

US ECOLOGY, INC.  
Form 10-Q  
November 04, 2015  
[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, 2015**

**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  Smaller reporting company   
(Do not check if a smaller reporting company)

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

At October 30, 2015, there were 21,735,305 shares of the registrant's Common Stock outstanding.

Table of Contents

US ECOLOGY, INC.

FORM 10-Q

TABLE OF CONTENTS

Item		Page
	<b><u>PART I FINANCIAL INFORMATION</u></b>	3
<u>1.</u>	<u>Financial Statements (Unaudited)</u>	3
	<u>Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014</u>	3
	<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014</u>	4
	<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014</u>	5
	<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014</u>	6
	<u>Notes to Consolidated Financial Statements</u>	7
	<u>Report of Independent Registered Public Accounting Firm</u>	23
<u>2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
<u>4.</u>	<u>Controls and Procedures</u>	38
	<b><u>PART II OTHER INFORMATION</u></b>	39
	<u>Cautionary Statement</u>	39
<u>1.</u>	<u>Legal Proceedings</u>	40
<u>1A.</u>	<u>Risk Factors</u>	40
<u>2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
<u>3.</u>	<u>Defaults Upon Senior Securities</u>	40
<u>4.</u>	<u>Mine Safety Disclosures</u>	40
<u>5.</u>	<u>Other Information</u>	40
<u>6.</u>	<u>Exhibits</u>	41
	<u>SIGNATURE</u>	42

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, 2015	December 31, 2014 As Adjusted
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 9,350	\$ 22,971
Receivables, net	104,283	135,261
Prepaid expenses and other current assets	10,241	11,984
Income taxes receivable	332	6,912
Deferred income taxes	2,599	2,109
Assets held for sale	78,775	
<b>Total current assets</b>	<b>205,580</b>	<b>179,237</b>
<b>Property and equipment, net</b>	<b>204,387</b>	<b>227,684</b>
<b>Restricted cash and investments</b>	<b>5,773</b>	<b>5,729</b>
<b>Intangible assets, net</b>	<b>243,187</b>	<b>278,667</b>
<b>Goodwill</b>	<b>194,825</b>	<b>217,609</b>
<b>Other assets</b>	<b>9,624</b>	<b>11,308</b>
<b>Deferred income taxes</b>		<b>85</b>
<b>Total assets</b>	<b>\$ 863,376</b>	<b>\$ 920,319</b>
<b>Liabilities And Stockholders Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 16,745	\$ 24,513
Deferred revenue	7,212	13,190
Accrued liabilities	28,119	36,251
Accrued salaries and benefits	10,624	13,322
Income taxes payable	1,730	4,124
Current portion of closure and post-closure obligations	4,402	5,359
Current portion of long-term debt	3,505	3,828
Liabilities associated with assets held for sale	20,240	
<b>Total current liabilities</b>	<b>92,577</b>	<b>100,587</b>
<b>Long-term closure and post-closure obligations</b>	<b>67,061</b>	<b>67,511</b>
<b>Long-term debt</b>	<b>356,410</b>	<b>390,825</b>

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

<b>Other long-term liabilities</b>	7,351	4,336
<b>Deferred income taxes</b>	87,771	105,723
<b>Total liabilities</b>	611,170	668,982

**Commitments and contingencies**

**Stockholders Equity:**

Common stock \$0.01 par value, 50,000 authorized; 21,735 and 21,632 shares issued, respectively	217	216
Additional paid-in capital	168,978	165,524
Retained earnings	99,509	93,301
Treasury stock, at cost, 1 shares	(60)	(18)
Accumulated other comprehensive loss	(16,438)	(7,686)
<b>Total stockholders equity</b>	252,206	251,337
<b>Total liabilities and stockholders equity</b>	\$ 863,376	\$ 920,319

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

Table of Contents

## US ECOLOGY, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

*(In thousands, except per share amounts)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Revenue</b>	\$ 148,414	\$ 170,864	\$ 424,797	\$ 290,237
<b>Direct operating costs</b>	102,474	118,556	297,543	190,664
<b>Gross profit</b>	45,940	52,308	127,254	99,573
<b>Selling, general and administrative expenses</b>	23,507	25,508	71,075	46,271
<b>Impairment charges</b>			6,700	
<b>Operating income</b>	22,433	26,800	49,479	53,302
<b>Other income (expense):</b>				
Interest income	17	11	64	94
Interest expense	(5,081)	(4,543)	(16,208)	(5,488)
Foreign currency loss	(994)	(830)	(1,769)	(1,027)
Other	387	301	1,156	557
<b>Total other expense</b>	(5,671)	(5,061)	(16,757)	(5,864)
<b>Income before income taxes</b>	16,762	21,739	32,722	47,438
<b>Income tax expense</b>	6,858	8,406	14,815	17,880
<b>Net income</b>	\$ 9,904	\$ 13,333	\$ 17,907	\$ 29,558
<b>Earnings per share:</b>				
Basic	\$ 0.46	\$ 0.62	\$ 0.83	\$ 1.37
Diluted	\$ 0.46	\$ 0.61	\$ 0.82	\$ 1.37
<b>Shares used in earnings per share calculation:</b>				
Basic	21,655	21,570	21,619	21,526
Diluted	21,749	21,680	21,723	21,649
<b>Dividends paid per share</b>	\$ 0.18	\$ 0.18	\$ 0.54	\$ 0.54

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

Table of Contents

US ECOLOGY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Net income</b>	\$ 9,904	\$ 13,333	\$ 17,907	\$ 29,558
<b>Other comprehensive income (loss):</b>				
Foreign currency translation loss	(3,590)	(2,156)	(6,761)	(2,078)
Net changes in interest rate hedge, net of taxes of (\$981), \$0, (\$1,072) and \$0, respectively	(1,821)		(1,991)	
<b>Comprehensive income, net of tax</b>	\$ 4,493	\$ 11,177	\$ 9,155	\$ 27,480

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,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net income	\$ 17,907	\$ 29,558
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment charges	6,700	
Depreciation and amortization of property and equipment	21,726	16,730
Amortization of intangible assets	9,558	5,233
Accretion of closure and post-closure obligations	3,208	1,675
Unrealized foreign currency loss	2,740	1,453
Deferred income taxes	(4,015)	2,407
Share-based compensation expense	1,736	869
Unrecognized tax benefits		(424)
Net loss on disposal of property and equipment	935	86
Amortization of debt discount	111	37
Changes in assets and liabilities (net of effect of business acquisition):		
Receivables	7,221	(20,938)
Income taxes receivable	6,560	(17)
Other assets	1,785	(3,219)
Accounts payable and accrued liabilities	(5,256)	2,449
Deferred revenue	(5,371)	391
Accrued salaries and benefits	(1,877)	(1,949)
Income taxes payable	(2,317)	(2,281)
Closure and post-closure obligations	(4,386)	(879)
<b>Net cash provided by operating activities</b>	<b>56,965</b>	<b>31,181</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(25,693)	(17,910)
Purchases of restricted cash and investments	(848)	(40)
Proceeds from sale of restricted cash and investments	804	662
Proceeds from sale of property and equipment	404	120
Business acquisition (net of cash acquired)		(465,895)
<b>Net cash used in investing activities</b>	<b>(25,333)</b>	<b>(483,063)</b>
<b>Cash flows from financing activities:</b>		
Payments on long-term debt	(34,848)	(1,038)
Dividends paid	(11,700)	(11,640)
Proceeds from revolving credit facility	9,379	
Payments on revolving credit facility	(9,379)	
Proceeds from exercise of stock options	1,664	1,445
Proceeds from issuance of long-term debt		413,962
Deferred financing costs paid		(14,001)
Other	7	204
<b>Net cash (used in) provided by financing activities</b>	<b>(44,877)</b>	<b>388,932</b>



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

Effect of foreign exchange rate changes on cash		(376)		(69)
<b>Decrease in cash and cash equivalents</b>		(13,621)		(63,019)
<b>Cash and cash equivalents at beginning of period</b>		22,971		73,940
<b>Cash and cash equivalents at end of period</b>	\$	9,350	\$	10,921
<b>Supplemental Disclosures</b>				
Income taxes paid, net of receipts	\$	18,723	\$	17,494
Interest paid	\$	14,406	\$	4,145
<b>Non-cash investing and financing activities:</b>				
Closure and post-closure retirement asset	\$		\$	2,863
Capital expenditures in accounts payable	\$	3,420	\$	2,378
Restricted stock issued from treasury shares	\$	292	\$	546

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, 2014. The results for the three and nine months ended September 30, 2015 are not necessarily indicative of results to be expected for the entire fiscal year. In these consolidated financial statements, certain amounts in prior periods consolidated financial statements have been reclassified to conform with the current period presentation.

The Company s Consolidated Balance Sheet as of December 31, 2014 has been derived from the Company s audited Consolidated Balance Sheet as of that date and has been revised for purchase price measurement period adjustments related to the acquisition of EQ as disclosed in Note 2. Additionally, on August 4, 2015, we entered into a definitive agreement to sell our Allstate Power Vac, Inc. ( Allstate ) subsidiary to a private investor group. We completed the sale of Allstate on November 1, 2015. All September 30, 2015 carrying amounts of assets and liabilities of Allstate have been classified as held for sale in our Consolidated Balance Sheets as disclosed in Note 3.

*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

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

applicable regulations, changes in future operational plans and inherent imprecision associated with estimating environmental impacts far into the future.

### *Held for Sale*

We report a business as held for sale when management has approved or received approval to sell the business and is committed to a formal plan, the business is available for immediate sale, the business is being actively marketed, the sale is probable and anticipated to occur during the ensuing year and certain other specified criteria are met. A business classified as held for sale is recorded at the lower of its carrying amount or estimated fair value less cost to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized. Depreciation and amortization expense are not recorded on long-lived assets of a business classified as held for sale. Assets and liabilities related to a business classified as held for sale are segregated in the September 30, 2015 unaudited Consolidated Balance Sheets and major classes are separately disclosed in the notes to the unaudited consolidated financial statements commencing in the period in which the business is classified as held for sale.

### *Recently Issued Accounting Pronouncements*

In April 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2015-03 *Simplifying the Presentation of Debt Issuance Costs*. This ASU requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. The guidance is effective for annual and interim reporting periods beginning after December 15, 2015. We do not believe the adoption of this update will have a material effect on our financial position and results of operations.

Table of Contents

In May 2014, the FASB issued ASU No. 2014-09 *Revenue from Contracts with Customers*, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard permits the use of either the retrospective or cumulative effect transition method. The ASU also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows from contracts with customers. On July 9, 2015, the FASB decided to delay the effective date of ASU 2014-09 by one year. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted but not before annual periods beginning after December 15, 2016. We are currently assessing the impact the adoption of ASU 2014-09 may have on our consolidated financial statements.

**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 \$460.9 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.

As of June 30, 2015, the Company finalized the purchase accounting for the acquisition of EQ. The following table summarizes the consideration paid for EQ and the fair value estimates of assets acquired and liabilities assumed recognized at the acquisition date, with purchase price allocation adjustments since the preliminary purchase price allocation as previously disclosed as of December 31, 2014:

\$s in thousands	Purchase Price Allocation		
	As Reported in Form 10-K	Adjustments	As Retrospectively Adjusted
Current assets	\$ 111,982	\$ 27	\$ 112,009
Property and equipment	101,543		101,543
Identifiable intangible assets	252,874		252,874
Current liabilities	(57,585)	(727)	(58,312)
Other liabilities	(139,331)	263	(139,068)
Total identifiable net assets	269,483	(437)	269,046
Goodwill	197,163	437	197,600
Total purchase price	\$ 466,646	\$	\$ 466,646

Purchase price allocation adjustments related primarily to the receipt of additional information regarding the fair values of income taxes payable and receivable, deferred income taxes and residual goodwill.

Goodwill of \$197.6 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 industrial and hazardous waste. The acquisition of EQ increases our geographic base providing a coast-to-coast presence and an expanded service platform to better serve key North American hazardous waste markets. In addition, the acquisition of EQ provides us with an opportunity to compete for additional waste clean-up project work; expand penetration with national accounts; improve and enhance transportation, logistics, and service offerings with existing customers and attract new

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

customers. \$132.4 million of the goodwill recognized was allocated to reporting units in our Environmental Services segment and \$65.2 million of the goodwill recognized was allocated to reporting units in our Field & Industrial Services segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

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

### Table of Contents

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

\$s in thousands	Fair Value	Weighted Average Amortization Period (Years)
Customer relationships	\$ 98,400	15
Permits and licenses	89,600	45
Permits and licenses, nonamortizing	49,000	
Tradename	5,481	3
Customer backlog	4,600	10
Developed software	3,443	9
Non-compete agreements	900	1
Internet domain and website	869	19
Database	581	15
Total identifiable intangible assets	\$ 252,874	

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) Three Months Ended September 30, 2014	(unaudited) Nine Months Ended September 30, 2014
<b>Pro forma combined:</b>		
<b>Revenue</b>	\$ 170,894	\$ 458,091
<b>Net income</b>	\$ 13,333	\$ 24,835
<b>Earnings per share</b>		
Basic	\$ 0.62	\$ 1.15
Diluted	\$ 0.61	\$ 1.15

Revenue from EQ included in the Company's consolidated statements of operations for the three and nine months ended September 30, 2015 was \$95.0 million and \$268.8 million, respectively. Operating income from EQ included in the Company's consolidated statements of operations for the three and nine months ended September 30, 2015 was \$11.8 million and \$16.1 million, respectively. Acquisition-related costs of \$150,000 and \$1.1 million, respectively, were included in Selling, general and administrative expenses in the Company's consolidated statements of operations for the three and nine months ended September 30, 2015.

### **NOTE 3. DISPOSITION**

On August 4, 2015, we entered into a definitive agreement to sell Allstate to a private investor group for approximately \$58.0 million cash, subject to adjustments for working capital and capital expenditures. Allstate represents the majority of the industrial services business and is included in our Field and Industrial Services segment, which we acquired with the acquisition of EQ. As a result of this agreement and

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

management's strategic review, we evaluated the recoverability of the assets associated with our industrial services business. Based on this analysis, we recorded a non-cash goodwill impairment charge of \$6.7 million, or \$0.31 per diluted share, in the second quarter of 2015. On November 1, 2015, we completed the sale of Allstate. The sale of Allstate does not meet the requirements to be reported as a discontinued operation as defined in ASU 2014-08. For additional information on the sale of Allstate, see Note 17.

Table of Contents

Income before income taxes from Allstate included in the Company's consolidated statements of operations for the three months ended September 30, 2015 and 2014 was \$1.7 million and \$265,000, respectively. For the nine months ended September 30, 2015 and 2014, loss before income taxes from Allstate was \$5.7 million and income before income taxes from Allstate was \$301,000, respectively. Loss before income taxes for the nine months ended September 30, 2015, includes a non-cash goodwill impairment charge of \$6.4 million.

The carrying amounts of major classes of assets and liabilities of Allstate classified as held for sale in our consolidated balance sheet are as follows:

\$s in thousands	September 30, 2015	
Receivables, net	\$	22,340
Prepaid expenses and other current assets		1,555
Property and equipment, net		19,484
Intangible assets, net		21,824
Goodwill		13,572
Total assets held for sale	\$	78,775
Accounts payable		6,108
Accrued liabilities		1,616
Accrued salaries and benefits		568
Deferred income taxes		11,948
Total liabilities held for sale	\$	20,240

**NOTE 4. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

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

	Foreign Currency Translation	Unrealized Loss on Interest Rate Hedge	Total
<b>Balance at December 31, 2014</b>	<b>\$ (5,648)</b>	<b>\$ (2,038)</b>	<b>\$ (7,686)</b>
Other comprehensive loss before reclassifications, net of tax	(6,761)	(3,706)	(10,467)
Amounts reclassified out of AOCI, net of tax (1)		1,715	1,715
Other comprehensive loss	(6,761)	(1,991)	(8,752)
<b>Balance at September 30, 2015</b>	<b>\$ (12,409)</b>	<b>\$ (4,029)</b>	<b>\$ (16,438)</b>

(1) Before-tax reclassifications of \$871,000 (\$566,000 after-tax) and \$2.6 million (\$1.7 million after-tax) for the three and nine months ended September 30, 2015, respectively, were included in Interest expense in the Company's consolidated statements of operations. Amount relates to interest rate swap which is designated as a cash flow hedge. Changes in fair value of the swap recognized in AOCI are reclassified to interest expense when hedged interest payments on the underlying debt are made. Amounts in AOCI expected to be recognized in interest expense over the next 12 months total approximately \$3.5 million (\$2.3 million after tax).





Table of Contents**NOTE 5. CONCENTRATIONS AND CREDIT RISK***Major Customers*

No customer accounted for more than 10% of total revenue for the three or nine months ended September 30, 2015. Revenue from a single customer accounted for approximately 12% and 10% of total revenue for the three and nine months ended September 30, 2014, respectively. No customer accounted for more than 10% of total trade receivables as of September 30, 2015 or December 31, 2014.

*Credit Risk Concentration*

We maintain most of our cash and cash equivalents with nationally recognized financial institutions like Wells Fargo Bank, National Association ( Wells Fargo ) and Comerica, Inc. 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 6. RECEIVABLES**

Receivables consisted of the following:

\$s in thousands	September 30, 2015	December 31, 2014
Trade	\$ 77,593	\$ 116,218
Unbilled revenue	27,703	17,857
Other	2,059	1,890
Total receivables	107,355	135,965
Allowance for doubtful accounts	(3,072)	(704)
Receivables, net	\$ 104,283	\$ 135,261

**NOTE 7. FAIR VALUE MEASUREMENTS**

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

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

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

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

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

The Company estimates the fair value of its variable-rate debt using Level 2 inputs, such as interest rates, related terms and maturities of similar obligations. The fair value of the Company's debt approximated its carrying amount as of September 30, 2015.

Table of Contents

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

\$s in thousands	September 30, 2015			Total
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
<b>Assets:</b>				
Fixed-income securities (1)	\$ 401	\$ 3,614	\$	\$ 4,015
Money market funds (2)	1,758			1,758
<b>Total</b>	<b>\$ 2,159</b>	<b>\$ 3,614</b>	<b>\$</b>	<b>\$ 5,773</b>
<b>Liabilities:</b>				
Interest rate swap agreement (3)	\$	\$ 6,199	\$	\$ 6,199
<b>Total</b>	<b>\$</b>	<b>\$ 6,199</b>	<b>\$</b>	<b>\$ 6,199</b>

\$s in thousands	December 31, 2014			Total
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
<b>Assets:</b>				
Fixed-income securities (1)	\$ 400	\$ 3,590	\$	\$ 3,990
Money market funds (2)	1,739			1,739
<b>Total</b>	<b>\$ 2,139</b>	<b>\$ 3,590</b>	<b>\$</b>	<b>\$ 5,729</b>
<b>Liabilities:</b>				
Interest rate swap agreement (3)	\$	\$ 3,136	\$	\$ 3,136
<b>Total</b>	<b>\$</b>	<b>\$ 3,136</b>	<b>\$</b>	<b>\$ 3,136</b>

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

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

(3) In order to manage interest rate exposure, we entered into an interest rate swap agreement in October 2014 that effectively converts a portion of our variable-rate debt to a fixed interest rate. The swap is designated as a cash flow hedge, with gains and losses deferred in other comprehensive income to be recognized as an adjustment to interest expense in the same period that the hedged interest payments affect earnings. The interest rate swap has an effective date of December 31, 2014 with an initial notional amount of \$250.0 million. The fair value of the interest rate swap agreement represents the difference in the present value of cash flows calculated (i) at the contracted interest rates and (ii) at current market interest rates at the end of the period. We calculate the fair value of interest rate swap agreements quarterly based on the quoted market price for the same or similar financial instruments. The fair value of the interest

rate swap agreement is included in Other long-term liabilities in the Company's consolidated balance sheet.

Table of Contents**NOTE 8. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

\$s in thousands	September 30, 2015	December 31, 2014
Cell development costs	\$ 120,032	\$ 120,878
Land and improvements	31,811	33,002
Buildings and improvements	69,883	74,518
Railcars	17,375	17,375
Vehicles and other equipment	86,527	98,877
Construction in progress	18,879	10,831
Total property and equipment	344,507	355,481
Accumulated depreciation and amortization	(140,120)	(127,797)
Property and equipment, net	\$ 204,387	\$ 227,684

Depreciation and amortization expense for the three months ended September 30, 2015 and 2014 was \$6.6 million and \$8.3 million, respectively. Depreciation and amortization expense for the nine months ended September 30, 2015 and 2014 was \$21.7 million and \$16.7 million, respectively.

**NOTE 9. GOODWILL AND INTANGIBLE ASSETS**

Changes in goodwill for the nine months ended September 30, 2015 consisted of the following:

\$s in thousands	Environmental Services	Field & Industrial Services	Total
<b>Balance at December 31, 2014 (1)</b>	\$ 152,396	\$ 65,213	\$ 217,609
Impairment charges (2)		(6,700)	(6,700)
Classified as held for sale (3)		(13,572)	(13,572)
Foreign currency translation	(2,512)		(2,512)
<b>Balance at September 30, 2015</b>	\$ 149,884	\$ 44,941	\$ 194,825

(1) Balances have been revised to reflect purchase accounting measurement period adjustments related to the acquisition of EQ as disclosed in Note 2.

(2) As disclosed in Notes 3, on August 4, 2015, we entered into a definitive agreement to sell Allstate to a private

investor group for approximately \$58.0 million cash, subject to adjustments for working capital and capital expenditures. Allstate represents the majority of the industrial services business we acquired with the acquisition of EQ. As a result of this agreement and management's strategic review, we evaluated the recoverability of the assets associated with our industrial services business. Based on this analysis, we recorded a non-cash goodwill impairment charge of \$6.7 million, or \$0.31 per diluted share, in the second quarter of 2015. We calculated the estimated fair value of the industrial services business using a combination of quoted market prices and discounted cash flows.

(3) Amounts relate to sale of Allstate as disclosed in Note 3.

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

Table of Contents

Intangible assets, net consisted of the following:

\$s in thousands	September 30, 2015			December 31, 2014		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Amortizing intangible assets:						
Permits, licenses and lease	\$ 110,357	\$ (6,085)	\$ 104,272	\$ 113,693	\$ (4,427)	\$ 109,266
Customer relationships	82,124	(7,728)	74,396	103,086	(4,488)	98,598
Technology - formulae and processes	6,790	(1,037)	5,753	7,844	(1,009)	6,835
Customer backlog	3,652	(469)	3,183	4,600	(246)	4,354
Tradename	4,318	(1,850)	2,468	5,481	(979)	4,502
Developed software	2,908	(605)	2,303	3,745	(428)	3,317
Non-compete agreements	732	(610)	122	920	(462)	458
Internet domain and website	540	(36)	504	869	(24)	845
Database	388	(79)	309	667	(72)	595
Total amortizing intangible assets	211,809	(18,499)	193,310	240,905	(12,135)	228,770
Nonamortizing intangible assets:						
Permits and licenses	49,750		49,750	49,750		49,750
Tradename	127		127	147		147
Total intangible assets, net	\$ 261,686	\$ (18,499)	\$ 243,187	\$ 290,802	\$ (12,135)	\$ 278,667

Amortization expense for the three months ended September 30, 2015 and 2014 was \$3.0 million and \$4.0 million, respectively. Amortization expense for the nine months ended September 30, 2015 and 2014 was \$9.6 million and \$5.2 million, respectively. Foreign intangible asset carrying amounts are affected by foreign currency translation.

**NOTE 10. DEBT**

Long-term debt consisted of the following:

\$s in thousands	September 30, 2015	December 31, 2014
Term loan	\$ 360,767	\$ 395,616
Net discount on term loan	(852)	(963)
Total debt	359,915	394,653
Current portion of long-term debt	(3,505)	(3,828)
Long-term debt	\$ 356,410	\$ 390,825



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

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 September 30, 2015, the effective interest rate on the Term Loan, including the impact of our interest rate swap, was 4.67%. Interest only payments

Table of Contents

are due either monthly or on the last day of any interest period, as applicable. As set forth in the Credit Agreement, 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 principal amount of the \$415.0 million Term Loan. In October 2014, the Company entered into an interest rate swap agreement with Wells Fargo, effectively fixing the interest rate on \$240.0 million, or 67%, of the Term Loan principal outstanding as of September 30, 2015.

*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. Interest only payments are due either monthly or on the last day of any interest period, as applicable. At September 30, 2015, there were no borrowings outstanding on the Revolving Credit Facility. The availability under the Revolving Credit Facility was \$118.2 million with \$6.8 million of the Revolving Credit Facility issued in the form of standby letters of credit utilized as collateral for closure and post-closure financial assurance and other assurance obligations.

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.

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

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:

<b>Fiscal Quarters Ending</b>	<b>Maximum Ratio</b>
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 September 30, 2015, we were in compliance with all of the financial covenants in the Credit Agreement.

Table of Contents**NOTE 11. 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 closure and post-closure obligations consisted of the following:

\$s in thousands	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
Closure and post-closure obligations, beginning of period	\$	72,690	\$	72,870
Accretion expense		1,132		3,208
Payments		(2,250)		(4,386)
Currency translation		(109)		(229)
Closure and post-closure obligations, end of period		71,463		71,463
Less current portion		(4,402)		(4,402)
Long-term portion	\$	67,061	\$	67,061

**NOTE 12. INCOME TAXES**

Our effective tax rate for the three months ended September 30, 2015 was 40.9%, up from 38.7% for the three months ended September 30, 2014. Our effective tax rate for the nine months ended September 30, 2015 was 45.3%, up from 37.7% for the nine months ended September 30, 2014. The increase for the three months ended September 30, 2015 primarily reflects a lower proportion of earnings from our Canadian operations, which are taxed at a lower corporate rate, partially offset by lower non-tax deductible business development expenses. The increase for the nine months ended September 30, 2015 primarily reflects non-deductible impairment charges of \$6.7 million, and a lower proportion of earnings from our Canadian operations, which are taxed at a lower corporate rate, partially offset by lower non-tax deductible business development expenses.

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 2011 through 2014. Additionally, we may be subject to examinations by various state and local taxing jurisdictions for tax years 2010 through 2014.

Table of Contents**NOTE 13. EARNINGS PER SHARE**

\$s and shares in thousands, except per share amounts	Three Months Ended September 30,			
	2015		2014	
	Basic	Diluted	Basic	Diluted
Net income	\$ 9,904	\$ 9,904	\$ 13,333	\$ 13,333
Weighted average basic shares outstanding	21,655	21,655	21,570	21,570
Dilutive effect of stock-based awards		94		110
Weighted average diluted shares outstanding		21,749		21,680
Earnings per share	\$ 0.46	\$ 0.46	\$ 0.62	\$ 0.61
Anti-dilutive shares excluded from calculation		181		78

\$s and shares in thousands, except per share amounts	Nine Months Ended September 30,			
	2015		2014	
	Basic	Diluted	Basic	Diluted
Net income	\$ 17,907	\$ 17,907	\$ 29,558	\$ 29,558
Weighted average basic shares outstanding	21,619	21,619	21,526	21,526
Dilutive effect of stock-based awards		104		123
Weighted average diluted shares outstanding		21,723		21,649
Earnings per share	\$ 0.83	\$ 0.82	\$ 1.37	\$ 1.37
Anti-dilutive shares excluded from calculation		192		50

**NOTE 14. EQUITY***Omnibus Incentive Plan*

On May 27, 2015, our stockholders approved the Omnibus Incentive Plan ( Omnibus Plan ), which was approved by our Board of Directors on April 7, 2015. The Omnibus Plan provides, among other things, the ability for the Company to grant restricted stock, performance stock, options, stock appreciation rights, restricted stock units, performance stock units ( PSUs ) and other stock-based awards or cash awards to officers, employees, consultants and non-employee directors. We will cease to grant equity awards under our 2008 Stock Option Incentive Plan and our 2006 Restricted Stock Plan ( Previous Plans ), and the Previous Plans will remain in effect solely for the settlement of awards granted under the Previous Plans. No shares that are reserved but unissued under the Previous Plans or that are outstanding under the Previous Plans and reacquired by the Company for any reason will be available for issuance under the Omnibus Plan. The Omnibus Plan expires on April 7, 2025 and authorizes 1.5 million shares of common stock for grant over the life of the Omnibus Plan.

Table of Contents

*Performance Stock Units*

On May 27, 2015, the Company granted 6,929 PSUs to certain employees. Each PSU represents the right to receive, on the settlement date, one share of the Company's common stock. The total number of PSUs each participant is eligible to earn ranges from 0% to 200% of the target number of PSUs granted. The actual number of PSUs that will vest and be settled in shares is determined at the end of a three-year performance period beginning January 1, 2015, based on total stockholder return relative to a set of peer companies. The fair value of the PSUs estimated on the grant date using a Monte Carlo simulation was \$65.78 per unit. Compensation expense is recorded over the awards' vesting period.

The following table presents the assumptions used in the Monte Carlo simulation to calculate the fair value of the PSUs granted on May 27, 2015:

Expected volatility		29.30%
Stock price on grant date	\$	46.89
Risk-free interest rate		0.86%
Expected term (years)		2.6
Expected dividend yield		1.50%

*Stock Options and Restricted Stock*

During the nine months ended September 30, 2015, option holders exercised 73,601 options with a weighted-average exercise price of \$24.05 per option. Option holders exercised 3,334 of these options via net share settlement. During the nine months ended September 30, 2015, the Company issued 6,583 shares of restricted stock from our treasury stock at an average cost of \$44.34 per share.

**NOTE 15. 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.

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

**NOTE 16. OPERATING SEGMENTS**

*Financial Information by Segment*

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

*Environmental Services* - This segment includes all of the legacy US Ecology operations and the legacy EQ treatment and disposal facilities. It provides a broad range of hazardous material management services including transportation, recycling, treatment and disposal of hazardous and non-hazardous waste at Company-owned landfill, wastewater and other treatment facilities.

*Field & Industrial Services* - This segment includes all of the field and industrial service business of the legacy EQ operation. It provides packaging and collection of hazardous waste and total waste management solutions at customer sites and through our 10-day transfer facilities. Services include on-site management, waste characterization, transportation and disposal of non-hazardous and hazardous waste. This segment also provides specialty services such as high-pressure and chemical cleaning, centrifuge and materials processing, tank cleaning, decontamination, remediation, transportation, spill cleanup and emergency response and other services to commercial and industrial facilities and to government entities.

Table of Contents

The operations not managed through our two reportable segments are recorded as Corporate. Corporate selling, general and administrative expenses include typical corporate items such as legal, accounting and other items of a general corporate nature. Income taxes are assigned to Corporate, but all other items are included in the segment where they originated. Inter-company transactions have been eliminated from the segment information and are not significant between segments.

Summarized financial information of our reportable segments is as follows:

\$s in thousands	Three Months Ended September 30, 2015			
	Environmental Services	Field & Industrial Services	Corporate	Total
Treatment & Disposal Revenue	\$ 76,079	\$	\$	\$ 76,079
Services Revenue:				
Transportation and Logistics (1)	20,191	5,694		25,885
Industrial Cleaning (2)		27,532		27,532
Technical Services (3)		16,584		16,584
Remediation (4)		1,253		1,253
Other (5)		1,081		1,081
Total Revenue	\$ 96,270	\$ 52,144	\$	\$ 148,414
Depreciation, amortization and accretion	\$ 8,664	\$ 1,885	\$ 126	\$ 10,675
Capital expenditures	\$ 4,480	\$ 1,401	\$ 436	\$ 6,317
Total assets	\$ 599,136	\$ 201,627	\$ 62,613	\$ 863,376

\$s in thousands	Three Months Ended September 30, 2014			
	Environmental Services	Field & Industrial Services	Corporate	Total
Treatment & Disposal Revenue	\$ 84,778	\$	\$	\$ 84,778
Services Revenue:				
Transportation and Logistics (1)	23,256	11,657		34,913
Industrial Cleaning (2)		22,142		22,142
Technical Services (3)		15,985		15,985
Remediation (4)		11,814		11,814
Other (5)		1,232		1,232
Total Revenue	\$ 108,034	\$ 62,830	\$	\$ 170,864
Depreciation, amortization and accretion	\$ 9,748	\$ 3,271	\$ 276	\$ 13,295
Capital expenditures	\$ 4,924	\$ 3,822	\$ 506	\$ 9,252
Total assets	\$ 627,340	\$ 229,971	\$ 59,838	\$ 917,149



Table of Contents

\$s in thousands	Nine Months Ended September 30, 2015			
	Environmental Services	Field & Industrial Services	Corporate	Total
Treatment & Disposal Revenue	\$ 224,007	\$	\$	\$ 224,007
Services Revenue:				
Transportation and Logistics (1)	54,878	19,986		74,864
Industrial Cleaning (2)		69,980		69,980
Technical Services (3)		46,807		46,807
Remediation (4)		5,492		5,492
Other (5)		3,647		3,647
Total Revenue	\$ 278,885	\$ 145,912	\$	\$ 424,797
Depreciation, amortization and accretion	\$ 26,167	\$ 7,920	\$ 405	\$ 34,492
Capital expenditures	\$ 17,564	\$ 6,250	\$ 1,879	\$ 25,693
Total assets	\$ 599,136	\$ 201,627	\$ 62,613	\$ 863,376

\$s in thousands	Nine Months Ended September 30, 2014			
	Environmental Services	Field & Industrial Services	Corporate	Total
Treatment & Disposal Revenue	\$ 178,254	\$	\$	\$ 178,254
Services Revenue:				
Transportation and Logistics (1)	41,012	12,895		53,907
Industrial Cleaning (2)		25,827		25,827
Technical Services (3)		17,994		17,994
Remediation (4)		12,841		12,841
Other (5)		1,414		1,414
Total Revenue	\$ 219,266	\$ 70,971	\$	\$ 290,237
Depreciation, amortization and accretion	\$ 19,415	\$ 3,759	\$ 464	\$ 23,638
Capital expenditures	\$ 12,751	\$ 4,410	\$ 749	\$ 17,910
Total assets	\$ 627,340	\$ 229,971	\$ 59,838	\$ 917,149

(1) Includes such services as collection, transportation and disposal of non-hazardous and hazardous waste. Prior to the acquisition of EQ on June 17, 2014, services within Environmental Services included transportation services.

(2) Includes such services as industrial cleaning and maintenance for utilities, refineries, chemical plants, pulp and paper mills, steel and automotive plants, and refinery services such as tank cleaning, centrifuge and temporary storage.

(3) Includes such services as Total Waste Management ( TWM ) programs, retail services, laboratory packing, less-than-truck-load ( LTL ) service and Household Hazardous Waste ( HHW ) collection.

(4) Includes such services as site assessment, onsite treatment, project management and remedial action planning and execution.

(5) Includes such services as emergency response and marine.

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

*Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ( Adjusted EBITDA )*

The primary financial measure used by management to assess segment performance is Adjusted EBITDA. Adjusted EBITDA is defined as net income before net interest expense, income tax expense, depreciation, amortization, stock based compensation, accretion of closure and post-closure liabilities, foreign currency gain/loss, non-cash impairment charges and other income/expense, which are not considered part of usual business operations. Adjusted EBITDA is a complement to results provided in accordance with GAAP and we believe that such information provides additional useful information to analysts, stockholders and other users to understand the Company's operating performance. Since Adjusted EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies. Items excluded from Adjusted EBITDA are significant components in understanding and assessing our financial performance. Adjusted EBITDA should not be considered in isolation or as an alternative to, or substitute for, net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or a substitute for analyzing our results as reported under GAAP. Some of the limitations are:

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

Table of Contents

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

A reconciliation of Adjusted EBITDA to Net Income is as follows:

\$s in thousands	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Adjusted EBITDA:</b>				
Environmental Services	\$ 39,244	\$ 45,483	\$ 112,859	\$ 94,966
Field & Industrial Services	5,611	6,136	13,709	7,256
Corporate	(11,101)	(11,180)	(34,161)	(24,413)
<b>Total</b>	<b>33,754</b>	<b>40,439</b>	<b>92,407</b>	<b>77,809</b>
<b>Reconciliation to Net income:</b>				
Income tax expense	(6,858)	(8,406)	(14,815)	(17,880)
Interest expense	(5,081)	(4,543)	(16,208)	(5,488)
Interest income	17	11	64	94
Foreign currency loss	(994)	(830)	(1,769)	(1,027)
Other income	387	301	1,156	557
Impairment charges			(6,700)	
Depreciation and amortization of plant and equipment	(6,591)	(8,318)	(21,726)	(16,730)
Amortization of intangibles	(2,952)	(4,018)	(9,558)	(5,233)
Stock-based compensation	(646)	(344)	(1,736)	(869)
Accretion and non-cash adjustment of closure & post-closure liabilities	(1,132)	(959)	(3,208)	(1,675)
<b>Net income</b>	<b>\$ 9,904</b>	<b>\$ 13,333</b>	<b>\$ 17,907</b>	<b>\$ 29,558</b>

*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 were as follows:

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

\$s in thousands	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
United States	\$ 138,367	\$ 155,043	\$ 392,698	\$ 243,689
Canada	10,047	15,821	32,099	46,548
Total revenue	\$ 148,414	\$ 170,864	\$ 424,797	\$ 290,237

Table of Contents

Long-lived assets, comprised of property and equipment and intangible assets net of accumulated depreciation and amortization, by geographic location are as follows:

\$s in thousands	September 30, 2015	December 31, 2014
United States	\$ 396,295	\$ 446,412
Canada	51,279	59,939
Total long-lived assets	\$ 447,574	\$ 506,351

**NOTE 17. SUBSEQUENT EVENTS***Quarterly Dividend*

On October 1, 2015, we declared a quarterly dividend of \$0.18 per common share to stockholders of record on October 21, 2015. The dividend was paid using cash on hand on October 28, 2015 in an aggregate amount of \$3.9 million.

*Allstate Disposition*

On November 1, 2015, we completed the sale of Allstate for cash proceeds of \$58.8 million, subject to post-closing adjustments for working capital. See Note 3 for additional information on the sale of Allstate including Income before income taxes and details on the major classes of assets and liabilities of Allstate classified as held for sale as of September 30, 2015.

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, 2015, and the related consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2015 and 2014, and the consolidated statements of cash flows for the nine-month periods ended September 30, 2015 and 2014. This interim financial information is 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 information 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 information for it 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, 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 2, 2015, 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, 2014 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  
November 4, 2015

Table of Contents

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

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

**OVERVIEW**

US Ecology, Inc. is a leading North American provider of environmental services to commercial and government entities. The Company addresses the complex waste management needs of its customers, offering treatment, disposal and recycling of hazardous, non-hazardous and radioactive waste, as well as a wide range of complementary field and industrial services. US Ecology's comprehensive knowledge of the waste business, its collection of waste management facilities combined and focus on safety, environmental compliance, and customer service enables us to effectively meet the needs of our customers and to build long-lasting relationships. Headquartered in Boise, Idaho, we are one of the oldest providers of such services in North America.

Prior to June 17, 2014, our operations consisted primarily of our six fixed facilities located near Beatty, Nevada; Richland, Washington; Robstown, Texas; Grand View, Idaho; Detroit, Michigan and Blainville, Québec, Canada. These facilities generate revenue from fees charged to treat and dispose of waste and from fees charged to perform various field and industrial services for our customers.

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.

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

**Environmental Services** - This segment includes all of the legacy US Ecology operations and the legacy EQ treatment and disposal facilities. It provides a broad range of hazardous material management services including transportation, recycling, treatment and disposal of hazardous and non-hazardous waste at Company-owned landfill, wastewater and other treatment facilities.

**Field & Industrial Services** - This segment includes all of the field and industrial service business of the legacy EQ operation. It provides packaging and collection of hazardous waste and total waste management solutions at customer sites and through our 10-day transfer facilities. Services include on-site management, waste characterization, transportation and disposal of non-hazardous and hazardous waste. This segment also provides specialty services such

as high-pressure and chemical cleaning, centrifuge and materials processing, tank cleaning, decontamination, remediation, transportation, spill cleanup and emergency response and other services to commercial and industrial facilities and to government entities.

On August 4, 2015, we entered into a definitive agreement to sell our Allstate Power Vac, Inc. ( Allstate ) subsidiary to a private investor group for approximately \$58.0 million cash, subject to adjustments for working capital and capital expenditures. Cash proceeds from the transaction are expected to be used to repay indebtedness. Allstate represents the majority of the industrial services business we acquired with the acquisition of EQ. As a result of this agreement and management's strategic review, we evaluated the recoverability of the assets associated with our industrial services business. Based on this analysis, we recorded a non-cash goodwill impairment charge of \$6.7 million, or \$0.31 per diluted share, in the second quarter of 2015. On November 1, 2015, we completed the sale of Allstate, for cash proceeds of \$58.8 million, subject to post-closing adjustments for working capital. See Note 3 of the Notes to Consolidated Financial Statements in Part I, Item 1. Financial Statements of this Form 10-Q for additional information on the sale of Allstate including Income before income taxes and details on the major classes of assets and liabilities of Allstate classified as held for sale as of September 30, 2015.

In conjunction with the continued integration of EQ we have changed and conformed the categories used to evaluate period-to-period changes in our treatment and disposal ( T&D ) revenue for our Environmental Services segment. Historically, legacy US Ecology divided T&D revenue into groups based on the industry of the *customer*. In order to provide better insight into the underlying drivers of our waste volumes and related T&D revenues, beginning with the third quarter of 2015, we will evaluate period-to-period changes in our ES segment T&D revenues based on the industry of the waste *generator*, based on North American Industry Classification System ( NAICS ) codes.

Additionally, we have changed and conformed how we define Base Business and Event Business . Previously, US Ecology defined Event Business as non-recurring waste cleanup projects regardless of size, with Base Business representing all recurring business.



Table of Contents

Beginning with the third quarter of 2015, we now define Event Business as non-recurring projects that are expected to equal or exceed 1,000 tons, with Base Business defined as all other business not meeting the definition of Event Business. We believe the new definitions are a better representation of Base and Event Business and will provide better insight into ES segment T&D revenues. Throughout this document, and in our discussions of our results for the three and nine months ended September 30, 2015, prior periods presented have been recast based on the new definitions.

The composition of Environmental Services segment T&D revenues by waste generator industry for the three and nine months ended September 30, 2015 and 2014 were as follows:

Generator Industry	% of Treatment and Disposal Revenue (1) for the Three Months Ended September 30,	
	2015	2014
Chemical Manufacturing	16%	23%
Metal Manufacturing	14%	15%
Broker / Treatment, Storage & Disposal Facilities ( TSDF )	14%	13%
General Manufacturing	12%	10%
Refining	10%	8%
Government	8%	7%
Mining, Exploration & Production	2%	4%
Transportation	3%	3%
Utilities	4%	3%
Waste Management & Remediation	2%	3%
Other (2)	15%	11%

(1) Excludes all transportation service revenue

(2) Includes retail and wholesale trade, rate regulated, construction and other industries

Generator Industry	% of Treatment and Disposal Revenue (1),(2) for the Nine Months Ended September 30,	
	2015	2014
Chemical Manufacturing	16%	24%
Broker / TSDF	17%	16%
Refining	17%	13%
Metal Manufacturing	11%	12%
General Manufacturing	7%	7%
Mining, Exploration and Production	4%	6%
Government	8%	5%
Transportation	2%	4%
Utilities	5%	3%
Waste Management & Remediation	2%	2%
Other (3)	11%	8%

(1) Excludes all transportation service revenue

(2) Excludes EQ Holdings, Inc. which was acquired on June 17, 2014

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

(3) Includes retail and wholesale trade, rate regulated, construction and other industries

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 months ended September 30, 2015, Event Business revenue decreased 22% compared to the three months ended September 30, 2014. Event Business revenue was approximately 24% of total T&D revenue for the three months ended September 30, 2015, down from 28% for the three months ended September 30, 2014. For the nine months ended September 30, 2015, Event Business revenue (excluding EQ) decreased 18% compared to the nine months ended September 30, 2014. Event Business revenue,

Table of Contents

excluding EQ, was approximately 28% of total T&D revenue for the nine months ended September 30, 2015, down from 32% for the nine months ended September 30, 2014.

For the three months ended September 30, 2015, Base Business revenue decreased 7% compared to the three months ended September 30, 2014. Base Business revenue was approximately 76% of total T&D revenue for the three months ended September 30, 2015, up from 72% for the three months ended September 30, 2014. For the nine months ended September 30, 2015, Base Business revenue, excluding EQ, decreased 2% compared to the nine months ended September 30, 2014. Base Business revenue (excluding EQ) was approximately 72% of total T&D revenue for the nine months ended September 30, 2015, up from 68% for the nine months ended September 30, 2014. Our business is highly competitive and no assurance can be given that we will maintain these revenue levels or increase our market share.

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 controversy, 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 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 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 gondola railcars, which is periodically supplemented with 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 help us to win business during times of demand-driven railcar scarcity.

The increased waste volumes resulting from projects won through this bundling service strategy further drive the operating leverage benefits inherent to the disposal business, increasing 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 proven 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 also 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. Adverse 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

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

shipments, maintenance, waste clean-up projects and other work. Factors that can impact general economic conditions and the level of spending by 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 business is either government funded or 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 various reasons.

Table of Contents**RESULTS OF OPERATIONS****THREE MONTHS ENDED SEPTEMBER 30, 2015 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2014**

Operating results discussed below include a full quarter of EQ operations for both of the three month periods ended September 30, 2015 and 2014. Operating results and percentage of revenues, by reportable segment, were as follows:

\$s in thousands	Three Months Ended September 30,				2015 vs. 2014	
	2015	%	2014	%	\$ Change	% Change
<b>Revenue</b>						
Environmental Services	\$ 96,270	65%	\$ 108,034	63%	\$ (11,764)	-11%
Field & Industrial Services	52,144	35%	62,830	37%	(10,686)	-17%
<b>Total</b>	<b>148,414</b>	<b>100%</b>	<b>170,864</b>	<b>100%</b>	<b>(22,450)</b>	<b>-13%</b>
<b>Gross Profit</b>						
Environmental Services	36,554	38%	42,700	40%	(6,146)	-14%
Field & Industrial Services	9,386	18%	9,608	15%	(222)	-2%
<b>Total</b>	<b>45,940</b>	<b>31%</b>	<b>52,308</b>	<b>31%</b>	<b>(6,368)</b>	<b>-12%</b>
<b>Selling, General &amp; Administrative Expenses</b>						
Environmental Services	6,062	6%	7,006	6%	(944)	-13%
Field & Industrial Services	5,712	11%	6,759	11%	(1,047)	-15%
Corporate	11,733	n/a	11,743	n/a	(10)	0%
<b>Total</b>	<b>23,507</b>	<b>16%</b>	<b>25,508</b>	<b>15%</b>	<b>(2,001)</b>	<b>-8%</b>
<b>Adjusted EBITDA</b>						
Environmental Services	39,244	41%	45,483	42%	(6,239)	-14%
Field & Industrial Services	5,611	11%	6,136	10%	(525)	-9%
Corporate	(11,101)	n/a	(11,180)	n/a	79	-1%
<b>Total</b>	<b>\$ 33,754</b>	<b>23%</b>	<b>\$ 40,439</b>	<b>24%</b>	<b>\$ (6,685)</b>	<b>-17%</b>

*Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ( Adjusted EBITDA )*

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

The primary financial measure used by management to assess segment performance is Adjusted EBITDA. Adjusted EBITDA is defined as net income before net interest expense, income tax expense, depreciation, amortization, stock based compensation, accretion of closure and post-closure liabilities, foreign currency gain/loss, non-cash impairment charges and other income/expense, which are not considered part of usual business operations. The reconciliation of Adjusted EBITDA to Net Income is as follows:

\$s in thousands	Three Months Ended September 30,		2015 vs. 2014	
	2015	2014	\$ Change	% Change
Adjusted EBITDA	\$ 33,754	\$ 40,439	\$ (6,685)	-17%
Income tax expense	(6,858)	(8,406)	1,548	-18%
Interest expense	(5,081)	(4,543)	(538)	12%
Interest income	17	11	6	55%
Foreign currency loss	(994)	(830)	(164)	20%
Other income	387	301	86	29%
Depreciation and amortization of plant and equipment	(6,591)	(8,318)	1,727	-21%
Amortization of intangibles	(2,952)	(4,018)	1,066	-27%
Stock-based compensation	(646)	(344)	(302)	88%
Accretion and non-cash adjustment of closure and post-closure liabilities	(1,132)	(959)	(173)	18%
<b>Net Income</b>	<b>\$ 9,904</b>	<b>\$ 13,333</b>	<b>\$ (3,429)</b>	<b>-26%</b>

Table of Contents

Adjusted EBITDA is a complement to results provided in accordance with accounting principles generally accepted in the United States ( GAAP ) and we believe that such information provides additional useful information to analysts, stockholders and other users to understand the Company s operating performance. Since Adjusted EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies. Items excluded from Adjusted EBITDA are significant components in understanding and assessing our financial performance. Adjusted EBITDA should not be considered in isolation or as an alternative to, or substitute for, net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity.

Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or a substitute for analyzing our results as reported under GAAP. Some of the limitations are:

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

*Revenue*

Total revenue decreased 13% to \$148.4 million for the third quarter of 2015 compared with \$170.9 million for the third quarter of 2014. The Allstate business, divested on November 1, 2015, contributed revenue of \$20.1 million in the third quarter of 2015 compared to \$17.0 million in the third quarter of 2014. Revenue from EQ is included in the percentages of Base and Event Business and customer category information in the following paragraphs.

*Environmental Services*

Environmental Services segment revenue decreased 11% to \$96.3 million for the third quarter of 2015 compared to \$108.0 million for the third quarter of 2014. T&D revenue decreased 10% for the third quarter of 2015 compared to the third quarter of 2014, primarily as a result of a 22% decrease in project-based Event Business. Transportation service revenue decreased 15% compared to the third quarter of 2014, reflecting fewer Event Business projects utilizing the Company s transportation and logistics services. Tons of waste disposed of or processed decreased 16% for the third quarter of 2015 compared to the third quarter of 2014.

T&D revenue from recurring Base Business waste generators decreased 7% for the third quarter of 2015 compared to the third quarter of 2014 and comprised 76% of total T&D revenue. The decrease in Base Business T&D revenue compared to the prior year primarily reflects lower T&D revenue from the chemical and metal manufacturing, and mining, exploration and production industries. T&D revenue from Event Business waste generators decreased 22% for the third quarter of 2015 compared to the third quarter of 2014 and was 28% of T&D revenue for the third quarter of 2015. The decrease in Event Business T&D revenue compared to the prior year primarily reflects lower T&D revenue from

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

the chemical manufacturing and waste management and remediation industries, partially offset by higher T&D revenue from the general manufacturing industry. The decrease in revenue from the chemical manufacturing industry is primarily attributable to expected reductions in volume from a large East Coast remedial cleanup project and lower overall industry activity. The decrease in revenue from the metal manufacturing industry is primarily attributable to lower domestic production of metal related products and services. The decrease in revenue from the mining, exploration and production industry primarily reflects lower industry activity due to lower commodity prices.



Table of Contents

The following table summarizes combined Base Business and Event Business T&D revenue growth by generator industry for the third quarter of 2015 as compared to the third quarter of 2014:

**Treatment and Disposal Revenue Growth  
Three Months Ended September 30, 2015 vs.  
Three Months Ended September 30, 2014**

Utilities	30%
Other	12%
Refining	10%
General Manufacturing	5%
Government	4%
Broker / TSDf	-7%
Transportation	-11%
Metal Manufacturing	-15%
Chemical Manufacturing	-38%
Waste Management & Remediation	-39%
Mining and E&P	-43%

*Field & Industrial Services*

Field & Industrial Services segment revenue decreased 17% to \$52.1 million for the third quarter of 2015 compared with \$62.8 million for the third quarter of 2014. The decrease in segment revenue was primarily the result of lower project work in the Northeast remediation market. The Allstate business, divested on November 1, 2015, contributed segment revenue of \$20.1 million in the third quarter of 2015 compared to \$17.0 million in the third quarter of 2014.

**Gross Profit**

Total gross profit decreased 12% to \$45.9 million for the third quarter of 2015, down from \$52.3 million for the third quarter of 2014. Total gross margin was 31% for the third quarter of both 2015 and 2014.

*Environmental Services*

Environmental Services segment gross profit decreased 14% to \$36.6 million for the third quarter of 2015, down from \$42.7 million for the third quarter of 2014. This decrease primarily reflects lower treatment and disposal volumes for the third quarter of 2015 compared to the third quarter of 2014. Total segment gross margin for the third quarter of 2015 was 38% compared with 40% for the third quarter of 2014. T&D gross margin was 43% for the third quarter of 2015 compared with 45% for the third quarter of 2014.

*Field & Industrial Services*

Field & Industrial Services segment gross profit decreased 2% to \$9.4 million (including \$4.9 million from the Allstate business) for the third quarter of 2015, down from \$9.6 million (including \$3.7 million from the Allstate business) for the third quarter of 2014. Total segment gross margin was 18% for the third quarter of 2015 compared with 15% for the third quarter of 2014. The slight decrease in segment gross profit in the third quarter of 2015 compared to the third quarter of 2014 reflects a decrease in segment revenue as previously discussed, almost entirely offset by the increase in segment gross margin as a result of a more selective project bidding process.

*Selling, General and Administrative Expenses ( SG&A )*

Total SG&A decreased to \$23.5 million, or 16% of total revenue, for the third quarter of 2015 compared with \$25.5 million, or 15% of total revenue, for the third quarter of 2014. The decrease in total SG&A primarily reflects lower labor and incentive compensation, lower depreciation and amortization and lower business development expenses for the third quarter of 2015 compared with the third quarter of 2014.

Table of Contents

*Environmental Services*

Environmental Services segment SG&A decreased 13% to \$6.1 million, or 6% of segment revenue, for the third quarter of 2015 compared with \$7.0 million, or 6% of segment revenue, for the third quarter of 2014. The decrease in segment SG&A primarily reflects lower labor and incentive compensation, and lower depreciation and amortization for the third quarter of 2015 compared with the third quarter of 2014.

*Field & Industrial Services*

Field & Industrial Services segment SG&A decreased 15% to \$5.7 million (including \$3.2 million from the Allstate business), or 11% of segment revenue, for the third quarter of 2015 compared with \$6.8 million (including \$3.2 million from the Allstate business), or 11% of segment revenue, for the third quarter of 2014. The decrease in segment SG&A primarily reflects lower labor and incentive compensation, and lower depreciation and amortization for the third quarter of 2015 compared with the third quarter of 2014.

*Corporate*

Corporate SG&A was \$11.7 million, or 8% of total revenue, for the third quarter of 2015 compared with \$11.7 million, or 7% of total revenue, for the third quarter of 2014.

***Components of Adjusted EBITDA***

*Income tax expense*

Our effective income tax rate for the third quarter of 2015 was 40.9% compared with 38.7% for the third quarter of 2014. The increase primarily is a result of a lower proportion of earnings from our Canadian operations, which are taxed at a lower corporate rate.

*Interest expense*

Interest expense was \$5.1 million for the third quarter of 2015 compared with \$4.5 million for the third quarter of 2014. The increase is primarily due to net settlement payments due on the Company's interest rate swap, partially offset by lower debt levels in the third quarter of 2015 compared with the third quarter of 2014.

*Foreign currency loss*

We recognized a \$1.0 million non-cash foreign currency loss for the third quarter of 2015 compared with an \$830,000 non-cash foreign currency loss for the third quarter of 2014. Foreign currency gains and losses reflect changes in business activity conducted in a currency other than the United States dollar ( USD ), our functional currency. Our Stablex facility is owned by our Canadian subsidiary, whose functional currency is the Canadian dollar ( CAD ). Also, as part of our treasury management strategy, we established intercompany loans between our parent company, US Ecology and Stablex. These intercompany loans are payable by Stablex to US Ecology in CAD requiring us to revalue the outstanding loan balance through our statements of operations based on USD/CAD currency movements from period to period. At September 30, 2015, we had \$15.9 million of intercompany loans subject to currency revaluation.

*Depreciation and amortization of plant and equipment*

Depreciation and amortization expense was \$6.6 million for the third quarter of 2015 compared with \$8.3 million for the third quarter of 2014. The decrease in depreciation and amortization expense is primarily the result of the discontinuance of depreciation and amortization on Allstate s long-lived plant and equipment assets when they were classified as held for sale on August 4, 2015 and EQ equipment assets assigned one-year lives as part of the purchase accounting valuation becoming fully-depreciated prior to the beginning of the third quarter of 2015.

*Amortization of intangibles*

Intangible assets amortization expense was \$3.0 million for the third quarter of 2015 compared with \$4.0 million for the third quarter of 2014. The decrease in amortization expense is primarily the result of the discontinuance of amortization on Allstate s long-lived intangible assets when they were classified as held for sale on August 4, 2015 and EQ intangible assets assigned one-year lives as part of the purchase accounting valuation becoming fully-depreciated prior to the beginning of the third quarter of 2015.

Table of Contents

*Stock-based compensation*

Stock-based compensation expense increased 88% to \$646,000 for the third quarter of 2015 compared with \$344,000 for the third quarter of 2014 as a result of an increase in equity-based awards granted to employees.

*Accretion and non-cash adjustment of closure and post-closure liabilities*

Accretion and non-cash adjustment of closure and post-closure liabilities was \$1.1 million for the third quarter of 2015 compared with \$1.0 million for the third quarter of 2014.

**NINE MONTHS ENDED SEPTEMBER 30, 2015 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2014**

Operating results discussed below include a full nine months of EQ operations for the nine month period ended September 30, 2015 and only 3 months and 13 days of EQ operations for the nine month period ended September 30, 2014. Operating results and percentage of revenues, by reportable segment, were as follows:

\$s in thousands	Nine Months Ended September 30,				2015 vs. 2014	
	2015	%	2014	%	\$ Change	% Change
<b>Revenue</b>						
Environmental Services	\$ 278,885	66%	\$ 219,266	76%	\$ 59,619	27%
Field & Industrial Services	145,912	34%	70,971	24%	74,941	106%
<b>Total</b>	<b>424,797</b>	<b>100%</b>	<b>290,237</b>	<b>100%</b>	<b>134,560</b>	<b>46%</b>
<b>Gross Profit</b>						
Environmental Services	103,938	37%	88,494	40%	15,444	17%
Field & Industrial Services	23,316	16%	11,079	16%	12,237	110%
<b>Total</b>	<b>127,254</b>	<b>30%</b>	<b>99,573</b>	<b>34%</b>	<b>27,681</b>	<b>28%</b>
<b>Selling, General &amp; Administrative Expenses</b>						
Environmental Services	17,483	6%	13,024	6%	4,459	34%
Field & Industrial Services	17,665	12%	7,599	11%	10,066	132%
Corporate	35,927	n/a	25,648	n/a	10,279	40%
<b>Total</b>	<b>71,075</b>	<b>17%</b>	<b>46,271</b>	<b>16%</b>	<b>24,804</b>	<b>54%</b>
<b>Adjusted EBITDA</b>						
Environmental Services	112,859	40%	94,966	43%	17,893	19%
Field & Industrial Services	13,709	9%	7,256	10%	6,453	89%

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

Corporate	(34,161)	n/a	(24,413)	n/a	(9,748)	40%
Total	\$ 92,407	22%	\$ 77,809	27%	\$ 14,598	19%

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

### Table of Contents

#### *Adjusted EBITDA*

As discussed above, the primary financial measure used by management to assess segment performance is Adjusted EBITDA. The reconciliation of Adjusted EBITDA to Net Income is as follows:

\$s in thousands	Nine Months Ended September 30,		2015 vs. 2014	
	2015	2014	\$ Change	% Change
Adjusted EBITDA	\$ 92,407	\$ 77,809	\$ 14,598	19%
Income tax expense	(14,815)	(17,880)	3,065	-17%
Interest expense	(16,208)	(5,488)	(10,720)	195%
Interest income	64	94	(30)	-32%
Foreign currency loss	(1,769)	(1,027)	(742)	72%
Other income	1,156	557	599	108%
Impairment charges	(6,700)		(6,700)	n/m
Depreciation and amortization of plant and equipment	(21,726)	(16,730)	(4,996)	30%
Amortization of intangibles	(9,558)	(5,233)	(4,325)	83%
Stock-based compensation	(1,736)	(869)	(867)	100%
Accretion and non-cash adjustment of closure and post-closure liabilities	(3,208)	(1,675)	(1,533)	92%
<b>Net Income</b>	<b>\$ 17,907</b>	<b>\$ 29,558</b>	<b>\$ (11,651)</b>	<b>-39%</b>

#### *Revenue*

Total revenue increased 46% to \$424.8 million for the first nine months of 2015 compared with \$290.2 million for the first nine months of 2014. The EQ operations, acquired on June 17, 2014, contributed revenue of \$268.8 million for the first nine months of 2015 and \$125.6 million for our three months and 13 days of ownership in the first nine months of 2014. The Allstate business, divested on November 1, 2015, contributed revenue of \$51.0 million in the first nine months of 2015 compared to \$19.6 million for our three months and 13 days of ownership in the first nine months of 2014. Excluding EQ operations, total revenue decreased 5% to \$156.0 million for the first nine months of 2015 compared with \$164.6 million for the first nine months of 2014. Revenue from EQ is excluded from percentages of Base and Event Business and generator industry information in the following paragraphs.

#### *Environmental Services*

Environmental Services segment revenue increased 27% to \$278.9 million for the first nine months of 2015 compared to \$219.3 million for the first nine months of 2014. The EQ operations, acquired June 17, 2014, contributed segment revenue of \$122.9 million for the first nine months of 2015 and \$54.7 million for our three months and 13 days of ownership in the first nine months of 2014. Excluding EQ operations, segment revenue decreased 5% to \$156.0 million for the first nine months of 2015 compared with \$164.6 million for the first nine months of 2014. T&D revenue (excluding EQ) decreased 7% for the first nine months of 2015 compared to the first nine months of 2014, primarily as a result of an 18% decrease in project-based Event Business. Transportation service revenue (excluding EQ) increased 5% compared to the first nine months of 2014, reflecting more Event Business projects utilizing the Company's transportation and logistics services. Tons of waste disposed of or

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

processed increased 31% for the first nine months of 2015 compared to the first nine months of 2014. Excluding EQ, tons of waste disposed of or processed decreased 17% for the first nine months of 2015 compared to the first nine months of 2014.

T&D revenue from recurring Base Business waste generators decreased 2% for the first nine months of 2015 compared to the first nine months of 2014 and comprised 72% of total T&D revenue. The decrease in Base Business T&D revenue compared to the prior year primarily reflects lower T&D revenue from the chemical manufacturing, mining, exploration and production and utilities industries, partially offset by higher T&D revenue from the refining and broker/TSDf industries. T&D revenue from Event Business waste generators decreased 18% for the first nine months of 2015 compared to the first nine months of 2014 and was 28% of T&D revenue for the first nine months of 2015. The decrease in Event Business T&D revenue compared to the prior year primarily reflects lower T&D revenue from the chemical and metal manufacturing, transportation, broker/TSDf, and mining, exploration and production industries, partially offset by higher T&D revenue from the utilities, government and refining industries.



Table of Contents

The following table summarizes combined Base Business and Event Business T&D revenue growth by generator industry for the first nine months of 2015 as compared to the first nine months of 2014:

**Treatment and Disposal Revenue Growth(1)**  
**Nine Months Ended September 30, 2015 vs.**  
**Nine Months Ended September 30, 2014**

Government	41%
Utilities	35%
Refining	23%
General Manufacturing	5%
Other	2%
Broker / TSDF	2%
Waste Management & Remediation	0%
Metal Manufacturing	-18%
Chemical Manufacturing	-35%
Mining and E&P	-35%
Transportation	-40%

---

(1) Excludes EQ Holdings, Inc. which was required on June 17, 2014

*Field & Industrial Services*

Field & Industrial Services segment revenue was \$145.9 million for the first nine months of 2015 compared with \$71.0 million for the first nine months of 2014, reflecting our three months and 13 days of ownership in the first nine months of 2014. The Allstate business, divested on November 1, 2015, contributed segment revenue of \$51.0 million in the first nine months of 2015 compared to \$19.6 million in the three months and 13 days of ownership in the first nine months of 2014. Our Field & Industrial Services segment was added subsequent to, and as a result of, our acquisition of EQ on June 17, 2014. This segment includes all of the field and industrial service business of the legacy EQ operations and none of the legacy US Ecology operations.

*Gross Profit*

Total gross profit increased 28% to \$127.3 million for the first nine months of 2015, up from \$99.6 million for the first nine months of 2014. The EQ operations, acquired on June 17, 2014, contributed gross profit of \$67.0 million for the first nine months of 2015 and \$32.2 million for our three months and 13 days of ownership in the first nine months of 2014. Excluding EQ operations, total gross profit decreased 11% to \$60.3 million for the first nine months of 2015 compared with \$67.4 million for the first nine months of 2014. Total gross margin for the first nine months of 2015 was 30%. Excluding EQ operations, total gross margin was 39%.

*Environmental Services*

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

Environmental Services segment gross profit increased 17% to \$103.9 million for the first nine months of 2015, up from \$88.5 million for the first nine months of 2014. The EQ operations, acquired on June 17, 2014, contributed segment gross profit of \$43.6 million for the first nine months of 2015 and \$21.1 million for our three months and 13 days of ownership in the first nine months of 2014. Excluding EQ operations, segment gross profit decreased 11% to \$60.3 million for the first nine months of 2015 compared with \$67.4 million for the first nine months of 2014. This decrease primarily reflects lower treatment and disposal volumes for the first nine months of 2015 compared to the first nine months of 2014. Total segment gross margin for the first nine months of 2015 was 37%. Excluding EQ operations, total segment margin was 39%. T&D gross margin (excluding EQ) was 48% for the first nine months of 2015 compared with 50% for the first nine months of 2014.

### *Field & Industrial Services*

Field & Industrial Services segment gross profit was \$23.3 million (including \$10.8 million from the Allstate business) and segment gross margin was 16% for the first nine months of 2015 compared with segment gross profit of \$11.1 million (including \$4.2 million from the Allstate business) and segment gross margin of 16% for the first nine months of 2014, reflecting our three months and 13 days of ownership in the first nine months of 2014. Our Field & Industrial Services segment was added subsequent to, and as a result of, our acquisition of EQ on June 17, 2014.

### *Selling, General and Administrative Expenses ( SG&A )*

Total SG&A increased to \$71.1 million for the first nine months of 2015, up from \$46.3 million for the first nine months of 2014. The EQ operations, acquired on June 17, 2014, contributed SG&A of \$44.2 million for the first nine months of 2015 and \$20.2 million for

Table of Contents

our three months and 13 days of ownership in the first nine months of 2014. Excluding EQ operations, total SG&A was \$26.9 million, or 17% of total revenue, for the first nine months of 2015 compared with \$26.1 million, or 16% of total revenue, for the first nine months of 2014.

*Environmental Services*

Environmental Services segment SG&A increased 34% to \$17.5 million, or 6% of segment revenue, for the first nine months of 2015, up from \$13.0 million, or 6% of segment revenue, for the first nine months of 2014. The EQ operations, acquired on June 17, 2014, contributed segment SG&A of \$9.3 million for the first nine months of 2015 and \$4.5 million for our three months and 13 days of ownership in the first nine months of 2014. Excluding EQ operations, total segment SG&A was \$8.2 million, or 5% of segment revenue, for the first nine months of 2015 compared with \$8.5 million, or 5% of segment revenue, for the first nine months of 2014.

*Field & Industrial Services*

Field & Industrial Services segment SG&A was \$17.7 million (including \$16.6 million from the Allstate business), or 12% of segment revenue, for the first nine months of 2015 compared with \$7.6 million (including \$3.6 million from the Allstate business), or 11% of segment revenue, for the first nine months of 2014, reflecting our three months and 13 days of ownership in the first nine months of 2014. Our Field & Industrial Services segment was added subsequent to, and as a result of, our acquisition of EQ on June 17, 2014.

*Corporate*

Corporate SG&A increased 40% to \$35.9 million for the first nine months of 2015, up from \$25.6 million for the first nine months of 2014. The EQ operations, acquired on June 17, 2014, contributed corporate SG&A of \$17.2 million for the first nine months of 2015 and \$8.1 million for our three months and 13 days of ownership in the first nine months of 2014. Excluding EQ operations, total corporate SG&A was \$18.7 million, or 12% of total revenue, for the first nine months of 2015 compared with \$17.5 million, or 11% of total revenue, for the first nine months of 2014, primarily reflecting higher labor costs and professional fees and expenses, partially offset by lower business development expenses in the first nine months of 2015 compared to the first nine months of 2014.

***Components of Adjusted EBITDA***

*Income tax expense*

Our effective income tax rate for the first nine months of 2015 was 37.6%, excluding impairment charges of \$6.7 million, compared to 37.7% for the first nine months of 2014.

*Interest expense*

Interest expense was \$16.2 million for the first nine months of 2015 compared with \$5.5 million in the first nine months of 2014. The increase is a result of higher debt levels and the related interest expense on borrowings under the Company's credit facility used to finance the acquisition of EQ in June 2014.

*Foreign currency loss*

We recognized a \$1.8 million non-cash foreign currency loss for the first nine months of 2015 compared with a \$1.0 million non-cash foreign currency loss in the first nine months of 2014. Foreign currency gains and losses reflect changes in business activity conducted in a currency other than the USD, our functional currency. Our Stablex facility is owned by our Canadian subsidiary, whose functional currency is the CAD. Also, as part of our treasury management strategy, we established intercompany loans between our parent company, US Ecology, and Stablex. These intercompany loans are payable by Stablex to US Ecology in CAD requiring us to revalue the outstanding loan balance through our statements of operations based on USD/CAD currency movements from period to period. At September 30, 2015, we had \$15.9 million of intercompany loans subject to currency revaluation.

*Impairment charges*

On August 4, 2015, we entered into a definitive agreement to sell Allstate to a private investor group for approximately \$58.0 million cash, subject to adjustments for working capital and capital expenditures. Allstate represents the majority of the industrial services business we acquired with the acquisition of EQ. See Note 3 of the Notes to Consolidated Financial Statements in Part I, Item 1. Financial Statements of this Form 10-Q. As a result of this agreement and management's strategic review, we evaluated the recoverability of the assets associated with our industrial services business. Based on this analysis, we recorded a non-cash goodwill impairment charge of \$6.7 million, or \$0.31 per diluted share, in the second quarter of 2015.

Table of Contents

*Depreciation and amortization of plant and equipment*

Depreciation and amortization expense was \$21.7 million for the first nine months of 2015 compared with \$16.7 million for the first nine months of 2014. The EQ operations, acquired on June 17, 2014, contributed depreciation and amortization expense of \$11.1 million for the first nine months of 2015 and \$5.2 million for our three months and 13 days of ownership in the first nine months of 2014. Excluding EQ operations, depreciation and amortization expense was \$10.6 million for the first nine months of 2015 compared with \$11.5 million for the first nine months of 2014.

*Amortization of intangibles*

Intangible assets amortization expense was \$9.6 million for the first nine months of 2015 compared with \$5.2 million for the first nine months of 2014. Excluding \$8.6 million of intangible assets amortization expense on new intangible assets recorded as a result of the acquisition of EQ on June 17, 2014, intangible assets amortization expense was \$934,000 for the first nine months of 2015 compared with \$1.1 million for the first nine months of 2014.

*Stock-based compensation*

Stock-based compensation expense increased 100% to \$1.7 million for the first nine months of 2015 compared with \$869,000 for the first nine months of 2014 as a result of an increase in equity-based awards granted to employees.

*Accretion and non-cash adjustment of closure and post-closure liabilities*

Accretion and non-cash adjustment of closure and post-closure liabilities was \$3.2 million for the first nine months of 2015 compared with \$1.7 million for the first nine months of 2014. The EQ operations, acquired June 17, 2014, contributed accretion and non-cash adjustment of closure and post-closure liabilities of \$1.8 million during the first nine months of 2015 and \$560,000 for our three months and 13 days of ownership in the first nine months of 2014. Excluding EQ operations, accretion and non-cash adjustment of closure and post-closure liabilities was \$1.4 million for the first nine months of 2015 compared with \$1.1 million for the first nine months of 2014.

**CRITICAL ACCOUNTING POLICIES**

Financial statement preparation requires management to make estimates and judgments that affect reported assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities. The accompanying unaudited consolidated financial statements are prepared using the same critical accounting policies disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are cash and cash equivalents, cash generated from operations and borrowings under the Credit Agreement. At September 30, 2015, we had \$9.4 million in cash and cash equivalents immediately available and \$118.2 million of borrowing capacity available under our Revolving Credit Facility. We assess our liquidity in terms of our ability to generate cash to fund our operating, investing and financing activities. Our primary ongoing cash requirements are funding operations, capital expenditures, paying interest and required principal payments on our long-term debt, and paying declared dividends pursuant to our dividend policy. We believe future operating cash flows will be sufficient to meet our future operating, investing and dividend cash needs for the foreseeable future. Furthermore, existing cash balances and availability of additional borrowings under our Credit Agreement (as defined below) provide additional sources of liquidity should they be required.

### *Operating Activities*

For the nine months ended September 30, 2015, net cash provided by operating activities was \$57.0 million. This primarily reflects net income of \$17.9 million, non-cash depreciation, amortization and accretion of \$34.5 million, non-cash impairment charges of \$6.7 million, a decrease in accounts receivable of \$7.2 million, a decrease in income taxes receivable of \$6.6 million, unrealized foreign currency losses of \$2.7 million, share-based compensation expense of \$1.7 million, and a decrease in other assets of \$1.8 million, partially offset by a decrease in deferred revenue of \$5.4 million, a decrease in accounts payable and accrued liabilities of \$5.3 million, a decrease in closure and post-closure obligations of \$4.4 million, a decrease in deferred income taxes of \$4.0 million, a decrease in income taxes payable of \$2.3 million and a decrease in accrued salaries and benefits of \$1.9 million. Impacts on net income are due to the factors discussed above under Results of Operations. The decrease in receivables and deferred revenue is primarily attributable to the timing of the treatment and disposal of waste associated with a significant east coast clean-up project. The changes in income taxes payable and receivable are primarily attributable to the timing of income tax payments. The decrease in closure and post-closure obligations is primarily attributable to payments made for closure and post-closure activities primarily at our closed landfills. The decrease in accrued salaries and benefits is primarily attributable to cash payments during 2015 for accrued fiscal year 2014 incentive compensation.

Table of Contents

Days sales outstanding were 76 days as of September 30, 2015, compared to 77 days as of December 31, 2014 and 79 days as of September 30, 2014.

For the nine months ended September 30, 2014, net cash provided by operating activities was \$31.2 million. This primarily reflects net income of \$29.6 million, non-cash depreciation, amortization and accretion of \$23.7 million, an increase in accounts payable and accrued liabilities of \$2.4 million, an increase in deferred income taxes of \$2.4 million, and unrealized foreign currency losses of \$1.5 million, partially offset by an increase in receivables of \$20.9 million, an increase in other assets of \$3.2 million, a decrease in income taxes payable of \$2.3 million, and a decrease in accrued salaries and benefits of \$1.9 million. Impacts on net income are due to the factors discussed above under Results of Operations. The increase in receivables is primarily attributable to the timing of the treatment and disposal of waste associated with a significant east coast clean-up project. The changes in income taxes payable and receivable are primarily attributable to the timing of income tax payments. The decrease in accrued salaries and benefits is primarily attributable to cash payments during 2014 for accrued fiscal year 2013 incentive compensation.

***Investing Activities***

For the nine months ended September 30, 2015, net cash used in investing activities was \$25.3 million, primarily related to capital expenditures of \$25.7 million. Significant capital projects included construction of additional disposal capacity at our Blainville, Quebec, Canada and Robstown, Texas locations and equipment purchases and infrastructure upgrades at all of our corporate and operating facilities.

For the nine months ended September 30, 2014, net cash used in investing activities was \$483.1 million, primarily related to the purchase of EQ for \$465.9 million, net of cash acquired, and capital expenditures of \$17.9 million. Significant capital projects included construction of additional disposal capacity at our Blainville, Quebec, Canada location and equipment purchases and infrastructure upgrades at all of our operating facilities.

***Financing Activities***

For the nine months ended September 30, 2015, net cash used in financing activities was \$44.9 million, consisting primarily of \$34.8 million of payments on the Company's term loan and \$11.7 million of dividend payments to our stockholders.

For the nine months ended September 30, 2014, net cash provided by financing activities was \$388.9 million, consisting primarily of \$414.0 million of net proceeds from the Company's new term loan used to partially finance the acquisition of EQ, offset in part by \$14.0 million of deferred financing costs associated with the Company's new Credit Agreement and \$11.6 million of dividend payments to our stockholders.

***Credit Facility***

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 September 30, 2015, the effective interest rate on the Term Loan, including the impact of our interest rate swap, was 4.67%. 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, 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 principal amount of the \$415.0 million Term Loan. In October 2014, the Company entered into an interest rate swap agreement with Wells Fargo, effectively fixing the interest rate on \$240.0 million, or 67%, of the Term Loan principal outstanding as of September 30, 2015.



Table of Contents

*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 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. Interest only payments are due either monthly or on the last day of any interest period, as applicable. At September 30, 2015, there were no borrowings outstanding on the Revolving Credit Facility. The availability under the Revolving Credit Facility was \$118.2 million with \$6.8 million of the Revolving Credit Facility issued in the form of standby letters of credit utilized as collateral for closure and post-closure financial assurance and other assurance obligations.

For more information about our debt, see Note 10, of the Notes to Consolidated Financial Statements in Part I, Item 1. Financial Statements of this Form 10-Q.

**CONTRACTUAL OBLIGATIONS AND GUARANTEES**

There were no material changes in the amounts of our contractual obligations and guarantees during the nine months ended September 30, 2015. For further information on our contractual obligations and guarantees, refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*Interest Rate Risk*

We do not maintain equities, commodities, derivatives, or any other similar instruments for trading purposes. We have minimal interest rate risk on investments or other assets due to our preservation of capital approach to investments. At September 30, 2015, \$5.8 million of restricted cash was invested in fixed-income U.S. Treasury and U.S. government agency securities and money market accounts.

We are exposed to changes in interest rates as a result of our borrowings under the Credit Agreement. Under the Credit Agreement, Term Loan borrowings incur interest at a base rate (as defined in the Credit Agreement) or LIBOR, at the Company's option, plus an applicable margin. Revolving loans under the Revolving Credit Facility 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 EBITDA. On October 29, 2014, the Company entered into an interest rate swap agreement with Wells Fargo with the intention of hedging the Company's interest rate exposure on a portion of the Company's outstanding LIBOR-based variable rate debt.

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

Under the terms of the swap, the Company pays to Wells Fargo interest at the fixed effective rate of 5.17% and receives from Wells Fargo interest at the variable one-month LIBOR rate on an initial notional amount of \$250.0 million.

As of September 30, 2015, there were \$360.8 million of borrowings outstanding under the Term Loan, bearing an effective interest rate of 4.67% (including the impact of our interest rate swap), and no borrowings outstanding under the Revolving Credit Facility. If interest rates were to rise and outstanding balances remain unchanged, we would be subject to higher interest payments on our outstanding debt. Subsequent to the effective date of the interest rate swap on December 31, 2014, we are subject to higher interest payments on only the unhedged borrowings under the Credit Agreement.

Based on the outstanding indebtedness of \$360.8 million under our Credit Agreement at September 30, 2015 and the impact of our interest rate hedge, if market rates used to calculate interest expense were to average 1% higher in the next twelve months, our interest expense would increase by approximately \$591,000.

### *Foreign Currency Risk*

We are subject to currency exposures and volatility because of currency fluctuations. The majority of our transactions are in USD; however, our Stablex subsidiary conducts business in both Canada and the United States. In addition, contracts for services Stablex provides to U.S. customers are generally denominated in USD. During the nine months ended September 30, 2015, Stablex transacted approximately 55% of its revenue in USD and at any time has cash on deposit in USD and outstanding USD trade receivables and payables related to these transactions. These USD cash, receivable and payable accounts are subject to non-cash foreign currency translation gains or losses. Exchange rate movements also affect the translation of Canadian generated profits and losses into USD.

Table of Contents

We established intercompany loans between Stablex and US Ecology, Inc. as part of a tax and treasury management strategy allowing for repayment of third-party bank debt used to complete the acquisition. These intercompany loans are payable using CAD and are subject to mark-to-market adjustments with movements in the CAD. At September 30, 2015, we had \$15.9 million of intercompany loans outstanding between Stablex and US Ecology. During the nine months ended September 30, 2015, the CAD weakened as compared to the USD resulting in a \$2.2 million non-cash foreign currency translation loss being recognized in the Company's Consolidated Statements of Operations related to the intercompany loans. Based on intercompany balances as of September 30, 2015, a \$0.01 CAD increase or decrease in currency rate compared to the USD at September 30, 2015 would have generated a gain or loss of approximately \$159,000 for the nine months ended September 30, 2015.

We had a total pre-tax foreign currency loss of \$1.8 million for the nine months ended September 30, 2015. We currently have no foreign exchange contracts, option contracts or other foreign currency hedging arrangements. Management evaluates the Company's risk position on an ongoing basis to determine whether foreign exchange hedging strategies should be employed.

**ITEM 4. CONTROLS AND PROCEDURES**

Management of the Company, including the Chief Executive Officer and the Chief Financial Officer of the Company, have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of September 30, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, including the accumulation and communication of disclosures to the Company's Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure, are effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Securities and Exchange Commission (SEC).

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

Table of Contents

**PART II - OTHER INFORMATION**

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

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

*Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on management's beliefs and assumptions, which in turn are based on currently available information. Important assumptions include, among others, those regarding demand for Company services, expansion of service offerings geographically or through new or expanded service lines, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict. Such factors include the replacement of non-recurring event clean-up projects, a loss of a major customer, our ability to permit and contract for timely construction of new or expanded disposal cells, our ability to renew our operating permits or lease agreements with regulatory bodies, loss of key personnel, compliance with and changes to applicable laws, rules, or regulations, access to insurance, surety bonds and other financial assurances, a deterioration in our labor relations or labor disputes, our ability to perform under required contracts, failure to realize anticipated benefits and operational performance from acquired operations, including our acquisition of EQ Holdings, Inc. in June 2014, adverse economic or market conditions, government funding or competitive pressures, incidents or adverse weather conditions that could limit or suspend specific operations, access to cost effective transportation services, fluctuations in foreign currency markets, lawsuits, our willingness or ability to pay dividends, implementation of new technologies, limitations on our available cash flow as a result of our indebtedness and our ability to effectively execute our acquisition strategy and integrate future acquisitions.*

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

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



Table of Contents

**ITEM 1. LEGAL PROCEEDINGS**

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.

**ITEM 1A. RISK FACTORS**

The Company is subject to various risks and uncertainties that could have a material impact on our business, financial condition, results of operations and cash flows. The discussion of these risk factors is included in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.



Table of Contents

**ITEM 6. EXHIBITS**

10.1	Stock Purchase Agreement, dated August 4, 2015, between EQ Industrial Services Inc., and ASPV Holdings, Inc.
15	Letter re: Unaudited Interim Financial Statements
31.1	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the quarterly report on Form 10-Q of US Ecology, Inc. for the quarter ended September 30, 2015 formatted in Extensible Business Reporting Language (XBRL) include: (i) Unaudited Consolidated Balance Sheets, (ii) Unaudited Consolidated Statements of Operations, (iii) Unaudited Consolidated Statements of Comprehensive Income, (iv) Unaudited Consolidated Statements of Cash Flows, and (v) Notes to the Unaudited Consolidated Financial Statements



Table of Contents

**SIGNATURE**

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

US Ecology, Inc.  
(Registrant)

Date: November 4, 2015

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