AMERICAN ECOLOGY CORP
Form 10-Q
August 01, 2008

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: June 30, 2008	Commission File Number: 0-11688

AMERICAN ECOLOGY CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State of Incorporation)	95-3889638 (I.R.S. Employer Identification Number)
Lakepointe Centre I, 300 E. Mallard, Suite 300 Boise, Idaho (Address of Principal Executive Offices)	83706 (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 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 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 Exchange Act).

Yes o No x

The number of shares of the registrant’s common stock, $0.01 par value, outstanding as of July 31, 2008 was 18,251,740.

AMERICAN ECOLOGY CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

		June 30, 2008 (unaudited)		December 31, 2007
Assets				
Current Assets:				
Cash and cash equivalents	$	18,517	$	12,563
Short-term investments		-		2,209
Receivables, net		31,684		29,422
Prepaid expenses and other current assets		2,999		3,034
Income tax receivable		-		994
Deferred income taxes		1,058		667
Total current assets		54,258		48,889
Property and equipment, net		67,294		63,306
Restricted cash		4,846		4,881
Total assets	$	126,398	$	117,076
Liabilities and Stockholders' Equity				
Current Liabilities:				
Accounts payable	$	7,743	$	4,861
Deferred revenue		5,389		4,491
Accrued liabilities		3,781		6,267
Accrued salaries and benefits		2,316		2,613
Income tax payable		38		-
Current portion of closure and post-closure obligations		1,646		803
Current portion of capital lease obligations		10		8
Total current liabilities		20,923		19,043
Long-term closure and post-closure obligations		13,598		14,331
Long-term capital lease obligations		26		27
Deferred income taxes		1,792		577
Total liabilities		36,339		33,978
Contingencies and commitments				
Stockholders' Equity				

Common stock $0.01 par value, 50,000 authorized; 18,252 and 18,246 shares issued and outstanding, respectively		183		182
Additional paid-in capital		59,273		58,816
Retained earnings		30,603		24,100
Total stockholders' equity		90,059		83,098
Total liabilities and stockholders' equity	$	126,398	$	117,076

See Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenue	$ 44,516	$ 41,267	$ 90,735	$ 80,231
Transportation costs	19,251	19,760	41,309	36,931
Other direct operating costs	11,687	9,854	22,404	20,133
Gross profit	13,578	11,653	27,022	23,167
Selling, general and administrative expenses	3,732	3,474	7,651	7,073
Operating income	9,846	8,179	19,371	16,094
Other income (expense):				
Interest income	111	150	174	361
Interest expense	(3)	(1)	(4)	(2)
Other	94	48	159	52
Total other income	202	197	329	411
Income before income taxes	10,048	8,376	19,700	16,505
Income tax	3,938	3,292	7,722	6,486
Net income	$ 6,110	$ 5,084	$ 11,978	$ 10,019
Earnings per share:				
Basic	$ 0.34	$ 0.28	$ 0.66	$ 0.55
Dilutive	$ 0.33	$ 0.28	$ 0.66	$ 0.55
Shares used in earnings per share calculation:				
Basic	18,232	18,216	18,230	18,213
Dilutive	18,295	18,254	18,286	18,254
Dividends paid per share	$ 0.15	$ 0.15	$ 0.30	$ 0.30

See Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash Flows From Operating Activities:		
Net income	$ 11,978	$ 10,019
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	5,671	4,681
Deferred income taxes	824	1,501
Stock-based compensation expense	415	278
Accretion of interest income	(15)	(107)
Net loss (gain) on sale of property and equipment	4	(48)
Changes in assets and liabilities:		
Receivables	(2,262)	(5,277)
Income tax receivable	994	650
Other assets	35	(1,310)
Accounts payable and accrued liabilities	(1,320)	685
Deferred revenue	898	413
Accrued salaries and benefits	(297)	32
Income tax payable	38	334
Closure and post-closure obligations	(507)	(274)
Net cash provided by operating activities	16,456	11,577
Cash Flows From Investing Activities:		
Purchases of property and equipment	(7,335)	(8,551)
Purchases of short-term investments	(992)	(18,341)
Maturities of short-term investments	3,216	20,323
Restricted cash	35	(100)
Proceeds from sale of property and equipment	11	15
Net cash used in investing activities	(5,065)	(6,654)
Cash Flows From Financing Activities:		
Dividends paid	(5,475)	(5,467)
Proceeds from stock option exercises	23	326
Tax benefit of common stock options	20	201
Other	(5)	(3)
Net cash used in financing activities	(5,437)	(4,943)
Increase (decrease) in cash and cash equivalents	5,954	(20)
Cash and cash equivalents at beginning of period	12,563	3,775
Cash and cash equivalents at end of period	$ 18,517	$ 3,755
Supplemental Disclosures		

Income taxes paid	$	5,848	$	3,803
Interest paid		3		2
Non-cash investing and financing activities:				
Capital expenditures in accounts payable		2,127		975
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 and six months ended June 30, 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. In February 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 significant 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.

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.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles in the United States. This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. Although the Company will continue to evaluate the application of SFAS 162, we do not currently believe the adoption of SFAS 162 will have a material impact on our consolidated financial statements.

NOTE 3 – CONCENTRATION AND CREDIT RISK

Major Customers. The following customers represented 10% or more of our revenue during the three and six months ended June 30, 2008 and 2007.

Customer	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Honeywell International, Inc.	40%	40%
Molycorp, Inc.	6%	12%
	Six Months Ended	Six Months Ended

Customer	June 30, 2008	June 30, 2007
Honeywell International, Inc.	39%	38%

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 48% of our total trade receivables at June 30, 2008 and 50% of total trade receivables at December 31, 2007. No other customer's receivable balances exceeded 10% of our total trade receivables at June 30, 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.

NOTE 4 – RECEIVABLES

Receivables were as follows:

(in thousands)		June 30, 2008		December 31, 2007
Trade	$	30,130	$	28,821
Unbilled revenue		853		613
Other		832		122
		31,815		29,556
Allowance for doubtful accounts		(131)		(134)
	$	31,684	$	29,422

NOTE 5 – PROPERTY AND EQUIPMENT

(in thousands)		June 30, 2008		December 31, 2007
Cell development costs	$	38,661	$	32,492
Land and improvements		8,910		8,858
Buildings and improvements		27,237		26,547
Railcars		17,375		17,375
Vehicles and other equipment		20,675		19,823
Construction in progress		7,907		6,676
		120,765		111,771
Accumulated depreciation and amortization		(53,471)		(48,465)
	$	67,294	$	63,306

Depreciation expense for the three months ended June 30, 2008 and 2007 was $2.5 million and $2.1 million, respectively. Depreciation expense for the six months ended June 30, 2008 and 2007 was $5.1 million and $4.2 million, respectively.

NOTE 6 – RESTRICTED CASH

Restricted cash balances of $4.8 million and $4.9 million at June 30, 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 7 – LINE OF CREDIT

On June 30, 2008, we entered into a new $15.0 million unsecured revolving line of credit (the "Revolving Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"). The Revolving Credit Agreement expires on June 15, 2010 and replaced the Company's expired Amended and Restated Credit Agreement. 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 offshore London Inter-Bank Offering Rate ("LIBOR") plus an applicable spread or the prime rate. The credit agreement contains certain quarterly financial covenants, including a maximum leverage ratio, a maximum funded debt ratio and a minimum required tangible net worth. 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 has occurred that would constitute an event of default after giving effect to the payment of the dividend. At June 30, 2008, we were in compliance with all of the financial covenants in the credit agreement.

At June 30, 2008 and December 31, 2007, we had no amounts outstanding on the revolving line of credit. At June 30, 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 8 – 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:

(in thousands)	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Beginning obligation	$ 15,279	$ 15,134
Accretion expense	308	617
Payments	(447)	(611)
Adjustments	104	104
Ending obligation	15,244	15,244
Less current portion	(1,646)	(1,646)
Long-term portion	$ 13,598	$ 13,598

NOTE 9 – INCOME TAXES

As of June 30, 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 and six months ended June 30, 2008 and 2007 were not material.

Our effective income tax rate for the three and six months ended June 30, 2008 was 39.2%, compared to 39.3% for the three and six months ended June 30, 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 10 – COMMITMENTS AND CONTINGENCIES

In the ordinary course of 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 regarding the 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 June 30, 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.

NOTE 11 – COMPUTATION OF EARNINGS PER SHARE

(in thousands, except per share data)	Three Months Ended June 30,			
	2008		2007	
	Basic	Diluted	Basic	Diluted
Net income	$ 6,110	$ 6,110	$ 5,084	$ 5,084
Weighted average common shares outstanding	18,232	18,232	18,216	18,216
Dilutive effect of stock options and restricted stock		63		38
Weighted average shares outstanding		18,295		18,254
Earnings per share	$ 0.34	$ 0.33	$ 0.28	$ 0.28
Anti-dilutive shares excluded from calculation		31		153

(in thousands, except per share data)	Six Months Ended June 30,			
	2008		2007	
	Basic	Diluted	Basic	Diluted
Net income	$ 11,978	$ 11,978	$ 10,019	$ 10,019
Weighted average common shares outstanding	18,230	18,230	18,213	18,213
Dilutive effect of stock options and restricted stock		56		41
Weighted average shares outstanding		18,286		18,254

Earnings per share	$	0.66	$	0.66	$	0.55	$	0.55
Anti-dilutive shares excluded from calculation				88				153

NOTE 12 – 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.

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:

(in thousands)	Operating Disposal Facilities	Non-Operating Disposal Facilities	Corporate	Total
Three months ended June 30, 2008				
Revenue	$ 44,510	$ 6	$ -	$ 44,516
Transportation costs	19,251	-	-	19,251
Other direct operating costs	11,476	179	32	11,687
Gross profit	13,783	(173)	(32)	13,578
Selling, general & administration	1,253	-	2,479	3,732
Operating income (loss)	12,530	(173)	(2,511)	9,846
Interest income, net	-	-	108	108
Other income	93	-	1	94
Income (loss) before tax	12,623	(173)	(2,402)	10,048
Tax expense	-	-	3,938	3,938
Net income (loss)	$ 12,623	$ (173)	$ (6,340)	$ 6,110
Depreciation, amortization & accretion	$ 2,749	$ 71	$ 13	$ 2,833
Capital expenditures	$ 3,857	$ -	$ 14	$ 3,871
Total assets	$ 99,265	$ 58	$ 27,075	$ 126,398

(in thousands)	Operating Disposal Facilities	Non-Operating Disposal Facilities	Corporate	Total
Three months ended June 30, 2007				
Revenue	$ 41,261	$ 6	$ -	$ 41,267
Transportation costs	19,760	-	-	19,760
Other direct operating costs	9,744	110	-	9,854
Gross profit	11,757	(104)	-	11,653
Selling, general & administration	1,291	-	2,183	3,474
Operating income (loss)	10,466	(104)	(2,183)	8,179
Interest income, net	3	-	146	149
Other income	(18)	66	-	48
Income (loss) before tax	10,451	(38)	(2,037)	8,376
Tax expense	-	-	3,292	3,292

Net income (loss)	$ 10,451	$ (38)	$ (5,329)	$ 5,084
Depreciation, amortization & accretion	$ 2,243	$ 78	$ 9	$ 2,330
Capital expenditures	$ 4,771	$ 2	$ 3	$ 4,776
Total assets	$ 93,363	$ 125	$ 17,691	$ 111,179

(in thousands)	Operating Disposal Facilities	Non-Operating Disposal Facilities	Corporate	Total
Six months ended June 30, 2008				