

AMERICAN ECOLOGY CORP

Form 10-Q

April 30, 2008

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

FORM 10-Q

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

For the Quarterly Period Ended: March 31, 2008

Commission File Number: 0-11688

AMERICAN ECOLOGY CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware

95-3889638

(State of Incorporation)

(I.R.S. Employer Identification Number)

Lakepointe Centre I,
300 E. Mallard, Suite 300
Boise, Idaho

83706

(Address of Principal Executive Offices)

(Zip Code)

(208) 331-8400

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

(Do not check if smaller reporting company)

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

Yes No

The number of shares of the registrant's common stock, \$0.01 par value, outstanding as of April 29, 2008 was 18,246,240.

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AMERICAN ECOLOGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

| | March 31, 2008 (unaudited) | December 31, 2007 |
|---|---|------------------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 9,365 | \$ 12,563 |
| Short-term investments | 999 | 2,209 |
| Receivables, net | 37,998 | 29,422 |
| Prepaid expenses and other current assets | 3,039 | 3,034 |
| Income tax receivable | | 994 |
| Deferred income taxes | 896 | 667 |
| Total current assets | 52,297 | 48,889 |
| Property and equipment, net | 64,303 | 63,306 |
| Restricted cash | 4,818 | 4,881 |
| Total assets | \$ 121,418 | \$ 117,076 |
| Liabilities and Stockholders Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 4,813 | \$ 4,861 |
| Deferred revenue | 4,214 | 4,491 |
| Accrued liabilities | 5,352 | 6,267 |
| Accrued salaries and benefits | 1,699 | 2,613 |
| Income tax payable | 2,874 | |
| Current portion of closure and post-closure obligations | 1,314 | 803 |
| Current portion of capital lease obligations | 10 | 8 |
| Total current liabilities | 20,276 | 19,043 |
| Long-term closure and post-closure obligations | 13,965 | 14,331 |
| Long-term capital lease obligations | 28 | 27 |
| Deferred income taxes | 716 | 577 |
| Total liabilities | 34,985 | 33,978 |
| Contingencies and commitments | | |

Stockholders Equity

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| | | |
|---|-------------------|-------------------|
| Common stock \$0.01 par value, 50,000 authorized; 18,246 and 18,246 shares issued and outstanding, respectively | 182 | 182 |
| Additional paid-in capital | 59,020 | 58,816 |
| Retained earnings | 27,231 | 24,100 |
| Total stockholders' equity | 86,433 | 83,098 |
| Total liabilities and stockholders' equity | \$ 121,418 | \$ 117,076 |

See Notes to Consolidated Financial Statements.

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AMERICAN ECOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

| | Three Months Ended | |
|--|---------------------------|-----------------|
| | March 31, | |
| | 2008 | 2007 |
| Revenue | \$ 46,219 | \$ 38,964 |
| Transportation costs | 22,058 | 17,171 |
| Other direct operating costs | 10,717 | 10,279 |
| | | |
| Gross profit | 13,444 | 11,514 |
| Selling, general and administrative expenses | 3,919 | 3,599 |
| Operating income | 9,525 | 7,915 |
| Other income (expense): | | |
| Interest income | 63 | 211 |
| Interest expense | (1) | (1) |
| Other | 65 | 4 |
| Total other income | 127 | 214 |
| Income before income taxes | 9,652 | 8,129 |
| Income tax | 3,784 | 3,194 |
| Net income | \$ 5,868 | \$ 4,935 |
| | | |
| Earnings per share: | | |
| Basic | \$ 0.32 | \$ 0.27 |
| Dilutive | \$ 0.32 | \$ 0.27 |
| Shares used in earnings per share calculation: | | |
| Basic | 18,229 | 18,209 |
| Dilutive | 18,277 | 18,253 |
| Dividends paid per share | \$ 0.15 | \$ 0.15 |

See Notes to Consolidated Financial Statements.

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AMERICAN ECOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2008 | 2007 |
| Cash Flows From Operating Activities: | | |
| Net income | \$ 5,868 | \$ 4,935 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, amortization and accretion | 2,838 | 2,351 |
| Deferred income taxes | (90) | 1,650 |
| Stock-based compensation expense | 201 | 143 |
| Accretion of interest income | (14) | (60) |
| Net gain on sale of property and equipment | (2) | |
| Changes in assets and liabilities: | | |
| Receivables | (8,576) | (1,432) |
| Income tax receivable | 994 | 650 |
| Other assets | (5) | (238) |
| Accounts payable and accrued liabilities | (1,026) | (587) |
| Deferred revenue | (277) | 57 |
| Accrued salaries and benefits | (914) | (453) |
| Income tax payable | 2,874 | 673 |
| Closure and post-closure obligations | (164) | (119) |
| Net cash provided by operating activities | 1,707 | 7,570 |
| Cash Flows From Investing Activities: | | |
| Purchases of property and equipment | (3,464) | (3,775) |
| Purchases of short-term investments | (992) | (11,943) |
| Maturities of short-term investments | 2,216 | 10,364 |
| Restricted cash | 63 | (61) |
| Proceeds from sale of property and equipment | 9 | |
| Net cash used in investing activities | (2,168) | (5,415) |
| Cash Flows From Financing Activities: | | |
| Dividends paid | (2,737) | (2,734) |
| Tax benefit of common stock options | 2 | 216 |
| Proceeds from stock option exercises | 1 | 326 |
| Other | (3) | (2) |
| Net cash used in financing activities | (2,737) | (2,194) |
| Decrease in cash and cash equivalents | (3,198) | (39) |
| Cash and cash equivalents at beginning of period | 12,563 | 3,775 |

| | | | | |
|---|----|-------|----|-------|
| Cash and cash equivalents at end of period | \$ | 9,365 | \$ | 3,736 |
| Supplemental Disclosures | | | | |
| Income taxes paid | \$ | 4 | \$ | 3 |
| Interest paid | | 1 | | 1 |
| Non-cash investing and financing activities: | | | | |
| Capital expenditures in accounts payable | | 474 | | 953 |
| Acquisition of equipment with capital leases | | 6 | \$ | |
| See Notes to Consolidated Financial Statements. | | | | |

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AMERICAN ECOLOGY CORPORATION
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 American Ecology Corporation and its wholly-owned subsidiaries (collectively, AEC or the Company). All material intercompany balances have been eliminated.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments necessary to present fairly, in all material respects, the results of the Company for the periods presented. These consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company s 2007 Annual Report on Form 10-K filed with the SEC on February 27, 2008. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of results to be expected for the entire fiscal year.

The Company s Consolidated Balance Sheet as of December 31, 2007 has been derived from the Company s audited Consolidated Balance Sheet as of that date.

Use of Estimates

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

NOTE 2 EFFECT OF RECENTLY ISSUED ACCOUNTING STANDARDS

SFAS 157. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 applies to other existing accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. While SFAS 157 does not require any new fair value measurements, its application may change the current practice for fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On February 8, 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 for nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. The adoption of SFAS 157 for financial assets and liabilities in the first quarter of 2008 had no impact on our consolidated financial statements. We are currently evaluating the impact of SFAS 157 for non-financial assets and liabilities.

SFAS 159. In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159) which permits entities to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and was adopted by the Company beginning in the first quarter of fiscal 2008. The adoption of SFAS 159 had no impact on our consolidated financial statements.

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SFAS 141 R. In December 2007, the FASB issued SFAS 141(revised 2007), *Business Combinations* (SFAS 141 R) which establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree in a business combination. SFAS 141 R requires that assets and liabilities, including contingencies, be recorded at the fair value determined on the acquisition date with changes thereafter reflected in results of operations, as opposed to goodwill. Additionally, SFAS 141 R modifies the treatment of restructuring costs associated with a business combination and requires acquisition costs to be expensed as incurred. The statement also provides guidance on disclosures related to the nature and financial impact of the business combination. SFAS 141 R is effective for transactions closing after December 15, 2008 and for fiscal years beginning after December 15, 2008. SFAS 141 R will be adopted for business combinations entered into by the Company after December 31, 2008. Although the Company will continue to evaluate the application of SFAS 141 R, we do not currently believe adoption will have a material impact on our consolidated financial statements.

SFAS 160. In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS 160). This statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective prospectively, except for certain retrospective disclosure requirements, for fiscal years beginning after December 15, 2008. This statement will be effective for the Company beginning in the first quarter of 2009. Although the Company will continue to evaluate the application of SFAS 160, we do not currently believe adoption of SFAS 160 will have a material impact on our consolidated financial statements.

SFAS 161. In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 expands quarterly disclosure requirements in SFAS 133 about an entity s derivative instruments and hedging activities. SFAS is effective for fiscal years beginning after November 15, 2008. This statement will be effective for the Company beginning in the first quarter of 2009. Although the Company will continue to evaluate the application of SFAS 161, we do not currently believe the adoption will have a material impact on our consolidated financial statements.

NOTE 3 CONCENTRATION AND CREDIT RISK

Major Customers. During the three months ended March 31, 2008 and 2007, Honeywell International, Inc. (Honeywell) represented 38% and 37% of our consolidated revenue, with no other single customer representing more than 10% of our consolidated revenue. The Company has a long-term contract with Honeywell for transportation, treatment and disposal of hazardous waste for a clean-up project presently estimated to conclude in November 2009. Receivables from Honeywell represented 49% of our total trade receivables at March 31, 2008 and 50% of total receivables at December 31, 2007. No other customer s receivable balances exceeded 10% of our total trade receivables at March 31, 2008 or December 31, 2007.

Credit Risk Concentration. We maintain most of our cash and short-term investments with Wells Fargo Bank. Substantially all balances are uninsured and are not used as collateral for other obligations. Short-term investments consist of high-quality commercial paper currently with a maximum maturity of approximately three months. 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, except for receivables from Honeywell for which significant credit risk exists. Credit risk on Honeywell receivables is partially mitigated by court orders requiring that Honeywell perform activities covered by our contract. Typically, we have not required customers to provide collateral for such obligations.

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Short-term investments, which are accounted for as available-for-sale, were as follows:

| <i>(in thousands)</i> | March 31, 2008 | December 31, 2007 |
|---------------------------|---------------------------|------------------------------|
| Fixed maturity securities | | |
| Commercial paper | \$ 999 | \$ 2,209 |
| Total | \$ 999 | \$ 2,209 |

NOTE 5 RECEIVABLES

Receivables were as follows:

| <i>(in thousands)</i> | March 31, 2008 | December 31, 2007 |
|---------------------------------|---------------------------|------------------------------|
| Trade | \$ 36,928 | \$ 28,821 |
| Unbilled revenue | 999 | 613 |
| Other | 205 | 122 |
| | 38,132 | 29,556 |
| Allowance for doubtful accounts | (134) | (134) |
| | \$ 37,998 | \$ 29,422 |

NOTE 6 PROPERTY AND EQUIPMENT

| <i>(in thousands)</i> | March 31, 2008 | December 31, 2007 |
|---|---------------------------|------------------------------|
| Cell development costs | \$ 36,551 | \$ 32,492 |
| Land and improvements | 8,910 | 8,858 |
| Buildings and improvements | 27,204 | 26,547 |
| Railcars | 17,375 | 17,375 |
| Vehicles and other equipment | 19,938 | 19,823 |
| Construction in progress | 5,310 | 6,676 |
| | 115,288 | 111,771 |
| Accumulated depreciation and amortization | (50,985) | (48,465) |
| | \$ 64,303 | \$ 63,306 |

Depreciation expense for the three months ended March 31, 2008 and 2007 was \$2.5 million and \$2.1 million, respectively.

NOTE 7 RESTRICTED CASH

Restricted cash balances of \$4.8 million and \$4.9 million at March 31, 2008 and December 31, 2007, respectively, represent funds held in third-party managed trust accounts as collateral for our financial assurance policies for closure and post-closure obligations. These restricted cash balances are maintained by third-party trustees and are invested in

money market accounts.

NOTE 8 LINE OF CREDIT

We have a line of credit with Wells Fargo Bank for \$15.0 million with a maturity date of June 15, 2008. The line of credit is unsecured. Monthly interest only payments are paid based on a pricing grid, under which the interest rate decreases or increases based on our ratio of funded debt to earnings before interest, taxes, depreciation and amortization. We can elect to borrow utilizing the Prime Rate or the offshore London Inter-Bank Offering Rate (LIBOR) plus an applicable spread. The credit agreement contains certain quarterly financial covenants, including a maximum leverage ratio, a minimum current ratio, a maximum funded debt ratio and a minimum fixed-charge coverage ratio that we are required to maintain. Pursuant to our credit agreement, we may only declare quarterly or annual dividends if on the date of declaration, no event of default has occurred, or no other event or condition that would constitute an event of default, including the payment of the dividend, has occurred. At March 31, 2008, we were in compliance with all of the financial covenants in the credit agreement. We expect to enter into a new unsecured line-of-credit agreement prior to the expiration of our existing line-of-credit agreement in June 2008.

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At March 31, 2008 and December 31, 2007, we had no amounts outstanding on the revolving line of credit. At March 31, 2008 and December 31, 2007, the availability under the line of credit was \$11.0 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.

NOTE 9 CLOSURE AND POST-CLOSURE OBLIGATIONS

Closure and post-closure obligations are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated consistent with SFAS No. 5, *Accounting for Contingencies* and with the liability calculated in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations*. We perform periodic reviews of both non-operating and operating facilities and revise accruals for estimated post-closure, remediation and other costs when necessary. Our recorded liabilities are based on best estimates of future costs and are updated periodically to reflect existing environmental conditions, current technology, laws and regulations, permit conditions, inflation and other factors.

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

| <i>(in thousands)</i> | Three Months Ended March 31, 2008 | |
|-----------------------|--|---------|
| Beginning obligation | \$ | 15,134 |
| Accretion expense | | 309 |
| Payments | | (164) |
| Ending obligation | | 15,279 |
| Less current portion | | (1,314) |
| Long-term portion | \$ | 13,965 |

NOTE 10 INCOME TAXES

As of March 31, 2008 and December 31, 2007, we had no unrecognized tax benefits. We recognize interest assessed by taxing authorities as a component of interest expense. We recognize any penalties assessed by taxing authorities as a component of selling, general and administrative expenses. Interest and penalties for the three months ended March 31, 2008 and 2007 were not material.

Our effective income tax rate for three months ended March 31, 2008 was 39.2% compared to 39.3% for the three months ended March 31, 2007.

We file U.S. federal income tax returns with the Internal Revenue Service (IRS) as well as income tax returns in various states. We may be subject to examination by the IRS for tax years 2003 through 2007. Additionally, we may be subject to examinations by various state taxing jurisdictions for tax years 2002 through 2007. We are currently not under examination by the IRS or state taxing jurisdictions.

NOTE 11 COMMITMENTS AND CONTINGENCIES

In the ordinary course of conducting business, we are involved in judicial and administrative proceedings involving federal, state or local governmental authorities. Actions may also be brought by individuals or groups in connection with permitting of planned facility expansions, 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 fees expected to be incurred in connection therewith. As of March 31, 2008, we did not have any ongoing, pending or threatened legal action that management believes would have a material adverse effect on our financial position, results of operations or cash flows.

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| <i>(in thousands, except per share data)</i> | Three Months Ended March 31, | | | |
|---|-------------------------------------|----------------|--------------|----------------|
| | 2008 | | 2007 | |
| | Basic | Diluted | Basic | Diluted |
| Net income | \$ 5,868 | \$ 5,868 | \$ 4,935 | \$ 4,935 |
| Weighted average common shares outstanding | 18,229 | 18,229 | 18,209 | 18,209 |
| Dilutive effect of stock options and restricted stock | | 48 | | 44 |
| Weighted average shares outstanding | | 18,277 | | 18,253 |
| Earnings per share | \$ 0.32 | \$ 0.32 | \$ 0.27 | \$ 0.27 |
| Anti-dilutive shares excluded from calculation | | 144 | | 158 |

NOTE 13 OPERATING SEGMENTS

We operate within two segments, Operating Disposal Facilities and Non-Operating Disposal Facilities. The Operating Disposal Facilities segment represents facilities currently accepting waste. The Non-Operating Disposal Facilities segment represents facilities that are no longer accepting waste or formerly proposed new disposal facilities. Income taxes are assigned to Corporate, but all other items are included in the segment where they originated. Intercompany 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:

| <i>(in thousands)</i> | Operating Disposal Facilities | Non- Operating Disposal Facilities | Corporate | Total |
|--|--|---|------------------|--------------|
| Three months ended March 31, 2008 | | | | |
| Revenue | \$ 46,215 | \$ 4 | \$ | \$ 46,219 |
| Transportation costs | 22,058 | | | 22,058 |
| Other direct operating costs | 10,645 | 72 | | 10,717 |
| Gross profit | 13,512 | (68) | | 13,444 |
| Selling, general & administration | 1,322 | | 2,597 | 3,919 |
| Operating income (loss) | 12,190 | (68) | (2,597) | 9,525 |
| Interest income, net | (1) | | 63 | 62 |
| Other income | 65 | | | 65 |
| Income (loss) before tax | 12,254 | (68) | (2,534) | 9,652 |
| Tax expense | | | 3,784 | 3,784 |
| Net income (loss) | \$ 12,254 | \$ (68) | \$ (6,318) | \$ 5,868 |
| Depreciation, amortization & accretion | \$ 2,755 | \$ 72 | \$ 11 | |