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

x 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

o TRANSITION REPORT PURSUANT TO Section 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number: 0000-11688

US ECOLOGY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-3889638**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

251 E. Front St., Suite 400	
Boise, Idaho	**83702**
(Address of principal executive offices)	(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 x No o

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

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

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

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

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

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		

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, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 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, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 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

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:

$s in thousands	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Balance, beginning of period	**$ (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:

$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

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 Basic	2013 Diluted	2012 Basic	2012 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 Basic	2013 Diluted	2012 Basic	2012 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

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

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, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 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, 2013	December 31, 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 re 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.

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%

(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.

20

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, 2013	%	2012	%	Nine Months Ended September 30, 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						