US ECOLOGY, INC.
Form 10-Q
August 01, 2013
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 June 30, 2013

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 o	Accelerated filer x
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 July 26, 2013, there were 18,530,085 shares of the registrant s Common Stock outstanding.

Table of Contents

US ECOLOGY, INC.

FORM 10-Q

TABLE OF CONTENTS

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

US ECOLOGY, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value amount)

	June 30, 2013	December 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 3,982	$ 2,120
Receivables, net	34,235	33,947
Prepaid expenses and other current assets	3,847	3,161
Income taxes receivable	787	
Deferred income taxes	799	1,276
Total current assets	43,650	40,504
Property and equipment, net	113,294	109,792
Restricted cash	4,111	4,111
Intangible assets, net	37,945	40,771
Goodwill	21,917	23,105
Other assets	426	411
Total assets	$ 221,343	$ 218,694
Liabilities And Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 4,484	$ 6,333
Deferred revenue	5,381	3,919
Accrued liabilities	7,506	7,322
Accrued salaries and benefits	5,040	7,570
Income taxes payable	972	426
Current portion of closure and post-closure obligations	937	1,913
Total current liabilities	24,320	27,483
Long-term closure and post-closure obligations	16,315	15,449
Reducing revolving line of credit	43,000	45,000
Other long-term liabilities	88	114
Unrecognized tax benefits	474	467
Deferred income taxes	15,338	18,159
Total liabilities	99,535	106,672

Commitments and contingencies				
Stockholders Equity:				
Common stock $0.01 par value, 50,000 authorized; 18,530 and 18,385 shares issued, respectively		185		184
Additional paid-in capital		65,603		63,969
Retained earnings		57,725		48,424
Treasury stock, at cost, 24 and 71 shares, respectively		(404)		(1,183)
Accumulated other comprehensive income (loss)		(1,301)		628
Total stockholders equity		121,808		112,022
Total liabilities and stockholders equity	$	221,343	$	218,694

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue	$ 45,777	$ 39,980	$ 88,676	$ 72,993
Direct operating costs	19,759	18,633	40,843	36,271
Transportation costs	7,090	4,021	13,523	7,320
Gross profit	18,928	17,326	34,310	29,402
Selling, general and administrative expenses	6,519	6,366	12,245	11,971
Operating income	12,409	10,960	22,065	17,431
Other income (expense):				
Interest income	2	4	7	9
Interest expense	(222)	(204)	(443)	(428)
Foreign currency gain (loss)	(1,193)	(921)	(2,131)	170
Other	94	522	191	602
Total other income (expense)	(1,319)	(599)	(2,376)	353
Income before income taxes	11,090	10,361	19,689	17,784
Income tax expense	3,880	3,999	7,073	6,899
Net income	$ 7,210	$ 6,362	$ 12,616	$ 10,885
Earnings per share:				
Basic	$ 0.39	$ 0.35	$ 0.69	$ 0.60
Diluted	$ 0.39	$ 0.35	$ 0.68	$ 0.60
Shares used in earnings per share calculation:				
Basic	18,401	18,228	18,362	18,223
Diluted	18,483	18,264	18,446	18,259
Dividends paid per share	$ 0.18	$ 0.18	$ 0.18	$ 0.36

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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net income	$ 7,210	$ 6,362	$ 12,616	$ 10,885
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	(1,179)	(500)	(1,929)	135
Comprehensive income	$ 6,031	$ 5,862	$ 10,687	$ 11,020

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)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash flows from operating activities:		
Net income	$ 12,616	$ 10,885
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	7,071	6,794
Amortization of intangible assets	729	724
Accretion of closure and post-closure obligations	613	670
Unrealized foreign currency (gain) loss	2,400	(250)
Deferred income taxes	(1,665)	(1,218)
Share-based compensation expense	363	383
Unrecognized tax benefits	7	7
Net (gain) loss on sale of property and equipment	10	(20)
Changes in assets and liabilities:		
Receivables	(682)	839
Income tax receivable	(787)	191
Other assets	(563)	(390)
Accounts payable and accrued liabilities	(1,583)	(3,699)
Deferred revenue	1,594	412
Accrued salaries and benefits	(2,386)	(307)
Income tax payable	582	761
Closure and post-closure obligations	(621)	(186)
Net cash provided by operating activities	17,698	15,596
Cash flows from investing activities:		
Purchases of property and equipment	(12,530)	(5,743)
Business acquisition, net of cash acquired		(11,228)
Proceeds from sale of property and equipment	52	169
Restricted cash		5
Net cash used in investing activities	(12,478)	(16,797)
Cash flows from financing activities:		
Payments on reducing revolving line of credit	(10,000)	(12,500)
Proceeds from reducing revolving line of credit	8,000	22,000
Proceeds from exercise of stock options	2,110	
Deferred financing costs paid	(185)	
Dividends paid	(3,314)	(6,565)
Other	261	(258)
Net cash (used in) provided by financing activities	(3,128)	2,677
Effect of foreign exchange rate changes on cash	(230)	140
Increase in cash and cash equivalents	1,862	1,616
Cash and cash equivalents at beginning of period	2,120	4,289

Cash and cash equivalents at end of period	$	3,982	$	5,905
Supplemental Disclosures				
Income taxes paid, net of receipts	$	8,677	$	7,148
Interest paid	$	367	$	418
Non-cash investing and financing activities:				
Capital expenditures in accounts payable	$	504	$	2,446
Restricted stock issued from treasury shares	$	779	$	372

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, 2012. The results of operations and cash flows for the six months ended June 30, 2013 are not necessarily indicative of results to be expected for the entire fiscal year.

The Company s Consolidated Balance Sheet as of December 31, 2012 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.

Financial Instruments

Cash on deposit, accounts receivable, short-term borrowings, accounts payable and accrued liabilities as presented in the consolidated financial statements approximate fair value because of the short-term nature of these instruments. The carrying amount of our long-term debt approximates fair value because interest rates are variable and, accordingly, approximate current market rates for instruments with similar risk and maturities. Restricted cash balances 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. Restricted cash balances are maintained by third-party trustees and are invested in money market accounts. The balances are adjusted monthly to fair market value based on quoted prices in active markets for identical assets.

Table of Contents

NOTE 2. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

$s in thousands	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Balance, beginning of period	**$ (122)**	**$ 518**	**$ 628**	**$ (117)**
Foreign currency translation gain (loss) in other comprehensive income	(1,179)	(500)	(1,929)	135
Balance, end of period	**$ (1,301)**	**$ 18**	**$ (1,301)**	**$ 18**

NOTE 3. CONCENTRATIONS AND CREDIT RISK

Major Customers

No customer accounted for more than 10% of total revenue for the three and six months ended June 30, 2013 or 2012. No customer accounted for more than 10% of total trade receivables as of June 30, 2013 or December 31, 2012.

Credit Risk Concentration

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

NOTE 4. RECEIVABLES

Receivables consisted of the following:

$s in thousands	June 30, 2013	December 31, 2012
Trade	$ 33,014	$ 32,787
Unbilled revenue	1,396	1,529

Other		289		99
Total receivables		34,699		34,415
Allowance for doubtful accounts		(464)		(468)
Receivables, net	$	34,235	$	33,947

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

$s in thousands		**June 30, 2013**		**December 31, 2012**
Cell development costs	$	65,239	$	64,994
Land and improvements		18,090		14,920
Buildings and improvements		55,949		55,177
Railcars		17,375		17,375
Vehicles and other equipment		42,235		39,689
Construction in progress		14,985		12,454
Total property and equipment		213,873		204,609
Accumulated depreciation and amortization		(100,579)		(94,817)
Property and equipment, net	$	113,294	$	109,792

Table of Contents

Depreciation and amortization expense for each of the three months ended June 30, 2013 and 2012 was $3.6 million. Depreciation and amortization expense for the six months ended June 30, 2013 and 2012 was $7.1 million and $6.8 million, respectively.

NOTE 6. BUSINESS COMBINATION

On May 31, 2012, the Company acquired 100% of the outstanding shares of US Ecology Michigan, Inc. (US Ecology Michigan), formerly Dynecol, Inc., a chemical and industrial byproducts treatment and reuse facility located in Detroit, Michigan. The following unaudited pro forma financial information presents the combined results of operations as if US Ecology Michigan had been combined with us beginning on January 1, 2012. The pro forma financial information includes the accounting impact 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 period presented, nor should it be taken as an indication of our future consolidated results of operations.

$s in thousands, except per share amounts		**(unaudited) Three Months Ended June 30, 2012**		**(unaudited) Six Months Ended June 30, 2012**
Pro forma combined:				
Revenue	$	42,011	$	78,494
Net income	$	6,248	$	10,739
Earnings per share				
Basic	$	0.34	$	0.59
Diluted	$	0.34	$	0.59

The amounts of revenue and operating income from US Ecology Michigan included in US Ecology s consolidated statements of operations for the three months ended June 30, 2013 were $3.4 million and $288,000, respectively. The amounts of revenue and operating income from US Ecology Michigan included in US Ecology s consolidated statements of operations for the six months ended June 30, 2013 were $6.2 million and $193,000, respectively.

NOTE 7. GOODWILL AND INTANGIBLE ASSETS

The Company s entire goodwill balance has been assigned to the Operating Disposal Facilities reporting segment. Changes in goodwill for the six months ended June 30, 2013 consisted of the following:

$s in thousands		**Goodwill**
Balance at December 31, 2012	$	23,105
Foreign currency translation		(1,188)
Balance at June 30, 2013	$	21,917

Intangible assets consisted of the following:

$s in thousands	June 30, 2013	December 31, 2012
Amortizing intangible assets:		
Developed software	$ 333	$ 352
Database	95	100
Customer relationships	5,046	5,269
Technology - Formulae and processes	8,645	9,144
Permits, licenses and lease	26,553	28,085
Non-compete agreements	20	20
Total amortizing intangible assets	40,692	42,970
Accumulated amortization	(3,659)	(3,120)
Nonamortizing intangible assets:		
Permits and licenses	750	750
Tradename	162	171
Total intangible assets, net	$ 37,945	$ 40,771

Table of Contents

Amortization expense for the three months ended June 30, 2013 and 2012 was $362,000 and $374,000, respectively. Amortization expense for the six months ended June 30, 2013 and 2012 was $729,000 and $724,000, respectively.

NOTE 8. DEBT

On October 29, 2010, we entered a credit agreement with Wells Fargo which, as amended, provides for an aggregate commitment from Wells Fargo of $95.0 million (the Credit Agreement). The Credit Agreement provides for a $20.0 million revolving line of credit (the Revolving Line of Credit) with a maturity date of November 1, 2015 and a $75.0 million reducing revolving line of credit (the Reducing Revolving Line of Credit) with a maturity date of November 1, 2015.

Revolving Line of Credit

The Revolving Line of Credit provides up to $20.0 million in revolving credit loans or letters of credit for working capital needs (the Commitment Amount). Under the Revolving Line of Credit, revolving loans are available based on the Prime Rate or the 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). At June 30, 2013, the effective interest rate on the Revolving Line of Credit was 1.44%. Interest only payments are due either monthly or on the last day of any interest period, as applicable. At June 30, 2013, there were no borrowings outstanding under the Revolving Line of Credit. The availability under the Revolving Line of Credit was $16.0 million, with $4.0 million of the line of credit issued in the form of a standby letter of credit utilized as collateral for closure and post-closure financial assurance.

Reducing Revolving Line of Credit

The Reducing Revolving Line of Credit provides an initial commitment amount of $75.0 million (the Reducing Revolving Commitment Amount). Proceeds from the Reducing Revolving Line of Credit were used to acquire all of the shares of Stablex in 2010 and to acquire US Ecology Michigan in 2012. Remaining borrowings are available for working capital needs. The Reducing Revolving Commitment Amount is reduced by $2.8 million on the last day of each March, June, September and December beginning March 31, 2013, continuing through November 1, 2015. Under the Reducing Revolving Line of Credit revolving loans are available based on the Prime Rate 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. At June 30, 2013, the effective interest rate of the Reducing Revolving Line of Credit was 1.44%. Interest only payments are due either monthly or on the last day of any interest period, as applicable. At June 30, 2013, $43.0 million was outstanding on the Reducing Revolving Line of Credit with $26.4 million available for additional borrowings.

In addition to standard fees, origination fees and commitment fees apply to the average daily unused portion of the Commitment Amount and the Reducing Revolving Commitment Amount. The Credit Agreement contains certain quarterly financial covenants, including a maximum funded debt ratio, a maximum fixed charge coverage ratio, a minimum required tangible net worth and a minimum current ratio. 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. Obligations under the Credit Agreement are guaranteed by US Ecology and all of its subsidiaries.

At June 30, 2013, we were in compliance with all of the financial covenants in the Credit Agreement.

NOTE 9. 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.

Table of Contents

Changes in closure and post-closure obligations consisted of the following:

$s in thousands		Three Months Ended June 30, 2013		Six Months Ended June 30, 2013
Closure and post-closure obligations, beginning of period	$	16,586	$	17,362
Accretion expense		306		613
Payments		(128)		(1,171)
Adjustments		550		550
Currency translation		(62)		(102)
Closure and post-closure obligations, end of period		17,252		17,252
Less current portion		(937)		(937)
Long-term portion	$	16,315	$	16,315

NOTE 10. INCOME TAXES

During the six months ended June 30, 2013, there were no material changes to our unrecognized tax benefits disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. We do not anticipate our total unrecognized tax benefits to increase or decrease materially within the next twelve months.

Our effective tax rate for the three months ended June 30, 2013 was 35.0%, down from 38.6% for the three months ended June 30, 2012. Our effective tax rate for the six months ended June 30, 2013 was 35.9%, down from 38.8% for the six months ended June 30, 2012. The decrease for both the three and six months ended June 30, 2013 reflects a higher proportion of earnings from our Canadian operations, which are taxed at a lower corporate tax rate, partially offset by higher U.S. state income taxes.

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 2009 through 2012. Additionally, we may be subject to examinations by various state and local taxing jurisdictions for tax years 2008 through 2012.

NOTE 11. 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.

In 2012, we settled allegations by the United States Environment Protection Agency (U.S. EPA) that the thermal recycling operation at our Robstown, Texas facility did not comply with certain rules and regulations of the Resource Conservation and Recovery Act of 1976 (RCRA). As part of the settlement, we agreed to pay a civil penalty and to submit an application to the State of Texas for a RCRA Subpart X permit. The Company and the thermal recycling unit s owner-operator also agreed to a set of interim operating conditions that allow the facility to continue providing recycling services to customers until the RCRA Subpart X permit is issued.

In connection with this matter, in June 2013 the U.S. EPA asserted various related technical compliance and permitting violations of the Clean Air Act of 1970. Negotiations on the merits of a proposed settlement are ongoing with the U.S. EPA. We recognized a charge of $238,000 during the second quarter of 2013 in Selling, general and administrative expenses in the Consolidated Statement of Operations related to this enforcement matter.

Other than as disclosed above, we are not currently a party to any material pending legal proceedings and are not aware of any other claims that could have a materially adverse effect on our financial position, results of operations or cash flows.

Table of Contents

Operating Leases

In May 2013, we executed a new lease for corporate office space in Boise, Idaho. Future minimum lease payments on this non-cancelable operating lease as of June 30, 2013 consisted of the following:

$s in thousands		Payments
2013	$	34
2014		245
2015		301
2016		310
2017		318
Thereafter		382
	$	1,590

NOTE 12. EARNINGS PER SHARE

	Three Months Ended June 30,							
$s and shares in thousands, except per share amounts	**2013**				**2012**			
		Basic		**Diluted**		**Basic**		**Diluted**
Net income		7,210	$	7,210	$	6,362	$	6,362
Weighted average basic shares outstanding		18,401		18,401		18,228		18,228
Dilutive effect of stock options and restricted stock				82				36
Weighted average diluted shares outstanding				18,483				18,264
Earnings per share	$	0.39	$	0.39	$	0.35	$	0.35
Anti-dilutive shares excluded from calculation				196				331

	Six Months Ended June 30,							
$s and shares in thousands, except per share amounts	**2013**				**2012**			
		Basic		**Diluted**		**Basic**		**Diluted**
Net income	$	12,616	$	12,616	$	10,885	$	10,885
Weighted average basic shares outstanding		18,362		18,362		18,223		18,223
Dilutive effect of stock options and restricted stock				84				36
Weighted average diluted shares outstanding				18,446				18,259
Earnings per share	$	0.69	$	0.68	$	0.60	$	0.60
Anti-dilutive shares excluded from calculation				208				324

NOTE 13. EQUITY

During the six months ended June 30, 2013, option holders exercised 238,345 options, respectively, with a weighted-average exercise price of $18.95 per option. During the six months ended June 30, 2013, the Company issued 46,700 shares of restricted stock from our treasury stock at an average cost of $16.68 per share.

Table of Contents

NOTE 14. OPERATING SEGMENTS

We operate within two segments, Operating Disposal Facilities and Non-Operating Disposal Facilities. These segments reflect our internal reporting structure and nature of services offered. The Operating Disposal Facility segment represents disposal facilities accepting hazardous and radioactive waste. The Non-Operating Disposal Facility segment represents facilities which are not accepting hazardous and/or radioactive waste or formerly proposed new facilities.

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 concerning our reportable segments is shown in the following tables:

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

Three Months Ended June 30, 2012 (in thousands)	Operating Disposal Facilities	Non-Operating Disposal Facilities	Corporate	Total
Revenue - Treatment and disposal	$ 35,963	$ 7	$	$ 35,970
Revenue - Transportation services	4,010			4,010
Total revenue	39,973	7		39,980
Direct operating costs	18,576	57		18,633
Transportation costs	4,020	1		4,021
Gross profit (loss)	17,377	(51)		17,326
Selling, general & administrative expense	2,921		3,445	6,366
Operating income (loss)	14,456	(51)	(3,445)	10,960

Interest income (expense), net	4		(204)	(200)
Foreign currency gain (loss)	17		(938)	(921)
Other income	521	1		522
Income (loss) before income taxes	14,998	(50)	(4,587)	10,361
Income tax expense			3,999	3,999
Net income (loss)	$ 14,998	$ (50)	$ (8,586)	$ 6,362
Depreciation, amortization & accretion	$ 4,215	$ 54	$ 11	$ 4,280
Capital expenditures	$ 3,350	$	$ 7	$ 3,357
Total assets	$ 206,652	$ 103	$ 9,370	$ 216,125

Table of Contents

Six Months Ended June 30, 2013 (in thousands)	Operating Disposal Facilities	Non-Operating Disposal Facilities	Corporate	Total
Revenue - Treatment and disposal	$ 75,064	$ 10	$	$ 75,074
Revenue - Transportation services	13,602			13,602
Total revenue	88,666	10		88,676
Direct operating costs	40,736	107		40,843
Transportation costs	13,523			13,523
Gross profit (loss)	34,407	(97)		34,310
Selling, general & administrative expense	5,913		6,332	12,245
Operating income (loss)	28,494	(97)	(6,332)	22,065
Interest income (expense), net	6		(442)	(436)
Foreign currency gain (loss)	432		(2,563)	(2,131)
Other income	186	5		191
Income (loss) before income taxes	29,118	(92)	(9,337)	19,689
Income tax expense			7,073	7,073
Net income (loss)	$ 29,118	$ (92)	$ (16,410)	$ 12,616
Depreciation, amortization & accretion	$ 8,291	$ 104	$ 18	$ 8,413
Capital expenditures	$ 12,415	$	$ 115	$ 12,530
Total assets	$ 213,197	$ 88	$ 8,058	$ 221,343

Six Months Ended June 30, 2012 (in thousands)	Operating Disposal Facilities	Non-Operating Disposal Facilities	Corporate	Total
Revenue - Treatment and disposal	$ 65,908	$ 11	$	$ 65,919
Revenue - Transportation services	7,074			7,074
Total revenue	72,982	11		72,993
Direct operating costs	36,159	112		36,271
Transportation costs	7,319	1		7,320
Gross profit (loss)	29,504	(102)		29,402
Selling, general & administrative expense	5,442		6,529	11,971
Operating income (loss)	24,062	(102)	(6,529)	17,431
Interest income (expense), net	9		(428)	(419)
Foreign currency gain (loss)	(82)		252	170
Other income	601	1		602
Income (loss) before income taxes	24,590	(101)	(6,705)	17,784
Income tax expense			6,899	6,899
Net income (loss)	$ 24,590	$ (101)	$ (13,604)	$ 10,885
Depreciation, amortization & accretion	$ 8,059	$ 108	$ 21	$ 8,188
Capital expenditures	$ 5,710	$ 17	$ 16	$ 5,743
Total assets	$ 206,652	$ 103	$ 9,370	$ 216,125

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 consisted of the following:

Geographic disclosure

$s in thousands	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
United States	$ 32,620	$ 30,939	$ 64,019	$ 55,538
Canada	13,157	9,041	24,657	17,455
Total revenue	$ 45,777	$ 39,980	$ 88,676	$ 72,993

Table of Contents

Long-lived assets, comprised of property and equipment and intangible assets net of accumulated depreciation and amortization, by geographic location consisted of the following:

$s in thousands	June 30, 2013	December 31, 2012
United States	$ 85,875	$ 81,605
Canada	65,364	68,958
Total long-lived assets	$ 151,239	$ 150,563

NOTE 15. SUBSEQUENT EVENT

On July 1, 2013, we declared a quarterly dividend of $0.18 per common share to stockholders of record on July 17, 2013. The dividend was paid using cash on hand on July 25, 2013 in an aggregate amount of $3.3 million.

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 June 30, 2013, and the related consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2013 and 2012, and the consolidated statements of cash flows for the six-month periods ended June 30, 2013 and 2012. These interim financial statements are 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 statements 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 statements for them 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, 2012, and the related consolidated statements of operations, comprehensive income, cash flows, and stockholders equity for the year then ended (not presented herein); and in our report dated March 1, 2013, 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, 2012 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
August 1, 2013

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 re to US Ecology, Inc. and its subsidiaries.

OVERVIEW

US Ecology is a hazardous, polychlorinated biphenyls (PCBs), non-hazardous and radioactive waste services company providing treatment, disposal, recycling and transportation services to commercial and government entities including, but not limited to, oil refineries, chemical production facilities, manufacturers, electric utilities, steel mills, biotechnology companies, operating and closed military installations, waste brokers/aggregators and medical and academic institutions. The majority of the waste received at our facilities is produced in the United States.

On May 31, 2012, the Company acquired 100% of the outstanding shares of US Ecology Michigan, Inc. (US Ecology Michigan), formerly Dynecol, Inc., a chemical and industrial byproducts treatment and reuse facility located in Detroit, Michigan, for a total purchase price of $10.8 million, including net working capital adjustments. The acquisition strengthens our presence in key mid-western and eastern U.S. and Canadian markets. In addition, US Ecology Michigan provides us with an opportunity to win more Event Business (as defined below) work; increase service delivery to existing customers including national accounts; expand our transportation logistics services; and attract new customers. Management also believes that the acquisition offers meaningful synergies in combination with our Stablex facility. Revenue from US Ecology Michigan included in US Ecology s consolidated statements of operations was $6.2 million for the six months ended June 30, 2013.

We generate revenue from fees charged to treat and dispose of waste at our six fixed disposal facilities located near Grand View, Idaho; Richland, Washington; Beatty, Nevada; Robstown, Texas; Detroit, Michigan and Blainville, Québec, Canada. We own and manage a dedicated fleet of gondola railcars and arrange for the transportation of waste to our facilities. Transportation services have contributed significant revenue since acquisition of our railcar fleet. We also utilize our railcar fleet to transport waste disposed at facilities operated by other companies on a less frequent basis. We or our predecessor companies have been in the waste business since 1952.

Our customers may be divided into categories to better evaluate period-to-period changes in treatment and disposal (T&D) revenue based on service mix and type of business (recurring customer Base Business or discrete clean-up project Event Business). Each of these categories is described in the table below, along with information on the percentage of total treatment and disposal revenues by category for the three and six months ended June 30, 2013 and 2012.

Table of Contents

Customer Category	Description	% of Treatment and Disposal Revenue (1),(2) for the Three Months Ended June 30, 2013	2012
Broker	Companies that collect and aggregate waste from their direct customers, generally comprised of Base Business with periodic Event Business for larger projects.	50%	52%
Other industry	Electric utilities, chemical manufacturers, steel mill and other industrial customers not included in other categories, comprised of both Base and Event Business.	15%	17%
Refinery	Petroleum refinery customers, comprised of both Base and Event Business.	13%	8%
Private Clean-up	Private sector clean-up project waste, typically Event Business.	12%	6%
Government	Federal and State government clean-up project waste, comprised of both Base and Event Business.	6%	13%
Rate regulated	Northwest and Rocky Mountain Compact customers paying rate-regulated disposal fees set by the State of Washington, predominantly Base Business.	4%	4%

(1) Excludes all transportation service revenue

(2) Excludes US Ecology Michigan which was acquired on May 31, 2012

Customer Category	Description	% of Treatment and Disposal Revenue (1),(2) for the Six Months Ended June 30, 2013	2012
Broker	Companies that collect and aggregate waste from their direct customers, generally comprised of Base Business with periodic Event Business for larger projects.	51%	53%
Other industry	Electric utilities, chemical manufacturers, steel mill and other industrial customers not included in other categories, comprised of both Base and Event Business.	15%	18%
Refinery	Petroleum refinery customers, comprised of both Base and Event Business.	12%	9%
Private Clean-up	Private sector clean-up project waste, typically Event Business.	11%	5%
Government	Federal and State government clean-up project waste, comprised of both Base and Event Business.	7%	11%
Rate regulated		4%	4%

	Northwest and Rocky Mountain Compact customers paying rate-regulated disposal fees set by the State of Washington, predominantly Base Business.

(1) Excludes all transportation service revenue

(2) Excludes US Ecology Michigan which was acquired on May 31, 2012

Table of Contents

A significant portion of our disposal revenue is attributable to discrete Event Business projects which vary widely in size, duration and unit pricing. For each of the three and six month periods ended June 30, 2013, approximately 37% of our T&D revenue was derived from Event Business projects (excluding US Ecology Michigan). 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 controversies, 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 hazardous and radioactive 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 three-fourths (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 234 gondola railcars, which may be supplemented with additional 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 allow us to win business during times of demand-driven railcar scarcity.

The increased waste volumes resulting from projects won through this bundling strategy further drive the operating leverage inherent to the disposal business and increase 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 well established 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 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. Such 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 shipments, maintenance, waste clean-up projects and other work. Factors that can impact general economic conditions and the level of spending by our 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 our business is 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 administrative or other reasons.

19

Table of Contents

RESULTS OF OPERATIONS

The following table summarizes our results of operations for the three and six months ended June 30, 2013 and 2012 in dollars and as a percentage of total revenue.

	Three Months Ended June 30,				Six Months Ended June 30,			
$s and shares in thousands, except per share amounts	**2013**	**%**	**2012**	**%**	**2013**	**%**	**2012**	**%**
Revenue	$ 45,777	100.0%	$ 39,980	100.0%	$ 88,676	100.0%	$ 72,993	100.0%
Direct operating costs	19,759	43.2%	18,633	46.6%	40,843	46.1%	36,271	49.7%
Transportation costs	7,090	15.5%	4,021	10.1%	13,523	15.2%	7,320	10.0%
Gross profit	18,928	41.3%	17,326	43.3%	34,310	38.7%	29,402	40.3%
Selling, general and administrative expenses	6,519	14.2%	6,366	15.9%	12,245	13.8%	11,971	16.4%
Operating income	12,409	27.1%	10,960	27.4%	22,065	24.9%	17,431	23.9%
Other income (expense):								
Interest income	2	0.0%	4	0.0%	7	0.0%	9	0.0%
Interest expense	(222)	-0.5%	(204)	-0.5%	(443)	-0.5%	(428)	-0.6%
Foreign currency gain (loss)	(1,193)	-2.6%	(921)	-2.3%	(2,131)	-2.4%	170	0.2%
Other	94	0.2%	522	1.3%	191	0.2%	602	0.9%
Total other income (expense)	(1,319)	-2.9%	(599)	-1.5%	(2,376)	-2.7%	353	0.5%
Income before income taxes	11,090	24.2%	10,361	25.9%	19,689	22.2%	17,784	24.4%
Income taxes	3,880	8.4%	3,999	10.0%	7,073	8.0%	6,899	9.5%
Net income	$ 7,210	15.8%	$ 6,362	15.9%	$ 12,616	14.2%	$ 10,885	14.9%
Earnings per share:								
Basic	$ 0.39		$ 0.35		$ 0.69		$ 0.60	
Dilutive	$ 0.39		$ 0.35		$ 0.68		$ 0.60	
Shares used in earnings per share calculation:								
Basic	18,401		18,228		18,362		18,223	
Dilutive	18,483		18,264		18,446		18,259	
Dividends paid per share	$ 0.18		$ 0.18		$ 0.18		$ 0.36	
Other Financial Data:								
Adjusted EBITDA (1)	$ 16,927		$ 15,420		$ 30,841		$ 26,002	

(1) For all periods presented, 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 and other income/expense, which are not considered part of usual business operations. 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.

Table of Contents

The following reconciliation itemizes the differences between reported Net income and Adjusted EBITDA for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
$s in thousands	**2013**	**2012**	**2013**	**2012**
Net income	$ 7,210	$ 6,362	$ 12,616	$ 10,885
Income tax expense	3,880	3,999	7,073	6,899
Interest expense	222	204	443	428
Interest income	(2)	(4)	(7)	(9)
Foreign currency (gain) loss	1,193	921	2,131	(170)
Other income	(94)	(522)	(191)	(602)
Depreciation and amortization of plant and equipment	3,632	3,571	7,071	6,794
Amortization of intangibles	362	374	729	724
Stock-based compensation	218	180	363	383
Accretion and non-cash adjustment of closure & post-closure liabilities	306	335	613	670
Adjusted EBITDA	$ 16,927	$ 15,420	$ 30,841	$ 26,002

THREE MONTHS ENDED JUNE 30, 2013 COMPARED TO THREE MONTHS ENDED JUNE 30, 2012

Revenue. Revenue increased 15% to $45.8 million for the second quarter of 2013, up from $40.0 million for the second quarter of 2012. This increase reflects an 8% increase in T&D revenue and a 76% increase in transportation service revenue compared to the second quarter of 2012. The increase in transportation service revenue reflects more Event Business projects utilizing the Company s transportation and logistics services.

During the second quarter of 2013, we disposed of 253,000 tons of hazardous and radioactive waste, down 3% from 261,000 tons disposed in the second quarter of 2012. Average selling price increased 13% during the second quarter of 2013 compared to the same quarter last year, reflecting a more favorable service mix.

US Ecology Michigan, which was acquired on May 31, 2012, contributed $3.4 million of total revenue during the second quarter of 2013, compared with $1.1 million in the second quarter of 2012. Revenue from US Ecology Michigan is excluded from quarterly percentages of Base and Event Business and customer category information in the following paragraphs.

During the second quarter of 2013, T&D revenue from recurring Base Business customers increased 5% compared to the second quarter of 2012 and comprised 63% of T&D revenue. This compared to 64% of T&D revenue in the second quarter of 2012. As discussed further below, the increase in Base Business T&D revenue compared to the prior year primarily reflects higher T&D revenue from our broker and refinery Base Business customer categories, partially offset by lower T&D revenue from our other industry Base Business customer category.

Event Business revenue in the second quarter of 2013 increased 7% as compared to the same quarter in 2012 and was 37% of T&D revenue for the second quarter of 2013. This compared to 36% of T&D revenue in the second quarter of 2012. As discussed further below, the increase in

Event Business T&D revenue compared to the prior year primarily reflects higher T&D revenue from our private clean-up and refinery Event Business customer categories, partially offset by lower T&D revenue from our government and broker Event Business customer categories.

The following table summarizes our T&D revenue growth (both Base and Event Business) by customer category for the second quarter of 2013 compared to the second quarter of 2012.

	Treatment and Disposal Revenue Growth Three Months Ended June 30, 2013 vs. Three Months Ended June 30, 2012
Private clean-up	113%
Refinery	75%
Rate regulated	4%
Broker	2%
Other industry	-7%
Government	-49%

Table of Contents

T&D revenue from private clean-up projects increased 113% in the second quarter of 2013 compared to the second quarter of 2012. This increase primarily reflects revenue from a closed nuclear fuel fabrication facility decommissioning project and an east coast clean-up project.

T&D revenue from our refinery customers increased 75% in the second quarter of 2013 compared to the second quarter of 2012. This increase primarily reflects higher disposal volumes and improved pricing on thermal recycling projects sourced directly from refinery customers.

Rate-regulated business at our Richland, Washington low-level radioactive waste disposal facility increased 4% in the second quarter of 2013 compared to the second quarter of 2012. Our Richland facility operates under a State-approved annual revenue requirement. The increase reflects the timing of revenue recognition for the rate-regulated portion of the business.

Our broker business increased 2% in the second quarter of 2013 compared to the second quarter of 2012. This increase was the result of shipments across the broad range of government and industry waste generators directly served by multiple broker customers, partially offset by lower volumes of brokered thermal recycling projects.

Our other industry revenue category decreased 7% in the second quarter of 2013 compared to the second quarter of 2012 as a result of reduced shipments from this broadly diverse industrial customer category.

Government clean-up business revenue decreased 49% in the second quarter of 2013 compared to the second quarter of 2012 due to reduced shipments from the U.S. Army Corps of Engineers (USACE). Event Business under our USACE contract contributed $1.4 million, or 3%, of total revenue in the second quarter of 2013 compared to $3.6 million, or 9%, of total revenue in the second quarter of 2012. Excluding transportation service revenue, T&D revenue with the USACE decreased approximately 62% in the second quarter of 2013 compared with the second quarter of 2012. This decrease was due to project-specific timing at multiple USACE clean-up sites and ongoing federal spending reductions. No USACE projects served by the Company were cancelled or, to our knowledge, awarded to competitors during the quarter. In May 2013, the Company received notice from USACE that they intend to exercise the two-year option on our base contract originally expiring in 2013.

Gross Profit. Gross profit for the second quarter of 2013 increased 9% to $18.9 million, up from $17.3 million in the second quarter of 2012. This increase primarily reflects a higher average selling price in the second quarter of 2013 compared to the second quarter of 2012. Gross margin was 41% in the second quarter of 2013, down from 43% in the second quarter of 2012. T&D gross margin was 49% in the second quarter of 2013 compared to 48% in the second quarter of 2012. The increase in T&D gross margin primarily reflects a more favorable service mix in the second quarter of 2013 compared to the second quarter of 2012.

Selling, General and Administrative (SG&A). SG&A expenses increased to $6.5 million, or 14% of total revenue, in the second quarter of 2013 compared with $6.4 million, or 16% of total revenue, in the second quarter of 2012. The increase primarily reflects higher payroll expenses, a contingency accrual associated with the U.S. EPA matter at our Robstown, Texas facility (refer to Note 11) and a full quarter of SG&A expenses related to Michigan operations in 2013, partially offset by lower variable incentive compensation and business development expenses.

Interest expense. Interest expense in the second quarter of 2013 was $222,000, up from $204,000 in the second quarter of 2012, primarily reflecting higher average debt levels in the second quarter of 2013.

Foreign Currency Gain (Loss). We recognized a $1.2 million non-cash foreign currency loss in the second quarter of 2013 compared with a $921,000 non-cash foreign currency loss in the second quarter of 2012. 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). 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 June 30, 2013, we had $42.8 million of intercompany loans subject to currency revaluation.

Other income. Other income includes non-operating business activities and unusual revenue and expenses. Other income in the second quarter of 2013 was $94,000, down from $522,000 in the second quarter of 2012. The decrease primarily reflects $474,000 of other income recorded in connection with the sale of an excess water right at our Grand View, Idaho property during the second quarter of 2012.

Income tax expense. Our effective tax rate for the second quarter of 2013 was 35.0%, down from 38.6% in the second quarter of 2012. This decrease reflects a higher proportion of earnings from our Canadian operations, which are taxed at a lower corporate tax rate, partially offset by higher U.S. state income taxes. As of June 30, 2013 we had unrecognized tax benefits of $438,000 that, if recognized would favorably affect the effective tax rate. As of June 30, 2013, we have recorded $36,000 of cumulative interest expense associated with this unrecognized tax benefit. We expect our full year effective income tax rate to be between 36.0% and 37.0%.

Table of Contents

SIX MONTHS ENDED JUNE 30, 2013 COMPARED TO SIX MONTHS ENDED JUNE 30, 2012

Revenue. Revenue increased 21% to $88.7 million for the first six months of 2013, up from $73.0 million for the first six months of 2012. This increase reflects a 14% increase in T&D revenue and a 92% increase in transportation service revenue compared to the first six months of 2012. The increase in transportation service revenue reflects more Event Business projects utilizing the Company s transportation and logistics services.

We disposed of 476,000 tons of hazardous and radioactive waste during both the first six months of 2013 and 2012. Average selling price increased 15% during the first six months of 2013 compared to the first six months of 2012, reflecting a higher proportion of treated waste in the first six months of 2013.

US Ecology Michigan, which was acquired on May 31, 2012, contributed $6.2 million of total revenue during the first six months of 2013, compared with $1.1 million in the second quarter of 2012. Revenue from US Ecology Michigan is excluded from quarterly percentages of Base and Event Business and customer category information in the following paragraphs.

During the first six months of 2013, T&D revenue from recurring Base Business customers increased 1% compared to the first six months of 2012 and comprised 63% of T&D revenue. This compared to 68% of T&D revenue in the first six months of 2012. As discussed further below, the increase in Base Business T&D revenue compared to the prior year primarily reflects higher T&D revenue from our broker and refinery Base Business customer categories, partially offset by lower T&D revenue from our other industry and governmental Base Business customer categories.

Event Business revenue in the first six months of 2013 increased 25% compared to the first six months in 2012 and was 37% of T&D revenue for the first six months of 2013. This compared to 32% of T&D revenue in the first six months of 2012. As discussed further below, the increase in Event Business T&D revenue compared to the prior year primarily reflects higher T&D revenue from our private clean-up and refinery Event Business customer categories, partially offset by lower T&D revenue from our government Event Business customer category.

The following table summarizes our T&D revenue growth (both Base and Event Business) by customer category for the first six months of 2013 compared to the first six months of 2012.

	Treatment and Disposal Revenue Growth Six Months Ended June 30, 2013 vs. Six Months Ended June 30, 2012
Private clean-up	121%
Refinery	51%
Rate regulated	9%
Broker	5%
Other industry	-9%
Government	-30%

T&D revenue from private clean-up projects increased 121% in the first six months of 2013 compared to the first six months of 2012. This increase primarily reflects revenue from a closed nuclear fuel fabrication facility decommissioning project and an east coast clean-up project.

T&D revenue from our refinery customers increased 51% in the first six months of 2013 compared to the first six months of 2012. This increase primarily reflects higher disposal volumes and improved pricing on thermal recycling projects sourced directly from refinery customers.

Rate-regulated business at our Richland, Washington low-level radioactive waste disposal facility increased 9% in the first six months of 2013 compared to the first six months of 2012. Our Richland facility operates under a State-approved annual revenue requirement. The increase reflects the timing of revenue recognition for the rate-regulated portion of the business.

Our broker business increased 5% in the first six months of 2013 compared to the first six months of 2012. This increase was the result of shipments across the broad range of government and industry waste generators directly served by multiple broker customers, partially offset by lower volumes of brokered thermal recycling projects.

Our other industry revenue category decreased 9% in the first six months of 2013 compared to the first six months of 2012 as a result of reduced shipments from this broadly diverse industrial customer category.

Government clean-up business revenue decreased 30% in the first six months of 2013 compared to the first six months of 2012 due to reduced shipments from USACE. Event Business under our USACE contract contributed $3.1 million, or 4%, of total revenue in the first six months of 2013 compared to $5.2 million, or 7%, of total revenue in the first six months of 2012. Excluding transportation service revenue, T&D revenue with the USACE decreased approximately 40% in the first six months of 2013 compared with the first six months of 2012. This decrease was due to project-specific timing at multiple USACE clean-up sites and ongoing federal spending reductions. No USACE projects served by the Company were cancelled or, to our knowledge, awarded to competitors during the first six months of 2013.

Table of Contents

Gross Profit. Gross profit for the first six months of 2013 increased 17% to $34.3 million, up from $29.4 million in the first six months of 2012. This increase primarily reflects a higher average selling price in the first six months of 2013 compared to the first six months of 2012. Gross margin was 39% in the first six months of 2013, down from 40% in the first six months of 2012. T&D gross margin was 46% in the first six months of 2013 compared to 45% in the first six months of 2012. The increase in T&D gross margin primarily reflects a more favorable service mix in the first six months of 2013 compared to the first six months of 2012.

Selling, General and Administrative. SG&A expenses increased to $12.2 million, or 14% of total revenue, in the first six months of 2013, compared with $12.0 million, or 16% of total revenue, in the first six months of 2012. The increase primarily reflects a full six months of SG&A expenses related to Michigan operations in 2013, higher payroll expenses and a contingency accrual associated with the U.S. EPA matter at our Robstown, Texas facility (refer to Note 11), partially offset by lower variable incentive compensation and business development expenses.

Interest expense. Interest expense in the first six months of 2013 was $443,000, up from $428,000 in the first six months of 2012, primarily reflecting higher average debt levels in the first six months of 2013.

Foreign Currency Gain (Loss). We recognized $2.1 million non-cash foreign currency loss in the first six months of 2013 compared with a $170,000 non-cash foreign currency gain in the first six months of 2012. 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. 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.

Other income. Other income includes non-operating business activities and unusual revenue and expenses. Other income in the first six months of 2013 was $191,000, down from $602,000 in the first six months of 2012. The decrease primarily reflects $474,000 of other income recorded in connection with the sale of an excess water right at our Grand View, Idaho property during the second quarter of 2012.

Income tax expense. Our effective tax rate for the first six months of 2013 was 35.9%, down from 38.8% in the first six months of 2012. This decrease reflects a higher proportion of earnings from our Canadian operations, which are taxed at a lower corporate tax rate, partially offset by higher U.S. state income taxes. As of June 30, 2013 we had unrecognized tax benefits of $438,000 that, if recognized would favorably affect the effective tax rate. As of June 30, 2013, we have recorded $36,000 of cumulative interest expense associated with this unrecognized tax benefit.

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, 2012.

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 June 30, 2013, we had $4.0 million in cash and cash equivalents immediately available for operations. 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, interest, and principal payments 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 provide additional sources of liquidity should they be required.

Operating Activities. For the six months ended June 30, 2013, net cash provided by operating activities was $17.7 million. This primarily reflects net income of $12.6 million, non-cash depreciation, amortization and accretion of $8.4 million and unrealized non-cash foreign currency losses of $2.4 million, partially offset by a decrease in accrued salaries and benefits of $2.4 million, a decrease in deferred income taxes of $1.7 million and a decrease in other working capital of $2.1 million. Impacts on net income are due to the factors discussed above under Results of Operations. The decrease in accrued salaries and benefits is primarily attributable to cash payments during 2013 for accrued fiscal year 2012 incentive compensation.

Days sales outstanding were 67 days as of June 30, 2013, compared to 61 days at December 31, 2012 and 68 days at June 30, 2012.

Table of Contents

For the six months ended June 30, 2012, net cash provided by operating activities was $15.6 million. This primarily reflects net income of $10.9 million and depreciation and amortization and accretion of $8.2 million, partially offset by a decrease in accounts payable and accrued liabilities of $3.7 million. Impacts on net income are due to the factors discussed above under Results of Operations. The decrease in accounts payable and accrued liabilities is primarily attributable to the payment of fiscal 2011 accrued customer refunds related to our rate-regulated business in Richland, Washington.

Investing Activities. For the six months ended June 30, 2013, net cash used in investing activities was $12.5 million, primarily related to capital expenditures. Significant capital projects included the purchase of land for future site development at our Robstown, Texas location, relocation of administrative offices at our Beatty, Nevada location to accommodate disposal capacity expansion, construction of additional disposal capacity at our Blainville, Quebec, Canada location and equipment purchases and infrastructure upgrades at all of our operating disposal facilities.

For the six months ended June 30, 2012, net cash used in investing activities was $16.8 million, primarily related to our acquisition of US Ecology Michigan for $11.2 million, net of cash acquired, and capital expenditures of $5.7 million. Significant capital projects included construction of additional disposal capacity at our Grand View, Idaho and Blainville, Quebec, Canada locations and equipment purchases at our operating disposal facilities.

Financing Activities. For the six months ended June 30, 2013, net cash used in financing activities was $3.1 million, consisting primarily of $3.3 million of dividend payments to our stockholders and $2.0 million of net repayments under the Credit Agreement, partially offset by $2.1 million of proceeds from stock option exercises.

For the six months ended June 30, 2012, net cash provided by financing activities was $2.7 million, consisting primarily of $22.0 million of borrowings under the Credit Agreement incurred primarily to finance the US Ecology Michigan acquisition, partially offset by repayments under the Credit Agreement of $12.5 million and $6.6 million of dividend payments to our stockholders.

CONTRACTUAL OBLIGATIONS AND GUARANTEES

In May 2013, we executed a new lease for corporate office space in Boise, Idaho. Future minimum lease payments on this non-cancelable operating lease as of June 30, 2013 consisted of the following:

$s in thousands		**Payments**
2013	$	34
2014		245
2015		301
2016		310
2017		318
Thereafter		382
	$	1,590

There were no other material changes in the amounts of our contractual obligations and guarantees during the six months ended June 30, 2013. For detailed information on our contractual obligations and guarantees, refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to changes in interest rates as a result of our borrowings under the Credit Agreement with Wells Fargo. Under the Credit Agreement, revolving loans are available based on the Prime Rate or LIBOR, at the Company s option, plus an applicable margin determined according to a pricing grid under which the interest rate decreases or increases based on our ratio of funded debt to EBITDA. At June 30, 2013, we had $43.0 million of borrowings on the Reducing Revolving Line of Credit bearing an interest rate of 1.44%. If interest rates were to rise, we would be subject to higher interest payments if outstanding balances remain unchanged. Based on the outstanding indebtedness of $43.0 million under our Credit Agreement at June 30, 2013, 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 $430,000.

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 six months ended June 30, 2013, Stablex transacted approximately 60% 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 June 30, 2013, we had $42.8 million of intercompany loans outstanding between Stablex and US Ecology. During the six months ended June 30, 2013, the CAD weakened as compared to the USD resulting in a $2.6 million non-cash foreign currency translation loss being recognized in the Company s Consolidated Statement of Operations related to the intercompany loans. Based on intercompany balances as of June 30, 2013, a $0.01 CAD increase or decrease in currency rate compared to the USD at June 30, 2013 would have generated a gain or loss of approximately $428,000 for the six months ended June 30, 2013.

We had total pre-tax foreign currency losses of $1.2 million and $2.1 million for the three and six months ended June 30, 2013, respectively. 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 June 30, 2013. 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 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, fluctuations in foreign currency markets, 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, adverse economic conditions, government funding or competitive pressures, incidents or adverse weather conditions that could limit or suspend specific operations, access to cost effective transportation services, lawsuits, market conditions, our willingness or ability to pay dividends, implementation of new technologies and our ability to effectively close 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.

ITEM 1. LEGAL PROCEEDINGS

In 2012, we settled allegations by the United States Environment Protection Agency (U.S. EPA) that the thermal recycling operation at our Robstown, Texas facility did not comply with certain rules and regulations of the Resource Conservation and Recovery Act of 1976 (RCRA). As part of the settlement, we agreed to pay a civil penalty and to submit an application to the State of Texas for a RCRA subpart X permit. The Company and the thermal recycling unit s owner-operator also agreed to a set of interim operating conditions that allow the facility to continue providing recycling services to customers until the RCRA Subpart X permit is issued.

In connection with this matter, in June 2013 the U.S. EPA asserted various related technical compliance and permitting violations of the Clean Air Act of 1970. Although negotiations on the merits of a proposed settlement are ongoing with the U.S. EPA, we recognized a charge of $238,000 during the second quarter of 2013 in Selling, general and administrative expenses in the Consolidated Statement of Operations related to this matter.

Other than as disclosed above, we are not currently a party to any material pending legal proceedings and are not aware of any other claims that could have a materially adverse effect on our financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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

None.

ITEM 6. EXHIBITS

10.63	Management Incentive Plan (Executive) Effective January 1, 2013*
10.64	Executive Sales Incentive Plan Effective January 1, 2013*
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 June 30, 2013 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

* Identifies management contracts or compensatory plans or arrangements required to be filed as an exhibit hereto.

28

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: August 1, 2013

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