposal | \$ 38,578 | \$ 5 | \$ | \$ 38,583 |
| Revenue - Transportation services | 7,156 | | | 7,156 |
| Total revenue | 45,734 | 5 | | 45,739 |
| Direct operating costs | 19,838 | 55 | | 19,893 |
| Transportation costs | 7,257 | | | 7,257 |
| Gross profit (loss) | 18,639 | (50) | | 18,589 |

Edgar Filing: US ECOLOGY, INC. - Form 10-Q

| | | | | |
|---|------------|---------|------------|------------|
| Selling, general & administrative expense | 2,868 | | 3,328 | 6,196 |
| Operating income (loss) | 15,771 | (50) | (3,328) | 12,393 |
| Interest income (expense), net | 4 | | (231) | (227) |
| Foreign currency gain (loss) | (165) | | 1,770 | 1,605 |
| Other income | 68 | 2 | | 70 |
| Income (loss) before income taxes | 15,678 | (48) | (1,789) | 13,841 |
| Income tax expense | | | 5,179 | 5,179 |
| Net income (loss) | \$ 15,678 | \$ (48) | \$ (6,968) | \$ 8,662 |
| Depreciation, amortization & accretion | \$ 4,083 | \$ 54 | \$ 11 | \$ 4,148 |
| Capital expenditures | \$ 6,690 | \$ | \$ | 6,690 |
| Total assets | \$ 215,786 | \$ 97 | \$ 7,847 | \$ 223,730 |

Edgar Filing: US ECOLOGY, INC. - Form 10-Q

Table of Contents

| Nine Months Ended September 30, 2013 (in thousands) | Operating Disposal Facilities | Non- Operating Disposal Facilities | Corporate | Total |
|---|-------------------------------------|---|-------------|------------|
| Revenue - Treatment and disposal | \$ 117,553 | \$ 16 | \$ | \$ 117,569 |
| Revenue - Transportation services | 24,197 | | | 24,197 |
| Total revenue | 141,750 | 16 | | 141,766 |
| Direct operating costs | 61,583 | 162 | | 61,745 |
| Transportation costs | 24,091 | | | 24,091 |
| Gross profit (loss) | 56,076 | (146) | | 55,930 |
| Selling, general & administrative expense | 8,524 | | 9,829 | 18,353 |
| Operating income (loss) | 47,552 | (146) | (9,829) | 37,577 |
| Interest income (expense), net | 10 | | (650) | (640) |
| Foreign currency gain (loss) | 199 | | (1,647) | (1,448) |
| Other income | 261 | 7 | | 268 |
| Income (loss) before income taxes | 48,022 | (139) | (12,126) | 35,757 |
| Income tax expense | | | 12,813 | 12,813 |
| Net income (loss) | \$ 48,022 | \$ (139) | \$ (24,939) | \$ 22,944 |
| Depreciation, amortization & accretion | \$ 12,628 | \$ 156 | \$ 27 | \$ 12,811 |
| Capital expenditures | \$ 15,330 | \$ | \$ 260 | \$ 15,590 |
| Total assets | \$ 222,503 | \$ 87 | \$ 8,141 | \$ 230,731 |

| Nine Months Ended September 30, 2012 (in thousands) | Operating Disposal Facilities | Non- Operating Disposal Facilities | Corporate | Total |
|---|-------------------------------------|---|-------------|------------|
| Revenue - Treatment and disposal | \$ 104,486 | \$ 16 | \$ | \$ 104,502 |
| Revenue - Transportation services | 14,230 | | | 14,230 |
| Total revenue | 118,716 | 16 | | 118,732 |
| Direct operating costs | 55,997 | 167 | | 56,164 |
| Transportation costs | 14,576 | 1 | | 14,577 |
| Gross profit (loss) | 48,143 | (152) | | 47,991 |
| Selling, general & administrative expense | 8,310 | | 9,857 | 18,167 |
| Operating income (loss) | 39,833 | (152) | (9,857) | 29,824 |
| Interest income (expense), net | 13 | | (659) | (646) |
| Foreign currency gain (loss) | (247) | | 2,022 | 1,775 |
| Other income | 669 | 3 | | 672 |
| Income (loss) before income taxes | 40,268 | (149) | (8,494) | 31,625 |
| Income tax expense | | | 12,078 | 12,078 |
| Net income (loss) | \$ 40,268 | \$ (149) | \$ (20,572) | \$ 19,547 |
| Depreciation, amortization & accretion | \$ 12,142 | \$ 162 | \$ 32 | \$ 12,336 |
| Capital expenditures | \$ 12,400 | \$ 17 | \$ 16 | \$ 12,433 |
| Total assets | \$ 215,786 | \$ 97 | \$ 7,847 | \$ 223,730 |

Table of Contents

Revenue, Property and Equipment and Intangible Assets Outside of the United States

We provide services in the United States and Canada. Revenues by geographic location where the underlying services were performed consisted of the following:

Geographic disclosure

| \$s in thousands | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------|----------------------------------|-----------|---------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| United States | \$ 37,833 | \$ 36,100 | \$ 101,852 | \$ 91,658 |
| Canada | 15,257 | 9,639 | 39,914 | 27,074 |
| Total revenue | \$ 53,090 | \$ 45,739 | \$ 141,766 | \$ 118,732 |

Long-lived assets, comprised of property and equipment and intangible assets net of accumulated depreciation and amortization, by geographic location consisted of the following:

| \$s in thousands | September 30, | December 31, |
|-------------------------|---------------|--------------|
| | 2013 | 2012 |
| United States | \$ 86,851 | \$ 81,605 |
| Canada | 66,787 | 68,958 |
| Total long-lived assets | \$ 153,638 | \$ 150,563 |

NOTE 15. SUBSEQUENT EVENT

On October 1, 2013, we declared a quarterly dividend of \$0.18 per common share to stockholders of record on October 18, 2013. The dividend was paid using cash on hand on October 25, 2013 in an aggregate amount of \$3.3 million.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
US Ecology, Inc.
Boise, Idaho

We have reviewed the accompanying consolidated balance sheet of US Ecology, Inc. and subsidiaries (the Company) as of September 30, 2013, and the related consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2013 and 2012, and the consolidated statements of cash flows for the nine-month periods ended September 30, 2013 and 2012. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of US Ecology, Inc. and subsidiaries as of December 31, 2012, and the related consolidated statements of operations, comprehensive income, cash flows, and stockholders' equity for the year then ended (not presented herein); and in our report dated March 1, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2012 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

Boise, Idaho

October 31, 2013

Table of Contents

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

The information contained in this section should be read in conjunction with our unaudited consolidated financial statements and related notes thereto appearing elsewhere in this quarterly report on Form 10-Q. In this report words such as we, us, our, US Ecology and the Company refer to US Ecology, Inc. and its subsidiaries.

OVERVIEW

US Ecology is a hazardous, polychlorinated biphenyls (PCBs), non-hazardous and radioactive waste services company providing treatment, disposal, recycling and transportation services to commercial and government entities including, but not limited to, oil refineries, chemical production facilities, manufacturers, electric utilities, steel mills, biotechnology companies, operating and closed military installations, waste brokers/aggregators and medical and academic institutions. The majority of the waste received at our facilities is produced in the United States.

On May 31, 2012, the Company acquired 100% of the outstanding shares of US Ecology Michigan, Inc. (US Ecology Michigan), formerly Dynecol, Inc., a chemical and industrial byproducts treatment and reuse facility located in Detroit, Michigan, for a total purchase price of \$10.8 million, including net working capital adjustments. The acquisition strengthens our presence in key mid-western and eastern U.S. and Canadian markets. In addition, US Ecology Michigan provides us with an opportunity to win more Event Business (as defined below) work; increase service delivery to existing customers including national accounts; expand our transportation logistics services; and attract new customers. Management also believes that the acquisition offers meaningful synergies in combination with our Stablex facility. Revenue from US Ecology Michigan included in US Ecology's consolidated statements of operations was \$9.4 million for the nine months ended September 30, 2013.

We generate revenue from fees charged to treat and dispose of waste at our six fixed disposal facilities located near Grand View, Idaho; Richland, Washington; Beatty, Nevada; Robstown, Texas; Detroit, Michigan and Blainville, Québec, Canada. We own and manage a dedicated fleet of gondola railcars and arrange for the transportation of waste to our facilities. Transportation services have contributed significant revenue since acquisition of our railcar fleet. We also utilize our railcar fleet to transport waste disposed at facilities operated by other companies on a less frequent basis. We or our predecessor companies have been in the waste business since 1952.

Our customers may be divided into categories to better evaluate period-to-period changes in treatment and disposal (T&D) revenue based on service mix and type of business (recurring customer Base Business or discrete clean-up project Event Business). Each of these categories is described in the table below, along with information on the percentage of total treatment and disposal revenues by category for the three and nine months ended September 30, 2013 and 2012.

Edgar Filing: US ECOLOGY, INC. - Form 10-Q

Table of Contents

| Customer Category | Description | % of Treatment and Disposal Revenue (1),(2) for the Three Months Ended September 30, | |
|-------------------|--|--|------|
| | | 2013 | 2012 |
| Broker | Companies that collect and aggregate waste from their direct customers, generally comprised of Base Business with periodic Event Business for larger projects. | 45% | 50% |
| Private Clean-up | Private sector clean-up project waste, typically Event Business. | 18% | 5% |
| Other industry | Electric utilities, chemical manufacturers, steel mill and other industrial customers not included in other categories, comprised of both Base and Event Business. | 16% | 19% |
| Refinery | Petroleum refinery customers, comprised of both Base and Event Business. | 10% | 8% |
| Government | Federal and State government clean-up project waste, comprised of both Base and Event Business. | 7% | 14% |
| Rate regulated | Northwest and Rocky Mountain Compact customers paying rate-regulated disposal fees set by the State of Washington, predominantly Base Business. | 4% | 4% |

(1) Excludes all transportation service revenue

(2) Excludes US Ecology Michigan which was acquired on May 31, 2012

| Customer Category | Description | % of Treatment and Disposal Revenue (1),(2) for the Nine Months Ended September 30, | |
|-------------------|--|---|------|
| | | 2013 | 2012 |
| Broker | Companies that collect and aggregate waste from their direct customers, generally comprised of Base Business with periodic Event Business for larger projects. | 48% | 52% |
| Other industry | Electric utilities, chemical manufacturers, steel mill and other industrial customers not included in other categories, comprised of both Base and Event Business. | 16% | 19% |
| Private Clean-up | Private sector clean-up project waste, typically Event Business. | 14% | 5% |
| Refinery | Petroleum refinery customers, comprised of both Base and Event Business. | 11% | 8% |
| Government | Federal and State government clean-up project waste, comprised of both Base and Event Business. | 7% | 12% |
| Rate regulated | Northwest and Rocky Mountain Compact customers paying rate-regulated disposal fees set by the State of Washington, predominantly Base Business. | 4% | 4% |

Edgar Filing: US ECOLOGY, INC. - Form 10-Q

(1) Excludes all transportation service revenue

(2) Excludes US Ecology Michigan which was acquired on May 31, 2012

Table of Contents

A significant portion of our disposal revenue is attributable to discrete Event Business projects which vary widely in size, duration and unit pricing. For the three and nine month ended September 30, 2013, approximately 42% and 39%, respectively, of our T&D revenue was derived from Event Business projects (excluding US Ecology Michigan). The one-time nature of Event Business, diverse spectrum of waste types received and widely varying unit pricing necessarily creates variability in revenue and earnings. This variability may be influenced by general and industry-specific economic conditions, funding availability, changes in laws and regulations, government enforcement actions or court orders, public controversies, litigation, weather, commercial real estate, closed military bases and other redevelopment project timing, government appropriation and funding cycles and other factors. The types and amounts of waste received from Base Business also vary from quarter to quarter. This variability can cause significant quarter-to-quarter and year-to-year differences in revenue, gross profit, gross margin, operating income and net income. Also, while we pursue many large projects months or years in advance of work performance, both large and small clean-up project opportunities routinely arise with little or no prior notice. These market dynamics are inherent to the hazardous and radioactive waste disposal business and are factored into our projections and externally communicated business outlook statements. Our projections combine historical experience with identified sales pipeline opportunities, new or expanded service line projections and prevailing market conditions.

Depending on project-specific customer needs and competitive economics, transportation services may be offered at or near our cost to help secure new business. For waste transported by rail from the eastern United States and other locations distant from our Grand View, Idaho and Robstown, Texas facilities, transportation-related revenue can account for as much as three-fourths (75%) of total project revenue. While bundling transportation and disposal services reduces overall gross profit as a percentage of total revenue (gross margin), this value-added service has allowed us to win multiple projects that management believes we could not have otherwise competed for successfully. Our Company-owned fleet of 234 gondola railcars, which may be supplemented with additional railcars obtained under operating leases, has reduced our transportation expenses by largely eliminating reliance on more costly short-term rentals. These Company-owned railcars also allow us to win business during times of demand-driven railcar scarcity.

The increased waste volumes resulting from projects won through this bundling strategy further drive the operating leverage inherent to the disposal business and increase profitability. While waste treatment and other variable costs are project-specific, the incremental earnings contribution from large and small projects generally increases as overall disposal volumes increase. Based on past experience, management believes that maximizing operating income, net income and earnings per share is a higher priority than maintaining or increasing gross margin. We intend to continue aggressively bidding bundled transportation and disposal services based on this well established strategy.

To maximize utilization of our railcar fleet, we periodically deploy available railcars to transport waste from clean-up sites to disposal facilities operated by other companies. Such transportation services may be bundled with for-profit logistics and field services support work.

We serve oil refineries, chemical production plants, steel mills, waste brokers/aggregators serving small manufacturers and other industrial customers that are generally affected by the prevailing economic conditions and credit environment. Such conditions may cause our customers as well as those they serve to curtail operations, resulting in lower waste production and/or delayed spending on off-site waste shipments, maintenance, waste clean-up projects and other work. Factors that can impact general economic conditions and the level of spending by our customers include, but are not limited to, consumer and industrial spending, increases in fuel and energy costs, conditions in the real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence and other global economic factors affecting spending behavior. Market forces may also induce customers to reduce or cease operations, declare bankruptcy, liquidate or relocate to other countries, any of which could adversely affect our business. To the extent our business is driven by government regulations or enforcement actions, we believe it is less susceptible to general economic conditions. Spending by government agencies may also be reduced due to declining tax revenues resulting from a weak economy or changes in policy. Disbursement of funds appropriated by Congress may also be delayed for administrative or other reasons.

Table of Contents**RESULTS OF OPERATIONS**

The following table summarizes our results of operations for the three and nine months ended September 30, 2013 and 2012 in dollars and as a percentage of total revenue.

| \$s and shares in thousands, except per share amounts | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|----------------------------------|--------|-----------|--------|---------------------------------|--------|------------|--------|
| | 2013 | % | 2012 | % | 2013 | % | 2012 | % |
| Revenue | \$ 53,090 | 100.0% | \$ 45,739 | 100.0% | \$ 141,766 | 100.0% | \$ 118,732 | 100.0% |
| Direct operating costs | 20,902 | 39.4% | 19,893 | 43.5% | 61,745 | 43.6% | 56,164 | 47.3% |
| Transportation costs | 10,568 | 19.9% | 7,257 | 15.9% | 24,091 | 16.9% | 14,577 | 12.3% |
| Gross profit | 21,620 | 40.7% | 18,589 | 40.6% | 55,930 | 39.5% | 47,991 | 40.4% |
| Selling, general and administrative expenses | 6,108 | 11.5% | 6,196 | 13.5% | 18,353 | 13.0% | 18,167 | 15.3% |
| Operating income | 15,512 | 29.2% | 12,393 | 27.1% | 37,577 | 26.5% | 29,824 | 25.1% |
| Other income (expense): | | | | | | | | |
| Interest income | 4 | 0.0% | 4 | 0.0% | 11 | 0.0% | 13 | 0.0% |
| Interest expense | (208) | -0.4% | (231) | -0.5% | (651) | -0.5% | (659) | -0.6% |
| Foreign currency gain (loss) | 683 | 1.4% | 1,605 | 3.5% | (1,448) | -1.0% | 1,775 | 1.5% |
| Other | 77 | 0.1% | 70 | 0.2% | 268 | 0.2% | 672 | 0.6% |
| Total other income (expense) | 556 | 1.1% | 1,448 | 3.2% | (1,820) | -1.3% | 1,801 | 1.5% |
| Income before income taxes | 16,068 | 30.3% | 13,841 | 30.3% | 35,757 | 25.2% | 31,625 | 26.6% |
| Income taxes | 5,740 | 10.8% | 5,179 | 11.4% | 12,813 | 9.0% | 12,078 | 10.1% |
| Net income | \$ 10,328 | 19.5% | \$ 8,662 | 18.9% | \$ 22,944 | 16.2% | \$ 19,547 | 16.5% |
| Earnings per share: | | | | | | | | |
| Basic | \$ 0.56 | | \$ 0.48 | | \$ 1.25 | | \$ 1.07 | |
| Dilutive | \$ 0.56 | | \$ 0.47 | | \$ 1.24 | | \$ 1.07 | |
| Shares used in earnings per share calculation: | | | | | | | | |
| Basic | 18,459 | | 18,236 | | 18,395 | | 18,228 | |
| Dilutive | 18,533 | | 18,270 | | 18,475 | | 18,262 | |
| Dividends paid per share | \$ 0.18 | | \$ 0.18 | | \$ 0.36 | | \$ 0.54 | |
| Other Financial Data: | | | | | | | | |
| Adjusted EBITDA (1) | \$ 20,147 | | \$ 16,722 | | \$ 50,989 | | \$ 42,724 | |

(1) For all periods presented, Adjusted EBITDA is defined as net income before net interest expense, income tax expense, depreciation, amortization, stock based compensation, accretion of closure and post-closure liabilities, foreign currency gain/loss and other income/expense, which are not considered part of usual business operations. Adjusted EBITDA is a complement to results provided in accordance with accounting principles generally accepted in the United States (GAAP) and we believe that such information provides additional useful information to analysts, stockholders and other users to understand the Company's operating performance. Since Adjusted EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies. Items excluded from Adjusted EBITDA are significant components in

Edgar Filing: US ECOLOGY, INC. - Form 10-Q

understanding and assessing our financial performance. Adjusted EBITDA should not be considered in isolation or as an alternative to, or substitute for, net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or a substitute for analyzing our results as reported under GAAP. Some of the limitations are:

- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect our interest expense, or the requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect our income tax expenses or the cash requirements to pay our taxes;
- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments; and
- Although depreciation and amortization charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements.

Edgar Filing: US ECOLOGY, INC. - Form 10-Q

Table of Contents

The following reconciliation itemizes the differences between reported Net income and Adjusted EBITDA for the three and nine months ended September 30, 2013 and 2012:

| \$s in thousands | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|------------------|---------------------------------|------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | \$ 10,328 | \$ 8,662 | \$ 22,944 | \$ 19,547 |
| Income tax expense | 5,740 | 5,179 | 12,813 | 12,078 |
| Interest expense | 208 | 231 | 651 | 659 |
| Interest income | (4) | (4) | (11) | (13) |
| Foreign currency (gain) loss | (683) | (1,605) | 1,448 | (1,775) |
| Other income | (77) | (70) | (268) | (672) |
| Depreciation and amortization of plant and equipment | 3,721 | 3,428 | 10,792 | 10,222 |
| Amortization of intangibles | 362 | 372 | 1,092 | 1,096 |
| Stock-based compensation | 238 | 181 | 601 | 564 |
| Accretion and non-cash adjustment of closure & post-closure liabilities | 314 | 348 | 927 | 1,018 |
| Adjusted EBITDA | \$ 20,147 | \$ 16,722 | \$ 50,989 | \$ 42,724 |

THREE MONTHS ENDED SEPTEMBER 30, 2013 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2012

Revenue. Revenue increased 16% to \$53.1 million for the third quarter of 2013, up from \$45.7 million for the third quarter of 2012. This increase reflects a 10% increase in T&D revenue and a 48% increase in transportation service revenue compared to the third quarter of 2012. The increase in transportation service revenue reflects more Event Business projects utilizing the Company's transportation and logistics services.

We disposed of 266,000 tons of hazardous and radioactive waste in both the third quarter of 2013 and 2012. Average selling price increased 10% during the third quarter of 2013 compared to the same quarter last year, reflecting a more favorable service mix.

US Ecology Michigan, which was acquired on May 31, 2012, contributed \$3.2 million of total revenue during the third quarter of 2013, compared with \$2.9 million in the third quarter of 2012. Revenue from US Ecology Michigan is excluded from percentages of Base and Event Business and customer category information in the following paragraphs.

During the third quarter of 2013, T&D revenue from recurring Base Business customers was consistent with the third quarter of 2012 and comprised 58% of T&D revenue. This compared to 64% of T&D revenue in the third quarter of 2012. As discussed further below, higher T&D revenue from other industry and government Base Business customer categories was partially offset by lower T&D revenue from our broker and rate regulated Base Business customer categories.

Event Business revenue in the third quarter of 2013 increased 23% as compared to the same quarter in 2012 and was 42% of T&D revenue for the third quarter of 2013. This compared to 36% of T&D revenue in the third quarter of 2012. As discussed further below, the increase in Event Business T&D revenue compared to the prior year primarily reflects higher T&D revenue from our private clean-up and refinery Event Business

Edgar Filing: US ECOLOGY, INC. - Form 10-Q

customer categories, partially offset by lower T&D revenue from our government and other industry Event Business customer categories.

The following table summarizes our T&D revenue growth (both Base and Event Business) by customer category for the third quarter of 2013 compared to the third quarter of 2012.

**Treatment and Disposal Revenue Growth
Three Months Ended September 30, 2013 vs.
Three Months Ended September 30, 2012**

| | |
|------------------|------|
| Private clean-up | 297% |
| Refinery | 35% |
| Other industry | -2% |
| Broker | -4% |
| Rate regulated | -9% |
| Government | -46% |

Table of Contents

T&D revenue from private clean-up projects increased 297% in the third quarter of 2013 compared to the third quarter of 2012. This increase primarily reflects revenue from a nuclear fuel fabrication facility decommissioning project and an east coast clean-up project.

T&D revenue from our refinery customers increased 35% in the third quarter of 2013 compared to the third quarter of 2012. This increase primarily reflects higher disposal volumes and improved pricing on thermal recycling projects sourced directly from refinery customers.

Our other industry revenue category decreased 2% in the third quarter of 2013 compared to the third quarter of 2012 as a result of reduced shipments from this broadly diverse industrial customer category.

Our broker business decreased 4% in the third quarter of 2013 compared to the third quarter of 2012. This decrease was the result of lower shipments across the broad range of government and industry waste generators directly served by multiple broker customers, including lower volumes of brokered thermal recycling projects.

Rate-regulated business at our Richland, Washington low-level radioactive waste disposal facility decreased 9% in the third quarter of 2013 compared to the third quarter of 2012. Our Richland facility operates under a State-approved annual revenue requirement. The decrease reflects the timing of revenue recognition for the rate-regulated portion of the business.

Government clean-up business revenue decreased 46% in the third quarter of 2013 compared to the third quarter of 2012 due to a military base clean-up project in the third quarter of 2012 and reduced shipments from the U.S. Army Corps of Engineers (USACE). Event Business under our USACE contract contributed \$1.4 million, or 3%, of total revenue in the third quarter of 2013 compared to \$2.7 million, or 6%, of total revenue in the third quarter of 2012. Excluding transportation service revenue, T&D revenue with the USACE decreased approximately 48% in the third quarter of 2013 compared with the third quarter of 2012. This decrease was due to project-specific timing at multiple USACE clean-up sites and ongoing federal spending reductions. No USACE projects served by the Company were cancelled or, to our knowledge, awarded to competitors during the quarter. In July 2013, USACE exercised an option to extend the Company's base contract through July 2015.

Gross Profit. Gross profit for the third quarter of 2013 increased 16% to \$21.6 million, up from \$18.6 million in the third quarter of 2012. This increase primarily reflects a higher average selling price in the third quarter of 2013 compared to the third quarter of 2012. Gross margin was 41% in both the third quarter of 2013 and 2012. T&D gross margin was 51% in the third quarter of 2013 compared to 48% in the third quarter of 2012. The increase in T&D gross margin primarily reflects a more favorable service mix in the third quarter of 2013 compared to the third quarter of 2012.

Selling, General and Administrative (SG&A). SG&A expenses decreased to \$6.1 million, or 12% of total revenue, in the third quarter of 2013 compared with \$6.2 million, or 14% of total revenue, in the third quarter of 2012. The decrease primarily reflects lower business development expenses.

Interest expense. Interest expense in the third quarter of 2013 was \$208,000, down from \$231,000 in the third quarter of 2012, primarily reflecting lower average debt levels in the third quarter of 2013.

Foreign Currency Gain (Loss). We recognized a \$683,000 non-cash foreign currency gain in the third quarter of 2013 compared with a \$1.6 million non-cash foreign currency gain in the third quarter of 2012. Foreign currency gains and losses reflect changes in business activity conducted in a currency other than the United States dollar (USD), our functional currency. Our Stablex facility is owned by our Canadian subsidiary, whose functional currency is the Canadian dollar (CAD). As part of our treasury management strategy we established intercompany loans between our parent company, US Ecology, and Stablex. These intercompany loans are payable by Stablex to US Ecology in CAD requiring us to revalue the outstanding loan balance through our statements of operations based on USD/CAD currency movements from period to period. At September 30, 2013, we had \$40.1 million of intercompany loans subject to currency revaluation.

Other income. Other income includes non-operating business activities and unusual revenue and expenses. Other income in the third quarter of 2013 was \$77,000, up from \$70,000 in the third quarter of 2012.

Income tax expense. Our effective tax rate for the third quarter of 2013 was 35.7%, down from 37.4% in the third quarter of 2012. This decrease reflects a higher proportion of earnings from our Canadian operations, which are taxed at a lower corporate tax rate, partially offset by higher U.S. state income taxes. As of September 30, 2013 we had unrecognized tax benefits of \$438,000 that, if recognized would favorably affect the effective tax rate. As of September 30, 2013, we have recorded \$39,000 of cumulative interest expense associated with this unrecognized tax benefit. We expect our full year effective income tax rate to be approximately 36.0%.

Table of Contents

NINE MONTHS ENDED SEPTEMBER 30, 2013 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2012

Revenue. Revenue increased 19% to \$141.8 million for the first nine months of 2013, up from \$118.7 million for the first nine months of 2012. This increase reflects a 13% increase in T&D revenue and a 70% increase in transportation service revenue compared to the first nine months of 2012. The increase in transportation service revenue reflects more Event Business projects utilizing the Company's transportation and logistics services.

We disposed of 742,000 tons of hazardous and radioactive waste during the first nine months of both 2013 and 2012. Average selling price increased 13% during the first nine months of 2013 compared to the first nine months of 2012, reflecting a more favorable service mix in the first nine months of 2013.

US Ecology Michigan, which was acquired on May 31, 2012, contributed \$9.4 million of total revenue during the first nine months of 2013, compared with \$4.0 million during the first nine months of 2012. Revenue from US Ecology Michigan is excluded from percentages of Base and Event Business and customer category information in the following paragraphs.

During the first nine months of 2013, T&D revenue from recurring Base Business customers increased 1% compared to the first nine months of 2012 and comprised 61% of T&D revenue. This compared to 67% of T&D revenue in the first nine months of 2012. As discussed further below, the slight increase in Base Business T&D revenue compared to the prior year primarily reflects higher T&D revenue from our broker and refinery Base Business customer categories, partially offset by lower T&D revenue from our governmental and other industry Base Business customer categories.

Event Business revenue in the first nine months of 2013 increased 24% compared to the first nine months in 2012 and was 39% of T&D revenue for the first nine months of 2013. This compared to 33% of T&D revenue in the first nine months of 2012. As discussed further below, the increase in Event Business T&D revenue compared to the prior year primarily reflects higher T&D revenue from our private clean-up and refinery Event Business customer categories, partially offset by lower T&D revenue from our government Event Business customer category.

The following table summarizes our T&D revenue growth (both Base and Event Business) by customer category for the first nine months of 2013 compared to the first nine months of 2012.

**Treatment and Disposal Revenue Growth
Nine Months Ended September 30, 2013 vs.
Nine Months Ended September 30, 2012**

| | |
|------------------|------|
| Private clean-up | 187% |
| Refinery | 46% |
| Rate regulated | 3% |
| Broker | 2% |
| Other industry | -7% |
| Government | -36% |

Edgar Filing: US ECOLOGY, INC. - Form 10-Q

T&D revenue from private clean-up projects increased 187% in the first nine months of 2013 compared to the first nine months of 2012. This increase primarily reflects revenue from a nuclear fuel fabrication facility decommissioning project and an east coast clean-up project.

T&D revenue from our refinery customers increased 46% in the first nine months of 2013 compared to the first nine months of 2012. This increase primarily reflects higher disposal volumes and improved pricing on thermal recycling projects sourced directly from refinery customers.

Rate-regulated business at our Richland, Washington low-level radioactive waste disposal facility increased 3% in the first nine months of 2013 compared to the first nine months of 2012. Our Richland facility operates under a State-approved annual revenue requirement. The increase reflects the timing of revenue recognition for the rate-regulated portion of the business.

Our broker business increased 2% in the first nine months of 2013 compared to the first nine months of 2012. This increase was the result of shipments across the broad range of government and industry waste generators directly served by multiple broker customers, partially offset by lower volumes of brokered thermal recycling projects.

Our other industry revenue category decreased 7% in the first nine months of 2013 compared to the first nine months of 2012 as a result of reduced shipments from this broadly diverse industrial customer category.

Table of Contents

Government clean-up business revenue decreased 36% in the first nine months of 2013 compared to the first nine months of 2012 due to reduced shipments from USACE. Event Business under our USACE contract contributed \$4.5 million, or 3%, of total revenue in the first nine months of 2013 compared to \$7.9 million, or 7%, of total revenue in the first nine months of 2012. Excluding transportation service revenue, T&D revenue with the USACE decreased approximately 43% in the first nine months of 2013 compared with the first nine months of 2012. This decrease was due to project-specific timing at multiple USACE clean-up sites and ongoing federal spending reductions. No USACE projects served by the Company were cancelled or, to our knowledge, awarded to competitors during the first nine months of 2013.

Gross Profit. Gross profit for the first nine months of 2013 increased 17% to \$55.9 million, up from \$48.0 million in the first nine months of 2012. This increase primarily reflects a higher average selling price in the first nine months of 2013 compared to the first nine months of 2012. Gross margin was 39% in the first nine months of 2013, compared to 40% in the first nine months of 2012. T&D gross margin was 47% in the first nine months of 2013 compared to 46% in the first nine months of 2012 reflecting a more favorable service mix.

Selling, General and Administrative. SG&A expenses increased to \$18.4 million, or 13% of total revenue, in the first nine months of 2013, compared with \$18.2 million, or 15% of total revenue, in the first nine months of 2012. The increase primarily reflects a full nine months of SG&A expenses related to Michigan operations in 2013, higher payroll expenses and a contingency accrual associated with the U.S. EPA matter at our Robstown, Texas facility (refer to Note 11), partially offset by lower variable incentive compensation and business development expenses.

Interest expense. Interest expense in the first nine months of 2013 was \$651,000, down from \$659,000 in the first nine months of 2012, primarily reflecting lower average debt levels in the first nine months of 2013.

Foreign Currency Gain (Loss). We recognized \$1.4 million non-cash foreign currency loss in the first nine months of 2013 compared with a \$1.8 million non-cash foreign currency gain in the first nine months of 2012. Foreign currency gains and losses reflect changes in business activity conducted in a currency other than the USD, our functional currency. Our Stablex facility is owned by our Canadian subsidiary, whose functional currency is the CAD. As part of our treasury management strategy we established intercompany loans between our parent company, US Ecology, and Stablex. These intercompany loans are payable by Stablex to US Ecology in CAD requiring us to revalue the outstanding loan balance through our statements of operations based on USD/CAD currency movements from period to period. At September 30, 2013, we had \$40.1 million of intercompany loans subject to currency revaluation.

Other income. Other income includes non-operating business activities and unusual revenue and expenses. Other income in the first nine months of 2013 was \$268,000, down from \$672,000 in the first nine months of 2012. The decrease primarily reflects \$474,000 of other income recorded in connection with the sale of an excess water right at our Grand View, Idaho property during the first nine months of 2012.

Income tax expense. Our effective tax rate for the first nine months of 2013 was 35.8%, down from 38.2% in the first nine months of 2012. This decrease reflects a higher proportion of earnings from our Canadian operations, which are taxed at a lower corporate tax rate, partially offset by higher U.S. state income taxes. As of September 30, 2013 we had unrecognized tax benefits of \$438,000 that, if recognized would favorably affect the effective tax rate. As of September 30, 2013, we have recorded \$39,000 of cumulative interest expense associated with this unrecognized tax benefit. We expect our full year effective income tax rate to be approximately 36.0%.

CRITICAL ACCOUNTING POLICIES

Financial statement preparation requires management to make estimates and judgments that affect reported assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities. The accompanying unaudited consolidated financial statements are prepared using the same critical accounting policies disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are cash and cash equivalents, cash generated from operations and borrowings under the Credit Agreement. At September 30, 2013, we had \$4.4 million in cash and cash equivalents immediately available for operations. We assess our liquidity in terms of our ability to generate cash to fund our operating, investing, and financing activities. Our primary ongoing cash requirements are funding operations, capital expenditures, interest, and principal payments and paying declared dividends pursuant to our dividend policy. We believe future operating cash flows will be sufficient to meet our future operating, investing and dividend cash needs for the foreseeable future. Furthermore, existing cash balances and availability of additional borrowings under our Credit Agreement provide additional sources of liquidity should they be required.

Table of Contents

Operating Activities. For the nine months ended September 30, 2013, net cash provided by operating activities was \$32.2 million. This primarily reflects net income of \$22.9 million, non-cash depreciation, amortization and accretion of \$12.8 million, an increase in income taxes payable of \$2.8 million, an increase in deferred revenue of \$2.6 million, unrealized non-cash foreign currency losses of \$1.7 million and share-based compensation expense of \$601,000, partially offset by an increase in receivables of \$7.2 million, a decrease in deferred income taxes of \$1.7 million and an increase in other working capital of \$2.4 million. Impacts on net income are due to the factors discussed above under Results of Operations. The increase in income taxes payable is primarily attributable to the timing of income tax payments. The increase in receivables is primarily attributable to the timing of the treatment and disposal of waste associated with a significant east coast clean-up project.

Days sales outstanding were 67 days as of September 30, 2013, compared to 61 days at December 31, 2012 and 68 days at September 30, 2012.

For the nine months ended September 30, 2012, net cash provided by operating activities was \$24.8 million. This primarily reflects net income of \$19.5 million and depreciation and amortization and accretion of \$12.3 million, partially offset by a decrease in accrued liabilities of \$3.5 million, unrealized foreign currency gains of \$2.0 million and an increase in receivables of \$2.0 million. The decrease in accrued liabilities is primarily attributable to the payment of fiscal year 2011 accrued customer refunds related to our rate-regulated business in Richland, Washington.

Investing Activities. For the nine months ended September 30, 2013, net cash used in investing activities was \$15.5 million, primarily related to capital expenditures. Significant capital projects included the purchase of land for future expansion of our Robstown, Texas location, construction of additional disposal capacity at our Beatty, Nevada and Blainville, Quebec, Canada locations, relocation of administrative offices at our Beatty, Nevada location to accommodate disposal capacity expansion and equipment purchases and infrastructure upgrades at all of our operating facilities.

For the nine months ended September 30, 2012, net cash used in investing activities was \$22.7 million, primarily related to our acquisition of US Ecology Michigan for \$10.7 million, net of cash acquired, and capital expenditures of \$12.4 million. Significant capital projects included construction of additional disposal capacity at our Grand View, Idaho and Blainville, Quebec, Canada locations and equipment purchases at our operating disposal facilities.

Financing Activities. For the nine months ended September 30, 2013, net cash used in financing activities was \$14.2 million, consisting primarily of \$9.5 million of net repayments under the Credit Agreement and \$6.6 million of dividend payments to our stockholders, partially offset by \$2.2 million of proceeds from stock option exercises.

For the nine months ended September 30, 2012, net cash provided by financing activities was \$1.1 million, consisting primarily of \$9.9 million of dividends paid to our stockholders, partially offset by net borrowings under the Credit Agreement of \$9.0 million incurred primarily to finance the US Ecology Michigan acquisition.

CONTRACTUAL OBLIGATIONS AND GUARANTEES

Edgar Filing: US ECOLOGY, INC. - Form 10-Q

In May 2013, we executed a new lease for corporate office space in Boise, Idaho. Future minimum lease payments on this non-cancelable operating lease as of September 30, 2013 consisted of the following:

| \$s in thousands | Payments | |
|-------------------------|-----------------|-------|
| 2013 | \$ | 17 |
| 2014 | | 245 |
| 2015 | | 301 |
| 2016 | | 310 |
| 2017 | | 318 |
| Thereafter | | 382 |
| | \$ | 1,573 |

There were no other material changes in the amounts of our contractual obligations and guarantees during the nine months ended September 30, 2013. For detailed information on our contractual obligations and guarantees, refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to changes in interest rates as a result of our borrowings under the Credit Agreement with Wells Fargo. Under the Credit Agreement, revolving loans are available based on the Prime Rate or LIBOR, at the Company's option, plus an applicable margin determined according to a pricing grid under which the interest rate decreases or increases based on our ratio of funded debt to EBITDA. At September 30, 2013, we had \$35.5 million of borrowings on the Reducing Revolving Line of Credit bearing an interest rate of 1.43%. If interest rates were to rise, we would be subject to higher interest payments if outstanding balances remain unchanged. Based on the outstanding indebtedness of \$35.5 million under our Credit Agreement at September 30, 2013, if market rates used to calculate interest expense were to average 1% higher in the next twelve months, our annual interest expense would increase by approximately \$355,000.

Foreign Currency Risk

We are subject to currency exposures and volatility because of currency fluctuations. The majority of our transactions are in USD; however, our Stablex subsidiary conducts business in both Canada and the United States. In addition, contracts for services Stablex provides to U.S. customers are generally denominated in USD. During the nine months ended September 30, 2013, Stablex transacted approximately 63% of its revenue in USD and at any time has cash on deposit in USD and outstanding USD trade receivables and payables related to these transactions. These USD cash, receivable and payable accounts are subject to non-cash foreign currency translation gains or losses. Exchange rate movements also affect the translation of Canadian generated profits and losses into USD.

We established intercompany loans between Stablex and US Ecology, Inc. as part of a tax and treasury management strategy allowing for repayment of third-party bank debt used to complete the acquisition. These intercompany loans are payable using CAD and are subject to mark-to-market adjustments with movements in the CAD. At September 30, 2013, we had \$40.1 million of intercompany loans outstanding between Stablex and US Ecology. During the nine months ended September 30, 2013, the CAD weakened as compared to the USD resulting in a \$1.6 million non-cash foreign currency translation loss being recognized in the Company's Consolidated Statement of Operations related to the intercompany loans. Based on intercompany balances as of September 30, 2013, a \$0.01 CAD increase or decrease in currency rate compared to the USD at September 30, 2013 would have generated a gain or loss of approximately \$401,000 for the nine months ended September 30, 2013.

We had a total pre-tax foreign currency gain of \$683,000 for the three months ended September 30, 2013 and a total pre-tax foreign currency loss of \$1.4 million for the nine months ended September 30, 2013. We currently have no foreign exchange contracts, option contracts or other foreign currency hedging arrangements. Management evaluates the Company's risk position on an ongoing basis to determine whether foreign exchange hedging strategies should be employed.

ITEM 4. CONTROLS AND PROCEDURES

Management of the Company, including the Chief Executive Officer and the Chief Financial Officer of the Company, have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of September 30, 2013. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, including the accumulation and communication of disclosures to the Company's Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure, are effective to provide

Edgar Filing: US ECOLOGY, INC. - Form 10-Q

reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC.

There were no changes in our internal control over financial reporting that occurred during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Cautionary Statement for Purposes of Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about the Company's beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words may, could, would, should, believe, expect, anticipate, plan, estimate, target, project, intend and similar expressions. These statements include, among others, statements regarding our financial and operating results, strategic objectives and means to achieve those objectives, the amount and timing of capital expenditures, repurchases of its stock under approved stock repurchase plans, the amount and timing of interest expense, the likelihood of our success in expanding our business, financing plans, budgets, working capital needs and sources of liquidity.

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on management's beliefs and assumptions, which in turn are based on currently available information. Important assumptions include, among others, those regarding demand for Company services, expansion of service offerings geographically or through new or expanded service lines, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict. Such factors include the replacement of non-recurring event clean-up projects, a loss of a major customer, our ability to permit and contract for timely construction of new or expanded disposal cells, our ability to renew our operating permits or lease agreements with regulatory bodies, loss of key personnel, compliance with and changes to applicable laws, rules, or regulations, fluctuations in foreign currency markets, access to insurance, surety bonds and other financial assurances, a deterioration in our labor relations or labor disputes, our ability to perform under required contracts, failure to realize anticipated benefits and operational performance from acquired operations, adverse economic conditions, government funding or competitive pressures, incidents or adverse weather conditions that could limit or suspend specific operations, access to cost effective transportation services, lawsuits, market conditions, our willingness or ability to pay dividends, implementation of new technologies and our ability to effectively close and integrate future acquisitions.

Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission (the SEC), we are under no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should not place undue reliance on our forward-looking statements. Although we believe that the expectations reflected in forward-looking statements are reasonable, we cannot guarantee future results or performance. Before you invest in our common stock, you should be aware that the occurrence of the events described in the Risk Factors section in this report could harm our business, prospects, operating results, and financial condition.

Investors should also be aware that while we do, from time to time, communicate with securities analysts, it is against our policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, stockholders should not assume that we agree with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, we have a policy against issuing or confirming financial forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of US Ecology, Inc.

ITEM 1. LEGAL PROCEEDINGS

In 2012, we settled allegations by the United States Environment Protection Agency (U.S. EPA) that the thermal recycling operation at our Robstown, Texas facility did not comply with certain rules and regulations of the Resource Conservation and Recovery Act of 1976 (RCRA). As part of the settlement, we agreed to pay a civil penalty and to submit an application to the State of Texas for a RCRA subpart X permit. The Company and the thermal recycling unit s owner-operator also agreed to a set of interim operating conditions that allow the facility to continue providing recycling services to customers until the RCRA Subpart X permit is issued.

In connection with this matter, in June 2013 the U.S. EPA asserted various related technical compliance and permitting violations of the Clean Air Act of 1970. Although negotiations on the merits of a proposed settlement are ongoing with the U.S. EPA, we recognized a charge of \$238,000 during the second quarter of 2013 in Selling, general and administrative expenses in the Consolidated Statement of Operations related to this pending enforcement matter.

Other than as disclosed above, we are not currently a party to any material pending legal proceedings and are not aware of any other claims that could have a materially adverse effect on our financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 10.1 Executive Employment Agreement, dated September 7, 2013, between Jeffrey R. Feeler and US Ecology, Inc.*
- 15 Letter re: Unaudited Interim Financial Statements
- 31.1 Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from the quarterly report on Form 10-Q of US Ecology, Inc. for the quarter ended September 30, 2013 formatted in Extensible Business Reporting Language (XBRL) include: (i) Unaudited Consolidated Balance Sheets, (ii) Unaudited Consolidated Statements of Operations, (iii) Unaudited Consolidated Statements of Comprehensive Income, (iv) Unaudited Consolidated Statements of Cash Flows, and (v) Notes to the Unaudited Consolidated Financial Statements

* Identifies management contracts or compensatory plans or arrangements required to be filed as an exhibit hereto.

Table of Contents

SIGNATURE

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

US Ecology, Inc.
(Registrant)

Date: October 31, 2013

/s/ Eric L. Gerratt
Eric L. Gerratt
Executive Vice President, Chief Financial Officer and Treasurer