

US ECOLOGY, INC.  
Form 10-Q  
November 08, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the Quarterly Period Ended: September 30, 2011**

or

**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: 0-11688**

# US ECOLOGY, INC.

(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 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller Reporting Company   
(Do not check if 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 November 4, 2011 was 18,317,514.



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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****US ECOLOGY, INC.****CONSOLIDATED BALANCE SHEETS****(in thousands, except per share amounts)****(unaudited)**

|   | September 30, 2011 | December 31, 2010 |
|---|--------------------|-------------------|
| <b>Assets</b>   |                    |                   |
| Current Assets:   |                    |                   |
| Cash and cash equivalents                               | \$ 6,059           | \$ 6,342          |
| Receivables, net  | 28,708             | 33,553            |
| Prepaid expenses and other current assets               | 2,709              | 2,635             |
| Income taxes receivable                                 | 29                 |                   |
| Deferred income taxes                                   | 872                | 455               |
| Total current assets                                    | 38,377             | 42,985            |
| Property and equipment, net                             | 101,038            | 105,822           |
| Restricted cash   | 4,115              | 4,115             |
| Intangible assets, net                                  | 38,863             | 41,740            |
| Goodwill  | 20,815             | 21,790            |
| Other assets  | 721                | 897               |
| Total assets  | \$ 203,929         | \$ 217,349        |
| <b>Liabilities and Stockholders Equity</b>              |                    |                   |
| Current Liabilities:                                    |                    |                   |
| Accounts payable  | \$ 5,516           | \$ 5,033          |
| Deferred revenue  | 4,076              | 3,620             |
| Accrued liabilities                                     | 9,031              | 8,188             |
| Accrued salaries and benefits                           | 4,459              | 4,051             |
| Income taxes payable                                    | 971                | 2,615             |
| Current portion of closure and post-closure obligations | 2,462              | 778               |
| Current portion of capital lease obligations            | 3                  | 7                 |
| Total current liabilities                               | 26,518             | 24,292            |
| Long-term closure and post-closure obligations          | 14,788             | 15,995            |
| Long-term capital lease obligations                     | 1                  | 3                 |
| Reducing revolving line of credit                       | 48,000             | 63,000            |
| Other long-term liabilities                             | 157                | 201               |
| Unrecognized tax benefits                               | 429                |                   |
| Deferred income taxes                                   | 18,068             | 19,146            |

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|   |            |            |
|---|------------|------------|
| Total liabilities   | 107,961    | 122,637    |
| Contingencies and commitments   |            |            |
| Stockholders' Equity:   |            |            |
| Common stock \$0.01 par value, 50,000 authorized; 18,318 and 18,311 shares issued, respectively | 183        | 183        |
| Additional paid-in capital  | 62,188     | 61,892     |
| Retained earnings   | 35,779     | 33,940     |
| Treasury stock, at cost, 93 and 119 shares, respectively  | (1,555)    | (1,979)    |
| Accumulated other comprehensive (loss) income   | (627)      | 676        |
| Total stockholders' equity  | 95,968     | 94,712     |
| Total liabilities and stockholders' equity  | \$ 203,929 | \$ 217,349 |

See Notes to Consolidated Financial Statements.

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## US ECOLOGY, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)  
(unaudited)

|   | Three Months Ended<br>September 30, |                 | Nine Months Ended<br>September 30, |                 |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
|   | 2011                                | 2010            | 2011                               | 2010            |
| Revenue   | \$ 39,670                           | \$ 25,984       | \$ 113,350                         | \$ 65,356       |
| Other direct operating costs                          | 18,810                              | 10,229          | 54,825                             | 30,239          |
| Transportation costs                                  | 5,571                               | 5,383           | 20,689                             | 11,027          |
| Gross profit  | 15,289                              | 10,372          | 37,836                             | 24,090          |
| Selling, general and administrative expenses          | 5,722                               | 3,929           | 15,874                             | 10,839          |
| Operating income                                      | 9,567                               | 6,443           | 21,962                             | 13,251          |
| Other income (expense):                               |                                     |                 |                                    |                 |
| Interest income                                       | 6                                   | 16              | 21                                 | 47              |
| Interest expense                                      | (395)                               |                 | (1,277)                            | (1)             |
| Foreign currency loss                                 | (3,661)                             | (35)            | (2,193)                            | (59)            |
| Other   | 73                                  | 65              | 245                                | 179             |
| Total other income (expense)                          | (3,977)                             | 46              | (3,204)                            | 166             |
| Income before income taxes                            | 5,590                               | 6,489           | 18,758                             | 13,417          |
| Income tax expense                                    | 1,864                               | 2,551           | 7,087                              | 5,366           |
| <b>Net income</b>                                     | <b>\$ 3,726</b>                     | <b>\$ 3,938</b> | <b>\$ 11,671</b>                   | <b>\$ 8,051</b> |
| <b>Earnings per share:</b>                            |                                     |                 |                                    |                 |
| Basic   | \$ 0.20                             | \$ 0.22         | \$ 0.64                            | \$ 0.44         |
| Diluted   | \$ 0.20                             | \$ 0.22         | \$ 0.64                            | \$ 0.44         |
| <b>Shares used in earnings per share calculation:</b> |                                     |                 |                                    |                 |
| Basic   | 18,202                              | 18,172          | 18,194                             | 18,167          |
| Diluted   | 18,227                              | 18,186          | 18,219                             | 18,186          |
| <b>Dividends paid per share</b>                       | <b>\$ 0.18</b>                      | <b>\$ 0.18</b>  | <b>\$ 0.54</b>                     | <b>\$ 0.54</b>  |

See Notes to Consolidated Financial Statements.



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## US ECOLOGY, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)  
(unaudited)

|   | Nine Months Ended September 30, |              |
|---|---------------------------------|--------------|
|   | 2011                            | 2010         |
| <b>Cash Flows From Operating Activities:</b>                                      |                                 |              |
| Net income  | \$ 11,671                       | \$ 8,051     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |              |
| Depreciation and amortization of property and equipment                           | 9,911                           | 5,011        |
| Amortization of intangible assets   | 1,076                           |              |
| Accretion of closure and post-closure obligations                                 | 970                             | 830          |
| Unrealized foreign currency loss  | 2,217                           |              |
| Deferred income taxes   | (904)                           | 117          |
| Stock-based compensation expense  | 623                             | 789          |
| Unrecognized tax benefits   | 429                             |              |
| Net loss on sale of property and equipment  | 99                              | 167          |
| Changes in assets and liabilities:  |                                 |              |
| Receivables   | 4,585                           | (1,456)      |
| Income tax receivable   | (31)                            |              |
| Other assets  | 80                              | (646)        |
| Accounts payable and accrued liabilities  | 2,392                           | 1,884        |
| Deferred revenue  | 516                             | 483          |
| Accrued salaries and benefits   | 483                             | (78)         |
| Income tax payable  | (1,646)                         | 861          |
| Closure and post-closure obligations  | (437)                           | (215)        |
| Other   |                                 | 18           |
| Net cash provided by operating activities   | 32,034                          | 15,816       |
| <b>Cash Flows From Investing Activities:</b>                                      |                                 |              |
| Purchases of property and equipment   | (7,493)                         | (9,023)      |
| Proceeds from sale of property and equipment                                      | 57                              | 61           |
| Purchases of short-term investments   |                                 | (4,998)      |
| Maturities of short-term investments  |                                 | 6,375        |
| Restricted cash   |                                 | 686          |
| Net cash used in investing activities   | (7,436)                         | (6,899)      |
| <b>Cash Flows From Financing Activities:</b>                                      |                                 |              |
| Payments on reducing revolving line of credit                                     | (29,400)                        |              |
| Proceeds from reducing revolving line of credit                                   | 14,400                          |              |
| Dividends paid  | (9,832)                         | (9,816)      |
| Proceeds from stock option exercises  | 97                              |              |
| Payment of capital lease obligations  | (6)                             | (9)          |
| Net cash used in financing activities   | (24,741)                        | (9,825)      |
| Effect of foreign exchange rate changes on cash                                   | (140)                           |              |
| <b>Decrease in cash and cash equivalents</b>                                      | <b>(283)</b>                    | <b>(908)</b> |
| Cash and cash equivalents at beginning of period                                  | 6,342                           | 31,347       |

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|   |    |       |    |        |
|---|----|-------|----|--------|
| <b>Cash and cash equivalents at end of period</b>   | \$ | 6,059 | \$ | 30,439 |
| <b>Supplemental Disclosures</b>                     |    |       |    |        |
| Income taxes paid, net of receipts                  | \$ | 9,233 | \$ | 4,387  |
| Interest paid                                       |    | 986   |    |        |
| <b>Non-cash investing and financing activities:</b> |    |       |    |        |
| Capital expenditures in accounts payable            |    | 868   |    | 868    |
| Closure/Post-closure retirement asset               |    |       |    | 1,257  |
| Restricted stock issued from treasury shares        | \$ | 424   | \$ | 611    |

See Notes to Consolidated Financial Statements.

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## US ECOLOGY, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(\$s in thousands)  
(unaudited)

|  | Common<br>Shares<br>Issued | Par Value<br>Common<br>Stock | Additional<br>Paid-In<br>Capital | Comprehensive<br>Income | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings | Treasury<br>Stock | Total            |
|--|----------------------------|------------------------------|----------------------------------|-------------------------|--|----------------------|-------------------|------------------|
| <b>Balance 12-31-2009</b>                                      | <b>18,305,614</b>          | <b>\$ 183</b>                | <b>\$ 61,459</b>                 |                         | <b>\$</b>  | <b>\$ 34,446</b>     | <b>\$ (2,590)</b> | <b>\$ 93,498</b> |
| Net income   |                            |                              |                                  | \$ 8,051                |  | 8,051                |                   | 8,051            |
| Comprehensive income   |                            |                              |                                  | \$ 8,051                |  |                      |                   |                  |
| Dividend paid  |                            |                              |                                  |                         |  | (9,816)              |                   | (9,816)          |
| Stock-based compensation                                       |                            |                              | 789                              |                         |  |                      |                   | 789              |
| Issuance of restricted<br>common stock from treasury<br>shares |                            |                              | (611)                            |                         |  |                      | 611               |                  |
| <b>Balance 9-30-2010</b>                                       | <b>18,305,614</b>          | <b>\$ 183</b>                | <b>\$ 61,637</b>                 |                         | <b>\$</b>  | <b>\$ 32,681</b>     | <b>\$ (1,979)</b> | <b>\$ 92,522</b> |
| <b>Balance 12-31-2010</b>                                      | <b>18,310,614</b>          | <b>\$ 183</b>                | <b>\$ 61,892</b>                 |                         | <b>\$ 676</b>  | <b>\$ 33,940</b>     | <b>\$ (1,979)</b> | <b>\$ 94,712</b> |
| Net income   |                            |                              |                                  | \$ 11,671               |  | 11,671               |                   | 11,671           |
| Foreign currency translation                                   |                            |                              |                                  | (1,303)                 | (1,303)  |                      |                   | (1,303)          |
| Comprehensive income   |                            |                              |                                  | \$ 10,368               |  |                      |                   |                  |
| Dividend paid  |                            |                              |                                  |                         |  | (9,832)              |                   | (9,832)          |
| Stock option exercises   | 6,900                      |                              | 97                               |                         |  |                      |                   | 97               |
| Stock-based compensation                                       |                            |                              | 623                              |                         |  |                      |                   | 623              |
| Issuance of restricted<br>common stock from treasury<br>shares |                            |                              | (424)                            |                         |  |                      | 424               |                  |
| <b>Balance 9-30-2011</b>                                       | <b>18,317,514</b>          | <b>\$ 183</b>                | <b>\$ 62,188</b>                 |                         | <b>\$ (627)</b>  | <b>\$ 35,779</b>     | <b>\$ (1,555)</b> | <b>\$ 95,968</b> |

See Notes to Consolidated Financial Statements.

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**US ECOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 1 GENERAL**

**Basis of Presentation**

The accompanying unaudited consolidated financial statements include the results of operations, financial position and cash flows of US Ecology, Inc., and its wholly-owned subsidiaries (collectively, "US Ecology" or "the Company"). All significant 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 2010 Annual Report on Form 10-K filed with the SEC on March 15, 2011. The results of operations and cash flows for the three and nine months ended September 30, 2011 are not necessarily indicative of results to be expected for the entire fiscal year.

The Company's Consolidated Balance Sheet as of December 31, 2010 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.

*Financial Instruments.* Cash and cash equivalents, accounts receivable, short-term borrowings, restricted cash, accounts payable and accrued liabilities as presented in the consolidated financial statements approximate fair value because of the short-term nature of these instruments.

**NOTE 2 ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)**

The components of accumulated other comprehensive income/(loss) were as follows (in thousands):

|  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
| Cumulative adjustment of foreign currency statements | \$ (627)              | \$ 676               |
| Accumulated other comprehensive (loss) income        | \$ (627)              | \$ 676               |

**NOTE 3 CONCENTRATION AND CREDIT RISK**

*Major Customers.* No customer represented more than 10% of total revenue for the three and nine months ended September 30, 2011. Revenue under the Company's multiple year disposal contract with the U.S. Army Corps of Engineers ( USACE ) represented 19% and 18% of total revenue for the three and nine months ended September 30, 2010, respectively. Revenue from General Electric, Inc. ( GE ) represented 11% of total revenue for the three months ended September 30, 2010. No other customer represented more than 10% of total revenue for the three and nine months ended September 30, 2010.

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No customers accounted for more than 10% of total trade receivables as of September 30, 2011. The following customers accounted for more than 10% of total trade receivables as of December 31, 2010:

| Customer                      | Percent of Receivables<br>December 31,<br>2010 |
|-------------------------------|--|
| U.S. Army Corps of Engineers  | 12%  |
| Honeywell International, Inc. | 10%  |
| General Electric, Inc.        | 10%  |

Credit Risk Concentration. We maintain most of our cash and short-term investments with nationally recognized financial institutions like Wells Fargo National Association ( Wells Fargo ). Substantially all of our 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 were as follows:

| (in thousands)                  | September 30,<br>2011 | December 31,<br>2010 |
|---------------------------------|-----------------------|----------------------|
| Trade                           | \$ 26,699             | \$ 32,221            |
| Unbilled revenue                | 1,434                 | 1,463                |
| Other                           | 1,083                 | 207                  |
|                                 | 29,216                | 33,891               |
| Allowance for doubtful accounts | (508)                 | (338)                |
|                                 | \$ 28,708             | \$ 33,553            |

**NOTE 5 PROPERTY AND EQUIPMENT**

| (in thousands)               | September 30,<br>2011 | December 31,<br>2010 |
|------------------------------|-----------------------|----------------------|
| Cell development costs       | \$ 61,510             | \$ 58,944            |
| Land and improvements        | 13,083                | 13,016               |
| Buildings and improvements   | 51,017                | 44,228               |
| Railcars                     | 17,375                | 17,375               |
| Vehicles and other equipment | 33,051                | 31,252               |
| Construction in progress     | 3,331                 | 10,556               |
|                              | 179,367               | 175,371              |

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|   |            |            |
|---|------------|------------|
| Accumulated depreciation and amortization | (78,329)   | (69,549)   |
|   | \$ 101,038 | \$ 105,822 |

Depreciation expense for the three months ended September 30, 2011 and 2010 was \$3.6 million and \$1.9 million, respectively. Depreciation expense for the nine months ended September 30, 2011 and 2010 was \$9.9 million and \$5.0 million, respectively.

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On October 31, 2010, the Company, through a wholly-owned subsidiary, acquired 100% of the outstanding shares of Seaway TLC Inc. and its wholly-owned subsidiaries Stablex Canada Inc. and Gulfstream TLC, Inc. (collectively Stablex ). The following unaudited pro forma financial information presents the combined results of operations as if Stablex had been combined with us beginning on January 1, 2010. 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. It 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.

| (in thousands, except per share data) | (unaudited)<br>Three months ended<br>September 30, 2010 | (unaudited)<br>Nine months ended<br>September 30, 2010 |
|---------------------------------------|---|--|
| Pro forma combined revenues           | \$ 29,895   | \$ 85,355  |
| Pro forma combined net income         | \$ 2,922  | \$ 6,080   |
| Earnings per share                    |   |  |
| Basic                                 | \$ 0.16   | \$ 0.33  |
| Dilutive                              | \$ 0.16   | \$ 0.33  |

**NOTE 7 GOODWILL AND INTANGIBLE ASSETS**

Goodwill and intangible assets as of September 30, 2011 and December 31, 2010 reflect our acquisition of Stablex on October 31, 2010 (see Note 6). Prior to the acquisition of Stablex, the Company had no goodwill or intangible assets. The goodwill has been assigned to the Operating Disposal Facilities reporting segment. Changes in goodwill for the three and nine months ended September 30, 2011 were as follows:

| (in thousands)               | Three Months Ended<br>September 30, 2011 | Nine Months Ended<br>September 30, 2011 |
|------------------------------|--|---|
| Balance, beginning of period | \$ 22,419                                | \$ 21,790                               |
| Foreign currency translation | (1,604)                                  | (975)                                   |
| Balance, end of period       | \$ 20,815                                | \$ 20,815                               |



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Below is a summary of amortizable and other intangible assets:

| (in thousands)                       | September 30,<br>2011 | December 31,<br>2010 |
|--------------------------------------|-----------------------|----------------------|
| <b>Amortized intangible assets</b>   |                       |                      |
| Developed software                   | \$ 337                | \$ 352               |
| Database                             | 96                    | 100                  |
| Customer relationships               | 3,919                 | 4,102                |
| Technology - Formulae and processes  | 8,740                 | 9,149                |
| Permits, licenses and lease          | 26,844                | 28,101               |
|                                      | 39,936                | 41,804               |
| <b>Accumulated amortization</b>      | <b>(1,236)</b>        | <b>(235)</b>         |
| <b>Unamortized intangible assets</b> |                       |                      |
| Tradename                            | 163                   | 171                  |
|                                      | \$ 38,863             | \$ 41,740            |

Amortization expense for the three and nine months ended September 30, 2011 was \$358,000 and \$1.1 million, respectively. There was no amortization of intangibles in the three and nine months ended September 30, 2010.

**NOTE 8 DEBT**

We have a credit agreement (the *Credit Agreement*) with Wells Fargo which provides for borrowings in an aggregate of \$89.4 million, net of commitment reductions. The *Credit Agreement* provides a \$20.0 million revolving line of credit (the *Revolving Line of Credit*) with a maturity date of June 15, 2013 and a \$69.4 million reducing revolving line of credit (the *Reducing Revolving Line of Credit*), net of commitment reductions with a maturity date of November 1, 2015.

***Revolving Line of Credit***

The *Revolving Line of Credit* provides up to \$20 million in revolving credit loans or letters of credit for working capital needs (the *Commitment Amount*). These revolving loans are available based on the Prime Rate or LIBOR, at the Company's option, plus