

US ECOLOGY, INC.
Form 10-Q
August 11, 2014
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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 June 30, 2014

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
(State or other jurisdiction of incorporation or organization)

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

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

83702
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

At August 7, 2014, there were 21,624,325 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)

	June 30, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 13,797	\$ 73,940
Receivables, net	128,345	43,636
Prepaid expenses and other current assets	12,681	3,612
Income taxes receivable	7,193	
Deferred income taxes	5,327	1,340
Total current assets	167,343	122,528
Property and equipment, net	221,146	114,859
Restricted cash and investments	5,723	4,097
Intangible assets, net	286,391	36,832
Goodwill	212,524	21,693
Other assets	12,258	547
Total assets	\$ 905,385	\$ 300,556
Liabilities And Stockholders Equity		
Current Liabilities:		
Accounts payable	\$ 23,381	\$ 7,277
Deferred revenue	9,427	8,870
Accrued liabilities	32,912	8,691
Accrued salaries and benefits	11,175	6,957
Income taxes payable	1,469	4,428
Current portion of closure and post-closure obligations	5,338	949
Current portion of long-term debt	4,002	
Total current liabilities	87,704	37,172
Long-term closure and post-closure obligations	53,250	16,519
Long-term debt	409,961	
Other long-term liabilities	1,288	69
Unrecognized tax benefits	487	480
Deferred income taxes	110,454	14,778
Total liabilities	663,144	69,018

Commitments and contingencies

Stockholders Equity:

Common stock \$0.01 par value, 50,000 authorized; 21,624 and 21,538 shares issued, respectively	216	215
Additional paid-in capital	164,926	162,830
Retained earnings	79,073	70,597
Treasury stock, at cost, 13 and 19 shares, respectively	(267)	(319)
Accumulated other comprehensive income (loss)	(1,707)	(1,785)
Total stockholders equity	242,241	231,538
Total liabilities and stockholders equity	\$ 905,385	\$ 300,556

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	\$ 66,024	\$ 45,777	\$ 119,378	\$ 88,676
Direct operating costs	31,400	19,759	54,021	40,843
Transportation costs	9,377	7,090	17,990	13,523
Gross profit	25,247	18,928	47,367	34,310
Selling, general and administrative expenses	14,225	6,519	20,861	12,245
Operating income	11,022	12,409	26,506	22,065
Other income (expense):				
Interest income	39	2	83	7
Interest expense	(858)	(222)	(944)	(443)
Foreign currency gain (loss)	743	(1,193)	(197)	(2,131)
Other	166	94	252	191
Total other income (expense)	90	(1,319)	(806)	(2,376)
Income before income taxes	11,112	11,090	25,700	19,689
Income tax expense	4,247	3,880	9,474	7,073
Net income	\$ 6,865	\$ 7,210	\$ 16,226	\$ 12,616
Earnings per share:				
Basic	\$ 0.32	\$ 0.39	\$ 0.75	\$ 0.69
Diluted	\$ 0.32	\$ 0.39	\$ 0.75	\$ 0.68
Shares used in earnings per share calculation:				
Basic	21,528	18,401	21,503	18,362
Diluted	21,667	18,483	21,632	18,446
Dividends paid per share	\$ 0.18	\$ 0.18	\$ 0.36	\$ 0.18

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$ 6,865	\$ 7,210	\$ 16,226	\$ 12,616
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	1,557	(1,179)	78	(1,929)
Comprehensive income	\$ 8,422	\$ 6,031	\$ 16,304	\$ 10,687

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)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 16,226	\$ 12,616
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	8,417	7,071
Amortization of intangible assets	1,215	729
Accretion of closure and post-closure obligations	716	613
Unrealized foreign currency loss	323	2,400
Deferred income taxes	2,095	(1,665)
Share-based compensation expense	525	363
Unrecognized tax benefits	7	7
Net loss on sale of property and equipment	14	10
Changes in assets and liabilities (net of effect of business acquisition):		
Receivables	4,661	(682)
Income taxes receivable	(3,426)	(787)
Other assets	(418)	(563)
Accounts payable and accrued liabilities	(2,347)	(1,583)
Deferred revenue	(2,349)	1,594
Accrued salaries and benefits	(1,772)	(2,386)
Income taxes payable	(3,024)	582
Closure and post-closure obligations	(364)	(621)
Net cash provided by operating activities	20,499	17,698
Cash flows from investing activities:		
Business acquisition (net of cash acquired)	(465,895)	
Purchases of property and equipment	(8,658)	(12,530)
Purchases of restricted cash and investments	(30)	
Proceeds from sale of property and equipment	19	52
Net cash used in investing activities	(474,564)	(12,478)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	413,962	8,000
Payments on long-term debt		(10,000)
Proceeds from exercise of stock options	1,420	2,110
Deferred financing costs paid	(14,001)	(185)
Dividends paid	(7,750)	(3,314)
Other	205	261
Net cash provided by (used in) financing activities	393,836	(3,128)
Effect of foreign exchange rate changes on cash	86	(230)
Increase (decrease) in cash and cash equivalents	(60,143)	1,862
Cash and cash equivalents at beginning of period	73,940	2,120

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Cash and cash equivalents at end of period	\$	13,797	\$	3,982
Supplemental Disclosures				
Income taxes paid, net of receipts	\$	13,281	\$	8,677
Interest paid	\$	124	\$	367
Non-cash investing and financing activities:				
Closure and post-closure retirement asset	\$	2,863	\$	
Capital expenditures in accounts payable	\$	1,328	\$	504
Restricted stock issued from treasury shares	\$	279	\$	779

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

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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, 2013. The results of operations and cash flows for the six months ended June 30, 2014 are not necessarily indicative of results to be expected for the entire fiscal year.

The Company's Consolidated Balance Sheet as of December 31, 2013 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.

Restricted Cash and Investments

Restricted cash and investments 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. These funds are invested in fixed-income U.S. Treasury and government agency securities and money market accounts. The balances are adjusted monthly to fair market value based on quoted prices in active markets for identical or similar assets.

NOTE 2. BUSINESS COMBINATION

On June 17, 2014, the Company acquired 100% of the outstanding shares of EQ Holdings, Inc. and its wholly-owned subsidiaries (collectively EQ). EQ is a fully integrated environmental services company providing waste treatment and disposal, wastewater treatment, remediation, recycling, industrial cleaning and maintenance, transportation, total waste management, technical services, and emergency response services to a variety of industries and customers in North America. The total purchase price was \$465.9 million, net of cash acquired, and was funded through a combination of cash on hand and borrowings under a new \$415.0 million term loan. The purchase price is subject to post-closing adjustments including agreed upon working capital requirements.

We have recognized the assets and liabilities of EQ based on our preliminary estimates of their acquisition date fair values. The determination of the fair values of the acquired assets and assumed liabilities (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) requires significant judgment. As such, we have not completed our valuation analysis and calculations in sufficient detail necessary to arrive at the final estimates of the fair market value of the assets acquired and liabilities assumed, along with the related allocations to goodwill and intangible assets. All information presented is preliminary and subject to revision pending finalization of our fair market valuation analysis. Our final fair value determinations may be significantly different than those reflected in our consolidated financial statements as of June 30, 2014.

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The following table summarizes the consideration paid for EQ and the preliminary fair value estimates of assets acquired and liabilities assumed recognized at the acquisition date:

\$s in thousands	June 17, 2014	
Current assets	\$	114,227
Property and equipment		103,532
Identifiable intangible assets		250,900
Current liabilities		(56,550)
Other liabilities		(131,336)
Total identifiable net assets		280,773
Goodwill		190,894
Total purchase price	\$	471,667

Goodwill of \$190.9 million arising from the acquisition is the result of several factors. EQ has an assembled workforce that serves the U.S. industrial market utilizing state-of-the-art technology to treat a wide range of hazardous waste. The acquisition of EQ increases our geographic base providing a coast-to-coast presence and a service platform to better serve key North American hazardous waste markets. In addition, the acquisition of EQ provides us with an opportunity to win more waste clean-up project work; expand penetration with national accounts; improve and enhance transportation, logistics, and service offerings with existing customers and attract new customers. All of the goodwill recognized was assigned to our EQ Operations reporting segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

The preliminary fair value estimate of identifiable intangible assets by major intangible asset class and related weighted average amortization period are as follows:

\$s in thousands	June 17, 2014		Weighted Average Amortization Period (Years)
Permits and licenses	\$	119,500	45
Customer relationships		115,000	15
Tradename		9,900	4
Customer backlog		3,600	10
Non-compete agreements		1,400	1
Internet domain and website		900	19
Database		600	15
Total identifiable intangible assets	\$	250,900	29

The following unaudited pro forma financial information presents the combined results of operations as if EQ had been combined with us at the beginning of each of the periods presented. The pro forma financial information includes the accounting effects 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 periods presented, nor should it be taken as indication of our future consolidated results of operations.

\$s in thousands, except per share amounts	(unaudited)		(unaudited)	
	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013

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Pro forma combined:					
Revenue	\$	149,121	\$	121,618	\$ 287,232 \$ 232,455
Net income	\$	6,297	\$	6,975	\$ 11,503 \$ 9,641
Earnings per share					
Basic	\$	0.29	\$	0.38	\$ 0.53 \$ 0.52
Diluted	\$	0.29	\$	0.38	\$ 0.53 \$ 0.52

The amounts of revenue and net income from EQ included in US Ecology's consolidated statement of operations for each of the three and six month periods ended June 30, 2014 were \$14.6 million and \$906,000, respectively. Acquisition-related costs of \$5.1 million and \$5.3 million were included in selling, general and administrative expenses in the Company's consolidated statements of operations for the three and six months ended June 30, 2014, respectively.

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

\$s in thousands	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Balance, beginning of period	\$ (3,264)	\$ (122)	\$ (1,785)	\$ 628
Foreign currency translation gain (loss) in other comprehensive income	1,557	(1,179)	78	(1,929)
Balance, end of period	\$ (1,707)	\$ (1,301)	\$ (1,707)	\$ (1,301)

NOTE 4. CONCENTRATIONS AND CREDIT RISK*Major Customers*

No customer accounted for more than 10% of total revenue for the three or six months ended June 30, 2014 or the three or six months ended June 30, 2013. No customer accounted for more than 10% of total trade receivables as of June 30, 2014 or as of December 31, 2013.

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 5. RECEIVABLES

Receivables consisted of the following:

\$s in thousands	June 30, 2014	December 31, 2013
Trade	\$ 108,575	\$ 42,055

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Unbilled revenue	21,322	1,296
Other	2,400	810
Total receivables	132,297	44,161
Allowance for doubtful accounts	(3,952)	(525)
Receivables, net	\$ 128,345	\$ 43,636

NOTE 6. 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 and long-term debt. The estimated fair value of cash and cash equivalents, accounts receivable,

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accounts payable and accrued liabilities approximate their carrying value due to the short-term nature of these instruments. The carrying amount of our long-term debt approximates fair value due to the fact that interest rates are variable and, accordingly, approximate current market rates for instruments with similar risk and maturities.

The Company's assets measured at fair value on a recurring basis consisted of our Restricted cash and investments as follows:

\$s in thousands	June 30, 2014			Total
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Assets:				
Fixed-income securities (1)	\$ 400	\$ 3,606	\$	\$ 4,006
Money market funds (2)	\$ 1,717	\$	\$	\$ 1,717
Total	\$ 2,117	\$ 3,606	\$	\$ 5,723

\$s in thousands	December 31, 2013			Total
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Assets:				
Fixed-income securities (1)	\$ 399	\$ 3,607	\$	\$ 4,006
Money market funds (2)	\$ 91	\$	\$	\$ 91
Total	\$ 490	\$ 3,607	\$	\$ 4,097

(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.

NOTE 7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

\$s in thousands	June 30, 2014	December 31, 2013
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Cell development costs	\$	93,766	\$	77,348
Land and improvements		34,804		18,073
Buildings and improvements		77,850		59,101
Railcars		17,375		17,375
Vehicles and other equipment		91,037		42,859
Construction in progress		20,663		6,784
Total property and equipment		335,495		221,540
Accumulated depreciation and amortization		(114,349)		(106,681)
Property and equipment, net	\$	221,146	\$	114,859

Depreciation and amortization expense for the three months ended June 30, 2014 and 2013 was \$4.6 million and \$3.6 million, respectively. Depreciation and amortization expense for the six months ended June 30, 2014 and 2013 was \$8.4 million and \$7.1 million, respectively.

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Goodwill and intangible assets as of June 30, 2014, were the result of our acquisitions of EQ on June 17, 2014, US Ecology Michigan, Inc. on May 31, 2012 and Stablex Canada Inc. (Stablex) on October 31, 2010. Changes in goodwill for the six months ended June 30, 2014 consisted of the following:

\$s in thousands	December 31, 2013	Additions	Foreign Currency Translation	June 30, 2014
Goodwill:				
Operating Disposal Facilities	\$ 21,693	\$	\$ (63)	\$ 21,630
EQ Operations		190,894		190,894
Total goodwill	\$ 21,693	\$	\$ (63)	\$ 212,524

Intangible assets consisted of the following:

\$s in thousands	June 30, 2014	December 31, 2013
Amortizing intangible assets:		
Customer relationships	\$ 119,993	\$ 5,005
Permits, licenses and lease	145,683	26,264
Technology - Formulae and processes	8,525	8,551
Tradename	9,900	
Customer backlog	3,600	
Non-compete agreements	1,420	20
Internet domain and website	900	
Database	694	94
Developed software	328	329
Total amortizing intangible assets	291,043	40,263
Accumulated amortization	(5,561)	(4,341)
Nonamortizing intangible assets:		
Permits and licenses	750	750
Tradename	159	160
Total intangible assets, net	\$ 286,391	\$ 36,832

At June 30, 2014, the net carrying amounts of goodwill and amortizing intangible assets include preliminary estimates of \$190.9 million and \$250.9 million, respectively, as a result of our acquisition of EQ.

Amortization expense for the three months ended June 30, 2014 and 2013 was \$862,000 and \$362,000, respectively. Amortization expense for the six months ended June 30, 2014 and 2013 was \$1.2 million and \$729,000, respectively. Future amortization expense of amortizing intangible assets, including the amortization of the preliminary values assigned to EQ amortizing intangible assets, is as follows:

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\$s in thousands		Total
Remainder of 2014	\$	9,243
2015		15,280
2016		14,598
2017		14,592
2018		13,239

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Long-term debt consisted of the following:

\$s in thousands	June 30, 2014	December 31, 2013
Term loan	\$ 415,000	\$
Net discount on term loan	\$ (1,037)	
Total debt	413,963	
Current portion of long-term debt	(4,002)	
Long-term debt	\$ 409,961	\$

Future maturities of long-term debt, excluding the net discount, as of June 30, 2014 consist of the following:

\$s in thousands	Maturities
2014	\$ 2,075
2015	4,150
2016	4,150
2017	4,150
2018	4,150
Thereafter	396,325
	\$ 415,000

On June 17, 2014, in connection with the acquisition of EQ, the Company entered into a new \$540.0 million senior secured credit agreement (the *Credit Agreement*) with a syndicate of banks comprised of a \$415.0 million term loan (the *Term Loan*) with a maturity date of June 17, 2021 and a \$125.0 million revolving line of credit (the *Revolving Credit Facility*) with a maturity date of June 17, 2019. Upon entering into the *Credit Agreement*, the Company terminated its existing credit agreement with Wells Fargo, dated October, 29, 2010, as amended (the *Former Agreement*). Immediately prior to the termination of the *Former Agreement*, there were no outstanding borrowings under the *Former Agreement*. No early termination penalties were incurred as a result of the termination of the *Former Agreement*.

Term Loan

The *Term Loan* provides an initial commitment amount of \$415.0 million, the proceeds of which were used to acquire 100% of the outstanding shares of EQ and pay related transaction fees and expenses. The *Term Loan* bears interest at a base rate (as defined in the *Credit Agreement*) plus 2.00% or LIBOR plus 3.00%, at the Company's option. The *Term Loan* is subject to amortization in equal quarterly installments in an aggregate annual amount equal to 1.00% of the original principal amount of the *Term Loan*. At June 30, 2014, the effective interest rate on the *Term Loan* was 3.75%. Interest only payments are due either monthly or on the last day of any interest period, as applicable. As set forth in the *Credit Agreement*, by October 2, 2014 the Company is required to enter into one or more interest rate hedge agreements in amounts sufficient to fix the interest rate on at least 50% of the \$415.0 million *Term Loan* principal.

Revolving Credit Facility

The Revolving Credit Facility provides up to \$125.0 million of revolving credit loans or letters of credit with the use of proceeds restricted solely for working capital and other general corporate purposes. Under the Revolving Credit Facility, revolving loans are available based on a base rate (as defined in the 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 earnings before interest, taxes, depreciation and amortization (EBITDA). The Company is required to pay a commitment fee of 0.50% per annum on the unused portion of the Revolving Credit Facility, with such commitment fee to be reduced based upon the Company's total leverage ratio as defined in the Credit Agreement. The maximum letter of credit capacity under the new revolving credit facility is \$50.0 million and the Credit Agreement provides for a letter of credit fee equal to the applicable margin for LIBOR loans under the Revolving Credit Facility. At June 30, 2014, the effective interest rate on the Revolving Credit Facility was 3.16%. Interest only payments are due either monthly or on the last day of any interest period, as applicable. At June 30, 2014, there were no

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borrowings outstanding on the Revolving Credit Facility. The availability under the Revolving Credit Facility was \$95.9 million with \$29.1 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.

Except as set forth below, the Company may prepay the Term Loan or permanently reduce the Revolving Credit Facility commitment under the Credit Agreement at any time without premium or penalty (other than customary breakage costs with respect to the early termination of LIBOR loans). On or prior to six months after the closing of the Credit Agreement, if we prepay the initial term loans or amend the pricing terms of the initial term loans, in each case in connection with a reduction of the effective yield, we are required to pay a 1% prepayment premium (unless in connection with a change of control, sale or permitted acquisition). Subject to certain exceptions, the Credit Agreement provides for mandatory prepayment upon certain asset dispositions, casualty events and issuances of indebtedness. The Credit Agreement is also subject to mandatory annual prepayments commencing in December 2015 if our total leverage (defined as the ratio of our consolidated funded debt as of the last day of the applicable fiscal year to our adjusted EBITDA for such period) exceeds certain ratios as follows: 50% of our adjusted excess cash flow (as defined in the Credit Agreement and which takes into account certain adjustments) if our total leverage ratio is greater than 2.50 to 1.00, with step-downs to 0% if our total leverage ratio is equal to or less than 2.50 to 1.00.

Pursuant to (i) an unconditional guarantee agreement (the *Guarantee*) and (ii) a collateral agreement (the *Collateral Agreement*), each entered into by the Company and its domestic subsidiaries on June 17, 2014, the Company's obligations under the Credit Agreement are 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 the Credit Agreement is secured by substantially all of the Company's and its domestic subsidiaries' assets except the Company's and its domestic subsidiaries' real property.

The 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. 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.

The Credit Agreement also contains a financial maintenance covenant, which is a maximum Consolidated Senior Secured Leverage Ratio, as defined in the Credit Agreement, and is only applicable to the Revolving Credit Facility. Our Consolidated Senior Secured Leverage Ratio as of the last day of any fiscal quarter, commencing with June 30, 2014, may not exceed the ratios indicated below:

Fiscal Quarters Ending	Maximum Ratio
June 30, 2014 through September 30, 2015	4.00 to 1.00
December 31, 2015 through September 30, 2016	3.75 to 1.00
December 31, 2016 through September 30, 2017	3.50 to 1.00
December 31, 2017 through September 30, 2018	3.25 to 1.00
December 31, 2018 and thereafter	3.00 to 1.00

At June 30, 2014, we were in compliance with all of the financial covenants in the Credit Agreement.

Table of Contents**NOTE 10. 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 to reported closure and post-closure obligations consisted of the following:

\$s in thousands	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Closure and post-closure obligations, beginning of period	\$ 20,468	\$ 17,468
Liabilities assumed in EQ acquisition	37,915	37,915
Accretion expense	386	716
Payments	(250)	(364)
Adjustments		2,863
Currency translation	69	(10)
Closure and post-closure obligations, end of period	58,588	58,588
Less current portion	(5,338)	(5,338)
Long-term portion	\$ 53,250	\$ 53,250

NOTE 11. INCOME TAXES

During the six months ended June 30, 2014, 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, 2013. We anticipate that within the next twelve months the total amount of unrecognized tax benefits will decrease due to the expiration of statutes of limitations.

Our effective tax rate for the three months ended June 30, 2014 was 38.2%, up from 35.0% for the three months ended June 30, 2013. Our effective tax rate for the six months ended June 30, 2014 was 36.9%, up from 35.9% for the six months ended June 30, 2013. The increases for both the three and six months ended June 30, 2014 reflect non-deductible business development and transaction expenses associated with the acquisition of EQ.

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 2013. Additionally, we may be subject to examinations by various state and local taxing jurisdictions for tax years 2009 through 2013.

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

\$s and shares in thousands, except per share amounts	Three Months Ended June 30,			
	2014		2013	
	Basic	Diluted	Basic	Diluted
Net income	6,865	\$ 6,865	\$ 7,210	\$ 7,210
Weighted average basic shares outstanding	21,528	21,528	18,401	18,401
Dilutive effect of stock options and restricted stock		139		82
Weighted average diluted shares outstanding		21,667		18,483
Earnings per share	\$ 0.32	\$ 0.32	\$ 0.39	\$ 0.39
Anti-dilutive shares excluded from calculation		36		196

\$s and shares in thousands, except per share amounts	Six Months Ended June 30,			
	2014		2013	
	Basic	Diluted	Basic	Diluted
Net income	\$ 16,226	\$ 16,226	\$ 12,616	\$ 12,616
Weighted average basic shares outstanding	21,503	21,503	18,362	18,362
Dilutive effect of stock options and restricted stock		129		84
Weighted average diluted shares outstanding		21,632		18,446
Earnings per share	\$ 0.75	\$ 0.75	\$ 0.69	\$ 0.68
Anti-dilutive shares excluded from calculation		36		208

NOTE 13. EQUITY

During the six months ended June 30, 2014, option holders exercised 114,188 options with a weighted-average exercise price of \$21.48 per option. Option holders exercised 46,744 of these options via net share settlement. During the six months ended June 30, 2014, the Company issued 13,275 shares of restricted stock from our treasury stock at an average cost of \$21.00 per share.

NOTE 14. 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.

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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, individually or in the aggregate, have a materially adverse effect on our financial position, results of operations or cash flows.

Operating Leases

In connection with the acquisition of EQ on June 17, 2014, the Company acquired additional operating lease agreements primarily covering facilities, office equipment and machinery. Future minimum lease payments on non-cancellable operating leases acquired from EQ as of June 30, 2014 are as follows:

\$s in thousands	Payments
2014	\$ 2,887
2015	4,131
2016	3,346
2017	2,307
2018	995
	\$ 13,666

NOTE 15. MULTI-EMPLOYER DEFINED BENEFIT PENSION PLANS

Certain of the Company s wholly-owned subsidiaries, acquired with the acquisition of EQ on June 17, 2014, participate in seven multi-employer defined benefit pension plans under the terms of collective bargaining agreements covering most of the subsidiaries union employees. Contributions are determined in accordance with the provisions of negotiated labor contracts and are generally based on stipulated rates per hours worked. Benefits under these plans are generally based on compensation levels and years of service.

The financial risks of participating in multi-employer plans are different from single employer defined benefit pension plans in the following respects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer discontinues contributions to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If a participating employer chooses to stop participating in a plan, a withdrawal liability may be created based on the unfunded vested benefits for all employees in the plan.

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Information regarding significant multi-employer pension benefit plans in which the Company participates is shown in the following table:

Name of Plan	Plan Employer ID Number	Plan Number	Pension Protection Act Certified Zone Status		Contribution Made by EQ (1)	
			2013	2012	\$s in thousands	
					2013	2012
Operating Engineers Local 324 Pension Fund	38-1900637	001	Red	Red	\$ 1,061	\$ 874
Contributions to multi-employer plans not individually significant					320	249
Total contributions made by EQ (1)					\$ 1,381	\$ 1,123

(1) Represents contributions made prior to the Company's acquisition of EQ on June 17, 2014.

Based on information as of April 30, 2013 and 2012, the year end of the Operating Engineers Local 324 Pension Fund (the Local 324 Plan), the Company's contributions made to the Local 324 Plan represented less than 5 percent of total contributions received by the Local 324 Plan during the 2013 and 2012 plan years.

The certified zone status in the table above is defined by the Department of Labor and the Pension Protection Act of 2006 and represents the level at which the plan is funded. Plans in the red zone are less than 65 percent funded; plans in the yellow zone are less than 80 percent funded; and plans in the green zone are at least 80 percent funded. The certified zone status is as of the Local 324 Plan's year end of April 30, 2013 and 2012.

A financial improvement or rehabilitation plan, as defined under ERISA, was adopted by the Local 324 Plan on March 17, 2011 and the Rehabilitation Period began May 1, 2013.

As of June 30, 2014, approximately 29% of the workforce acquired with EQ was employed under union contracts. Most of these union employees are members of Local 324 with which certain subsidiaries have collective bargaining agreements expiring on September 30, 2014, November 30, 2015, and April 30, 2017.

NOTE 16. OPERATING SEGMENTS

Prior to June 17, 2014, our operations were reported in two segments, Operating Disposal Facilities and Non-Operating Disposal Facilities, which reflected 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. In connection with our acquisition of EQ Holdings, Inc. on June 17, 2014, we added a third segment, EQ Operations, which consists of EQ's legacy operations. Our chief operating decision maker reviews discrete

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financial information for each of these segments to evaluate performance and make decisions about allocating resources. As a result of the acquisition of EQ, we plan to continue to refine our segment reporting to reflect ongoing changes in the way we manage our business, and there can be no assurance that we will continue to separately report EQ's financial results in the future.

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.

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

Three Months Ended June 30, 2014 (in thousands)	Operating Disposal Facilities	Non-Operating Disposal Facilities	Corporate	EQ Operations	Total
Revenue - Treatment and disposal	\$ 43,592	\$ 7	\$	\$ 4,708	\$ 48,307
Revenue - Transportation and services	7,856			9,861	17,717
Total revenue	51,448	7		14,569	66,024
Direct operating costs	22,246	52		9,102	31,400
Transportation costs	7,914			1,463	9,377
Gross profit (loss)	21,288	(45)		4,004	25,247
Selling, general & administrative expense	2,917		8,885	2,423	14,225
Operating income (loss)	18,371	(45)	(8,885)	1,581	11,022
Interest income (expense), net	4		(771)	(52)	(819)
Foreign currency gain (loss)	(394)		1,137		743
Other income	147	3		16	166
Income (loss) before income taxes	18,128	(42)	(8,519)	1,545	11,112
Income tax expense			4,247		4,247
Net income (loss)	\$ 18,128	\$ (42)	\$ (12,766)	\$ 1,545	\$ 6,865
Depreciation, amortization & accretion	\$ 4,502	\$ 49	\$ 16	\$ 1,260	\$ 5,827
Capital expenditures	\$ 2,975	\$	\$ 59	\$ 849	\$ 3,883
Total assets	\$ 220,059	\$ 114	\$ 25,521	\$ 659,691	\$ 905,385

Three Months Ended June 30, 2013 (in thousands)	Operating Disposal Facilities	Non-Operating Disposal Facilities	Corporate	EQ Operations	Total
Revenue - Treatment and disposal	\$ 38,724	\$ 6	\$	\$	\$ 38,730
Revenue - Transportation and services	7,047				7,047
Total revenue	45,771	6			45,777
Direct operating costs	19,705	54			19,759
Transportation costs	7,090				7,090
Gross profit (loss)	18,976	(48)			18,928
Selling, general & administrative expense	3,267		3,252		6,519
Operating income (loss)	15,709	(48)	(3,252)		12,409
Interest income (expense), net	2		(222)		(220)
Foreign currency gain (loss)	320		(1,513)		(1,193)
Other income	91	3			94
Income (loss) before income taxes	16,122	(45)	(4,987)		11,090
Income tax expense			3,880		3,880
Net income (loss)	\$ 16,122	\$ (45)	\$ (8,867)	\$	\$ 7,210
Depreciation, amortization & accretion	\$ 4,051	\$ 52	\$ 10	\$	\$ 4,113
Capital expenditures	\$ 5,689	\$	\$ 89	\$	\$ 5,778
Total assets	\$ 213,197	\$ 88	\$ 8,058	\$	\$ 221,343

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Six Months Ended June 30, 2014 (in thousands)	Operating Disposal Facilities	Non-Operating Disposal Facilities	Corporate	EQ Operations	Total
Revenue - Treatment and disposal	\$ 88,534	\$ 12	\$	\$ 4,708	\$ 93,254
Revenue - Transportation and services	16,263			9,861	26,124
Total revenue	104,797	12		14,569	119,378
Direct operating costs	44,817	102		9,102	54,021
Transportation costs	16,527			1,463	17,990
Gross profit (loss)	43,453	(90)		4,004	47,367
Selling, general & administrative expense	5,516		12,922	2,423	20,861
Operating income (loss)	37,937	(90)	(12,922)	1,581	26,506
Interest income (expense), net	7		(816)	(52)	(861)
Foreign currency gain (loss)	(14)		(183)		(197)
Other income	231	5		16	252
Income (loss) before income taxes	38,161	(85)	(13,921)	1,545	25,700
Income tax expense			9,474		9,474
Net income (loss)	\$ 38,161	\$ (85)	\$ (23,395)		