US ECOLOGY, INC.
Form 10-Q
August 07, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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	**95-3889638**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
251 E. Front St., Suite 400	
Boise, Idaho	**83702**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

At August 5, 2015, there were 21,706,203 shares of the registrant s Common Stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

US ECOLOGY, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value amount)

		June 30, 2015		December 31, 2014 As Adjusted
Assets				
Current Assets:				
Cash and cash equivalents	$	13,077	$	22,971
Receivables, net		117,544		135,261
Prepaid expenses and other current assets		9,707		11,984
Income taxes receivable		584		6,912
Deferred income taxes		2,012		2,109
Total current assets		142,924		179,237
Property and equipment, net		224,557		227,684
Restricted cash and investments		5,752		5,729
Intangible assets, net		270,011		278,667
Goodwill		209,666		217,609
Other assets		10,161		11,308
Deferred income taxes				85
Total assets	$	863,071	$	920,319
Liabilities And Stockholders Equity				
Current Liabilities:				
Accounts payable	$	21,383	$	24,513
Deferred revenue		6,674		13,190
Accrued liabilities		28,749		36,251
Accrued salaries and benefits		11,537		13,322
Income taxes payable		4,897		4,124
Current portion of closure and post-closure obligations		5,338		5,359
Current portion of long-term debt		3,505		3,828
Total current liabilities		82,083		100,587
Long-term closure and post-closure obligations		67,352		67,511
Long-term debt		357,286		390,825
Other long-term liabilities		4,578		4,336
Deferred income taxes		101,691		105,723

Total liabilities		612,990		668,982
Commitments and contingencies				
Stockholders Equity:				
Common stock $0.01 par value, 50,000 authorized; 21,707 and 21,632 shares issued, respectively		217		216
Additional paid-in capital		167,400		165,524
Retained earnings		93,510		93,301
Treasury stock, at cost, 1 shares		(20)		(18)
Accumulated other comprehensive loss		(11,026)		(7,686)
Total stockholders equity		250,081		251,337
Total liabilities and stockholders equity	$	863,071	$	920,319

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

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US ECOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Revenue	$ 139,732	$ 66,019	$ 276,383	$ 119,373
Direct operating costs	98,262	40,874	195,069	72,108
Gross profit	41,470	25,145	81,314	47,265
Selling, general and administrative expenses	22,675	14,127	47,568	20,763
Impairment charges	6,700		6,700	
Operating income	12,095	11,018	27,046	26,502
Other income (expense):				
Interest income	6	39	47	83
Interest expense	(5,433)	(858)	(11,127)	(944)
Foreign currency gain (loss)	292	743	(775)	(197)
Other	233	170	769	256
Total other income (expense)	(4,902)	94	(11,086)	(802)
Income before income taxes	7,193	11,112	15,960	25,700
Income tax expense	5,055	4,247	7,957	9,474
Net income	$ 2,138	$ 6,865	$ 8,003	$ 16,226
Earnings per share:				
Basic	$ 0.10	$ 0.32	$ 0.37	$ 0.75
Diluted	$ 0.10	$ 0.32	$ 0.37	$ 0.75
Shares used in earnings per share calculation:				
Basic	21,617	21,528	21,600	21,503
Diluted	21,748	21,667	21,719	21,632
Dividends paid per share	$ 0.18	$ 0.18	$ 0.36	$ 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 June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net income	$ 2,138	$ 6,865	$ 8,003	$ 16,226
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	1,003	1,557	(3,171)	78
Net changes in interest rate hedge, net of taxes of $663, $0, ($91) and $0, respectively	1,231		(169)	
Comprehensive income, net of tax	$ 4,372	$ 8,422	$ 4,663	$ 16,304

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

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US ECOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Cash flows from operating activities:		
Net income	$ 8,003	$ 16,226
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment charges	6,700	
Depreciation and amortization of property and equipment	15,135	8,412
Amortization of intangible assets	6,606	1,215
Accretion of closure and post-closure obligations	2,077	716
Unrealized foreign currency loss	1,510	323
Deferred income taxes	(3,096)	2,095
Share-based compensation expense	1,089	525
Unrecognized tax benefits		7
Net loss on disposal of property and equipment	908	19
Amortization of debt discount	74	
Changes in assets and liabilities (net of effect of business acquisition):		
Receivables	16,952	4,661
Income taxes receivable	6,328	(3,426)
Other assets	3,374	(418)
Accounts payable and accrued liabilities	(6,241)	(2,347)
Deferred revenue	(6,089)	(2,349)
Accrued salaries and benefits	(1,651)	(1,772)
Income taxes payable	839	(3,024)
Closure and post-closure obligations	(2,136)	(364)
Net cash provided by operating activities	50,382	20,499
Cash flows from investing activities:		
Purchases of property and equipment	(19,376)	(8,658)
Purchases of restricted cash and investments	(840)	(30)
Proceeds from sale of restricted cash and investments	817	
Proceeds from sale of property and equipment	314	19
Business acquisition (net of cash acquired)		(465,895)
Net cash used in investing activities	(19,085)	(474,564)
Cash flows from financing activities:		
Payments on long-term debt	(33,935)	
Dividends paid	(7,792)	(7,750)
Proceeds from exercise of stock options	1,042	1,420
Proceeds from issuance of long-term debt		413,962
Deferred financing costs paid		(14,001)
Other	(262)	205
Net cash (used in) provided by financing activities	(40,947)	393,836
Effect of foreign exchange rate changes on cash	(244)	86
Decrease in cash and cash equivalents	(9,894)	(60,143)

Cash and cash equivalents at beginning of period		22,971		73,940
Cash and cash equivalents at end of period	$	13,077	$	13,797
Supplemental Disclosures				
Income taxes paid, net of receipts	$	7,994	$	13,281
Interest paid	$	9,864	$	124
Non-cash investing and financing activities:				
Closure and post-closure retirement asset	$		$	2,863
Capital expenditures in accounts payable	$	1,804	$	1,328
Restricted stock issued from treasury shares	$	272	$	279

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

US ECOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. GENERAL

Basis of Presentation

The accompanying unaudited consolidated financial statements include the results of operations, financial position and cash flows of US Ecology, Inc. 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 six months ended June 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.

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.

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.

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 agreed 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.

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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:

	Purchase Price Allocation		
$s in thousands	**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 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.

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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 June 30, 2014		(unaudited) Six Months Ended June 30, 2014
Pro forma combined:				
Revenue	$	149,121	$	287,232
Net income	$	6,297	$	11,503
Earnings per share				
Basic	$	0.29	$	0.53
Diluted	$	0.29	$	0.53

Revenue from EQ included in the Company s consolidated statements of operations for the three and six months ended June 30, 2015 was $89.2 million and $173.8 million, respectively. Operating income from EQ included in the Company s consolidated statements of operations for the three and six months ended June 30, 2015 was $751,000 and $4.3 million, respectively. Acquisition-related costs of $133,000 and $915,000, respectively, were included in Selling, general and administrative expenses in the Company s consolidated statements of operations for the three and six months ended June 30, 2015.

NOTE 3. 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
Balance at December 31, 2014	**$ (5,648)**	**$ (2,038)**	**$ (7,686)**
Other comprehensive income (loss) before reclassifications, net of tax	(3,171)	(1,318)	(4,489)
Amounts reclassified out of AOCI, net of tax (1)		1,149	1,149
Other comprehensive loss	(3,171)	(169)	(3,340)
Balance at June 30, 2015	**$ (8,819)**	**$ (2,207)**	**$ (11,026)**

(1) Before-tax reclassifications of $879,000 ($572,000 after-tax) and $1.8 million ($1.1 million after-tax) for the three and six months ended June 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).

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NOTE 4. CONCENTRATIONS AND CREDIT RISK

Major Customers

No customer accounted for more than 10% of total revenue for the three or six months ended June 30, 2015 or the three or six months ended June 30, 2014. No customer accounted for more than 10% of total trade receivables as of June 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 5. RECEIVABLES

Receivables consisted of the following:

$s in thousands	**June 30, 2015**	**December 31, 2014**
Trade	$ 93,860	$ 116,218
Unbilled revenue	24,473	17,857
Other	1,714	1,890
Total receivables	120,047	135,965
Allowance for doubtful accounts	(2,503)	(704)
Receivables, net	$ 117,544	$ 135,261

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, 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 June 30, 2015.

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

	June 30, 2015							
$s in thousands		**Quoted Prices in Active Markets (Level 1)**		**Other Observable Inputs (Level 2)**		**Unobservable Inputs (Level 3)**		**Total**
Assets:								
Fixed-income securities (1)	$	401	$	3,596	$		$	3,997
Money market funds (2)		1,755						1,755
Total	$	2,156	$	3,596	$		$	5,752
Liabilities:								
Interest rate swap agreement (3)	$		$	3,397	$		$	3,397
Total	$		$	3,397	$		$	3,397

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

(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 in 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.

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NOTE 7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

$s in thousands		June 30, 2015		December 31, 2014
Cell development costs	$	120,766	$	120,878
Land and improvements		33,399		33,002
Buildings and improvements		73,355		74,518
Railcars		17,375		17,375
Vehicles and other equipment		104,187		98,877
Construction in progress		14,828		10,831
Total property and equipment		363,910		355,481
Accumulated depreciation and amortization		(139,353)		(127,797)
Property and equipment, net	$	224,557	$	227,684

Depreciation and amortization expense for the three months ended June 30, 2015 and 2014 was $7.7 million and $4.6 million, respectively. Depreciation and amortization expense for the six months ended June 30, 2015 and 2014 was $15.1 million and $8.4 million, respectively.

NOTE 8. GOODWILL AND INTANGIBLE ASSETS

Changes in goodwill for the six months ended June 30, 2015 consisted of the following:

$s in thousands		Environmental Services		Field & Industrial Services		Total
Balance at December 31, 2014 (1)	$	152,396	$	65,213	$	217,609
Impairment charges (2)				(6,700)		(6,700)
Foreign currency translation		(1,243)				(1,243)
Balance at June 30, 2015	$	151,153	$	58,513	$	209,666