US ECOLOGY, INC.
Form 10-Q
July 28, 2010

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended: June 30, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from
to
Commission File Number: 0-11688

US ECOLOGY, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State of Incorporation)	95-3889638 (I.R.S. Employer Identification Number)
Lakepointe Centre I, 300 E. Mallard, Suite 300 Boise, Idaho (Address of Principal Executive Offices)	83706 (Zip Code)

(208) 331-8400
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o 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 smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The number of shares of the registrant's common stock, $0.01 par value, outstanding as of July 27, 2010 was 18,305,614.

US ECOLOGY, INC.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

US ECOLOGY, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(unaudited)

	June 30, 2010	December 31, 2009
Assets		
Current Assets:		
Cash and cash equivalents	$29,256	$31,347
Short-term investments	2,999	1,395
Receivables, net	13,541	16,302
Prepaid expenses and other current assets	2,204	1,752
Deferred income taxes	413	41
Total current assets	48,413	50,837
Property and equipment, net	71,809	67,485
Restricted cash	4,114	4,800
Other assets	509	540
Total assets	$124,845	$123,662
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$4,095	$4,264
Deferred revenue	1,749	1,353
Accrued liabilities	4,630	4,150
Accrued salaries and benefits	1,680	1,735
Income taxes payable	666	201
Current portion of closure and post-closure obligations	2,457	293
Current portion of capital lease obligations	10	11
Total current liabilities	15,287	12,007
Long-term closure and post-closure obligations	12,554	13,070
Long-term capital lease obligations	5	10
Deferred income taxes	5,336	5,077
Total liabilities	33,182	30,164
Contingencies and commitments		
Stockholders' Equity		
Common stock $0.01 par value, 50,000 authorized; 18,306 shares issued	183	183
Additional paid-in capital	61,443	61,459
Retained earnings	32,016	34,446

Common stock held in treasury, at cost, 119 and 155 shares, respectively	(1,979)	(2,590)
Total stockholders’ equity	91,663	93,498
Total liabilities and stockholders’ equity	$124,845	$123,662

See Notes to Consolidated Financial Statements.

US ECOLOGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenue	$19,832	$36,377	$39,372	$71,342
Direct operating costs	9,725	12,002	20,010	23,247
Transportation costs	2,964	15,263	5,644	29,437
Gross profit	7,143	9,112	13,718	18,658
Selling, general and administrative expenses	3,343	3,396	6,910	6,969
Operating income	3,800	5,716	6,808	11,689
Other income (expense):				
Interest income	17	37	31	85
Interest expense	-	-	(1)	(1)
Other	49	91	90	124
Total other income	66	128	120	208
Income before income taxes	3,866	5,844	6,928	11,897
Income taxes	1,543	2,326	2,815	4,735
Net income	$2,323	$3,518	$4,113	$7,162
Earnings per share:				
Basic	$0.13	$0.19	$0.23	$0.39
Dilutive	$0.13	$0.19	$0.23	$0.39
Shares used in earnings per share calculation:				
Basic	18,166	18,145	18,165	18,144
Dilutive	18,187	18,175	18,186	18,175
Dividends paid per share	$0.18	$0.18	$0.36	$0.36

See Notes to Consolidated Financial Statements.

US ECOLOGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30, 2010	2009
Cash Flows From Operating Activities:		
Net income	$4,113	$7,162
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	3,637	4,642
Deferred income taxes	(113)	935
Stock-based compensation expense	595	416
Net loss (gain) on sale of property and equipment	51	(3)
Investment premium amortization	20	-
Changes in assets and liabilities:		
Receivables	2,761	4,261
Income tax receivable	-	2,392
Other assets	(421)	(336)
Accounts payable and accrued liabilities	(1,078)	(1,120)
Deferred revenue	396	556
Accrued salaries and benefits	(55)	(899)
Income tax payable	465	-
Closure and post-closure obligations	(147)	(288)
Other	(1)	(19)
Net cash provided by operating activities	10,223	17,699
Cash Flows From Investing Activities:		
Purchases of short-term investments	(4,998)	-
Purchases of property and equipment	(4,879)	(4,768)
Maturities of short-term investments	3,375	-
Restricted cash, net	686	(11)
Proceeds from sale of property and equipment	51	42
Net cash used in investing activities	(5,765)	(4,737)
Cash Flows From Financing Activities:		
Dividends paid	(6,543)	(6,534)
Common stock repurchases	-	(2)
Other	(6)	(4)
Net cash used in financing activities	(6,549)	(6,540)
(Decrease) Increase in cash and cash equivalents	(2,091)	6,422
Cash and cash equivalents at beginning of period	31,347	18,473
Cash and cash equivalents at end of period	$29,256	$24,895
Supplemental Disclosures		
Income taxes paid, net of receipts	$2,462	$1,427

Interest paid	-	1
Non-cash investing and financing activities:		
Capital expenditures in accounts payable	1,956	1,729
Closure/Post-closure retirement asset	1,257	-
Restricted stock issued from treasury shares	611	-

See Notes to Consolidated Financial Statements.

US ECOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – GENERAL

Basis of Presentation
The accompanying unaudited consolidated financial statements include the results of operations, financial position and cash flows of US Ecology, Inc., (formerly known as American Ecology Corporation) and its wholly-owned subsidiaries (collectively, "US Ecology" or "the Company"). All material intercompany balances have been eliminated.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments necessary to present fairly, in all material respects, the results of the Company for the periods presented. These consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's 2009 Annual Report on Form 10-K filed with the SEC on March 4, 2010. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of results to be expected for the entire fiscal year.

The Company's Consolidated Balance Sheet as of December 31, 2009 has been derived from the Company's audited Consolidated Balance Sheet as of that date.

Use of Estimates
The preparation of the Company's consolidated financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions. Some of these estimates require difficult, subjective or complex judgments about matters that are inherently uncertain. As a result, actual results could differ from these estimates, in some cases materially. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

NOTE 2 – EFFECT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2009, the Financial Accounting Standards Board ("FASB") issued a new statement that establishes general standards of accounting for, and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The new statement, located under the FASB Accounting Standards Codification™ ("ASC") Topic 855 Subsequent Events (formerly SFAS 165, Subsequent Events) requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected, that is, whether that date represents the date the financial statements were issued or were available to be issued. The new statement is effective for interim or annual periods ending after June 15, 2009, which was the quarter ended June 30, 2009 for the Company. In February 2010, the FASB amended its guidance removing the requirement for SEC filers to disclose the date through which an entity has evaluated subsequent events. The adoption of this new statement did not have a material impact on our consolidated financial statements.

NOTE 3 – CONCENTRATION AND CREDIT RISK

Major Customers. The Company has a multiple year disposal contract with the U.S. Army Corps of Engineers ("USACE"). Revenue under this contract represented 15% and 7% of total revenue for the three months ended June 30, 2010 and 2009, respectively and 17% and 7% of total revenue for the six months ended June 30, 2010 and 2009 respectively. No other customer represented more than 10% of total revenue for the three and six months ended June 30, 2010. The Company had a contract with Honeywell International, Inc. (“Honeywell”) for transportation, treatment and disposal of hazardous waste from a multi-year clean-up site and other, smaller sites in New Jersey. Services under this contract were completed in early October 2009. Revenue under this bundled service contract represented 51% and 47% of our total revenue for the three and six months ended June 30, 2009, respectively. No other customer represented more than 10% of total revenue for the three and six months ended June 30, 2009.

Receivables from the USACE represented 17% of our total trade receivables at June 30, 2010 and 18% of our trade receivables at December 31, 2009. One other customer represented 11% of our total trade receivables at December 31, 2009. No other customer's receivable balances exceeded 10% of our total trade receivables at June 30, 2010 or December 31, 2009.

Credit Risk Concentration. We maintain most of our cash and short-term investments with nationally recognized financial institutions like Wells Fargo Bank, N.A. ("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 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents include funds held in managed money market funds with Wells Fargo, U.S. Bancorp and Fidelity Investments. The fair value of these money market funds, using Level 1 inputs consistent with ASC Topic 820 Fair Value Measurements and Disclosures was $20.7 million at June 30, 2010.

NOTE 5 – SHORT-TERM INVESTMENTS

Short-term investments at June 30, 2010 were comprised of $3.0 million in fixed maturity, high-grade, commercial paper and Federal Home Loan securities maturing in August and September of 2010. Short-term investments at December 31, 2009 were comprised of $1.4 million in fixed maturity, high-grade, commercial paper.

NOTE 6 - RECEIVABLES

Receivables were as follows:

(in thousands)	June 30, 2010	December 31, 2009
Trade	$12,463	$16,016
Unbilled revenue	947	337
Other	247	70
	13,657	16,423
Allowance for doubtful accounts	(116)	(121)
	$13,541	$16,302

NOTE 7 – PROPERTY AND EQUIPMENT

(in thousands)	June 30, 2010	December 31, 2009
Cell development costs	$52,208	$44,029
Land and improvements	9,773	9,773
Buildings and improvements	29,228	29,151
Railcars	17,375	17,375
Vehicles and other equipment	22,309	21,824
Construction in progress	6,125	7,822
	137,018	129,974
Accumulated depreciation and amortization	(65,209)	(62,489)

	$71,809	$67,485

Depreciation expense for the three months ended June 30, 2010 and 2009 was $1.6 million and $2.1 million, respectively. Depreciation expense for the six months ended June 30, 2010 and 2009 was $3.1 million and $4.1 million, respectively.

NOTE 8 – RESTRICTED CASH

Restricted cash balances of $4.1 million at June 30, 2010 and $4.8 million at December 31, 2009, are held in third-party managed trust accounts as collateral for our financial assurance policies for closure and post-closure obligations. These restricted cash balances are maintained by third-party trustees and are invested in money market accounts.

NOTE 9 – LINE OF CREDIT

On June 15, 2010, we entered into an amendment to an unsecured revolving line of credit (the "Revolving Credit Agreement") with Wells Fargo. Under the terms of the amended Revolving Credit Agreement, the Company may utilize up to $20 million in revolving credit loans or letters of credit. The agreement expires on June 15, 2013. Monthly interest only payments are required based on a pricing grid under which the interest rate decreases or increases based on our ratio of funded debt to earnings before interest, taxes, depreciation and amortization. We can elect to borrow utilizing the offshore London Inter-Bank Offering Rate ("LIBOR") plus an applicable spread or the prime rate. At June 30, 2010, the applicable interest rate on the line of credit was 1.2%. The credit agreement contains certain quarterly financial covenants, including a maximum leverage ratio, a maximum funded debt ratio and a minimum required tangible net worth. Pursuant to our credit agreement, we may only declare quarterly or annual dividends if on the date of declaration, no event of default has occurred, or no other event or condition has occurred that would constitute an event of default after giving effect to the payment of the dividend. At June 30, 2010, we were in compliance with all of the financial covenants in the credit agreement.

At June 30, 2010 we had no amounts outstanding on the revolving line of credit. At June 30, 2010 the availability under our $20.0 million the line of credit was $16.0 million. We had $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.

At December 31, 2009, we had no amounts outstanding on the revolving line of credit. At December 31, 2009 the availability under our $15.0 million line of credit was $11.0 million. We had $4.0 million of the line of credit issued in the form of a standby letter of credit utilized as collateral for closure and post-closure financial assurance.

NOTE 10 – CLOSURE AND POST-CLOSURE OBLIGATIONS

Closure and post-closure obligations are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. We perform periodic reviews of both non-operating and operating facilities and revise accruals for estimated post-closure, remediation and other costs when necessary. Our recorded liabilities are based on estimates of future costs and are updated periodically to reflect existing environmental conditions, current technology, laws and regulations, permit conditions, inflation and other factors.

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

(in thousands)	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Beginning obligation	$ 13,550	$ 13,363
Accretion expense	269	538
Payments	(65)	(147)
Additions/adjustments	1,257	1,257
Ending obligation	15,011	15,011
Less current portion	(2,457)	(2,457)
Long-term portion	$ 12,554	$ 12,554

NOTE 11 – INCOME TAXES

As of June 30, 2010 and December 31, 2009, we had no significant unrecognized tax benefits. We recognize interest assessed by taxing authorities as a component of interest expense. We recognize any penalties assessed by taxing authorities as a component of selling, general and administrative expenses. Interest and penalties for the three and six months ended June 30, 2010 and 2009 were not material.

Our effective tax rate for the three and six months ended June 30, 2010 was 39.9% and 40.6%, respectively compared to 39.8% for the three and six months ended June 30, 2009. This increase reflects higher non-tax deductible expenses in the three and six month periods of 2010 as compared with the same periods in 2009.

We file U.S. federal income tax returns with the Internal Revenue Service (“IRS”) as well as income tax returns in various states. We may be subject to examination by the IRS for tax years 2006 through 2009. Additionally, we may be subject to examinations by various state taxing jurisdictions for tax years 2005 through 2009. We are currently under examination by the Idaho Tax Commission for tax years 2006, 2007 and 2008. To our knowledge we are not currently under examination by the IRS or any other state taxing jurisdictions.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, we are periodically involved in judicial and administrative proceedings involving federal, state or local governmental authorities. Actions may also be brought by individuals or groups in connection with permit modifications at existing facilities, proposed new facilities, alleged violations of existing permits, or alleged damages suffered from exposure to hazardous substances purportedly released from our operating sites or non-operating sites, as well as other litigation. We maintain insurance intended to cover property and damage claims asserted as a result of our operation. Periodically, management reviews and may establish reserves for legal, environmental and administrative matters, or fees expected to be incurred in connection therewith.

In March 2010, the Company received a proposed settlement offer from the U.S. Environmental Protection Agency (“EPA”) relating to alleged non-compliance with certain regulations at our Beatty, Nevada facility dating back to 2005. In response to the EPA’s proposal, the Company and the EPA have verbally agreed to settle the matter for $497,000. Negotiations of the consent and final order are ongoing with the EPA. As a result of the proposed settlement, we recognized a charge of $423,000 during the first quarter of 2010 and an additional charge of $74,000 in the second quarter of 2010 in Selling, general and administrative expenses in the Consolidated Statement of Operations related to this matter.

NOTE 13 – COMPUTATION OF EARNINGS PER SHARE

(in thousands, except per share data)	Three Months Ended June 30,			
	2010		2009	
	Basic	Diluted	Basic	Diluted
Net income	$2,323	$2,323	$3,518	$3,518
Weighted average common shares outstanding	18,166	18,166	18,145	18,145
Dilutive effect of stock options and restricted stock		21		30
Weighted average shares outstanding		18,187		18,175
Earnings per share	$0.13	$0.13	$0.19	$0.19
Anti-dilutive shares excluded from calculation		344		283

(in thousands, except per share data)	Six Months Ended June 30,			
	2010		2009	
	Basic	Diluted	Basic	Diluted
Net income	$4,113	$4,113	$7,162	$7,162
Weighted average common shares outstanding	18,165	18,165	18,144	18,144
Dilutive effect of stock options and restricted stock		21		31
Weighted average shares outstanding		18,186		18,175
Earnings per share	$0.23	$0.23	$0.39	$0.39
Anti-dilutive shares excluded from calculation		328		274

NOTE 14 – TREASURY STOCK

During the three and six months ended June 30, 2010 the Company granted 3,600 and 36,637 shares, respectively, of restricted stock from our treasury stock position at the average cost $16.68 per share.

NOTE 15 – OPERATING SEGMENTS

We operate within two segments, Operating Disposal Facilities and Non-Operating Disposal Facilities. The Operating Disposal Facilities segment represents facilities currently accepting waste. The Non-Operating Disposal Facilities segment represents facilities that are no longer accepting waste.

Income taxes are assigned to Corporate. All other items are included in the segment of origin. Intercompany transactions have been eliminated from the segment information and are not significant between segments.

8

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

(in thousands)	Operating Disposal Facilities	Non-Operating Disposal Facilities	Corporate	Total
Three months ended June 30, 2010				
Revenue - Treatment and disposal	$17,208	$9	$-	$17,217
Revenue - Transportation services	2,615	-	-	2,615
Total revenue	19,823	9	-	19,832
Direct operating costs	9,668	57	-	9,725
Transportation costs	2,964	-	-	2,964
Gross profit	7,191	(48)	-	7,143
Selling, general & administration	1,226	-	2,117	3,343
Operating income (loss)	5,965	(48)	(2,117)	3,800
Interest, net	2	-	15	17
Other income	47	2	-	49
Income (loss) before income taxes	6,014	(46)	(2,102)	3,866
Income taxes	-	-	1,543	1,543
Net income (loss)	$6,014	$(46)	$(3,645)	$2,323
Depreciation, amortization & accretion	$1,783	$50	$12	$1,845
Capital expenditures	$2,765	$-	$-	$2,765
Total assets	$86,032	$38	$38,775	$124,845

(in thousands)	Operating Disposal Facilities	Non-Operating Disposal Facilities	Corporate	Total
Three months ended June 30, 2009				
Revenue - Treatment and disposal	$21,320	$3	$-	$21,323
Revenue - Transportation services	15,054	-	-	15,054
Total revenue	36,374	3	-	36,377
Transportation costs	15,263	-	-	15,263
Direct operating costs	11,947	55	-	12,002
Gross profit	9,164	(52)	-	9,112
Selling, general & administration	1,128	-	2,268	3,396
Operating income (loss)	8,036	(52)	(2,268)	5,716
Interest, net	1	-	36	37
Other income	53	38	-	91
Income (loss) before income taxes	8,090	(14)	(2,232)	5,844
Income taxes	-	-	2,326	2,326
Net income (loss)	$8,090	$(14)	$(4,558)	$3,518
Depreciation, amortization & accretion	$2,290	$56	$10	$2,356
Capital expenditures	$2,101	$-	$6	$2,107
Total assets	$96,746	$51	$33,004	$129,801

(in thousands)	Operating Disposal Facilities	Non-Operating Disposal Facilities	Corporate	Total
Six months ended June 30, 2010				
Revenue - Treatment and disposal	$34,341	$13	$-	$34,354
Revenue - Transportation services	5,018	-	-	5,018
Total revenue	39,359	13	-	39,372
Other direct operating costs	19,857	153	-	20,010
Transportation costs	5,644	-	-	5,644
Gross profit	13,858	(140)	-	13,718
Selling, general & administration	2,743	-	4,167	6,910
Operating income (loss)	11,115	(140)	(4,167)	6,808
Interest income, net	2	-	28	30
Other income	86	4	-	90
Income (loss) before tax	11,203	(136)	(4,139)	6,928
Tax expense	-	-	2,815	2,815
Net income (loss)	$11,203	$(136)	$(6,954)	$4,113
Depreciation, amortization & accretion	$3,512	$101	$24	$3,637
Capital expenditures	$4,876	$-	$3	$4,879
Total assets	$86,032	$38	$38,775	$124,845

(in thousands)	Operating Disposal Facilities	Non-Operating Disposal Facilities	Corporate	Total
Six months ended June 30, 2009				
Revenue - Treatment and disposal	$42,058	$7	$-	$42,065
Revenue - Transportation services	29,277	-	-	29,277
Total revenue	71,335	7	-	71,342
Transportation costs	29,437	-	-	29,437
Other direct operating costs	23,136	111	-	23,247
Gross profit	18,762	(104)	-	18,658
Selling, general & administration	2,236	-	4,733	6,969
Operating income (loss)	16,526	(104)	(4,733)	11,689
Interest income, net	-	-	84	84
Other income	86	38	-	124
Income (loss) before tax	16,612	(66)	(4,649)	11,897
Tax expense	-	-	4,735	4,735
Net income (loss)	$16,612	$(66)	$(9,384)	$7,162
Depreciation, amortization & accretion	$4,511	$110	$21	$4,642
Capital expenditures	$4,757	$-	$11	$4,768
Total assets	$96,746	$51		