

US ECOLOGY, INC.
Form 10-Q
November 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

- x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2014

or

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

For the transition period from to .

Commission file number: 0000-11688

US ECOLOGY, INC.

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(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 November 5, 2014, there were 21,626,571 shares of the registrant's Common Stock outstanding.

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US ECOLOGY, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

US ECOLOGY, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value amount)

	September 30, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 10,921	\$ 73,940
Receivables, net	152,212	43,636
Prepaid expenses and other current assets	14,734	3,612
Income taxes receivable	3,784	
Deferred income taxes	3,386	1,340
Total current assets	185,037	122,528
Property and equipment, net	220,318	114,859
Restricted cash and investments	5,724	4,097
Intangible assets, net	280,858	36,832
Goodwill	213,359	21,693
Other assets	11,853	547
Total assets	\$ 917,149	\$ 300,556
Liabilities And Stockholders Equity		
Current Liabilities:		
Accounts payable	\$ 26,026	\$ 7,277
Deferred revenue	11,968	8,870
Accrued liabilities	35,331	8,691
Accrued salaries and benefits	10,911	6,957
Income taxes payable	2,153	4,428
Current portion of closure and post-closure obligations	5,424	949
Current portion of long-term debt	4,002	
Total current liabilities	95,815	37,172
Long-term closure and post-closure obligations	53,524	16,519
Long-term debt	408,960	
Other long-term liabilities	1,246	69
Unrecognized tax benefits	57	480
Deferred income taxes	107,651	14,778
Total liabilities	667,253	69,018

Commitments and contingencies

Stockholders Equity:

Common stock \$0.01 par value, 50,000 authorized; 21,627 and 21,538 shares issued, respectively	216	215
Additional paid-in capital	165,027	162,830
Retained earnings	88,516	70,597
Treasury stock, at cost, 0 and 19 shares, respectively		(319)
Accumulated other comprehensive income (loss)	(3,863)	(1,785)
Total stockholders equity	249,896	231,538
Total liabilities and stockholders equity	\$ 917,149	\$ 300,556

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

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US ECOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	\$ 170,894	\$ 53,090	\$ 290,272	\$ 141,766
Direct operating costs	91,939	20,902	145,938	61,745
Transportation costs	26,292	10,568	44,282	24,091
Gross profit	52,663	21,620	100,052	55,930
Selling, general and administrative expenses	25,829	6,108	46,713	18,353
Operating income	26,834	15,512	53,339	37,577
Other income (expense):				
Interest income	11	4	94	11
Interest expense	(4,544)	(208)	(5,488)	(651)
Foreign currency gain (loss)	(830)	683	(1,027)	(1,448)
Other	268	77	520	268
Total other income (expense)	(5,095)	556	(5,901)	(1,820)
Income before income taxes	21,739	16,068	47,438	35,757
Income tax expense	8,406	5,740	17,880	12,813
Net income	\$ 13,333	\$ 10,328	\$ 29,558	\$ 22,944
Earnings per share:				
Basic	\$ 0.62	\$ 0.56	\$ 1.37	\$ 1.25
Diluted	\$ 0.61	\$ 0.56	\$ 1.37	\$ 1.24
Shares used in earnings per share calculation:				
Basic	21,570	18,459	21,526	18,395
Diluted	21,680	18,533	21,649	18,475
Dividends paid per share	\$ 0.18	\$ 0.18	\$ 0.54	\$ 0.36

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

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US ECOLOGY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$ 13,333	\$ 10,328	\$ 29,558	\$ 22,944
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	(2,156)	782	(2,078)	(1,147)
Comprehensive income	\$ 11,177	\$ 11,110	\$ 27,480	\$ 21,797

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

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US ECOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 29,558	\$ 22,944
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	16,773	10,792
Amortization of intangible assets	5,233	1,092
Accretion of closure and post-closure obligations	1,675	927
Unrealized foreign currency loss	1,453	1,706
Deferred income taxes	2,407	(1,646)
Share-based compensation expense	869	601
Unrecognized tax benefits	(424)	10
Net loss on sale of property and equipment	43	12
Amortization of debt discount	37	
Changes in assets and liabilities (net of effect of business acquisition):		
Receivables	(20,938)	(7,218)
Income taxes receivable	(17)	
Other assets	(3,219)	(833)
Accounts payable and accrued liabilities	2,449	1,004
Deferred revenue	391	2,564
Accrued salaries and benefits	(1,949)	(1,541)
Income taxes payable	(2,281)	2,752
Closure and post-closure obligations	(879)	(989)
Net cash provided by operating activities	31,181	32,177
Cash flows from investing activities:		
Business acquisition (net of cash acquired)	(465,895)	
Purchases of property and equipment	(17,910)	(15,590)
Proceeds from sale of short term investments	654	
Proceeds from sale of property and equipment	120	64
Proceeds from sale of restricted cash and investments	8	
Purchases of restricted cash and investments	(40)	
Net cash used in investing activities	(483,063)	(15,526)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	413,962	9,500
Deferred financing costs paid	(14,001)	(185)
Dividends paid	(11,640)	(6,645)
Payments on long-term debt	(1,038)	(19,000)
Proceeds from exercise of stock options	1,445	2,192
Other	204	(58)
Net cash provided by (used in) financing activities	388,932	(14,196)
Effect of foreign exchange rate changes on cash	(69)	(197)

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Increase (decrease) in cash and cash equivalents		(63,019)		2,258
Cash and cash equivalents at beginning of period		73,940		2,120
Cash and cash equivalents at end of period	\$	10,921	\$	4,378
Supplemental Disclosures				
Income taxes paid, net of receipts	\$	17,494	\$	11,467
Interest paid	\$	4,145	\$	547
Non-cash investing and financing activities:				
Closure and post-closure retirement asset	\$	2,863	\$	550
Capital expenditures in accounts payable	\$	2,378	\$	2,526
Restricted stock issued from treasury shares	\$	546	\$	864

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

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US ECOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. GENERAL

Basis of Presentation

The accompanying unaudited consolidated financial statements include the results of operations, financial position and cash flows of US Ecology, Inc. and its wholly-owned subsidiaries. All significant intercompany balances have been eliminated. Throughout these financial statements words such as we, us, our, US Ecology and the Company refer to US Ecology, Inc. and its subsidiaries.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments necessary to present fairly, in all material respects, the results of the Company for the periods presented. These consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been omitted pursuant to the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. The results of operations and cash flows for the nine months ended September 30, 2014 are not necessarily indicative of results to be expected for the entire fiscal year.

The Company's Consolidated Balance Sheet as of December 31, 2013 has been derived from the Company's audited Consolidated Balance Sheet as of that date.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements. As it relates to estimates and assumptions in amortization rates and environmental obligations, significant engineering, operations and accounting judgments are required. We review these estimates and assumptions no less than annually. In many circumstances, the ultimate outcome of these estimates and assumptions will not be known for decades into the future. Actual results could differ materially from these estimates and assumptions due to changes in applicable regulations, changes in future operational plans and inherent imprecision associated with estimating environmental impacts far into the future.

Restricted Cash and Investments

Restricted cash and investments represent funds held in third-party managed trust accounts as collateral for our financial assurance obligations for post-closure activities at our non-operating facilities. These funds are invested in fixed-income U.S. Treasury and government agency securities and money market accounts. The balances are adjusted monthly to fair market value based on quoted prices in active markets for identical or similar assets.

NOTE 2. BUSINESS COMBINATION

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

We have recognized the assets and liabilities of EQ based on our preliminary estimates of their acquisition date fair values. The determination of the fair values of the acquired assets and assumed liabilities (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) requires significant judgment. As such, we have not completed our valuation analysis and calculations in sufficient detail necessary to arrive at the final estimates of the fair market value of the assets acquired and liabilities assumed, along with the related allocations to goodwill and intangible assets. All information presented is preliminary and

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subject to revision pending finalization of our fair market valuation analysis. Our final fair value determinations may be significantly different than those reflected in our consolidated financial statements as of September 30, 2014.

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

\$s in thousands	Purchase Price Allocation		
	June 30, 2014	Adjustments	September 30, 2014
Current assets	\$ 114,227	\$ (1,028)	\$ 113,199
Property and equipment	103,532		103,532
Identifiable intangible assets	250,900		250,900
Current liabilities	(56,550)	(888)	(57,438)
Other liabilities	(131,336)	177	(131,159)
Total identifiable net assets	280,773	(1,739)	279,034
Goodwill	190,894	1,739	192,633
Total purchase price	\$ 471,667	\$	\$ 471,667

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

Goodwill of \$192.6 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 customers. All of the goodwill recognized was assigned to our EQ Operations reporting segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

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

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

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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,		(unaudited) Nine Months Ended September 30,	
	2014	2013	2014	2013
Pro forma combined:				
Revenue	\$ 170,894	\$ 148,704	\$ 458,091	\$ 381,159
Net income	\$ 13,333	\$ 9,606	\$ 24,835	\$ 19,246
Earnings per share				
Basic	\$ 0.62	\$ 0.52	\$ 1.15	\$ 1.05
Diluted	\$ 0.61	\$ 0.52	\$ 1.15	\$ 1.04

Revenue from EQ included in US Ecology's consolidated statement of operations since the closing of the acquisition on June 17, 2014 was \$111.3 million and \$125.9 million, respectively, for the three and nine month periods ended September 30, 2014. Operating income from EQ included in US Ecology's consolidated statement of operations since the closing of the acquisition on June 17, 2014 was \$10.5 million and \$12.0 million, respectively, for the three and nine month periods ended September 30, 2014. Acquisition-related costs of \$307,000 and \$5.6 million 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, 2014, respectively.

NOTE 3. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

\$s in thousands	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance, beginning of period	\$ (1,707)	\$ (1,301)	\$ (1,785)	\$ 628
Foreign currency translation gain (loss) in other comprehensive income	(2,156)	782	(2,078)	(1,147)
Balance, end of period	\$ (3,863)	\$ (519)	\$ (3,863)	\$ (519)

NOTE 4. CONCENTRATIONS AND CREDIT RISK

Major Customers

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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. Revenue from a single customer accounted for 14% of total revenue for the three months ended September 30, 2013. No customer accounted for more than 10% of total revenue for the nine months ended September 30, 2013.

Receivables from a single customer accounted for approximately 14% of total trade receivables as of September 30, 2014. Receivables from a single customer accounted for approximately 16% of total trade receivables as of December 31, 2013.

Credit Risk Concentration

We maintain most of our cash with nationally recognized financial institutions like Wells Fargo Bank, National Association (Wells Fargo). Substantially all balances are uninsured and are not used as collateral for other obligations. Concentrations of credit risk on accounts receivable are believed to be limited due to the number, diversification and character of the obligors and our credit evaluation process.

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Receivables consisted of the following:

\$s in thousands	September 30, 2014	December 31, 2013
Trade	\$ 130,017	\$ 42,055
Unbilled revenue	23,709	1,296
Other	2,652	810
Total receivables	156,378	44,161
Allowance for doubtful accounts	(4,166)	(525)
Receivables, net	\$ 152,212	\$ 43,636

NOTE 6. FAIR VALUE MEASUREMENTS

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

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

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

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

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, restricted cash and investments, accounts payable, accrued liabilities and long-term debt. The estimated fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying value due to the short-term nature of these instruments. The carrying amount of our long-term debt approximates fair value due to the absence of any significant changes in interest rates or the Company's credit risk profile since the execution of the Company's Credit Agreement (as defined below) on June 17, 2014.

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

\$s in thousands	September 30, 2014			Total
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Assets:				
Fixed-income securities (1)	\$ 400	\$ 3,598	\$	\$ 3,998
Money market funds (2)	\$ 1,726	\$	\$	\$ 1,726
Total	\$ 2,126	\$ 3,598	\$	\$ 5,724

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

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

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

NOTE 7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

\$s in thousands	September 30, 2014	December 31, 2013
Cell development costs	\$ 93,402	\$ 77,348
Land and improvements	35,359	18,073
Buildings and improvements	78,955	59,101
Railcars	17,375	17,375
Vehicles and other equipment	96,119	42,859
Construction in progress	20,667	6,784
Total property and equipment	341,877	221,540
Accumulated depreciation and amortization	(121,559)	(106,681)

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Property and equipment, net	\$	220,318	\$	114,859
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Depreciation and amortization expense for the three months ended September 30, 2014 and 2013 was \$8.4 million and \$3.7 million, respectively. Depreciation and amortization expense for the nine months ended September 30, 2014 and 2013 was \$16.8 million and \$10.8 million, respectively.

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Changes in goodwill for the nine months ended September 30, 2014 consisted of the following:

\$s in thousands	December 31, 2013	Additions	Foreign Currency Translation	September 30, 2014
Goodwill:				
Operating Disposal Facilities	\$ 21,693	\$	\$ (967)	\$ 20,726
EQ Operations		192,633		192,633
Total goodwill	\$ 21,693	\$ 192,633	\$ (967)	\$ 213,359

Intangible assets consisted of the following:

\$s in thousands	September 30, 2014	December 31, 2013
Amortizing intangible assets:		
Customer relationships	\$ 119,823	\$ 5,005
Permits, licenses and lease	144,518	26,264
Technology - Formulae and processes	8,145	8,551
Tradename	9,900	
Customer backlog	3,600	
Non-compete agreements	1,420	20
Internet domain and website	900	
Database	690	94
Developed software	313	329
Total amortizing intangible assets	289,309	40,263
Accumulated amortization	(9,353)	(4,341)
Nonamortizing intangible assets:		
Permits and licenses	750	750
Tradename	152	160
Total intangible assets, net	\$ 280,858	\$ 36,832

At September 30, 2014, the net carrying amounts of goodwill and amortizing intangible assets include preliminary estimates of \$192.6 million and \$250.9 million, respectively, as a result of our acquisition of EQ.

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Amortization expense for the three months ended September 30, 2014 and 2013 was \$4.0 million and \$362,000, respectively. Amortization expense for the nine months ended September 30, 2014 and 2013 was \$5.2 million and \$1.1 million, respectively. Future amortization expense of amortizing intangible assets, including the amortization of the preliminary values assigned to EQ amortizing intangible assets, is as follows:

\$s in thousands	Total
Remainder of 2014	\$ 4,000
2015	15,222
2016	14,541
2017	14,536
2018	\$ 13,183

NOTE 9. DEBT

Long-term debt consisted of the following:

\$s in thousands	September 30, 2014	December 31, 2013
Term loan	\$ 413,962	\$
Net discount on term loan	\$ (1,000)	
Total debt	412,962	
Current portion of long-term debt	(4,002)	
Long-term debt	\$ 408,960	\$

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

\$s in thousands	Maturities
2014	\$ 1,037
2015	4,150
2016	4,150
2017	4,150
2018	4,150
Thereafter	396,325
	\$ 413,962

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, 2014, the effective interest rate on the Term Loan was 3.75%. Interest only payments are due either monthly or on the last day of any interest period, as applicable. As set forth in the Credit Agreement, 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 \$250.0 million, or 60%, of the Term Loan borrowings outstanding as of September 30, 2014. Refer to Note 17- Subsequent Events for additional details.

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

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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, 2014, there were no borrowings outstanding on the Revolving Credit Facility. The availability under the Revolving Credit Facility was \$97.8 million with \$27.2 million of the Revolving Credit Facility issued in the form of standby letters of credit utilized as collateral for closure and post-closure financial assurance.

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

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

The Credit Agreement contains customary restrictive covenants, subject to certain permitted amounts and exceptions, including covenants limiting the ability of the Company to incur additional indebtedness, pay dividends and make other restricted payments, repurchase shares of our outstanding stock and create certain liens. We may only declare quarterly or annual dividends if on the date of declaration, no event of default has occurred and no other event or condition has occurred that would constitute default due to the payment of the dividend.

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

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

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

NOTE 10. CLOSURE AND POST-CLOSURE OBLIGATIONS

Our accrued closure and post-closure obligations represent the expected future costs, including corrective actions, associated with closure and post-closure of our operating and non-operating disposal facilities. Liabilities are recorded when work is probable and the costs can be reasonably estimated. We perform periodic reviews of both non-operating and operating facilities and revise accruals for estimated closure and post-closure, remediation or other costs as necessary. Recorded liabilities are based on our best estimates of current costs and are updated periodically to include the effects of existing technology, presently enacted laws and regulations, inflation and other economic factors.

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Changes to reported closure and post-closure obligations consisted of the following:

\$s in thousands	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
Closure and post-closure obligations, beginning of period	\$	58,588	\$	17,468
Liabilities assumed in EQ acquisition				37,915
Accretion expense		959		1,675
Payments		(515)		(879)
Adjustments				2,863
Currency translation		(84)		(94)
Closure and post-closure obligations, end of period		58,948		58,948
Less current portion		(5,424)		(5,424)
Long-term portion	\$	53,524	\$	53,524

Adjustments to the obligation are changes in the expected timing or amount of cash expenditures based upon actual and estimated cash expenditures. The adjustments in 2014 are related to an increase to the obligation for our Grand View, Idaho opening facility, due to increases in our estimated closure costs for a newly constructed disposal cell.

NOTE 11. INCOME TAXES

Our effective tax rate for the three months ended September 30, 2014 was 38.7%, up from 35.7% for the three months ended September 30, 2013. Our effective tax rate for the nine months ended September 30, 2014 was 37.7%, up from 35.8% for the nine months ended September 30, 2013. The increases for both the three and nine months ended September 30, 2014 reflect non-deductible business development and transaction expenses associated with the acquisition of EQ.

Due to the expiration of certain statutes of limitations, during the third quarter of 2014 we reduced our unrecognized tax benefits by \$424,000 which had a favorable impact on our effective tax rate for the quarter. As of September 30, 2014 we have unrecognized tax benefits of \$57,000 remaining that, if recognized, would favorably affect the effective tax rate. As of September 30, 2014, we have recorded \$6,000 of cumulative interest expense associated with this unrecognized tax benefit. We anticipate that within the next twelve months the total amount of unrecognized tax benefits will decrease due to the expiration of statutes of limitations.

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

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NOTE 12. EARNINGS PER SHARE

\$s and shares in thousands, except per share amounts	Three Months Ended September 30,			
	2014		2013	
	Basic	Diluted	Basic	Diluted
Net income	13,333	\$ 13,333	\$ 10,328	\$ 10,328
Weighted average basic shares outstanding	21,570	21,570	18,459	18,459
Dilutive effect of stock options and restricted stock		110		74
Weighted average diluted shares outstanding		21,680		18,533
Earnings per share	\$ 0.62	\$ 0.61	\$ 0.56	\$ 0.56
Anti-dilutive shares excluded from calculation		78&nbs		