US ECOLOGY, INC.
Form 10-Q
October 30, 2017
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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, 2017

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting companyEmerging growth company

(Do not check if a smaller reporting company)

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

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, 2017, there were 21,849,165 shares of the registrant's Common Stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

US ECOLOGY, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value amount)

	September 30, 2017	December 31, 2016
Assets		
Current Assets:		
Cash and cash equivalents	$ 9,244	$ 7,015
Receivables, net	117,140	96,819
Prepaid expenses and other current assets	10,463	7,458
Income taxes receivable	2,524	4,076
Total current assets	139,371	115,368
Property and equipment, net	230,874	226,237
Restricted cash and investments	5,812	5,787
Intangible assets, net	228,736	234,356
Goodwill	194,948	193,621
Other assets	2,910	1,031
Total assets	$ 802,651	$ 776,400
Liabilities And Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 13,560	$ 13,948
Deferred revenue	12,237	7,820
Accrued liabilities	26,821	22,605
Accrued salaries and benefits	13,497	10,720
Income taxes payable	1,319	165
Current portion of closure and post-closure obligations	2,271	2,256
Short-term borrowings	—	2,177
Current portion of long-term debt	—	2,903
Total current liabilities	69,705	62,594
Long-term closure and post-closure obligations	74,918	72,826

Long-term debt	277,000	274,459
Other long-term liabilities	4,101	5,164
Deferred income taxes	81,265	81,333
Total liabilities	506,989	496,376
Commitments and contingencies		
Stockholders' Equity:		
Common stock $0.01 par value, 50,000 authorized; 21,849 and 21,780 shares issued, respectively	218	218
Additional paid-in capital	176,523	172,704
Retained earnings	128,699	121,879
Treasury stock, at cost, 2 and 7 shares, respectively	(68)	(52)
Accumulated other comprehensive loss	(9,710)	(14,725)
Total stockholders' equity	295,662	280,024
Total liabilities and stockholders' equity	$ 802,651	$ 776,400

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

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US ECOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	$ 134,054	$ 124,824	$ 370,345	$ 360,493
Direct operating costs	96,321	85,470	264,843	249,025
Gross profit	37,733	39,354	105,502	111,468
Selling, general and administrative expenses	22,444	18,439	62,158	57,683
Operating income	15,289	20,915	43,344	53,785
Other income (expense):				
Interest income	18	8	49	90
Interest expense	(2,783)	(4,288)	(15,387)	(13,150)
Foreign currency gain (loss)	275	(224)	521	192
Other	234	(19)	537	2,480
Total other expense	(2,256)	(4,523)	(14,280)	(10,388)
Income before income taxes	13,033	16,392	29,064	43,397
Income tax expense	4,668	6,278	10,465	16,828
Net income	$ 8,365	$ 10,114	$ 18,599	$ 26,569
Earnings per share:				
Basic	$ 0.38	$ 0.47	$ 0.86	$ 1.22
Diluted	$ 0.38	$ 0.46	$ 0.85	$ 1.22
Shares used in earnings per share calculation:				
Basic	21,774	21,714	21,750	21,700
Diluted	21,931	21,804	21,893	21,780
Dividends paid per share	$ 0.18	$ 0.18	$ 0.54	$ 0.54

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

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US ECOLOGY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$ 8,365	$ 10,114	$ 18,599	$ 26,569
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	2,436	(734)	4,427	2,555
Net changes in interest rate hedge, net of taxes of $134, $253, $317, and ($1,063), respectively	249	469	588	(1,976)
Comprehensive income, net of tax	$ 11,050	$ 9,849	$ 23,614	$ 27,148

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

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US ECOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30, 2017	2016
Cash flows from operating activities:		
Net income	$ 18,599	$ 26,569
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	21,007	18,561
Amortization of intangible assets	7,586	7,907
Accretion of closure and post-closure obligations	3,245	3,081
Gain on disposition of business	—	(2,035)
Unrealized foreign currency gain	(1,500)	(381)
Deferred income taxes	(1,011)	(2,832)
Share-based compensation expense	2,954	2,182
Net (gain) loss on disposition of assets	287	(228)
Amortization and write-off of debt issuance costs	5,806	1,583
Amortization and write-off of debt discount	667	111
Changes in assets and liabilities:		
Receivables	(20,142)	8,713
Income taxes receivable	1,592	1,102
Other assets	(2,638)	395
Accounts payable and accrued liabilities	6,174	(6,560)
Deferred revenue	4,228	(1,942)
Accrued salaries and benefits	2,676	126
Income taxes payable	1,112	63
Closure and post-closure obligations	(1,277)	(32)
Net cash provided by operating activities	49,365	56,383
Cash flows from investing activities:		
Purchases of property and equipment	(26,354)	(22,550)
Deposit on Vernon acquisition	—	(5,049)
Business acquisitions (net of cash acquired)	—	(4,934)
Purchases of restricted cash and investments	(832)	(1,040)
Proceeds from divestitures (net of cash divested)	—	2,723
Proceeds from sale of restricted cash and investments	807	978
Proceeds from sale of property and equipment	957	524
Net cash used in investing activities	(25,422)	(29,348)
Cash flows from financing activities:		

Payments on long-term debt	(287,040)	(17,326)
Proceeds from long-term debt	281,000	—
Payments on short-term borrowings	(13,438)	(30,546)
Proceeds from short-term borrowings	11,260	32,849
Dividends paid	(11,778)	(11,754)
Proceeds from exercise of stock options	1,050	229
Deferred financing costs paid	(2,967)	—
Payment of equipment financing obligations	(268)	—
Other	(121)	(188)
Net cash used in financing activities	(22,302)	(26,736)
Effect of foreign exchange rate changes on cash	588	95
Increase in cash and cash equivalents	2,229	394
Cash and cash equivalents at beginning of period	7,015	5,989
Cash and cash equivalents at end of period	$ 9,244	$ 6,383
Supplemental Disclosures		
Income taxes paid, net of receipts	$ 9,274	$ 18,600
Interest paid	$ 8,981	$ 11,430
Non-cash investing and financing activities:		
Capital expenditures in accounts payable	$ 1,044	$ 3,855
Restricted stock issued from treasury shares	$ 113	$ 415

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

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 inter-company 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 (consisting only of normal recurring 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, 2016. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2017.

The Company’s consolidated balance sheet as of December 31, 2016 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 GAAP 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 consolidated 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.

Recently Issued Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-04, Simplifying the Test for Goodwill Impairment (Topic 350). This ASU removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under the ASU, "an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit." The guidance is effective prospectively for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The Company early adopted ASU 2017-04 on January 1, 2017 and the standard is not expected to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash (Topic 230). This ASU amends the guidance in Accounting Standards Codification ("ASC") 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. ASU 2016-18 is based on the EITF's consensuses reached on Issue 16-A. The guidance is effective for annual and interim periods beginning after December 15, 2017. The guidance must be applied

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retrospectively to all periods presented. Early adoption is permitted. We are currently assessing the impact the adoption of ASU 2016-18 may have on our consolidated cash flows.

In August 2016, the FASB issued ASU No. 2016-15, Statements of Cash Flows (Topic 230). This ASU amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The guidance is effective for annual and interim periods beginning after December 15, 2017. The guidance must be applied retrospectively to all periods presented. Early adoption is permitted. We are currently assessing the impact the adoption of ASU 2016-15 may have on our consolidated cash flows.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718). This ASU requires excess tax benefits and tax deficiencies, which arise due to differences between the measure of compensation expense and the amount deductible for tax purposes, to be recorded directly through earnings as a component of income tax expense. Previously, these differences were generally recorded in additional paid-in capital and thus had no impact on net income. The change in treatment of excess tax benefits and tax deficiencies also impacts the computation of diluted earnings per share, and the cash flows associated with those items are classified as operating activities on the consolidated statements of cash flows. Additionally, ASU 2016-09 permits entities to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as allowed under previous standards, or recognized when they occur. The amendments in this ASU became effective in the first quarter of 2017. The Company adopted this ASU on January 1, 2017 and the standard did not have a material impact on its consolidated financial statements. Adoption of the ASU did not result in any cumulative effect adjustments to retained earnings or other components of stockholders' equity as of the date of adoption, as well as there were no retrospective adjustments to our consolidated cash flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU significantly changes the accounting model used by lessees to account for leases, requiring that all material leases be presented on the balance sheet. Lessees will recognize substantially all leases on the balance sheet as a right-of-use asset and a corresponding lease liability. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. The guidance is effective for annual and interim periods beginning after December 15, 2018. The guidance must be applied using the modified retrospective approach. Early adoption is permitted. We are currently assessing the impact the adoption of ASU 2016-02 may have on our consolidated financial position, results of operations and cash flows.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which provides guidance for revenue recognition. The ASU's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The ASU also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows from contracts with customers. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). The Company currently anticipates adopting this ASU using the modified retrospective method.

In August 2015, the FASB issued ASU 2015-14: Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date established in ASU 2014-09. The amendments in ASU 2014-09 are now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted but not before annual periods beginning after December 15, 2016. The Company will adopt the ASU, as amended, effective January 1, 2018.

To assess the impact of ASU 2014-09, we have read the amended guidance, attended trainings and have consulted with external accounting professionals on a regular basis to assist with the understanding and interpretation of the ASU to our revenue recognition. The Company has completed its review of customer contracts in each of its operating segments for all significant service lines and has reached conclusions on key accounting assessments related to the ASU. Based on our review of the Company's treatment and disposal contracts, and in light of the shift from a "risks and rewards" based model under ASC 605 to a "control" based model under Topic 606, we have determined that it is necessary to further assess the precise moment in time when control of waste transfers, from the customer's perspective. The timing of when we recognize

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treatment and disposal revenue under Topic 606 may be different, based on the conclusions reached in our assessments, from the timing of when we currently recognize treatment and disposal revenue under ASC 605; however, any change in timing is expected to result in immaterial differences in the amount of revenue recognized in any given period. We continue to perform additional analysis on revenue recognized from our managed services, retail, and remediation lines of business to finalize our conclusions. Additionally, under ASU 2014-09, the principal vs. agent considerations differ from the current guidance and are more focused on the control aspect of the relationship and we continue to assess the level of impact this guidance may have on our various revenue streams.

As we finalize our analysis and implementation of ASU 2014-09, we continue to identify and implement appropriate changes to our business processes, systems and controls to support recognition and disclosure under the new standard. Additionally, the Company continues to monitor industry activities and any additional guidance provided by regulators, standards setters, or the accounting profession to adjust the Company's assessment and implementation plans accordingly.

While the Company continues to assess all potential impacts of adopting ASU 2014-09, including those mentioned above, based upon information available to date, the Company does not expect the adoption of the ASU to have a material impact on either the timing or recognition of revenues; however, the full extent of the impact is subject to the completion of our assessment.

NOTE 2. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) ("AOCI") consisted of the following:

	Foreign Currency Translation	Unrealized Loss on Interest Rate Hedge	Total
Balance at December 31, 2016	$ (12,649)	$ (2,076)	$ (14,725)
Other comprehensive income (loss) before reclassifications, net of tax	4,427	(593)	3,834
Amounts reclassified out of AOCI, net of tax (1)	—	1,181	1,181
Other comprehensive income, net	4,427	588	5,015
Balance at September 30, 2017	$ (8,222)	$ (1,488)	$ (9,710)

(1) Before-tax reclassifications of $474,000 ($308,000 after-tax) and $1.8 million ($1.2 million after-tax) for the three and nine months ended September 30, 2017, respectively, and before-tax reclassifications of $798,000 ($519,000 after-tax) and $2.4 million ($1.6 million after-tax) for the three and nine months ended September 30,

2016, were included in Interest expense in the Company’s consolidated statements of operations. Amounts relate to the Company’s interest rate swap which is designated as a cash flow hedge. Changes in fair value of the swap recognized in AOCI are reclassified to interest expense when hedged interest payments on the underlying long-term debt are made. Amounts in AOCI expected to be recognized in interest expense over the next 12 months total approximately $1.9 million ($1.2 million after-tax).

NOTE 3. CONCENTRATIONS AND CREDIT RISK

Major Customers

No customer accounted for more than 10% of total revenue for the three or nine months ended September 30, 2017 or the three or nine months ended September 30, 2016. No customer accounted for more than 10% of total trade receivables as of September 30, 2017 or December 31, 2016.

Credit Risk Concentration

We maintain most of our cash and cash equivalents with nationally recognized financial institutions. Substantially all balances are uninsured and are not used as collateral for other obligations. Concentrations of credit risk on accounts

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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:

$s in thousands	September 30, 2017	December 31, 2016
Trade	$ 97,012	$ 84,487
Unbilled revenue	18,819	13,835
Other	3,905	831
Total receivables	119,736	99,153
Allowance for doubtful accounts	(2,596)	(2,334)
Receivables, net	$ 117,140	$ 96,819

NOTE 5. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded at fair value are categorized using defined hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair value measurements, as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;

Level 3 - Unobservable inputs in which little or no market activity exists, requiring an entity to develop its own assumptions that market participants would use to value the asset or liability.

The Company’s financial instruments consist of cash and cash equivalents, accounts receivable, restricted cash and investments, accounts payable, accrued liabilities, debt and interest rate swap agreements. The estimated fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying value due to the short-term nature of these instruments.

The Company estimates the fair value of its variable-rate debt using Level 2 inputs, such as interest rates, related terms and maturities of similar obligations. At September 30, 2017, the carrying value of the Company’s variable-rate debt approximates fair value due to the short-term nature of the interest rates.

The Company’s assets and liabilities measured at fair value on a recurring basis consisted of the following:

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	September 30, 2017			
$s in thousands	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets:				
Fixed-income securities (1)	$ 1,004	$ 3,074	$ —	$ 4,078
Money market funds (2)	1,734	—	—	1,734
Total	$ 2,738	$ 3,074	$ —	$ 5,812
Liabilities:				
Interest rate swap agreement (3)	$ —	$ 2,293	$ —	$ 2,293
Total	$ —	$ 2,293	$ —	$ 2,293

	December 31, 2016			
$s in thousands	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets:				
Fixed-income securities (1)	$ 607	$ 3,473	$ —	$ 4,080
Money market funds (2)	1,707	—	—	1,707
Total	$ 2,314	$ 3,473	$ —	$ 5,787
Liabilities:				
Interest rate swap agreement (3)	$ —	$ 3,198	$ —	$ 3,198
Total	$ —	$ 3,198	$ —	$ 3,198

(1) We invest a portion of our Restricted cash and investments in fixed-income securities, including U.S. Treasury and U.S. agency securities. We measure the fair value of U.S. Treasury securities using quoted prices for identical assets in active markets. We measure the fair value of U.S. agency securities using observable market activity for similar assets. The fair value of our fixed-income securities approximates our cost basis in the investments.

(2) We invest a portion of our Restricted cash and investments in money market funds. We measure the fair value of these money market fund investments using quoted prices for identical assets in active markets.

(3) In order to manage interest rate exposure, we entered into an interest rate swap agreement in October 2014 that effectively converts a portion of our variable-rate debt to a fixed interest rate. The swap is designated as a cash flow hedge, with gains and losses deferred in accumulated other comprehensive income to be recognized as an

adjustment to interest expense in the same period that the hedged interest payments affect earnings. The interest rate swap has an effective date of December 31, 2014 with an initial notional amount of $250.0 million. The interest rate swap continued to be effective following the termination of the Company's senior secured credit agreement, dated June 17, 2014. The fair value of the interest rate swap agreement represents the difference in the present value of cash flows calculated at the contracted interest rates and at current market interest rates at the end of the period. We calculate the fair value of the interest rate swap agreement quarterly based on the quoted market price for the same or similar financial instruments. The fair value of the interest rate swap agreement is included in Other long-term liabilities in the Company's consolidated balance sheet as of September 30, 2017 and December 31, 2016.

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NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

$s in thousands	September 30, 2017	December 31, 2016
Cell development costs	$ 141,522	$ 128,821
Land and improvements	36,302	34,285
Buildings and improvements	85,774	78,081
Railcars	17,299	17,299
Vehicles and other equipment	117,066	110,267
Construction in progress	21,535	24,392
Total property and equipment	419,498	393,145
Accumulated depreciation and amortization	(188,624)	(166,908)
Property and equipment, net	$ 230,874	$ 226,237

Depreciation and amortization expense for the three months ended September 30, 2017 and 2016 was $7.4 million and $6.5 million, respectively. Depreciation and amortization expense for the nine months ended September 30, 2017 and 2016 was $21.0 million and $18.6 million, respectively.

NOTE 7. GOODWILL AND INTANGIBLE ASSETS

Changes in goodwill for the nine months ended September 30, 2017 consisted of the following:

$s in thousands	Environmental Services	Field & Industrial Services	Total
Balance at December 31, 2016	$ 149,490	$ 44,131	$ 193,621
Foreign currency translation	1,327	—	1,327
Balance at September 30, 2017	$ 150,817	$ 44,131	$ 194,948

Intangible assets, net consisted of the following:

	September 30, 2017			December 31, 2016		
$s in thousands	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Amortizing intangible assets:						
Permits, licenses and lease	$ 111,961	$ (11,814)	$ 100,147	$ 110,341	$ (9,462)	$ 100,879
Customer relationships	85,003	(18,781)	66,222	84,711	(14,519)	70,192
Technology - formulae and processes	7,296	(1,582)	5,714	6,770	(1,305)	5,465
Customer backlog	3,652	(1,200)	2,452	3,652	(926)	2,726
Tradename	4,318	(4,318)	—	4,318	(3,650)	668
Developed software	2,928	(1,246)	1,682	2,907	(994)	1,913
Non-compete agreements	748	(748)	—	747	(742)	5
Internet domain and website	540	(93)	447	540	(72)	468
Database	393	(148)	245	387	(118)	269
Total amortizing intangible assets	216,839	(39,930)	176,909	214,373	(31,788)	182,585
Nonamortizing intangible assets:						
Permits and licenses	51,691	—	51,691	51,645	—	51,645
Tradename	136	—	136	126	—	126
Total intangible assets	$ 268,666	$ (39,930)	$ 228,736	$ 266,144	$ (31,788)	$ 234,356

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Amortization expense for the three months ended September 30, 2017 and 2016 was $2.3 million and $2.7 million, respectively. Amortization expense for the nine months ended September 30, 2017 and 2016 was $7.6 million and $7.9 million, respectively. Foreign intangible asset carrying amounts are affected by foreign currency translation.

NOTE 8. DEBT

Long-term debt consisted of the following:

$s in thousands	September 30, 2017	December 31, 2016
Revolving credit facility	$ 277,000	$ —
Former term loan	—	283,040
Unamortized discount and debt issuance costs	—	(5,678)
Total debt	277,000	277,362
Current portion of long-term debt	—	(2,903)
Long-term debt	$ 277,000	$ 274,459

New Credit Agreement

On April 18, 2017, the Company entered into a new senior secured credit agreement (the “New Credit Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo”), as administrative agent for the lenders, swingline lender and issuing lender, and Bank of America, N.A., as an issuing lender, that provides for a $500.0 million, five-year revolving credit facility (the “Revolving Credit Facility”), including a $75.0 million sublimit for the issuance of standby letters of credit and a $25.0 million sublimit for the issuance of swingline loans used to fund short-term working capital requirements. The New Credit Agreement also contains an accordion feature whereby the Company may request up to $200.0 million of additional funds through an increase to the Revolving Credit Facility, through incremental term loans, or some combination thereof. In connection with the Company’s entry into the New Credit Agreement, the Company terminated its existing credit agreement with Wells Fargo, dated June 17, 2014 (the “Former Credit Agreement”). Immediately prior to the termination of the Former Credit Agreement, there were $278.3 million of term loans and no revolving loans outstanding under the Former Credit Agreement. No early termination penalties were incurred as a result of the termination of the Former Credit Agreement. The Company wrote off certain unamortized deferred financing costs and original issue discount associated with the Former Credit Agreement that were to be amortized to interest expense in future periods through a one-time non-cash charge of $5.5 million to interest expense in the second quarter of 2017.

The Revolving Credit Facility provides up to $500.0 million of revolving credit loans or letters of credit with the use of proceeds restricted solely for working capital and other general corporate purposes (including acquisitions and capital expenditures). Under the Revolving Credit Facility, revolving credit loans are available based on a base rate (as defined in the New Credit Agreement) 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 consolidated earnings before interest, taxes, depreciation and amortization (as defined in the New Credit Agreement), as set forth in the table below:

Total Net Leverage Ratio	LIBOR Rate Loans Interest Margin	Base Rate Loans Interest Margin
Equal to or greater than 3.25 to 1.00	2.00%	1.00%
Equal to or greater than 2.50 to 1.00, but less than 3.25 to 1.00	1.75%	0.75%
Equal to or greater than 1.75 to 1.00, but less than 2.50 to 1.00	1.50%	0.50%
Equal to or greater than 1.00 to 1.00, but less than 1.75 to 1.00	1.25%	0.25%
Less than 1.00 to 1.00	1.00%	0.00%

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At September 30, 2017, the effective interest rate on the Revolving Credit Facility, after giving effect to the impact of our interest rate swap, was 3.39%. Interest only payments are due either quarterly or on the last day of any interest period, as applicable.

In October 2014, the Company entered into an interest rate swap agreement, effectively fixing the interest rate on $195.0 million, or 70%, of the Revolving Credit Facility borrowings as of September 30, 2017. The interest rate swap agreement continued in place following the termination of the Company's Former Credit Agreement. The critical terms of the interest rate swap and the forecasted transaction (periodic interest payments on the Company's variable-rate debt) did not change as a result of the refinancing therefore the interest rate swap continues to qualify as a highly-effective cash flow hedge, with gains and losses deferred in accumulated other comprehensive income to be recognized as an adjustment to interest expense in the same period that the hedged interest payments affect earnings.

The Company is required to pay a commitment fee ranging from 0.175% to 0.35% on the average daily unused portion of the Revolving Credit Facility, with such commitment fee to be reduced based upon the Company's total net leverage ratio (as defined in the New Credit Agreement). The maximum letter of credit capacity under the Revolving Credit Facility is $75.0 million and the New Credit Agreement provides for a letter of credit fee equal to the applicable margin for LIBOR loans under the Revolving Credit Facility. At September 30, 2017, there were $277.0 million of revolving credit loans outstanding on the Revolving Credit Facility. These revolving credit loans are due upon the earliest to occur of (a) April 18, 2022 (or, with respect to any lender, such later date as requested by us and accepted by such lender), (b) the date of termination of the entire revolving credit commitment (as defined in the New Credit Agreement) by us, and (c) the date of termination of the revolving credit commitment and are presented as long-term debt in the consolidated balance sheets.

The Company has entered into a sweep arrangement whereby day-to-day cash requirements in excess of available cash balances are advanced to the Company on an as-needed basis with repayments of these advances automatically made from subsequent deposits to our cash operating accounts (the "Sweep Arrangement"). Total advances outstanding under the Sweep Arrangement are subject to the $25.0 million swingline loan sublimit under the Revolving Credit Facility. The Company's revolving credit loans outstanding under the Revolving Credit Agreement are not subject to repayment through the Sweep Arrangement. As of September 30, 2017, there were no amounts outstanding subject to the Sweep Arrangement.

As of September 30, 2017, the availability under the Revolving Credit Facility was $216.7 million with $6.3 million of the Revolving Credit Facility issued in the form of standby letters of credit utilized as collateral for closure and post-closure financial assurance and other assurance obligations.

The Company may at any time and from time to time prepay revolving credit loans and swingline loans, in whole or in part, without premium or penalty, subject to the obligation to indemnify each of the lenders against any actual loss or expense (including any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain a LIBOR rate loan (as defined in the New Credit Agreement) or from fees payable to terminate the deposits from which such funds were obtained) with respect to the early termination of any LIBOR rate loan. The New Credit Agreement provides for mandatory prepayment at any time if the revolving credit outstandings exceed the revolving credit commitment (as such terms are defined in the New Credit Agreement), in an amount equal to such excess. Subject to certain exceptions, the New Credit Agreement provides for mandatory prepayment upon certain asset dispositions, casualty events and issuances of indebtedness.

Pursuant to (i) an unconditional guarantee agreement and (ii) a collateral agreement, each entered into by the Company and its domestic subsidiaries on April 18, 2017, the Company's obligations under the New Credit Agreement are (or will be) jointly and severally and fully and unconditionally guaranteed on a senior basis by all of the Company's existing and certain future domestic subsidiaries and are secured by substantially all of the assets of the Company and the Company's existing and certain future domestic subsidiaries (subject to certain exclusions), including 100% of the equity interests of the Company's domestic subsidiaries and 65% of the voting equity interests of the Company's directly owned foreign subsidiaries (and 100% of the non-voting equity interests of the Company's directly owned foreign subsidiaries).

The New Credit Agreement contains customary restrictive covenants, subject to certain permitted amounts and exceptions, including covenants limiting the ability of the Company to incur additional indebtedness, pay dividends and make other restricted payments, repurchase shares of our outstanding stock and create certain liens. Upon the occurrence of an event

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of default (as defined in the New Credit Agreement), among other things, amounts outstanding under the New Credit Agreement may be accelerated and the commitments may be terminated.

The New Credit Agreement also contains financial maintenance covenants, a maximum consolidated total net leverage ratio and a consolidated interest coverage ratio (as such terms are defined in the New Credit Agreement). Our consolidated total net leverage ratio as of the last day of any fiscal quarter, commencing with the fiscal quarter ending June 30, 2017, may not exceed 3.50 to 1.00, subject to certain exceptions. Our consolidated interest coverage ratio as of the last day of any fiscal quarter, commencing with the fiscal quarter ending June 30, 2017, may not be less than 3.00 to 1.00.

At September 30, 2017, we were in compliance with all of the financial covenants in the New Credit Agreement.

NOTE 9. CLOSURE AND POST-CLOSURE OBLIGATIONS

Our accrued closure and post-closure liability represents the expected future costs, including corrective actions, associated with closure and post-closure of our operating and non-operating disposal facilities. We record the fair value of our closure and post-closure obligations as a liability in the period in which the regulatory obligation to retire a specific asset is triggered. For our individual landfill cells, the required closure and post-closure obligations under the terms of our permits and our intended operation of the landfill cell are triggered and recorded when the cell is placed into service and waste is initially disposed in the landfill cell. The fair value is based on the total estimated costs to close the landfill cell and perform post-closure activities once the landfill cell has reached capacity and is no longer accepting waste. 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 to closure and post-closure obligations consisted of the following:

$s in thousands	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Closure and post-closure obligations, beginning of period	$ 76,611	$ 75,082
Accretion expense	1,090	3,245
Payments	(591)	(1,279)
Foreign currency translation	79	141

Closure and post-closure obligations, end of period	77,189	77,189
Less current portion	(2,271)	(2,271)
Long-term portion	$ 74,918	$ 74,918

NOTE 10. INCOME TAXES

Our effective tax rate for the three months ended September 30, 2017 was 35.8%, down from 38.3% for the three months ended September 30, 2016. Our effective tax rate for the nine months ended September 30, 2017 was 36.0%, down from 38.8% for the nine months ended September 30, 2016. The decrease for the three and nine months ended September 30, 2017 compared with the three and nine months ended September 30, 2016 primarily reflects a higher proportion of earnings from our Canadian operations, which are taxed at a lower corporate tax rate. The decrease was partially offset by a higher U.S. effective tax rate in the third quarter of 2017 as a result of the impact of nondeductible expenses due to the reduction of forecasted U.S. earnings as well as a higher overall effective state tax rate resulting from changes in our apportionment between the various states in which we operate.

We file a consolidated U.S. federal income tax return with the Internal Revenue Service ("IRS") as well as income tax returns in various states and Canada. US Ecology, Inc. is subject to examination by the IRS for tax years 2014 through 2016. EQ is also subject to examination by the IRS for tax year 2014. We may be subject to examinations by the Canada

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Revenue Agency as well as various state and local taxing jurisdictions for tax years 2012 through 2016. We are currently not aware of any examinations by taxing authorities.

As discussed in Note 1 to the consolidated financial statements, the Company adopted ASU 2016-09 in the first quarter of 2017. The Company recorded all income tax effects of stock-based compensation awards in its provision for income taxes in the consolidated statement of operations on a prospective basis. Adoption of ASU 2016-09 resulted in net excess tax benefits in our provision for income taxes of approximately $43,000 and $120,000 for the three and nine months ended September 30, 2017. No other provisions of ASU 2016-09 had a material impact on the Company's consolidated financial statements or disclosures.

NOTE 11. EARNINGS PER SHARE

	Three Months Ended September 30,			
	2017		2016	
$s and shares in thousands, except per share amounts	Basic	Diluted	Basic	Diluted
Net income	$ 8,365	$ 8,365	$ 10,114	$ 10,114
Weighted average basic shares outstanding	21,774	21,774	21,714	21,714
Dilutive effect of stock-based awards		157		90
Weighted average diluted shares outstanding		21,931		21,804
Earnings per share	$ 0.38	$ 0.38	$ 0.47	$ 0.46
Anti-dilutive shares excluded from calculation		117		195

	Nine Months Ended September 30,			
	2017		2016	
$s and shares in thousands, except per share amounts	Basic	Diluted	Basic	Diluted
Net income	$ 18,599	$ 18,599	$ 26,569	$ 26,569
Weighted average basic shares outstanding	21,750	21,750	21,700	21,700
Dilutive effect of stock-based awards		143		80
Weighted average diluted shares outstanding		21,893		21,780
Earnings per share	$ 0.86	$ 0.85	$ 1.22	$ 1.22
Anti-dilutive shares excluded from calculation		115		267

NOTE 12. EQUITY

Stock Repurchase Program

On June 1, 2016, the Company's Board of Directors authorized the repurchase of $25.0 million of the Company's outstanding common stock. Repurchases may be made from time to time in the open market or through privately negotiated transactions. The timing of any repurchases will be based upon prevailing market conditions and other factors. The Company did not repurchase any shares of common stock under the repurchase program during the three or nine months ended September 30, 2017. The repurchase program will remain in effect until June 2, 2018, unless extended by our Board of Directors.

Omnibus Incentive Plan

On May 27, 2015, our stockholders approved the Omnibus Incentive Plan ("Omnibus Plan"), which was approved by our Board of Directors on April 7, 2015. The Omnibus Plan was developed to provide additional incentives through equity ownership in US Ecology and, as a result, encourage employees and directors to contribute to our success. The Omnibus

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Plan provides, among other things, the ability for the Company to grant restricted stock, performance stock, options, stock appreciation rights, restricted stock units ("RSUs"), performance stock units ("PSUs") and other stock-based awards or cash awards to officers, employees, consultants and non-employee directors. Subsequent to the approval of the Omnibus Plan in May 2015, we stopped granting equity awards under our 2008 Stock Option Incentive Plan and our 2006 Restricted Stock Plan (collectively, the "Previous Plans"). The Previous Plans will remain in effect solely for the settlement of awards granted under the Previous Plans. No shares that are reserved but unissued under the Previous Plans or that are outstanding under the Previous Plans and reacquired by the Company for any reason will be available for issuance under the Omnibus Plan. The Omnibus Plan expires on April 7, 2025 and authorizes 1,500,000 shares of common stock for grant over the life of the Omnibus Plan. As of September 30, 2017, 1,147,801 shares of common stock remain available for grant under the Omnibus Plan.

PSUs, RSUs and Restricted Stock

On January 2, 2017, the Company granted 11,500 PSUs to certain employees. Each PSU represents the right to receive, on the settlement date, one share of the Company's common stock. The total number of PSUs each participant is eligible to earn ranges from 0% to 200% of the target number of PSUs granted. The actual number of PSUs that will vest and be settled in shares is determined at the end of a three-year performance period beginning January 1, 2017, based on total stockholder return relative to a set of peer companies. The fair value of the PSUs estimated on the grant date using a Monte Carlo simulation was $62.45 per unit. Compensation expense is recorded over the awards' vesting period.

Assumptions used in the Monte Carlo simulation to calculate the fair value of the PSUs granted in 2017 are as follows:

	2017	
Stock price on grant date	$ 49.15	
Expected term (years)	3.0	
Expected volatility	31	%
Risk-free interest rate	1.5	%
Expected dividend yield	1.5	%

A summary of our PSU, restricted stock and RSU activity for the nine months ended September 30, 2017 is as follows:

	PSUs		Restricted Stock		RSUs	
		Weighted		Weighted		Weighted

	Shares	Average Grant Date Fair Value	Shares	Average Grant Date Fair Value	Shares	Average Grant Date Fair Value
Outstanding as of December 31, 2016	19,463	$ 48.62	55,201	$ 42.78	19,930	$ 39.10
Granted	11,500	62.45	28,988	49.67	34,870	47.93
Vested	—	—	(17,231)	46.36	(6,456)	39.10
Cancelled, expired or forfeited	—	—	(257)	47.89	(1,193)	41.92
Outstanding as of September 30, 2017	30,963	$ 53.76	66,701	$ 44.83	47,151	$ 45.56

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Stock Options

A summary of our stock option activity for the nine months ended September 30, 2017 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding as of December 31, 2016	446,498	$ 36.49
Granted	38,087	49.27
Exercised	(49,200)	27.55
Cancelled, expired or forfeited	(5,656)	41.46
Outstanding as of September 30, 2017	429,729	$ 38.58
Exercisable as of September 30, 2017	236,026	$ 37.33

Treasury Stock

During the nine months ended September 30, 2017, the Company repurchased 2,502 shares of the Company's common stock in connection with the net share settlement of employee equity awards at an average cost of $48.54 per share. During the nine months ended September 30, 2017, option holders exercised 49,200 options with a weighted-average exercise price of $27.55 per option, and 6,043 shares were tendered to option holders in connection with options exercised via net share settlement.

NOTE 13. 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 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.

We are not currently a party to any material pending legal proceedings and are not aware of any other claims that could, individually or in the aggregate, have a materially adverse effect on our financial position, results of operations or cash flows.

NOTE 14. OPERATING SEGMENTS

Financial Information by Segment

Our operations are managed in two reportable segments reflecting our internal reporting structure and nature of services offered as follows:

Environmental Services - This segment provides a broad range of hazardous material management services including transportation, recycling, treatment and disposal of hazardous and non-hazardous waste at Company-owned landfill, wastewater and other treatment facilities.

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Field & Industrial Services - This segment provides packaging and collection of hazardous waste and total waste management solutions at customer sites and through our 10-day transfer facilities. Services include on-site management, waste characterization, transportation and disposal of non-hazardous and hazardous waste. This segment also provides specialty services such as high-pressure cleaning, tank cleaning, decontamination, remediation, transportation, spill cleanup and emergency response and other services to commercial and industrial facilities and to government entities.

The operations not managed through our two reportable segments are recorded as "Corporate." Corporate selling, general and administrative expenses include typical corporate items such as legal, accounting and other items of a general corporate nature. 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 of our reportable segments is as follows:

	Three Months Ended September 30, 2017			
$s in thousands	Environmental Services	Field & Industrial Services	Corporate	Total
Treatment & Disposal Revenue	$ 77,071	$ 2,595	$ —	$ 79,666
Services Revenue:				
Transportation and Logistics (1)	20,590	4,955	—	25,545
Industrial Cleaning (2)	—	4,328	—	4,328
Technical Services (3)	—	20,314	—	20,314
Remediation (4)	—	2,672	—	2,672
Other (5)	—	1,529	—	1,529
Total Revenue	$ 97,661	$ 36,393	$ —	$ 134,054
Depreciation, amortization and accretion	$ 9,342	$ 1,316	$ 118	$ 10,776
Capital expenditures	$ 7,594	$ 561	$ 647	$ 8,802
Total assets	$ 619,156	$ 124,053	$ 59,442	$ 802,651

	Three Months Ended September 30, 2016			
$s in thousands	Environmental Services	Field & Industrial Services	Corporate	Total
Treatment & Disposal Revenue	$ 70,719	$ 3,737	$ —	$ 74,456
Services Revenue:				
Transportation and Logistics (1)	17,066	4,073	—	21,139
Industrial Cleaning (2)	—	5,025	—	5,025
Technical Services (3)	—	20,364	—	