

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

Filing Date: **1997-12-18** | Period of Report: **1996-12-31**
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FILER

AMERICAN ECOLOGY CORP

CIK: **742126** | IRS No.: **953889638** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-K/A** | Act: **34** | File No.: **000-11688** | Film No.: **97740686**
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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K/A
SECOND AMENDMENT TO ANNUAL REPORT UNDER
SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR FISCAL YEAR ENDED DECEMBER 31, 1996 COMMISSION FILE NUMBER 0-11688

AMERICAN ECOLOGY CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE 95-3889638
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification No.)

805 W. IDAHO, SUITE #200, BOISE, IDAHO 83702-8916
(Address of Principal Executive Offices) (Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

Common Stock, \$.01 par value per Share
(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

At December 8, 1997, Registrant had outstanding 8,379,813 shares of its Common Stock.

EXPLANATION OF SECOND AMENDMENT

The Registrant, American Ecology Corporation (the "Company"), filed a Registration Statement on Form S-3 on September 9, 1997 with the Securities and Exchange Commission. In the course of reviewing such Registration Statement, the Commission made comments on the Form 10-K as filed with the Commission on March 25, 1997. Based on these comments, the Company amended Part I, Items 7 and 8 of its Form 10-K on November 18, 1997. The Commission made additional comments on the Form 10-K/A. Based on these comments, the Company is hereby amending Part I, Item 8. All amended items are stated as of December 31, 1996.

To the Shareholders and Board of Directors
American Ecology Corporation

We have audited the accompanying consolidated balance sheet of American Ecology Corporation and subsidiaries as of December 31, 1996, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Ecology Corporation and subsidiaries as of December 31, 1996, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and writedowns of assets and had a working capital deficiency of \$16.7 million as of December 31, 1996. During 1996, the Company obtained capital contributions from certain directors and restructured its Credit Agreement with the Bank; however, the Company continues to have limited cash resources available and has substantial obligations that are due in the future. Under the terms of the Credit Agreement, the bank may accelerate the maturity of the debt in the event of violation of any covenant or of any occurrence of a default of the Credit Agreement. If the Company is unable to remain in compliance with the terms of the Credit Agreement or obtain waivers in the event of a default and the bank accelerates maturity of the Credit Agreement, the Company does not have adequate financial resources to extinguish the loan and the Company's operations may be negatively impacted. The Company is involved in various significant permitting efforts, claims, lawsuits and other administrative matters which are uncertain at this time. The foregoing matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern, or adjustments, if any, that may be necessary as a result of the outcome of the matters discussed above.

Balukoff, Lindstrom & Co., P.A.

Boise, Idaho
March 17, 1997

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To American Ecology Corporation:

We have audited the accompanying consolidated balance sheet of American Ecology Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1995, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Ecology Corporation and subsidiaries as of December 31, 1995, and the results of their operations and their cash flows for the two years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred significant losses from operations and writedowns of assets. At December 31, 1995, the Company had a working capital deficiency of \$16.1 million. During 1995, the Company obtained capital contributions from certain of its directors and others and restructured its Credit Agreement with the bank; however, the Company continues to have limited cash resources available and has substantial obligations that are due in the future. Under the terms of the Credit Agreement, the bank may accelerate the maturity of the debt in the event of violation of any covenant of the Credit Agreement or if a material adverse event is deemed by the bank to have occurred. If the Company is unable to remain in compliance with the terms of the Credit Agreement or obtain waivers in the event of a default and the bank accelerates maturity of the Credit Agreement, the Company does not have adequate financial resources to extinguish the loan and the Company's operations may be negatively impacted. As discussed in Note 13 to the consolidated financial statements, the Company is involved in various significant permitting efforts, claims, lawsuits and other administrative matters which are uncertain at this time. The foregoing matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern, or adjustments, if any, that may be necessary as a result of the outcome of the matters discussed above.

ARTHUR ANDERSEN LLP

Houston, Texas
April 11, 1996

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

AMERICAN ECOLOGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(\$ IN 000'S EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	As of December 31,	
	1996	1995
	-----	-----
<S>	<C>	<C>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 185	\$ 229
Investment securities	410	523
Receivables, net of allowance for doubtful accounts of \$1,155 and \$1,322, respectively	10,396	16,938
Income taxes receivable	740	5,339
Insurance claim receivable	--	2,538
Prepayments and other	949	1,675

Total current assets	12,680	27,242
Cash and investment securities, pledged	16,394	13,770
Property and equipment, net	14,255	21,764
Deferred site development costs	53,030	47,364
Intangible assets relating to acquired businesses, net	462	486
Other assets	2,206	3,499
Total Assets	\$ 99,027	\$ 114,125
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Revolving credit loan	\$ --	\$ 6,416
Current portion of long term debt	503	780
Accounts payable	10,470	13,376
Accrued liabilities	16,876	21,022
Deferred site maintenance, current portion	1,524	1,763
Total current liabilities	29,373	43,357
Long term debt, excluding current portion	36,202	28,357
Deferred site maintenance, excluding current portion	19,848	20,387
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Convertible preferred stock, \$.01 par value, 1,000,000 shares authorized, none issued	--	--
Series D cumulative convertible preferred stock, \$.01 par value, 105,264 authorized, 105,264 shares issued and outstanding	1	1
Series E redeemable convertible preferred stock, \$10.00 par value, 300,000 authorized, 300,000 and 0 shares issued and outstanding	3,000	--
Common stock, \$.01 par value, 20,000,000 authorized, 8,010,017 and 7,825,628 shares issued and outstanding, respectively	80	78
Additional paid-in capital	46,971	46,762
Unrealized gain (loss) on securities available-for-sale	(477)	(718)
Retained earnings (deficit)	(35,971)	(24,099)
Total shareholders' equity	13,604	22,024
Total Liabilities and Shareholders' Equity	\$ 99,027	\$ 114,125

</TABLE>

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

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AMERICAN ECOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(\$ IN 000'S EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1996	1995	1994
	----	----	----
<S>	<C>	<C>	<C>
Revenues	\$ 49,972	\$ 67,895	\$ 71,891
Operating costs	46,076	71,129	54,181
	-----	-----	-----
Gross profit (loss)	3,896	(3,234)	17,710
Selling, general and administrative expenses	11,682	16,411	12,362
Impairment loss on long-lived assets	7,451	33,048	--
	-----	-----	-----
Income (loss) from operations	(15,237)	(52,693)	5,348
Investment income	(932)	(582)	(287)
(Gain) or loss on sale of assets	(55)	1,386	--
Other expense	(1,326)	821	--
Interest expense	--	--	--
	-----	-----	-----
Income (loss) before income taxes	(12,924)	(54,318)	5,635
Income tax expense (benefit)	(1,517)	(5,415)	1,785
	-----	-----	-----

Net income or (loss)	(11,407)	(48,903)	3,850
Preferred stock dividends	465	88	--
	-----	-----	-----
Net income (loss) available to common shareholders	\$ (11,872)	\$ (48,991)	\$ 3,850
	=====	=====	=====
Net income (loss) per share, primary	\$ (1.50)	\$ (6.26)	\$.49
	=====	=====	=====
Dividends paid per common share	\$ --	\$.025	\$.10
	=====	=====	=====

</TABLE>

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

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AMERICAN ECOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(\$ 000'S)

<TABLE>

<CAPTION>

	Year Ended December 31,		
	1996	1995	1994
	----	----	----
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	\$ (11,407)	\$ (48,903)	\$ 3,850
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Impairment loss on long-lived assets	7,451	33,048	--
Depletion, depreciation and amortization	5,383	7,319	6,279
Deferred income taxes	--	816	3,044
(Gain) loss on sale of assets	(58)	1,386	(65)
Debt restructure fees	265	--	--
Realized loss on sales of securities available-for-sale	--	101	--
Changes in assets and liabilities, excluding effects of acquisitions:			
Receivables	6,542	12,655	(4,534)
Income taxes receivable	4,599	(5,339)	--
Proceeds from insurance claim	2,538	--	--
Investment securities classified as trading	(582)	(354)	472
Other assets	(850)	(1,016)	(411)
Deferred site maintenance	(778)	(40)	(7,041)
Other liabilities	(7,933)	2,923	(3,394)
	-----	-----	-----
Total adjustments	16,577	51,499	(5,650)
	-----	-----	-----
Net cash provided by (used in) operating activities	5,170	2,596	(1,800)
	-----	-----	-----
Cash flows from investing activities:			
Capital expenditures, excluding site development costs	(1,677)	(2,320)	(3,714)
Site development costs, including capitalized interest	(3,982)	(6,125)	(4,321)
Payments for businesses acquired	--	--	(27,871)
Proceeds from sales of assets	31	1,080	299
Net proceeds from sales of investment securities	(1,993)	214	--
Transfers to (from) cash and investment securities, pledged	384	(241)	885
	-----	-----	-----
Net cash used in investing activities	(7,237)	(7,392)	(34,722)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from issuances and indebtedness	29,008	26,640	56,555
Payments of indebtedness	(29,985)	(26,430)	(23,739)
Proceeds from common stock issued	--	98	301
Proceeds from preferred stock issued, net	3,000	4,759	--
Liquidation of shareholders' rights	--	(78)	--
Payment of cash dividends	--	(195)	(780)
	-----	-----	-----
Net cash provided by (used in) financing activities	2,023	4,794	32,337
	-----	-----	-----
Decrease in cash and cash equivalents	(44)	(2)	(4,185)
	-----	-----	-----
Cash and cash equivalents at beginning of year	229	231	4,416
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 185	\$ 229	\$ 231
	=====	=====	=====

Supplemental disclosures of cash flow information:

\$ 123

Cash paid during the year for:

Interest, net of amounts capitalized	\$ --	\$ --	\$ --
Income taxes	\$ --	\$ --	\$ 123

</TABLE>

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

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AMERICAN ECOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(\$ IN 000'S)

<TABLE>
<CAPTION>

	8.375% SERIES D CUMULATIVE CONVERTIBLE PREFERRED STOCK	11.25% SERIES E REDEEMABLE CONVERTIBLE PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	UNREALIZED GAIN (LOSS) SECURITIES AVAILABLE- FOR-SALE	RETAINED EARNINGS (DEFICIT)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1993	\$ --	\$ --	\$ 78	\$ 41,469	\$ --	\$ 22,017
Net income	--	--	--	--	--	3,850
Common stock issuances	--	--	--	301	--	--
Income tax benefit of stock options exercised	--	--	--	67	--	--
Dividends - common stock	--	--	--	--	--	(780)
Unrealized gain on securities available-for-sale	--	--	--	--	43	--
Balance, December 31, 1994	\$ --	\$ --	\$ 78	\$ 41,837	\$ 43	\$ 25,087
Net loss	--	--	--	--	--	(48,903)
Preferred stock issuances	1	--	--	4,898	--	--
Common stock issuances	--	--	--	98	--	--
Income tax benefit of stock options exercised	--	--	--	7	--	--
Liquidation of shareholders' rights	--	--	--	(78)	--	--
Dividends - common stock	--	--	--	--	--	(195)
Dividends - preferred stock	--	--	--	--	--	(88)
Unrealized loss on securities available-for-sale	--	--	--	--	(761)	--
Balance, December 31, 1995	\$ 1	\$ --	\$ 78	\$ 46,762	\$ (718)	\$ (24,099)
Net loss	--	--	--	--	--	(11,407)
Preferred stock issuances	--	3,000	--	--	--	--
Common stock issuances	--	--	2	209	--	--
Income tax benefit of stock options exercised	--	--	--	--	--	--
Liquidation of shareholders' rights	--	--	--	--	--	--
Dividends - common stock	--	--	--	--	--	--
Dividends - preferred stock	--	--	--	--	--	(465)
Unrealized gain (loss) on securities available-for-sale	--	--	--	--	241	--
Balance, December 31, 1996	\$ 1	\$ 3,000	\$ 80	\$ 46,971	\$ (477)	\$ (35,971)

</TABLE>

Note: Convertible Preferred Stock is not shown above because no shares have been issued.

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

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AMERICAN ECOLOGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

American Ecology Corporation (a Delaware Corporation) and its subsidiaries ("the Company") provide processing, packaging, transportation, remediation and disposal services for generators of hazardous waste and low-level radioactive waste. The Company services the needs of hazardous waste generators nationally, but larger market shares in the Gulf and West Coast regions of the country at its hazardous waste landfill disposal sites in Robstown, Texas and Beatty, Nevada and until August 1996, a commercial deepwell disposal facility in Winona, Texas. The Company services the needs of low-level radioactive waste (LLRW) generators in the Northwest region and Rocky Mountain Compact at its rate regulated LLRW facility located near Richland, Washington and provides LLRW processing and recycling services to LLRW waste generators in the Mid-West and East Coast regions of the country at its Oak Ridge, Tennessee facility.

Business Conditions. The Company has incurred significant losses from operations during the last two years, 1996 and 1995, had a working capital deficit of \$16.7 million as of December 31, 1996. Furthermore, as a result of the above conditions and other circumstances discussed in Note 4, the Company recorded a \$7.4 million impairment loss on long-lived assets of the Winona facility during 1996. The estimated unaudited results for the first quarter of 1997 is a net loss of approximately \$1.8 million.

Although the Company obtained capital contributions of approximately \$3.0 million from certain of its directors and others, restructured its bank Credit Agreement extending its maturity to December 2000, and received certain new waivers for financial and other covenants in the Credit Agreement, from the bank, for 1996 the Company continues to have very limited cash resources available and is currently experiencing difficulty paying its on-going obligations as they become due. As discussed in Note 7, available borrowings under the Credit Agreement were approximately \$6.9 million as of December 31, 1996. Under the terms of the Credit Agreement, the bank may accelerate the maturity of the debt in the event of violation of any financial covenant of the Credit Agreement or if a material adverse event is deemed by the bank to have occurred. If the Company is unable to remain in compliance with the terms of the Credit Agreement or obtain waivers in the event of a default and the bank accelerates maturity of the Credit Agreement, the Company does not have adequate financial resources to extinguish the loan and the Company's operations may be negatively impacted.

Management has taken aggressive steps to improve the Company's financial status. Last year the Company implemented a business plan and a long-term strategy to substantially reduce operating expenses and enhance revenues from low-level radioactive waste disposal and processing. Actions taken to date include reductions in personnel, decentralization of responsibilities, and analysis of operations to improve operating efficiency and reduce operating costs within each operating division. Furthermore, the Company has limited future capital expenditures. The Company anticipates raising additional financing through either a stock rights offering on or before June 1, 1997 or sale of assets. There can be no assurance, however, that any such financing arrangement or asset sales will be consummated. In the event the Company does not meet its business plan objectives or the Company is unable to obtain alternative financing, there can be no assurance that the Company will be able to meet its obligations as they become due or obtain further forbearance from the bank.

As discussed in Note 13 to the consolidated financial statements, the Company is involved in various significant permitting efforts, claims, lawsuits and other administrative matters which are uncertain at this time.

The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern, or adjustments, if any, that may be necessary as a result of the outcome of the matters discussed above.

Principles of Consolidation. The accompanying financial statements present the consolidated accounts of American Ecology Corporation and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition. Generally, revenues are recognized as services are performed and as waste materials are buried or processed.

Cash Equivalents. Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less, which are readily convertible into cash.

Investments in Debt and Equity Securities. The Company adopted Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities", effective January 1, 1994. Debt and equity securities that the Company has the intent and ability to hold to maturity are classified as "securities held-to-maturity" and reported at amortized cost. Debt and equity securities that are held for current resale are classified as "trading securities" and reported at fair value with unrealized holding gains and losses included in earnings. Debt and equity securities not classified as either "securities held-to-maturity" or "trading securities" are classified as "securities available-for-sale" and reported at estimated fair value with net unrealized holding gains and losses reported as a component of shareholders' equity. The adoption of SFAS 115 did not have a material effect on the Company's financial position or results of operations. The Company uses the specific identification method to determine the cost basis used in computing realized gains or losses.

Property and Equipment. Property and equipment are recorded at cost and depreciated on straight-line and declining balance methods over estimated useful lives. Land is comprised of land owned at the processing and disposal sites. Land owned at disposal sites is depleted over the estimated useful life of the disposal site on a straight-line basis. Cell development costs represent waste disposal site preparation costs which are capitalized and charged to operating costs as disposal space is utilized. Cell development costs include direct costs related to site preparation, including legal, engineering, construction, and the direct cost of company personnel dedicated for these purposes. The estimated useful lives of buildings and improvements is fifteen to thirty-one years. The estimated useful lives of vehicles, decontamination, processing and other equipment is three to ten years. See Note 3 for major categories of property and equipment. Expenditures for major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to expense as incurred. During 1996, 1995, and 1994, maintenance and repairs expense was \$982,000, \$1,224,000, and \$750,000, respectively.

Deferred Site Development Costs. The Company has been selected to locate, develop and operate the low-level radioactive waste ("LLRW") facilities for the Southwestern Compact ("Ward Valley facility") and the Central Interstate Compact ("Butte facility").

The license application for the Southwestern Compact was approved by the California Department of Health Services ("DHS") in September 1993. All prior costs related to the development of the Ward Valley facility have been paid and capitalized by the Company. As of December 31, 1996, the Company had deferred \$45,884,000 (46% of total assets) of pre-operational facility development costs of which \$6,753,000 was capitalized interest. The Company expects to incur and capitalize expenses of approximately \$120,000 per month, including interest, until construction begins on the facility. These deferred costs relating to the development of the Ward Valley facility are expected to be recovered during the facility's first 30 years of operating from future waste disposal revenues based upon disposal fees approved by the DHS in accordance with existing state rate-base regulations. The disposal fee approval process is expected to include an independent prudence review of all the pre-operational costs incurred by the Company prior to their inclusion in the rate-base. The Company expects all of the costs which it has deferred for this facility, plus additional unrecognized project interest costs to be included as a component of the rate-base; however, there can be no assurance that all of the costs will be approved by the DHS.

Allowable costs incurred by the Company for the development of the Butte facility are reimbursed under a contract with the Central Interstate LLRW Compact Commission ("CIC") and are recognized as revenues. Such revenues totaled \$5,711,000, \$8,100,000, and \$9,800,000 in 1996, 1995, and 1994, respectively. Substantially all funding to develop the Butte facility is being provided by the major generators of waste in the CIC. As of

December 31, 1996 the Company has contributed and deferred approximately \$7,146,000 (7% of total assets), of which \$1,054,000 was capitalized interest, toward the development of the Butte facility and no additional capital investment is expected to be required from the Company prior to the granting of the license. The Company expects all costs which it has deferred for this facility, plus additional unrecognized project interest costs, to be included as a component of the rate-base. The agreed contract interest cost reimbursement as part of the rate-base may yield an additional \$15 million in revenue, however, there can be no assurance that all of these amounts will be approved. In addition, the CIC has the option to terminate the contract, upon ten (10) days written notice, in the event it has expended the additional \$31.1 million provided under the last contract amendment, and the State of Nebraska's licensing decision has not been made, and the major generators in the compact region have either ceased funding the project or thereafter notified the CIC, pursuant to amendment No. 5 of its contract with the CIC, that the major generators intend to cease funding of the project. As of December 31, 1996, approximately \$25.2 million had been expended under the last contract amendment. If the CIC elects to terminate the contract, then the Company has no further claim or right to reimbursement of its contributions or accrued interest unless the CIC and the Company agree to go forward with the facility, in which event the Company retains its rights to recover its contribution together with any accrued interest.

The construction and operation of the Ward Valley and Butte facilities are currently being delayed by various political and environmental opposition toward the development of the sites and by various legal proceedings as further discussed under "Business - Low-Level Radioactive Waste Services - Disposal Services - Proposed Ward Valley, California Facility" and "-Proposed Butte, Nebraska Facility". At this time, it is not possible to assess the length of these delays or when, or if, the Butte facility license will be granted, and when, or if, the land for the Ward Valley facility will be obtained. Although the timing and outcome of the proceedings referred to above are not presently determinable, the Company continues to actively urge the conveyance of the land from the federal government to the State of California so that construction may begin, and to actively pursue licensing of the Butte facility. The Company believes that the Butte facility license will be granted, operations of both facilities will commence and that the deferred site development costs for both facilities will be realized. In the event the Butte facility license is not granted, operations of either facility do not commence or the Company is unable to recoup its investments through legal recourse, the Company would suffer losses that would have a material adverse effect on its financial position and results of operations.

In 1994, the Company began to capitalize interest in accordance with Statement of Financial Accounting Standards No. 34, Capitalization of Interest Cost, on the site development projects while facilities being developed are undergoing activities to ready them for their intended use. Interest capitalized was \$3,558,000 in 1996, \$3,281,000 in 1995 and \$968,000 in 1994.

Intangible Assets. Intangible assets relating to acquired businesses consist primarily of the cost of purchased businesses in excess of fair value of net assets acquired ("goodwill"). Intangible assets are being amortized on the straight-line method over periods not exceeding 40 years with the majority being amortized over 25 years. The accumulated amortization of intangible assets amounted to \$288,000, \$314,000 and \$962,000 at December 31, 1996, 1995, and 1994, respectively. Amortization of intangible assets was \$24,000, \$742,000, and \$520,000, in 1996, 1995, and 1994, respectively. On an ongoing basis, the Company measures realizability of intangible assets. In the event that facts and circumstances indicate intangible or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation was required, the estimated future undiscounted cash flows associated with the assets would be compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value was necessary.

Permitting Costs. Permitting costs, which are primarily comprised of outside engineering and legal expenses, are capitalized and amortized over the life of the applicable permits. At December 31, 1996 and 1995, there were \$1,360,000 and \$2,057,000, respectively, of such unamortized costs included in other assets in the accompanying consolidated balance sheets.

The Company operates its various sites under the regulations of, and permits issued by various state and federal agencies. Several of the Company's existing sites are currently seeking permit renewals and/or expansion permits. There is no assurance of the outcome of any permitting efforts. The permitting process is subject to regulatory

approval, time delays, local opposition and potential stricter governmental regulation. Substantial losses which would have a material adverse effect on the Company's consolidated financial position, could be incurred by the company in the near term in the event a permit is not granted, if facility construction programs are delayed or changed, or if projects are otherwise abandoned. The Company reviews the status of permitting projects on a periodic basis to assess realizability of related asset values. As of December 31, 1996, management believes that assets which could currently be affected by permitting efforts are recoverable at their recorded values.

Deferred Site Maintenance. Deferred site maintenance includes the accruals associated with obligations for closure and post-closure of the Company's operating and closed disposal sites and for corrective actions and remediation. The portion of these obligations expected to be spent within the following twelve month period is classified as deferred site maintenance, current portion in the accompanying consolidated balance sheets. The Company generally provides accruals for the estimated costs of closures and post-closure monitoring and maintenance as permitted airspace of such sites is consumed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated. The Company performs routine periodic reviews of closed operating sites and revises accruals for estimated post-closure, remediation or other costs related to these locations as deemed necessary. The Company's recorded liabilities are based on 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. The Company estimates its future cost requirements for closure and post-closure monitoring and maintenance for operating chemical disposal sites based on RCRA and the respective site permits. RCRA requires that companies provide financial assurance for the closure and post-closure care and maintenance of their chemical sites for at least thirty years following closure. Where both the amount of a particular environmental liability and the timing of the payments are reliably determinable, the cost is discounted to present value at a discount rate of 2.5%, net of inflation. See the discussion of Operating Costs included in Management's Discussion and Analysis of Financial Condition and Results of Operations for information concerning certain adjustments recorded in 1996, 1995, and 1994.

Net Income (Loss) Per Share. The calculation of net income (loss) per common and common equivalent share is in accordance with the treasury stock method for 1996, 1995, and 1994.

<TABLE>
<CAPTION>

	(000's except per share amounts)		
	Year Ended December 31,		
	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Net income (loss)	\$ (11,407)	\$ (48,903)	\$ 3,850
Adjustments to net income (loss):			
Preferred stock dividends	465	88	--
	-----	-----	-----
Adjusted net income (loss) available to common shareholders	\$ (11,872)	\$ (48,991)	\$ 3,850
Weighted average shares outstanding-			
Common shares outstanding at year end	8,010	7,826	7,819
Effect of using weighted average common and common equivalent shares outstanding	(114)	(4)	(6)
Effect of shares issuable under stock option plans based on the treasury stock method	--	--	38
	-----	-----	-----
Shares used in computing earnings (loss) per share	7,896	7,822	7,851
	-----	-----	-----
Net income (loss) per common and common equivalent share, primary	\$ (1.50)	\$ (6.26)	\$.49
	=====	=====	=====

</TABLE>

There was no difference between the primary and fully diluted earnings per share calculations in 1996, 1995, and 1994.

New Accounting Principles. In October 1995, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" was issued. This statement establishes a fair value based method of accounting for stock-based compensation plans. The Company currently accounts for its stock-based compensation plans under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees". (See Note 11).

Effective December 31, 1994, the Company adopted Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments". This statement requires disclosure of fair market value information for financial instruments. The book values of investment securities, excluding investments in common and preferred stocks, receivables, accounts payable and financial instruments included in other assets and accrued liabilities approximate their fair values principally because of the short-term nature of these instruments. Investments in common and preferred stocks are stated at fair market values. The quoted market price was used to determine the fair market value of the investment in common stock and estimated market values were used to determine the fair market value of the investments in preferred stocks. The carrying value of long-term debt approximates fair value principally because of the variable interest rate terms set forth in the bank credit facility agreement. See Note 2.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires the company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and affect the reported amounts of revenues and expenses during the reporting period. The significant estimates used by the company in the accompanying consolidated financial statements primarily relate recoverability of deferred site development costs, waste processing and burial, deferred site maintenance, and commitments and contingencies as discussed in Notes 5, 6 and 13, respectively. Actual results could materially differ from the Company's estimates.

Major Customers. Revenues resulting from the cost reimbursement contract with the Central Interstate Low-Level Radioactive Waste Commission were approximately \$5,711,000 in 1996, or 11% of the Company's consolidated revenues. No other single customer accounted for 10% of the Company's consolidated revenues for 1996.

Reclassification. Only minor reclassifications have been made to prior year financial statements to conform to the fiscal 1996 presentation.

NOTE 2. CASH AND INVESTMENT SECURITIES

Cash and investment securities at December 31, 1996 and 1995, were as follows (in thousands):

<TABLE>
<CAPTION>

	1996 ----	1995 ----
<S>	<C>	<C>
Cash and cash equivalents	\$ 788	\$ 1,246
Trading securities	7,576	6,993
Securities held-to-maturity	7,383	5,760
Securities available-for-sale	1,242	523
	-----	-----
	\$16,989	\$14,522
	=====	=====

</TABLE>

Investments in trading securities consist principally of preferred stocks, which are held by a captive insurance company wholly-owned by the Company. The change in net unrealized holding gains on trading securities was \$115,000 in 1996 and \$114,000 in 1995 each of which has been included in earnings. Investments in securities available-for-sale consist of common stock of Perma-Fix, Inc. (see Note 12) which has an original cost value of \$1,719,000, fair value of \$1,242,000 and a gross unrealized holding loss of \$477,000 at December 31, 1996. The change in net unrealized holding loss on securities available-for-sale was \$477,000 which has been included as a separate component of shareholders' equity during the period. In 1996, investment securities were purchased and held, there was no gain or loss realized, interest earned on holding these investment securities was \$222,000. In

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1995, proceeds of \$214,000 received on sales of securities available-for-sale during 1995 resulted in realized losses of \$101,000. Investments in securities held-to-maturity mature over various dates during 1996 and are reported at

their amortized cost basis, which approximates fair value at December 31, 1995. Investments in securities held-to-maturity at December 31, 1996 and 1995, consisted of the following (in thousands) all of which mature in 1997:

<TABLE>

<CAPTION>

	1996 ----	1995 ----
<S>	<C>	<C>
U.S. Government securities	\$ 7,156	\$ 5,547
Certificates of deposit	69	138
Money market accounts and other	158	75
	-----	-----
	\$ 7,383	\$ 5,760
	=====	=====

</TABLE>

Certain cash accounts and substantially all investments in securities held-to-maturity and trading securities totaling \$16,394,000, and \$13,770,000 at December 31, 1996 and 1995, respectively, have been classified as non-current assets as cash and investment securities, pledged. The pledged cash and investment securities represent collateral for the Company's closure/post-closure obligations, performance of a Remedial Investigation and Feasibility Study ("RI/FS") and performance of corrective action at the closed Sheffield, Illinois facility, compliance with Texas Natural Resource Conservation Commission ("TNRCC") requirements related to the Company's non-commercial use deepwell at the company's Robstown, Texas, facility, closure costs for the Beatty, Nevada LLRW site, test borings at the proposed LLRW facilities in Nebraska and California, settlement with generators of waste at the Richland, Washington facility, and various performance bonds. Also, a portion of the pledged cash and investment securities at December 31, 1996 is pledged as collateral for closure costs relating to the two facilities acquired in 1994 (see Note 12). The amounts pledged by the Company generally equal the present value of its estimated future closure and post-closure obligations.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 1996 and 1995, was as follows (in thousands):

<TABLE>

<CAPTION>

	1996 ----	1995 ----
<S>	<C>	<C>
Land	\$ 1,819	\$ 1,484
Cell development costs	10,540	10,452
Buildings and improvements	6,425	7,673
Decontamination and processing equipment	2,155	2,131
Vehicles and other equipment	17,944	22,112
	-----	-----
	38,883	43,852
Less: Accumulated depletion, depreciation and amortization	(24,628)	(22,088)
	-----	-----
	\$ 14,255	\$ 21,764
	=====	=====

</TABLE>

NOTE 4. ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", which is intended to establish more consistent accounting standards for measuring the recoverability of long-lived assets. The Company adopted this statement during 1995 in conjunction with recording a substantial writedown of goodwill and certain property and equipment. There was an impairment of long-lived assets in 1996 at the Winona, Texas facility and the Company determined operations should be discontinued. The Winona facility has had on-going losses and with periodic reviews the adjustments to correct the short-comings have not proven profitable, therefore, the decision was made to close this site location.

<TABLE>
<CAPTION>

	1996 ----	1995 ----
<S>	<C>	<C>
Writedown of the carrying amount of goodwill resulting from the acquisition of the Recycle Center (Note 12)	\$ --	\$ 22,165
Writedown of the carrying amount of goodwill resulting from the acquisition of Waste Processor Industries, Inc.	--	5,744
Writedown of the plant assets carrying value, permits and estimated site closure cost	7,451	--
Writedown of the carrying amount of goodwill resulting from the acquisition of the Winona facility (Note 12)	--	3,458
Writedown of property and equipment at the Winona facility (Note 12)	--	1,681
Total impairment losses	\$ 7,451 =====	\$ 33,048 =====

</TABLE>

The circumstances leading to the impairment losses include an accumulation of costs significantly in excess of the amount of acquisition costs originally expected for the Recycle Center and to a lesser degree, the Winona facility in 1995, but increased in 1996. Contributing factors include a current period operating and cash flow loss, a recent history of operating losses, and the Company's inability to achieve the operating results anticipated prior to the respective acquisitions. Changes in the marketplace and competitive situations in certain service lines, particularly at the Recycle Center and the Winona facility, have contributed to the Company's inability to achieve anticipated operating results.

The Winona facility was a 620 acre fuels blending and solvent recycling facility with two hazardous waste deepwells and waste brokerage services. In August of 1996, the Company made a decision to suspend further receipts of waste at the Winona facility. This decision was made based on the adverse impact on the business base of the Winona facility caused by inaccurate public statements and other actions of persons opposed to the Facility. The litigation strategy being pursued by persons opposed to the Facility includes numerous and duplicative lawsuits filed in several jurisdictions. The Company believes that the number of suits as well as the discovery and motion practices used in each is designed to overwhelm the financial resources of AEESC, an American Ecology wholly owned subsidiary. Based on the current regulatory and litigation morass under which the Winona facility was forced to operate, management concluded that it was not economically feasible for the Winona facility to continue. Also, during the period of suspended waste receipts AEESC was in the process of removing from inventory all waste materials which it believes would require the continued operation of the facility's FTIR ambient air monitoring system as well as the Thermal Oxidizer air emission control equipment. It is the facility's intent to discontinue the use of this equipment as soon as regulatory permission is received.

The Winona facility operation costs have been high and very difficult to control. As a result of the operation costs exceeding revenues every month, the Winona site has never been profitable. Management has made many efforts to preserve the site as a possible profitable operation, using different business techniques, yet none have succeeded. As a result of these efforts it has been determined that the site should be closed under Federal and State regulations. At March 17, 1997 management agreed to a plan for closing the site under RCRA rules, and other substantive environmental regulations. The estimates for the environmentally correct closure under those environmental laws has been estimated at \$1,500,000.

The results of operations for the Winona Facility since acquisition December 31, 1994:

<TABLE>
<CAPTION>

	1996 ----	1995 ----
<S>	<C>	<C>
Revenues	\$6,834	\$11,587
Net loss before impairment	(4,040)	(3,349)

</TABLE>

<S>	<C>	<C>
Net loss before income taxes	\$ (11,491)	\$ (8,488)

</TABLE>

NOTE 5. ACCRUED LIABILITIES

Accrued liabilities at December 31, 1996 and 1995 were as follows (in thousands):

<S>	1996	1995
<C>	<C>	<C>
Waste processing and burial	\$ 6,240	\$ 7,008
State disposal fees and taxes	2,359	1,994
Regulated rate settlements	1,643	2,123
Compensation costs	1,010	1,778
Deferred revenue	674	1,064
Other	4,950	7,055
	-----	-----
	\$16,876	\$21,022
	=====	=====

</TABLE>

The Company has recorded a liability of \$6,240,000 for the waste processing and burial of waste now on-site at the Recycle Center. The liability is based on management estimates of anticipated waste treatment methods, associated volume reductions and burial fees. The Company has signed agreements for the disposal of this waste. This waste will be disposed of at two locations licensed for such disposal services. Should estimated volume reductions or proposed disposal methods not be attainable, the costs for processing and burial could increase materially in the near term.

NOTE 6. DEFERRED SITE MAINTENANCE

Deferred site maintenance accruals at December 31, 1996 and 1995 were as follows (in thousands):

<S>	1996	1995
<C>	<C>	<C>
Accrued costs associated with open facilities	\$ 10,714	\$ 10,568
Accrued costs associated with closed facilities	10,658	11,582
	-----	-----
Sub-total	21,372	22,150
Less: current portion	(1,524)	(1,763)
	-----	-----
Deferred site maintenance, excluding current portion	\$ 19,848	\$ 20,387
	=====	=====

</TABLE>

Accrued costs associated with open facilities principally relate to closure and post-closure for the permitted and developed portion of the Robstown, Texas facility, groundwater contamination remediation at the Robstown and Winona, Texas facilities, and to capping of active cells at the chemical waste disposal facilities in Robstown, Texas and Beatty, Nevada and the LLRW facility in Richland, Washington. The Company is in process of re-permitting the Robstown facility to include development of an additional portion of the site. The Company's current estimate of the Robstown site's closure and post-closure costs of \$5,419,000 includes the closure and post closure costs for the portions of the site now open and either filled or in use at this time. The estimated additional cell capping costs to be expensed over the remaining developed cell space at the Company's disposal facilities was approximately \$2,500,000 at December 31, 1996.

The Company is in the process of addressing corrective action plans at the Robstown, Texas site. A 1978 analysis showed the presence of chemical

contamination in the shallow, non-potable aquifer underlying the site. The Company operates a deep-injection well for the disposal of contaminated groundwater and leachate generated at the facility. The Company has recorded an accrual (\$1,826,000 balance at December 31, 1996) for the estimated costs of the groundwater remediation program based upon a compliance plan agreed to with the state's regulatory authority in 1992. Based on the results obtained from the compliance monitoring plan, the contamination levels in the surficial water bearing zone are decreasing. The plume is still contained within the property boundaries of the Robstown facility. The Company is proposing a modification plan which will enhance environmental protection and substantially mitigate future groundwater remediation costs. This plan is currently being analyzed by the regulating agency.

Even though the Winona facility is closed, it has on-site, underground chemical contamination for which the facility developed a corrective action plan that is still ongoing. Groundwater is recovered and disposed of in the facility's deep-injection well. The current estimated cost of the remediation of \$815,000 is included in the Company's deferred site maintenance accruals at December 31, 1996.

The State of Nevada and the State of Washington have collected money for the costs of closure and post-closure care and maintenance of the respective Beatty, Nevada and Richland, Washington sites. The Company currently submits waste volume-based fees to state maintained funds. Such fees are periodically negotiated with, or established by, the states and are based upon engineering cost estimates provided by the Company and approved by the state.

Accrued costs associated with closed facilities relate to remediation, closure and post-closure of the Sheffield, Illinois chemical facility and maintenance of the Sheffield LLRW facility.

The Company is in the process of remediating the closed chemical waste disposal facility in Sheffield, Illinois under a final corrective measures implementation plan issued by the U.S. EPA in 1990 pursuant to the Remedial Investigation and Feasibility Study completed by the Company. The Company has submitted for approval a closure/post-closure plan for the site to the Illinois EPA and to the U.S. EPA. The plan has not been approved by the agencies pending further implementation of the RI/FS. The estimated term of the closure plan combined with the required thirty years post-closure monitoring is forty years. As of December 31, 1996, the Company had accrued \$10,173,000 for estimated plan costs. This estimate is based on the current plan and the estimate may vary materially based on the provisions of the approved plan. Prior to 1995 the Company discounted the estimated amount at 2 1/2% to determine the amount accrued. In 1995, the Company re-evaluated the accrual, including the amount and timing of the costs over the anticipated 40 year period and ceased discounting the chemical disposal facility costs.

Additionally, the Company is maintaining until 1998 a closed LLRW disposal facility adjacent to the closed chemical waste disposal facility pursuant to a May 25, 1988 Agreed Order with the State of Illinois. The estimated costs of the remediation and closure program, maintenance and post-closure monitoring of the LLRW facility with the expected timing of future payments at December 31, 1996 were as follows (in thousands):

<TABLE>

<S>	<C>
1997	\$ 435
1998	62

Total estimated costs	497
Discount amount at 2.5%	(12)

Amount accrued, net of discount	\$ 485
	=====

</TABLE>

The Company's estimates of future deferred site maintenance costs are subject to change in the near term in the event amendments are made to current laws and regulations governing the Company's operations or if more stringent implementation thereof is required, or if additional information regarding required remediation activities is obtained. Such changes could have a material adverse effect on the Company's consolidated results of operations and financial position in the near term and require substantial capital

expenditures.

NOTE 7. REVOLVING CREDIT LOAN AND LONG TERM DEBT

Long term debt at December 31, 1996 and 1995 consisted of the following (in thousands):

<TABLE>

<CAPTION>

	1996	1995
	----	----
<S>	<C>	<C>
Secured bank credit facility	\$36,116	\$28,079
Acquisition note payable	--	550
Capital lease obligations and other	589	508
	-----	-----
	36,705	29,137

</TABLE>

17

18

<TABLE>

<S>

Less: Current maturities	(503)	(780)
	-----	-----
Long term debt	\$36,202	\$28,357
	=====	=====

</TABLE>

Aggregate maturities of long-term debt and the future minimum payments under capital leases are as follows (in thousands):

<TABLE>

<CAPTION>

Year Ended	
December 31,	

<S>	<C>
1997	\$ 503
1998	86
1999	5,000
2000	30,613

Total	\$36,202
	=====

</TABLE>

On October 31, 1996 the Company renegotiated its prior bank debt under the terms of a Third Amended and Restated Credit Agreement ("Credit Agreement").

The new term loans, subject to satisfaction of certain conditions, extend the maturity of the Company's existing bank debt to December 31, 2000 (the maturity date). Interest on this debt will accrue at a rate of 7% through 1998. Thereafter, interest is to be paid quarterly at the rate of 10% or prime, whichever is greater. Principal repayments will commence on December 31, 1999 with \$5,000,000 due on that date and quarterly payments of \$250,000 thereafter. The total debt balance remaining at the maturity date will be due and payable on that date. The secured debt now consists solely of a Term Loan and a Revolving Credit Loan. Subject to the terms and conditions of the Credit Agreement, the Company's bank agrees to lend the Company an advancing term loan, in a series of advances, up to a maximum of \$38,000,000. The Revolving Credit loan portion of this loan is represented by a single revolving promissory note in the original principal sum of \$5,000,000 (the "Revolving Credit Note"). No further advances of any Revolving Credit Loans shall occur after the Maturity Date.

Under the terms of the Credit Agreement the Company increased long-term debt by \$1,684,000. Included in the total long-term debt balance is the debt restructuring fees of \$265,000.

As of December 31, 1996, the outstanding balances of the Term Loan and the Revolving Credit loan were \$32,004,576 and \$3,931,180, respectively. The Company also had incurred \$180,071 in accrued interest and fees at that date.

In exchange for extending the terms, the bank received warrants, exercisable only upon maturity or the occurrence of a monetary default, to purchase up to 10% of the Company's then outstanding shares for \$1.50 per

share. However, the Company can eliminate these warrants by the payment on maturity of additional interest equal to the difference between the interest accrued through 1998 and interest for the same period at the rate of the greater of 10% or prime. The bank eliminated its existing conversion feature on the Fee Capitalization portion of the outstanding debt. In addition to the changes in economic terms, the Company's financial covenants were restructured to match the Company's current situation and financial plan. The bank has also agreed to allow the Company to use capital freed up by its debt restructuring as a working capital. The terms of the bank loan prohibit dividend payments on the Company's common stock until the bank debt is fully retired.

As part of the new arrangements regarding the secured credit facility with its bank, the Company obtained \$3,000,000 in new equity from two of its directors and shareholders, Rotchford Barker and Edward Heil, who in exchange for this amount agreed to purchase 300,000 shares of new Class E Redeemable Convertible Preferred Stock. The new Preferred Stock is nonvoting, has a stated value and preference in liquidation of \$10 per share, and has the right to receive dividends, payable solely in common shares of the Company, at the rate of 11.25% per annum.

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As a condition to the extension of these terms, and in addition to the \$3,000,000 in equity already raised, the Company is required to use its best efforts to raise an additional \$2,000,000 in equity on or before June 30, 1997. In order to meet this second equity condition and to give all common shareholders the ability to participate in the Company's increased equity base, the Company will use its best efforts to register on or before June 1, 1997 a rights offering to holders of the Company's common stock. In the rights offering, which will be made only by means of a prospectus, the Company would offer each common shareholder, as of a record date expected to be on or about the second business day before the registration statement for the rights offering is declared effective by the Securities and Exchange Commission (SEC), the right to purchase for \$1 one share of newly issued common stock for each share of common stock held on such record date. The rights would expire unless exercised within 30 days after the offer commences. As of December 31, 1996, the Company had 8,010,017 shares of common stock outstanding.

On February 7, 1996 the Company entered into an agreement (First Amendment to Second Amended and Restated Credit Agreement) with its bank for the issuance of a note, the Advance Note, in the amount of \$4,000,000. This note, issued to provide the Company working capital funds, was paid in full before its maturity, June 30, 1996.

The acquisition note payable matured on December 31, 1995 and represented a note payable to Mobley Environmental Services, Inc. ("Mobley"). This non-interest bearing note was incurred as part of the Company's acquisition of Gibraltar Chemical Resources, Inc. ("Gibraltar") on December 31, 1994. The note has not been paid by the Company because of the offsetting costs that the Company paid on behalf of Gibraltar combined with the Tolling Agreement removed the Company's obligation for settlement of this note payable.

At December 31, 1996 the Company had issued letters of credit with an outstanding face value of \$4,675,848, including \$1,872,000 issued under the bank credit facility, of which the most significant relate to site operating permits for the Company's sites. The issued letters of credit are secured by cash and investment securities. The Company is required to pay fees ranging from 1/2 of one percent to one percent on letters of credit drawn. The letters of credit expire no more than one year after December 31, 1998.

NOTE 8. PREFERRED STOCK

Effective October 31, 1996, and executed on November 13, 1996, the Board of Directors duly authorized and adopted, by all necessary action on the part of the Company, a Certificate of Designation, Preferences and Rights creating 300,000 shares of Series E Redeemable Convertible Preferred Stock. The Company sold all 300,000 shares of this 11.25% Series E Redeemable Convertible Preferred Stock, \$10 par value with a \$10 per share liquidation preference, to two members of the Board of Directors of the Company. The Company received cash proceeds of \$3,000,000 for the issuance of these 300,000 preferred shares.

Each share shall be redeemed by the Company on the first business day following the issuance of Common Stock in a Rights Offering (which Rights Offering the Company believes will occur on or before December 31, 1997), to the extent that the purchase price of the Common Stock sold in the Rights Offering plus the stated amount of the Series E Preferred outstanding on the

redemption date is in excess of \$5,000,000. If less than all of the Series E Preferred Stock outstanding is redeemed, the Series E Preferred Stock to be redeemed shall be determined pursuant to the agreement for the initial purchase of the Series E Preferred Stock. A Rights Offering shall be an offer, to all holders of record of the Company's Common Stock on or about the second business day preceding the date the registration of the Rights Offering is declared effective by the SEC, to purchase one share of Common Stock held on the record date at a purchase price of \$1 per share, payable within 30 days after the Rights Offering. Since the Series E Preferred Stock is redeemable only at the option of the Company, it is included in the Balance Sheet under the general heading of shareholders' equity and not as temporary capital.

By conversion, if there is a Rights Offering and less than 5,000,000 shares of Common Stock are sold, one share of Series E Preferred Stock shall be converted into 10 shares of fully paid and non-assessable Common Stock for each 10 shares or portion thereof of Common Stock less than 5,000,000 sold in the Rights Offering. Such conversion shall occur on the first business day following the expiration of the Rights Offering.

Each share of this 11.25% Series E Preferred Stock includes 10 warrants to purchase Common Stock for an exercise price of \$1.50 per share. There shall be no voting rights or powers attached to this 11.25% Series E Preferred Stock.

In September 1995, the Board of Directors of the Company authorized 105,264 shares of preferred stock designated as 8 3/8% Series D Cumulative Convertible Preferred Stock ("8 3/8% Preferred Stock") and authorized the issuance of 105,264 of such shares and warrants to purchase 1,052,640 shares of the Company's common stock. During September through December 1995, the Company sold 105,264 of 8 3/8% Preferred Stock with warrants in a private offering to a group comprised principally of members of the company's directors ("the Investing Group") and received cash proceeds of \$4,759,000 which is net of offering expenses of \$101,000 and \$140,000 in settlement of liabilities to two members of the Investing Group. Each 8 3/8% Preferred Stock share is convertible at any time at the option of the holder into 8.636 shares of the Company's common stock, equivalent to a conversion price of \$5.50 on the \$47.50 total per share offering price. Dividends on the 8 3/8% Preferred Stock are cumulative from the date of issuance and payable quarterly commencing on October 15, 1995. Accrued unpaid dividends totaled \$514,000 and \$88,000 at December 31, 1996 and 1995, respectively. The 8 3/8% Preferred Stock shares are not redeemable and the liquidation preference is \$47.50 per share plus unpaid dividends. Each share of the 8 3/8% Preferred Stock issued includes ten warrants to purchase shares of the Company's common stock. Each warrant entitles the holder to purchase one share of common stock for an exercise price of \$4.75. The \$4.75 warrants are exercisable at any time and expire September 12, 1999. No value was assigned to the warrants in the accompanying consolidated financial statements as the value is deemed to be de minimis.

NOTE 9. INCOME TAXES

Effective January 1, 1993, the Company prospectively adopted Financial Accounting Standards No. 109, Accounting for Income Taxes ("Statement 109"). The effect of the adoption was not material to the Company's financial position or results of operations.

The components of the income tax provision (benefit) were as follows (in thousands):

<TABLE>
<CAPTION>

		Year Ended December 31,		
		1996	1995	1994
		----	----	----
<S>	<C>			<C>
Current	- Federal	\$ (1,552)	\$ (6,061)	\$ (1,184)
	- State	35	(170)	(75)
		-----	-----	-----
		(1,517)	(6,231)	(1,259)
		-----	-----	-----
Deferred	- Federal	--	816	3,044
		-----	-----	-----
		\$ (1,517)	\$ (5,415)	\$ 1,785
		=====	=====	=====

</TABLE>

The following is a reconciliation between the effective income tax (benefit) rate and the applicable statutory federal income tax (benefit) rate:

	Year Ended December 31,		
	1996	1995	1994
	----	----	----
	<C>	<C>	<C>
Income tax (benefit) - statutory rate	(34.0)%	(34.0)%	34.0%
State income taxes, net of federal tax benefit	--	(.3)	(.1)
Dividend income excluded from taxable income	--	(.1)	(2.2)
Non-deductible goodwill amortization	--	5.3	1.6
Valuation allowance for deferred tax assets	14.9	18.0	--

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	<C>	<C>	<C>
Tax refund	5.7	--	--
Other, net	1.4	1.1	(1.6)
	-----	-----	-----
Total effective tax (benefit) rate	(12.0)%	(10.0)%	31.7%
	=====	=====	=====

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The tax effects of temporary differences between income for financial reporting and taxes that gave rise to significant portions of the deferred tax assets and liabilities and their changes during the year were as follows (in thousands):

	January 1, 1996	Deferred Provision	December 31, 1996
	-----	-----	-----
	<C>	<C>	<C>
Deferred tax assets:			
Environmental compliance and other site related costs, principally due to accruals for financial reporting purposes	\$ 8,212	\$ 95	\$ 8,307
Depreciation and amortization	6,396	1,969	8,365
Net operating loss carryforward	2,701	4,444	7,145
Other	2,101	(1,210)	891
	-----	-----	-----
Total gross deferred tax assets	19,410	5,298	24,708
Less valuation allowance	(14,709)	(5,679)	(20,388)
	-----	-----	-----
Net deferred tax assets	4,701	(381)	4,320
	-----	-----	-----
Deferred tax liabilities:			
Site development costs	(2,633)	591	(2,042)
Insurance claim	(1,000)	1,000	--
Other	(1,068)	(1,210)	(2,278)
	-----	-----	-----
Total gross deferred tax liabilities	(4,701)	381	(4,320)

Net deferred tax assets	----- \$ 0 =====	----- \$ 0 =====	----- \$ 0 =====
-------------------------	------------------------	------------------------	------------------------

</TABLE>

The Company has established a valuation allowance for certain deferred tax assets due to realization uncertainties inherent with the long-term nature of deferred site maintenance costs, uncertainties regarding future operating results and for limitations on utilization of acquired net operating loss carryforwards for tax purposes. The realization of a significant portion of net deferred tax assets is based in part on the company's estimates of the timing of reversals of certain temporary differences and on the generation of taxable income before such reversals. The net operating loss carryforward of approximately \$19,740,000 at December 31, 1996, begins to expire in the year 2006 and utilization of \$2,745,000 of this carryforward is limited pursuant to the net operating loss limitation rules of Internal Revenue Code Section 382. This \$2,745,000 expires \$793,000 in 2006, \$1,079,000 in 2007 and \$872,000 in 2008. The remaining unrestricted net operating loss carryforward expires \$4,680,000 in 2010 and \$12,315,000 in 2011. The Company's federal income tax returns are currently under examination due to net operating loss carrybacks in amended returns filed in 1996. As of December 31, 1996, \$740,000 of the refunds claimed had not been received and were reflected as income taxes receivable.

NOTE 10. EMPLOYEE'S BENEFIT PLANS

Retirement Plan. The Company's defined contribution retirement plan (the Plan) was amended effective December 31, 1995. The amendment changes provided for employees not earning a benefit or having new eligibility to participate, and no company contributions are being made. Prior to December 31, 1995, the Plan covered all full-time employees of American Ecology and its subsidiaries (the Company) hired in a job category which would result in 1,000 hours of service during any consecutive 12-month period and who had attained the age of 21. The Company made basic contributions equal to 5% of compensation below the prior year's FICA wage base plus a contribution equal to 10% of compensation above the prior year's FICA wage base, and a past service contribution as defines.

Effective November 20, 1996, the Company merged the Retirement Plan with the 401(k) Plan into a single plan to be known as the American Ecology Corporation 401(k) Savings Plan.

Effective February 10, 1997 the basic contributions as described above were reinstated for the bargaining unit in Oak Ridge, TN, in accordance with the agreement between Local No. 3-983 of the Oil, Chemical and Atomic

Workers International Union and the Company's subsidiaries, Nuclear Materials Management Center and Nuclear Equipment Service Center. The plan was reconstructed as equal to the company's previous retirement plan.

401(k) Plan. The Company maintains a 401(k) plan for employees who voluntarily contribute a portion of their compensation, thereby deferring income for federal income tax purposes. Effective November 20, 1996 the 401(k) plan was merged with the Retirement Plan to form a single plan called The American Ecology Corporation 401(k) Savings Plan.

The 401(k) Savings Plan was amended and reinstated in its entirety. The Plan covers substantially all of the Company's employees after one full year of employment. Participants may contribute a minimum of 0% up to the IRS limits. The Company's contribution matches 55% of participant contributions up to 6% of deferred compensation or a maximum of 3.3% of an employees qualified earnings. The Company's contribution was changed to cash instead of AEC stock, from September 1996.

The Company's total contribution for both the retirement plan and 401(k) plan was \$829,000 and \$946,000 for 1995 and 1994, respectively. The Company contribution for the 401(k) plan was \$268,907 for 1996. The Company has no post-retirement or post-employment benefit plan.

NOTE 11. STOCK OPTION PLANS

The Company presently maintains three stock option plans affording employees and outside directors of the Company the right to purchase shares of its common stock. The exercise price, term and other conditions applicable to each option granted under the Company's plans are generally determined by the Compensation Committee of the Board of Directors at the time of the grant of each option and may vary with each option granted. No option may be granted at a price less than the fair market value of the shares when the option is granted, and no options may have a term longer than ten years.

The Company accounts for these plans under APB Opinion No. 25, "Accounting for Stock Issued to Employees". Under this opinion, the Company has recorded no compensation cost for 1996, 1995, and 1994. Had compensation cost for the plans been determined consistent with FASB Statement No. 123, "Accounting for Stock-Based Compensation", the Company's 1996 and 1995 net loss would have been increased by \$49,118 and \$683,375 respectively on a pro forma basis. Primary loss per share would have increased \$.05 and \$.31 for 1996 and 1995, respectively. Fully diluted loss per share would have been increased by \$.02 per share above the primary earnings per share amount for 1996. The effect on fully diluted loss per share for 1995 would have been anti-dilutive. The FASB Statement No. 123 method of accounting has not been applied to options granted prior to January 1, 1995. The pro forma compensation cost may not be representative of that to be expected in future years. The weighted average remaining life of the options is seven years at December 31, 1996.

<TABLE>
<CAPTION>

	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Under option:			
Options outstanding, beginning of year	1,186,600	691,950	611,450
Granted	--	706,000	125,000
Exercised	--	(6,800)	(35,000)
Canceled	(644,000)	(204,550)	(9,500)
	-----	-----	-----
Options outstanding, end of year	542,600	1,186,600	691,950
	=====	=====	=====
Price range per share of outstanding options	\$ 4.00-	\$ 4.00-	\$ 2.79-
	\$ 14.75	\$ 14.75	\$ 14.75
	=====	=====	=====
Price range per share of options exercised	\$ --	\$ --	\$ 8.00-
	\$ --	\$ 2.79	\$8.58
	=====	=====	=====
Price range per share of options canceled	\$ 4.62-	\$ 6.38-	\$ 10.13-

</TABLE>

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<TABLE>

<S>	<C>	<C>	<C>
	\$ 14.25	\$ 14.75	\$ 11.00
	=====	=====	=====
Options exercisable at end of year	417,070	721,340	521,660
Options available for future grant at end of year	383,900	383,900	710,900
	=====	=====	=====

</TABLE>

NOTE 12. ACQUISITIONS

On September 19, 1994, the Company acquired the assets of Quadrex Recycle Center, ("Recycle Center"), a business segment of Quadrex Corporation ("Quadrex") that provides recycling, decontamination, volume reduction of radioactive waste and related equipment rental services to government, commercial and nuclear power industries. The purchase consideration was comprised of payments by the Company for assumed liabilities and working capital for the Recycle Center through the closing date, additional unpaid liabilities assumed as of the closing date, and direct acquisition costs, all of which total approximately \$28,000,000. The purchase method of accounting was used for this asset acquisition, therefore, the Recycle Center's results of operations are consolidated with the Company's since September 19, 1994. The excess of acquisition cost over fair value of net tangible assets of the Recycle center of approximately \$22,165,000 was written down during 1995 as discussed in Note 4. The acquisition cost was reduced by the estimated fair value of 545,000 common shares of Perma-Fix, Inc. ("Perma-Fix") which Quadrex transferred to the company effective September 30, 1994.

On December 31, 1994, the Company acquired Gibraltar Chemical Resources, Inc. ("the Winona facility"), a wholly-owned subsidiary of Mobley. The Winona facility provides fuels blending, solvent recycling, and deepwell injection services to the hazardous and industrial waste disposal markets with a fixed base facility in Winona, Texas and collections and technical operations in El

Paso, Texas and Laredo, Texas. The total acquisition cost of \$10,628,000 included cash, a \$550,000 note payable to Mobley, assumed liabilities, and direct acquisition costs. The excess of cost over fair market of net assets of the Winona facility of approximately \$3,458,000 was written down during 1995 as discussed in Note 4. Since the acquisition, the Company has been faced with both legal confrontations and operational difficulties. The operation costs have been high and very difficult to control. As a result of the operation costs exceeding revenues every month, the Winona site has never been profitable. Management has made many efforts to preserve the site as a possible profitable operation, using different business techniques, yet none have succeeded. As a result of these efforts it has been determined that the site should be closed under Federal and State regulations. The date of the closure was set at March 17, 1997 when management agreed to a plan for closing the site under RCRA rules, and other substantive environmental regulations. The estimates for the environmentally correct closure under those environmental laws have been estimated at \$1,500,000.

NOTE 13. COMMITMENTS AND CONTINGENCIES

The Company's business inherently involves risks of unintended or unpermitted discharge of materials into the environment. In the ordinary course of conducting its business activities, the Company becomes involved in judicial and administrative proceedings involving governmental authorities at the federal, state and local levels. In the majority of the situations where regulatory enforcement proceedings are commenced by governmental authorities, the matters involved relate to alleged technical violations of licenses or permits pursuant to which the Company operates, or, of laws or regulations to which its operations are subject, or, are the result of different interpretations of the applicable requirements.

In addition to the litigation described below, the Company and certain of its subsidiaries are involved in other civil litigation and administrative matters, including permit application proceedings in connection with the established operation, closure and post-closure activities of certain sites.

Management has not established reserves for the matters discussed below, other than for certain anticipated legal fees, based on management's estimates of the outcome. During the course of legal proceedings, management's estimates with respect to such matters may change. While the outcome of any particular action or

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administrative proceeding cannot be predicted with certainty, management is unable to conclude that the ultimate outcome, if unfavorable, of the litigation and other matters described below, will not have a material adverse effect on the operations or financial condition of the Company.

Paul Stephenson, et al v. American Ecology Recycle Center, Inc., US District Court, Eastern District, Tennessee, Civil Action No. 94-CV-650. The Company's subsidiary, AERC, purchased the assets of Quadrex Environmental Company's Recycle Center in Oak Ridge, Tennessee on September 19, 1994. In November 1994, AERC was named as a defendant in what has become a class action lawsuit by former employees of Quadrex who are claiming unpaid medical benefits and for payment into an underfunded pension plan. The purchase agreement between AERC and Quadrex excluded and provided for indemnification by Quadrex of such claims, but Quadrex subsequently filed for protection under Chapter 11 of the Bankruptcy Act and adopted a liquidating reorganization plan under which unsecured creditors will likely receive no payment. In November 1996, approximately \$1.2 million of insurance proceeds payable as a result of a fire at the Recycle Center in July 1994 were paid into the Federal District Court to be held pending the outcome of the litigation. The Plaintiffs' claims, as currently understood, are substantially less than the amount held by the court. A determination of the likelihood of an unfavorable outcome or an estimate of the amount or range of potential loss, if the outcome is unfavorable, cannot be made at this time. Management intends to continue to defend this matter.

US Ecology, Inc. v. Barbara Wagner, Benton County Assessor, Board of Tax Appeals, State of Washington, Docket Nos. 92-63--92-65 and 95-43--95-45. In 1992, the Benton County (Washington) assessor issued property tax assessments on improvements owned by the Company and located on the Company's leasehold at the US Department of Energy's Hanford Reservation. The retroactive property tax increases totaled \$1.7 million for the years 1989, 1990 and 1991. Prior to 1989, annual taxes had been about \$5,400. The company sued Benton County, the Assessor and Treasurer to enjoin them from collecting the increased taxes. An injunction was granted by the Benton County Superior Court, but was reversed by the Washington Court of Appeals which ruled that the Company had not exhausted available administrative remedies. Accordingly, the Company prosecuted its appeal to the Washington Board of Tax Appeals and a hearing was held in November 1995. The Company has recently been assessed an additional \$1.9

million in taxes for 1992, 1993 and 1994. On July 1, 1996, the Board of Tax Appeals issued an Interim Decision that the Company's concession right to operate a low-level radioactive waste disposal site at the Hanford Reservation is subject to property tax, but that the hearing will be re-opened to allow the parties to submit additional evidence regarding the fair market value of the concession right. The Company believes that Washington law does not provide for taxation of "concession rights" and that, in any event, since its permits and licenses may not be freely transferred, the market value thereof is minimal. The Company intends to continue to contest the matter.

Boston Edison Company v. US Ecology, Inc., U.S. District Court for Massachusetts, Civil Action No. 95-12173. In October 1995, Boston Edison filed a complaint against USE, a subsidiary of the Company, in the U.S. District Court of Massachusetts alleging claims related to USE's alleged refusal to indemnify Boston Edison for various costs arising out of the shipping and burial of waste materials at the Maxey Flats Nuclear Disposal Site. USE had entered into a series of contracts with Boston Edison to provide radioactive waste disposal services at this site. Boston Edison alleges that USE breached the contracts because USE failed to indemnify Boston Edison for its costs. Boston Edison also alleges that USE committed an unfair and deceptive trade practice in the State of Massachusetts because of its failure to indemnify Boston Edison as required by these contracts. Finally, Boston Edison seeks a declaratory judgment that would set forth the contractual rights and liabilities of the parties. Boston Edison claims \$600,000 in past and future costs for the alleged breach of the contracts. It also seeks to treble damages under the Massachusetts Deceptive Trade Practices Act. USE has successfully moved the case from Massachusetts to federal court in Kentucky. The Company believes USE has contractual defenses to the indemnity claims and intends to contest this matter. Additionally, USE has counterclaimed against Boston Edison seeking contribution for its response costs at Maxey Flats. It is not possible at this time to predict whether the outcome of this matter will be favorable or unfavorable.

Ally Capital Corporation v. American Ecology Recycle Center, Inc., et al, U.S. District Court, Southern District of Texas, Houston Division, Civil Action No. H-96-3117. This complaint is for breach of an equipment lease resulting from AERC's, the Company's subsidiary, failure to make monthly lease payments on leased equipment.

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The equipment is essential to the continued operations of the Oak Ridge facility. By December 1996, the unpaid payments exceeded \$255,000. The remaining balance on the equipment lease, including the \$255,000, is approximately \$618,000. Plaintiff has filed a motion for summary judgment seeking the entire lease balance of \$667,680, per diem interest, attorneys fees and possession of the equipment. The parties are near settlement in the matter.

Houston Office 88, Inc. v. American Ecology Corporation v. Altra Energy Technologies, L.L.C. , District Court of Harris County, Texas, Case No. 96-47050. Plaintiffs filed this case in September 1996 seeking more than \$4.1 million in rent, interest, costs and attorneys fees, alleging breach of the office lease agreement by the Company for vacating its former corporate headquarters in Houston, Texas. The Company has filed a counterclaim against Plaintiff based on its wrongful refusal to allow the Company's leasing agent to show the premises to potential sublessees. Also, the Company has filed a third-party claim against sublessee, Altra Energy Technologies, L.L.C., for failure to consummate a sublease agreement between Altra and the Company. The Company intends to vigorously contest the case, but will remain open to a favorable settlement in advance of trial scheduled for December 8, 1997.

In the Matter of the Applications of American Ecology Environmental Services Corp., Permit Nos. AQ-9429, HW-50368, WDW-186, and WDW-229 (SOAH Docket ###-##-####). This matter is a contested proceeding before the Texas State Office of Administrative Hearings wherein AEESC, a wholly owned subsidiary of the Company, is seeking to renew operation permits for its hazardous waste treatment, storage, and disposal facility in Winona, Texas. A locally (Winona, Texas) based organization known as "Mothers Organized to Stop Environmental Sins" ("MOSES") has appeared in the matter seeking to have the permits revoked. As a result of the activities of MOSES and certain individuals, AEESC has determined it cannot continue operation of the facility.

Virgie Adams, et al v. American Ecology Environmental Services Corporation, et al, Cause No. 236-165224-6, Tarrant County, Texas District Court. On August 30, 1996, Plaintiffs amended their August 6 complaint naming over 677 additional plaintiffs and 87 defendants, including the Company, several of its subsidiaries and customers of its Winona, Texas facility. The Plaintiffs are seeking damages, punitive damages and pre- and post-judgment

interest based on claims of negligence, negligence as a matter of law, fraudulent concealment, assault and battery, intentional infliction of emotional distress, res ipsa loquiter and intentional tort. Plaintiffs allege the Company "...failed to handle, treat, store, blend, inject, and otherwise dispose of extremely hazardous and highly toxic substances in a manner...constitut(ing)...compliance with basic health, safety and environmental standards." The case is in the early stages of discovery. The Company believes it has conducted its operations in accordance with applicable laws and regulations, that the lawsuit is without merit and intends to vigorously defend the action.

American Ecology Environmental Services Corp., et al v. Mildred Krueger, et al, U. S. District Court for the Northern District of Texas, Dallas Division, Civil Action No. 3-96-CV-2670-D. The Company and two of its subsidiaries, AEESC and USE, filed suit in the U.S. District Court for the Northern District of Texas against the Defendants seeking an award of actual and punitive damages proven at trial and treble damages, costs and attorneys fees as allowed under the federal racketeering statutes and for appropriate injunctive relief including an order compelling Defendants to cease their improper activities, retract their defamatory statements and to refrain from similar improper activities. The Complaint alleges that the Defendants: violated the RICO statute, defamed AEESC, USE and the Company through various publications and statements; tortuously interfered with existing contractual rights and prospective business relations of AEESC, USE and the Company; disparaged the businesses of AEESC, USE and AEC; engaged in a civil conspiracy for improper purposes to cause the closure of AEESC's Winona, Texas facility; and abused both the administrative and judicial processes within Texas. The case is based on the past and continuing activities of Phyllis Glazer and a non-profit corporation (M.O.S.E.S.) organized by Glazer, her husband and mother, all of whom are defendants. The action alleges that Defendants fraudulently sought to deprive Plaintiffs of their property by spreading misleading and defamatory statements about Plaintiffs and their business operations, and that the Defendants have conspired among themselves to force the closure of the Winona facility for their own pecuniary gain by engaging in a pattern of maliciously disseminating clearly false and defamatory statements concerning the Plaintiffs' businesses and by repeatedly abusing judicial proceedings solely for the purpose of damaging the reputation and financial health of Plaintiffs. Defendants have answered the complaint denying liability and counter-claiming for damages for abuse of process in attempting to deny Plaintiffs'

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right of free speech. MOSES claims actual and punitive damages in excess of \$1 million based on alleged reputational damage, reduced income (in the form of reduced contributions) and costs of legal representation. Notwithstanding the decision to close the Winona facility, the Company intends to vigorously prosecute this case to its conclusion.

Phyllis Glazer and M.O.S.E.S. v. Gibraltar Chemical Resources, Inc., et al, U.S. District Court Eastern District, Texas, Case No. 6:94-CV-708. This lawsuit, which is a citizen suit brought under the federal Reserve Conservation and Recovery Act and the Clean Air Act, alleges that the Winona facility violated certain permits and regulations, and contributed to the handling, storage, treatment, transportation and disposal of solid and hazardous waste in a manner that presents an imminent and substantial endangerment to health and the environment. The Plaintiffs have requested that the facility be shut down and unspecified civil penalties imposed on the Company. The Company has been granted a partial summary judgment, but the core claims remain subject to indemnity provisions.

In April 1995, management learned that one of its subsidiaries had not always complied with the transit time limitations allowed for hazardous waste being transferred from generators to final disposal sites. These requirements are under the regulatory supervision of the TNRCC and the Company promptly reported the situation to the TNRCC. As a result of an internal review of this matter, the Company determined that there was a substantial number of instances where the transit time limitations were exceeded over approximately eight months from June 1994 through February 1995. As a direct result of this circumstance, the Company has reorganized the operations of the subsidiary, including the replacement of a number of personnel, and the adoption of stronger internal systems for monitoring the movement of boxes and transportation vehicles. At this time, the Company does not know whether the TNRCC will ultimately assess any fines against the Company for exceeding transit time limitations. While the Company believes the steps that it has taken are appropriate and responsible, it is possible that the TNRCC may seek to impose a fine on the Company in connection with the matter. The Company is not in a position to assess the amount of such a fine. However, a fine of sufficient magnitude could have a material adverse effect upon the consolidated

financial position of the Company.

James D. Moncrief, et al v. Gibraltar Chemical Resources, Inc., et al, District Court of Smith County, Texas, Civil Action No. 92-1942-C. Marian Steich, et al v. Gibraltar Chemical Resources, Inc., et al, District Court of Smith County, Texas, Civil Action No. 93-054309. Michael Williams, et al v. Gibraltar Chemical Resources, Inc., et al, District Court of Smith County, Texas, Civil Action No. 93-2304-C. Tangee E. Daniels, et al v. Atrium Doors and Windows, Inc., et al, District Court of Dallas County, Texas, Civil Action No. 95-091459-L. Each of the above-identified cases, together with the Glazer and Adams cases discussed above, involve AEESC, a subsidiary of the Company, Winona, Texas facility. As discussed elsewhere herein, AEESC has decided to close that facility permanently. Each of these cases seeks unspecified damages for various causes of action, including trespass, nuisance, negligence, gross negligence, and in some cases, fraudulent concealment and fraud. The Plaintiffs claim that they suffered personal injuries and property devaluation as a result of alleged releases of toxic or harmful chemical substances into the environment from the facility. The Moncrief case was tried to a jury in October 1996. The jury awarded damages in the amount of \$18,000 on the Plaintiffs' nuisance claim only. Plaintiffs have stated they intend to appeal the verdict and have requested a new trial. All the other cases are in various stages of pre-trial discovery. In the Moncrief, Steich, Williams and Daniels cases, AEESC is relying upon its predecessor parent corporation's insurance coverage for defense and indemnity purposes. With respect to each of the cases, the Company believes it has conducted its operations in accordance with applicable laws and regulations, that each of the lawsuits is without merit and intends to vigorously defend each.

ENVIRONMENTAL MATTERS:

In the Matter of American Ecology Environmental Services Corporation, SOAH Docket No. ###-##-####. In this matter, the Texas Natural Resources Conservation Commission ("TNRCC"), alleges violations of certain provisions of the Winona Facility's air and surface facilities hazardous waste permits and relevant statutory provisions. The Complaint proposes an administrative penalty assessment of \$71,700. An answer has been filed with the TNRCC and settlement discussions are ongoing. The Company will continue to contest this matter if settlement discussions prove unfruitful.

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In re American Ecology Environmental Services Corporation, USEPA Region 6. On March 7, 1997, Company representatives attended a meeting with the USEPA regarding compliance by AEESC with notification requirements of the intention to import waste from a foreign based waste generator. The meeting allowed the Company an opportunity to explain its position regarding the matter and to provide additional relevant information. The alleged violations involve reporting requirements only, not release of pollutants from the facility. EPA anticipates filing an enforcement action against the Company seeking a penalty of approximately \$67,500. The Company is currently investigating whether proper information was reported to the EPA.

In the Matter of American Ecology Recycle Center, Inc., U.S. Environmental Protection Agency, Region 4, Docket No. 96-13-R. Administrative Complaint issued by the USEPA Region 4, Atlanta, alleges AERC, a subsidiary of the Company, failed to make a hazardous waste determination as the generator of hazardous waste, and stored the same for greater than 90 days without a permit. The Complaint seeks civil penalties in the amount of \$96,000, disposal of the "wastes" at a permitted facility, and the immediate clean-up of the area in which the materials have been stored. The materials were routinely used in the AERC Chemline Cleaning Process Unit, which was destroyed by a July 1994 fire at the Oakridge facility. AERC is in settlement discussions with the EPA to resolve the matter without a hearing and has submitted a Resolution Plan to the EPA requesting permission to allow processing of the Chemline Residues in the Facility Waste Water Treatment Unit. The Treatment Unit is currently being rebuilt from the fire, and is anticipated to be on-line in April 1997.

In re Ramp Industries, Inc. Site (Colorado), U.S. Environmental Protection Agency, Denver, Region VIII. USE responded to a CERCLA 104(e) Information Request in March 1996 sent by USEPA to numerous Potentially Responsible Parties. Thus far, USE has not been named as a responsible party at the CERCLA site, and there has not been any further action with respect to the site. Hazardous substances may have been sent by USE to the site from the Company's former operations warehouse in Pleasanton, California. No determination as to ultimate liability can be made at this time and no formal action has been initiated beyond the information requests.

United States Environmental Protection Agency v. US Ecology, Inc., RCRA

No. V-W-025-92. In 1992, the USEPA initiated an administrative enforcement action against USE, a subsidiary of the Company, alleging that USE had failed to comply with certain regulatory requirements to provide financial assurance for closure and post-closure costs as well as liability insurance relating to its hazardous waste management of its facility in Sheffield, Illinois. The EPA is seeking a penalty of approximately \$1 million and ordering compliance. USE ceased operations at the facility in 1983, which has been undergoing closure and corrective action pursuant to regulatory requirements and a RCRA Consent Order since that time. Because the Sheffield facility had not been an interim status facility under the RCRA regulations since November 1985, the Company responded that the interim status regulatory requirements for financial assurance and liability insurance do not apply and objected to the penalty as entirely unwarranted. The administrative law judge ruled that the Sheffield facility is subject to the RCRA regulatory requirements for financial assurance and liability insurance. The Company has appealed that decision to the Environmental Appeals Board and is negotiating a reduction of the penalty with the EPA and alternatively seeking to apply the penalty to construction of a supplemental environmental project elsewhere.

In the Matter of U.S. Department of Energy, US Ecology, Inc., RCRA Docket No. WA7 89000 8967. EPA issued Hazardous and Solid Waste Amendments to a Final RCRA Permit No. WA7 89000 8967, issued August 29, 1994 to the U.S. Department of Energy for the Hanford Federal Reservation, which purports to impose obligations on various parties, including, potentially, USE. USE has sought review of permit condition III.B., identifying certain disposal units operated by USE as Solid Waste Management Units subject to investigation and corrective action. USE also sought review of all other conditions of the HSWA portion of the permit, including definition "g" to the extent that it defines "facility" or "site" to include leased lands, and including Attachments A-F, to the extent that they set forth the requirements that would be applicable to the USE site. After negotiations with the EPA, the appeal was dismissed at the joint request of USE and the EPA, without prejudice to either party's right to reinstate the appeal if settlement is not achieved. USE has submitted an Investigatory Plan to Washington Department of Ecology for the investigation of hazardous constituents. The Plan is pending. It is not possible at this time to predict the outcome of this matter.

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NOTE 14. SHAREHOLDER RIGHTS PLAN

During December 1993, the Company adopted a Shareholder Rights Plan (the "Plan"). Pursuant to the Plan each outstanding share of the Company's Common Stock on December 17, 1993, received one Right as a dividend that becomes exercisable upon certain triggering events. On March 29, 1995, the Company terminated the Plan and authorized the redemption of all outstanding Rights issued under the Plan. The redemption price was \$.01 per Right, totaling \$78,000 and was paid on April 15, 1995 to shareholders of record on April 10, 1995.

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SIGNATURES

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.

AMERICAN ECOLOGY CORPORATION
(Registrant)

Date: December 17, 1997

By: /s/ Jack K. Lemley

Jack K. Lemley
Chief Executive Officer

Date: December 17, 1997

By: /s/ R. S. Thorn

R. S. Thorn
Vice President of Administration
Chief Accounting Officer