US ECOLOGY, INC.
Form 10-K
February 27, 2017

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2016

OR

o **TRANSITION REPORT PURSUANT TO Section 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .
Commission file number: 0000-11688

US ECOLOGY, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-3889638** (I.R.S. Employer Identification No.)
251 E. Front St., Suite 400 **Boise, Idaho** (Address of principal executive offices)	**83702** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 par value

(Title of class)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. ý

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

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ý

The aggregate market value of the registrant's voting stock held by non-affiliates on June 30, 2016 was approximately $992.0 million based on the closing price of $45.95 per share as reported on the NASDAQ Global Market System.

At February 17, 2017, there were 21,798,917 shares of the registrant's Common Stock outstanding.

Documents Incorporated by Reference

Listed hereunder are the documents, any portions of which are incorporated by reference and the Parts of this Form 10-K into which such portions are incorporated:

1. The registrant's definitive proxy statement for use in connection with the Annual Meeting of Stockholders to be held on or about May 23, 2017 to be filed within 120 days after the registrant's fiscal year ended December 31, 2016, portions of which are incorporated by reference into Part III of this Form 10-K.

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US ECOLOGY, INC.

FORM 10-K

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PART I

Cautionary Statement for Purposes of Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995

This annual report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about the Company's beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words "may," "could," "would," "should," "believe," "expect," "anticipate," "plan," "estimate," "target," "project," "intend" and similar expressions. These statements include, among others, statements regarding our financial and operating results, strategic objectives and means to achieve those objectives, the amount and timing of capital expenditures, repurchases of its stock under approved stock repurchase plans, the amount and timing of interest expense, the likelihood of our success in expanding our business, financing plans, budgets, working capital needs and sources of liquidity.

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on management's beliefs and assumptions, which in turn are based on currently available information. Important assumptions include, among others, those regarding demand for Company services, expansion of service offerings geographically or through new or expanded service lines, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict. Such factors include the replacement of non-recurring event cleanup projects, a loss of a major customer, our ability to permit and contract for timely construction of new or expanded disposal cells, our ability to renew our operating permits or lease agreements with regulatory bodies, loss of key personnel, compliance with and changes to applicable laws, rules, or regulations, access to insurance, surety bonds and other financial assurances, a deterioration in our labor relations or labor disputes, our ability to perform under required contracts, failure to realize anticipated benefits and operational performance from acquired operations, adverse economic or market conditions, government funding or competitive pressures, incidents or adverse weather conditions that could limit or suspend specific operations, access to cost effective transportation services, fluctuations in foreign currency markets, lawsuits, our willingness or ability to repurchase stock or pay dividends, implementation of new technologies, limitations on our available cash flow as a result of our indebtedness and our ability to effectively execute our acquisition strategy and integrate future acquisitions.

Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission (the "SEC"), we are under no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should not place undue reliance on our forward-looking statements. Although we believe that the expectations reflected in forward-looking statements are reasonable, we cannot guarantee future results or performance. ***Before you invest in our common stock, you should be aware that the occurrence of the events described in the "Risk Factors" section in this report could harm our business, prospects, operating results, and financial condition.***

Investors should also be aware that while we do, from time to time, communicate with securities analysts, it is against our policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, stockholders should not assume that we agree with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, we have a policy against issuing or confirming financial forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of US Ecology, Inc.

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ITEM 1. BUSINESS

General

The table below contains definitions that are used throughout this Annual Report on Form 10-K.

Term	Meaning
US Ecology, the Company, "we," "our," "us"	US Ecology, Inc., and its subsidiaries
AEA	Atomic Energy Act of 1954, as amended
CEPA	Canadian Environmental Protection Act (1999)
CERCLA or "Superfund"	Comprehensive Environmental Response, Compensation and Liability Act of 1980
CWA	Clean Water Act of 1977
LARM	Low-activity radioactive material exempt from federal Atomic Energy Act regulation for disposal
LLRW	Low-level radioactive waste regulated under the federal Atomic Energy Act for disposal
NORM/NARM	Naturally occurring and accelerator produced radioactive material
NRC	U.S. Nuclear Regulatory Commission
PCBs	Polychlorinated biphenyls
QEQA	Québec Environmental Quality Act
RCRA	Resource Conservation and Recovery Act of 1976
SEC	U. S. Securities and Exchange Commission
TSCA	Toxic Substances Control Act of 1976
TSDF	Treatment, Storage and Disposal Facility
USACE	U.S. Army Corps of Engineers
USEPA	U.S. Environmental Protection Agency
WUTC	Washington Utilities and Transportation Commission

US Ecology, Inc. is a leading North American provider of environmental services to commercial and government entities. The Company addresses the complex waste management needs of its customers, offering treatment, disposal and recycling of hazardous, non-hazardous and radioactive waste, as well as a wide range of complementary field and industrial services. US Ecology's comprehensive knowledge of the waste business, its collection of waste management facilities and focus on safety, environmental compliance, and customer service enables us to effectively meet the needs of our customers and to build long-lasting relationships. US Ecology and its predecessor companies have been in business for more than 60 years. As of December 31, 2016, we employed approximately 1,450 people.

US Ecology was most recently incorporated as a Delaware corporation in May 1987 as American Ecology Corporation. On February 22, 2010, the Company changed its name from American Ecology Corporation to US Ecology, Inc. Our filings with the SEC are posted on our website at www.usecology.com. The information found on our website is not part of this or any other report we file with or furnish to the SEC.

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The public can also obtain copies of these filings by visiting the SEC's Public Reference Room at 100 F Street NE, Washington DC 20549, or by calling the SEC at 1-800-SEC-0330 or by accessing the SEC's website at www.sec.gov.

We have fixed facilities and service centers operating in the United States, Canada and Mexico. Our fixed facilities include five permitted hazardous waste landfills and one LLRW landfill located near Beatty, Nevada; Richland, Washington; Robstown, Texas; Grand View, Idaho; Detroit, Michigan and Blainville, Québec, Canada. These facilities generate revenue from fees charged to treat and dispose of waste and to perform various field and industrial services for our customers.

On June 17, 2014, the Company acquired 100% of the outstanding shares of EQ Holdings, Inc. and its wholly-owned subsidiaries (collectively "EQ"). EQ is a fully integrated environmental services company providing waste treatment and disposal, wastewater treatment, remediation, recycling, industrial cleaning and maintenance, transportation, total waste management, technical services, and emergency response services to a variety of industries and customers in North America.

On November 1, 2015, we sold our Allstate Power Vac, Inc. ("Allstate") subsidiary to a private investor group. See Note 5 to the Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for additional information.

Our operations are managed in two reportable segments reflecting our internal management reporting structure and nature of services offered as follows:

> **Environmental Services** This segment provides a broad range of hazardous material management services including transportation, recycling, treatment and disposal of hazardous and non-hazardous waste at Company-owned landfill, wastewater and other treatment facilities.

> **Field & Industrial Services** This segment provides packaging and collection of hazardous waste and total waste management solutions at customer sites and through our 10-day transfer facilities. Services include on-site management, waste characterization, transportation and disposal of non-hazardous and hazardous waste. This segment also provides specialty services such as high-pressure cleaning, tank cleaning, decontamination, remediation, transportation, spill cleanup and emergency response and other services to commercial and industrial facilities and to government entities.

Financial information with respect to each segment is further discussed in Note 20 to the Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Environmental Services Segment

Our Environmental Services involve the transportation, treatment, recycling and disposal of hazardous and non-hazardous wastes, and include physical treatment, recycling, landfill disposal and wastewater treatment services.

Waste Treatment & Disposal

We recycle, treat and dispose of hazardous and non-hazardous industrial wastes. The wastes handled include substances which are classified as "hazardous" because of their corrosive, ignitable, reactive or toxic properties, and other wastes subject to federal, state and provincial environmental regulation. The wastes we handle come in solid, liquid and sludge form and can be received in a variety of containerized and bulk forms and transported to our facilities by truck and rail.

We own and operate five permitted hazardous waste treatment and disposal landfills in the United States and Canada used primarily for the disposal of wastes treated at Company-owned onsite and offsite treatment facilities. The United States landfills are regulated under RCRA by the respective states in which they are located and the USEPA while our Canadian landfill is regulated by the Quebec Ministry of

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Environment. We also operate a commercial LLRW landfill in Richland, Washington that is licensed by the Washington Department of Health through delegated authority of the NRC. The WUTC sets disposal rates for LLRW. Rates are set at an amount sufficient to cover operating costs and provide us with a reasonable profit. The current rate agreement with the WUTC was extended in 2013 and is effective until January 1, 2020.

As of December 31, 2016, the capacity used in the calculation of the useful economic lives of our six landfills includes approximately 39.5 million cubic yards of remaining permitted airspace capacity and approximately 18.1 million cubic yards of additional unpermitted airspace capacity included in the footprints of these landfills. We believe it is probable that this unpermitted airspace capacity will be permitted in the future based on our analysis of site conditions, past regulatory approvals on adjacent property, and our interactions with regulators on applicable regulations, although there can be no assurance that any additional unpermitted airspace capacity will be permitted in the future.

Treatment and disposal ("T&D") revenue can be broken down into two categories, based on the underlying nature of the revenue source: "Base Business" and "Event Business." We define Event Business as non-recurring projects that are expected to equal or exceed 1,000 tons, with Base Business defined as all other business not meeting the definition of Event Business. The duration of Event Business projects can last from a several-week cleanup of a contaminated site to a multiple year cleanup project.

A significant portion of our T&D revenue is attributable to discrete Event Business projects which vary widely in size, duration and unit pricing. For the year ended December 31, 2016, approximately 18% of our T&D revenue was derived from Event Business projects. The one-time nature of Event Business, diverse spectrum of waste types received and widely varying unit pricing necessarily creates variability in revenue and earnings. This variability may be influenced by general and industry-specific economic conditions, funding availability, changes in laws and regulations, government enforcement actions or court orders, public controversy, litigation, weather, commercial real estate, closed military bases and other project timing, government appropriation and funding cycles and other factors. The types and amounts of Base Business waste received also vary quarter to quarter, sometimes significantly, but are generally more predictable than Event Business.

The types of waste received, also referred to as "service mix," can produce significant quarter-to-quarter and year-to-year variations in revenue, average selling price, gross profit, gross margin, operating profit and net income for both Base Business and Event Business. Base Business represented approximately 82% and 75% of disposal revenue (excluding transportation) for the years ended December 31, 2016 and 2015, respectively. Event Business contributed approximately 18% and 25% of disposal revenue (excluding transportation) for the years ended December 31, 2016 and 2015, respectively. Our strategy is to expand our Base Business while securing both short-term and extended-duration Event Business. When Base Business covers our fixed overhead costs, a significant portion of disposal revenue generated from Event Business is generally realized as operating income and net income. This strategy takes advantage of the operating leverage inherent to the largely fixed-cost nature of the waste disposal business. Contribution margin is influenced by whether the waste is directly disposed ("direct disposal") or requires the application of chemical reagents, absorbents or other additives (variable costs) to treat the waste prior to disposal.

Wastewater Treatment

We operate wastewater treatment facilities that offer a range of wastewater treatment technologies. These wastewater treatment operations involve processing hazardous and non-hazardous wastes through the use of physical and chemical treatment methods. Our wastewater treatment facilities treat a broad range of industrial liquid and semi-liquid wastes containing heavy metals, organics and suspended solids.

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The following table summarizes the locations and services of our active Environmental Services waste treatment and/or disposal facilities:

Location	Onsite Landfill	Services
Beatty, Nevada	Yes	Hazardous and non-hazardous industrial waste treatment, storage and disposal facility permitted under Subtitle C of RCRA and TSCA to treat and dispose RCRA, TSCA and certain NRC-exempt (NORM) radioactive waste.
Robstown, Texas	Yes	Hazardous and non-hazardous industrial waste treatment, storage and disposal facility permitted under Subtitle C of RCRA to treat and dispose RCRA, PCB remediation and certain NRC-exempt (LARM and NORM/NARM) radioactive waste. PCB waste storage for off-site shipment. Features a thermal desorption system permitted as a Subpart X RCRA treatment unit that treats and recycles organic materials including recoverable oils and metal catalysts from petroleum wastes. Rail transfer station.
Grand View, Idaho	Yes	Hazardous and non-hazardous industrial waste treatment, storage and disposal facility permitted under Subtitle C of RCRA and TSCA to treat RCRA and TSCA wastes and certain NRC-exempt (NORM/NARM, Technologically Enhanced NORM (TENORM)) radioactive waste. Rail transfer station.
Belleville, Michigan	Yes	Hazardous and non-hazardous industrial waste treatment, storage and disposal facility permitted under Subtitle C of RCRA to treat and dispose RCRA wastes and certain NRC-exempt (NORM/NARM, Technologically Enhanced NORM (TENORM)) radioactive waste. Permitted under TSCA to dispose TSCA wastes. Features a regenerative thermal oxidation air pollution control system that is compliant with RCRA Subpart CC air emissions standards. Rail transfer station.
Blainville, Québec, Canada	Yes	Permitted by the Canadian Ministry of Environment and authorized under the Environmental Quality Act by Order-in-Council to treat and stabilize inorganic hazardous liquid and solid waste and contaminated soils to produce a non-leachable concrete-like material for disposal in the onsite landfill. Specializes in processing hard-to-treat materials, such as cyanides, mercury compounds, strong acids, non-organic oxidizers, lab packs, contaminated debris and batteries. Direct rail access.
Richland, Washington	Yes	LLRW disposal facility accepts Class A, B, and C commercial LLRW from within the Northwest Interstate and Rocky Mountain Compacts, NORM/NARM and LARM waste including radium sources produced by customers nationwide. One of only three full-service Class A, B, and C disposal facilities in the nation.

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Location	Onsite Landfill	Services
Detroit, Michigan	No	RCRA Part B and Centralized Wastewater Treatment ("CWT") permitted industrial hazardous and non-hazardous treatment of liquid wastes, stabilization, solidification, chemical oxidation/reduction and deactivation of hazardous and non-hazardous solid and liquid wastes. Direct rail access.
Canton, Ohio	No	RCRA Part B and CWT permitted wastewater treatment of hazardous and non-hazardous liquid wastes and stabilization, solidification, chemical oxidation/reduction, deactivation and metals recovery of hazardous and non-hazardous liquid and solid wastes. Specializes in a delisting process that converts industrial inorganic wastes into non-hazardous residuals.
Harvey, Illinois	No	RCRA Part B and CWT permitted wastewater treatment of hazardous and non-hazardous liquid wastes and stabilization, solidification, chemical oxidation/reduction, deactivation, metals recovery of hazardous and non-hazardous liquid and solid wastes and industrial cleaning. Specializes in a delisting process that converts industrial inorganic wastes into non-hazardous residuals.
York, Pennsylvania	No	RCRA Part B and CWT permitted wastewater treatment of hazardous and non-hazardous liquid wastes and stabilization, solidification, chemical oxidation/reduction, deactivation and metals recovery of hazardous and non-hazardous liquid and solid wastes. Specializes in a delisting process that converts industrial inorganic wastes into non-hazardous residuals.
Tulsa, Oklahoma	No	RCRA Part B and CWT permitted wastewater treatment of hazardous and non-hazardous liquid wastes and stabilization, solidification, chemical oxidation/reduction and deactivation of hazardous and non-hazardous liquid and solid wastes.
Tilbury, Ontario, Canada	No	Hazardous and non-hazardous industrial waste treatment, storage, and disposal facility permitted by the Ontario Ministry of Environment. Provides bulking, blending and solidification services. Treatment of non-hazardous hydrocarbon contaminated solids to industrial re-use standards. Full licensed and permitted fleet of hazardous and non-hazardous transportation equipment. Also provides heavy industrial cleaning and confined space entry and rescue services along with emergency response.
Vernon, California	No	RCRA Part B and CWT permitted wastewater treatment of hazardous and non-hazardous liquid wastes. Storage and consolidation of hazardous and non-hazardous wastes. California State certified laboratory. Direct rail access.

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Recycling Services

We operate recycling technologies designed to reclaim valuable commodities from hazardous waste, including oil-bearing hazardous waste, certain metal-bearing waste, batteries, and solvent-based wastes for industrial clients, metal finishing and other manufacturing processes. Resource recovery involves the treatment of wastes using various methods to effectively remove contaminants from the original material to restore its usefulness and to reduce the volume of waste requiring disposal.

We offer full-service storm water management and propylene glycol recovery at major airports. We currently operate deicing fluid collection systems at the Minneapolis-St. Paul International, Pittsburgh and Detroit airports. We also receive deicing fluids from the Grand Rapids airport in the Great Lakes Region. Recovered fluids are transported to our RCRA Part B and CWT permitted chemical recycling facility in Romulus, Michigan where they are recycled into a greater than 99% pure material that is sold to industrial users.

We also operate a thermal desorption unit at our Robstown, Texas facility that recovers oil and metal bearing catalyst from refinery waste. The recycled oil and recycled catalyst are sold to third parties.

We operate a fleet of mobile solvent recycling stills that provide on-site recycling services throughout the Eastern United States. The trailer-mounted stills are self-contained units that perform solvent distillation at the point of generation. Waste solvents are processed in 500 - 7,500 gallon batches, and clean solvent is returned for reuse. Our Mobile Recycling services are based in Mt. Airy, North Carolina.

Transportation

For waste transported by rail from locations distant from our facilities, transportation-related revenue can vary significantly and can account for as much as 75% of total project revenue. While bundling transportation and disposal services may reduce overall gross profit as a percentage of total revenue ("gross margin"), this value-added service has allowed us to win multiple projects that we believe we could not have otherwise competed for successfully. Our Company-owned fleet of gondola railcars, which is periodically supplemented with railcars obtained under operating leases, has reduced our transportation expenses by largely eliminating reliance on more costly short-term rentals. These Company-owned railcars also help us to win business during times of demand-driven railcar scarcity. We also utilize a variety of specially designed and constructed Company-owned tanker trucks and trailers as well as various third-party transporters to support this activity. Further, to maximize utilization of our railcar fleet, we periodically deploy available railcars to transport waste from cleanup sites to disposal facilities operated by other companies. Such transportation services may also be bundled with logistics and field services support work.

Field & Industrial Services Segment

Our Field & Industrial Services include a wide range of industrial maintenance and specialty services at refineries, chemical plants, steel and automotive plants, and other government, commercial and industrial facilities. Onsite specialty services include excavation, high-pressure cleaning, tank cleaning, decontamination, remediation, transportation, spill cleanup and emergency response. We provide these services through a network of facilities located throughout the Eastern United States that are organized into service lines including Small Quantity Generation, Remediation Services, Managed Services, Emergency Response, Transfer and Processing and Terminal Services and Industrial Services.

Small Quantity Generation

Our small quantity generation service offerings consist of retail services, laboratory packing and Household Hazardous Waste ("HHW") collection. Retail services, laboratory packing and HHW are full-service waste characterization, packaging, collection and transportation programs. Services are provided to small, medium and large industrial and commercial customers. These programs are built on our network of

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service centers, employ highly trained staff and provide a high level of service to the customer. As an integral part of our services, we operate a network of service centers that characterize, package and collect hazardous and non-hazardous wastes from customers and transport such wastes to and between our facilities for treatment or bulking for shipment to final disposal locations. Customers typically accumulate wastes in containers, such as 55 gallon drums, bulk storage tanks or 20 cubic yard roll-off containers. We utilize a variety of specially designed and constructed tank trucks and semi-trailers as well as third-party transporters, including railroads. Depending on customer needs and competitive economics, transportation services may be offered at or near our cost to help secure new business.

Remediation Services

Our remediation service offerings include RCRA and TSCA closures, surgical excavations, wastewater management, building decontamination and radiological site remediation.

Managed Services

Our managed service offerings consist of Total Waste Management ("TWM") programs. Through our TWM program, customers outsource the management of their waste compliance program to us, allowing us to organize and coordinate their waste management disposal activities and environmental compliance.

Emergency Response

Our primary emergency response offerings include spill response, waste analysis and treatment and disposal planning. We also offer product transfers, spill contingency planning and yearly service agreements with first responder status. Trained, experienced professionals operate the Company's Emergency Response Service 24 hours per day, 7 days per week.

Transfer and Processing

Our transfer and processing stations stage and consolidate non-bulk loads of hazardous, non-hazardous and universal waste into full loads for more efficient shipment to Company-owned or third-party treatment and disposal facilities. This allows us to offer a broader geographic presence without having a dedicated, Company-owned treatment or disposal facility in the region.

Terminal Services

Our terminal services include petroleum and chemical tank cleaning and other services, including emergency response, construction and industrial maintenance. The Company services several major petroleum terminals around New York Harbor.

Industrial Services

Our primary industrial service offerings include emergency response, industrial cleaning and maintenance for railroads, refineries, chemical plants, steel and automotive plants, as well as tank cleaning and temporary storage.

Waste Services Industry

During the 1970s and 1980s, waste services industry growth in the United States was driven by new environmental laws and actions by federal and state agencies to regulate existing hazardous waste management facilities and direct the cleanup of contaminated sites under the federal Superfund law. By the early 1990s, excess hazardous waste management capacity had been constructed by the industry. Over this same period, to better manage risk and reduce expenses, many waste generators instituted industrial process changes and other methods to reduce waste production. These factors led to highly competitive market conditions that still apply today.

In the U.S., hazardous waste is regulated under the RCRA, which created a cradle-to-grave system governing defined hazardous waste from the point of generation to ultimate disposal. RCRA requires waste generators to distinguish between "hazardous" and "non-hazardous" wastes, and to treat, store and dispose of hazardous waste in accordance with specific regulations. Generally, entities that treat, store, or dispose of hazardous waste must obtain a permit, either from the USEPA or from a state agency to which the USEPA has delegated such authority. Similar regulations and management methods apply to hazardous waste generation in Canada, which is regulated by the Canada Ministry of Environment and delegated to provincial agencies.

Disposal facilities are typically designed to permanently contain the waste and prevent the release of harmful pollutants into the environment. The most common hazardous waste disposal practice is placement in an engineered disposal unit such as a landfill, surface impoundment or deep injection well. RCRA's hazardous waste permitting program establishes specific requirements that must be followed when managing those wastes.

We believe that a baseline demand for hazardous waste services will continue into the future with fluctuations driven by general and industry-specific economic conditions, identification and prioritization of new cleanup needs, cleanup project schedules, funding availability, regulatory changes and other public policy decisions. We further believe that the ability to deliver specialized niche services while aggressively competing for large volume cleanup projects and non-niche commodity business opportunities differentiates successful from less successful companies. We seek to control variable costs, expand service lines, increase waste throughput efficiency, employ innovative treatment techniques, provide complementary transportation and logistics services, build market share and increase profitability.

Our Richland, Washington disposal facility, serving the Northwest and Rocky Mountain LLRW Compacts, is one of three operating Compact disposal facilities in the U.S. While our Washington disposal facility has substantial unused capacity, it can only accept LLRW from the 11 western states comprising the two Compacts served. The Barnwell, South Carolina site, operated by Energy Solutions, Inc. ("Energy Solutions"), exclusively serves the three-state Atlantic Compact. A third LLRW disposal facility, licensed by Waste Control Specialists, LLC and located near Andrews, Texas serves the two-state Texas Compact and approved out-of-compact waste generators. Class A LLRW from states outside the Northwest Compact region may also be disposed at a non-compact, commercial disposal site in Clive, Utah, also operated by Energy Solutions.

Increases in pricing at AEA licensed LLRW disposal facilities heightened demand for more cost-effective disposal options for soil, debris, consumer products, industrial wastes and other materials containing LARM, including "mixed wastes," exhibiting both hazardous and radioactive properties. In addition to commercial demand, a substantial amount of LARM is generated by government cleanup projects. The NRC, USEPA and USACE have authorized the use of hazardous waste disposal facilities to dispose of certain LARM, encouraging expansion of this compliant, cost-effective alternative. We have been successful at expanding our permits at four of our RCRA hazardous waste facilities to allow acceptance of additional LARM wastes.

Industrial Services Industry

The industrial services industry is highly fragmented with thousands of small companies performing a variety of cleaning, maintenance and other services to industrial based companies such as refineries, chemical plants and steel and automotive plants. We believe customers increasingly desire to shift high fixed costs to lower variable costs by outsourcing waste management and industrial services. Some companies, such as power generation plants, petroleum refineries and chemical processors, are required to perform specialized "turnaround" maintenance only once or twice per year, making it impractical and cost-prohibitive to purchase expensive, specialized equipment, comply with complex permits and employ full-time specialized technicians required to perform those services. Similarly, the regulatory requirements of characterizing, manifesting, transporting and properly disposing of waste has led many companies to outsource this function to specialists. Our network of service centers and treatment, recycling and storage facilities provides a national footprint allowing us to serve these customers, while at the same time internalizing the waste to our own facilities.

Industrial services generally have low barriers to entry and customers are frequently won based on quality of service, reputation, health and safety record, logistics and price. This low barrier to entry has fostered a fragmented and competitive market place.

Strategy

Our strategy is to capitalize on our difficult-to-replicate combination of treatment and disposal assets and complementary service lines to provide a full service offering to customers and increase market share in the diverse markets we serve. We are focused on safety, environmental compliance and a commitment to customer service excellence. In addition to organic growth initiatives, we actively pursue acquisition opportunities to expand our geographic reach, service lines and customer base. The principal elements of our business strategy are to:

Execute Best-in-Class Safety and Environmental Compliance Programs. We pursue best-in-class safety and environmental compliance at US Ecology. Not only is it the cornerstone of our business, but our customers and regulators rely on our expertise when they select us as a vendor or grant us permits and licenses. We deploy significant resources in terms of human capital, programs and facility investment to achieve safe and compliant operations. The Company has dedicated professionals who oversee and manage safety and environmental programs including, but not limited to, employee training, internal and independent external audits, safety incentive programs, Voluntary Protection Programs ("VPP"), the Safety & Health Achievement Recognition Program, and ISO 9001 and ISO 14001 programs. Dedicated senior managers regularly review and discuss environmental and safety results with operational staff, management and the Board of Directors to improve our safety results and focus on regulatory compliance.

Leverage Regulatory Expertise to Expand Permit Capabilities and Broaden Cost-Effective Service Offerings. We have a proven track record of leveraging more than six decades of regulatory experience to broaden our service offerings. Working with customers, we assess market opportunities in relation to existing laws, regulations and permit conditions. Our engineering, operational and regulatory affairs personnel then seek authority to implement innovative processes and technologies and accept additional types of waste by modifying our existing permits or obtaining new permits.

Continue to Build on Our Robust Waste Handling Infrastructure to Increase Revenue from Existing Assets. We believe we have a difficult to replicate set of treatment, recycling and disposal assets in the highly regulated hazardous and radioactive waste industry. We aim to enhance treatment capabilities at our existing facilities to handle additional waste streams and increase throughput. We also continue to invest in equipment and infrastructure to ensure that we have ample throughput capacity to expand our Event Business while continuing to support our Base Business customers.

Execute on Marketing Initiatives to Grow Organically. Our sales team is focused on high margin, niche wastes that our competitors may not be able to obtain the necessary regulatory authorizations for or handle cost-effectively. We seek to expand into new markets and offer new services allowing us to cross-sell or bundle services and ultimately drive incremental volume into our existing disposal facilities. Our strategy is to have our Base Business cover our fixed overhead costs and deliver a reasonable profit, which allows the majority of our Event Business revenue to be realized as operating profit. We aim to continue building our Base Business while remaining flexible enough to handle large cleanup events.

Deliver Innovative Technological Solutions: We challenge ourselves to identify innovative and technology-driven solutions to solve our customers' waste management challenges. Past examples include leveraging our expertise in developing waste treatment recipes for organic and metals-bearing wastes, utilizing waste as a reagent to treat other wastes, beneficial reuse of select wastes, partnering with an innovative technology provider to deploy thermal desorption technology to recover oil and metal catalyst from refinery waste, and stabilizing mercury laden waste and other wastes using patented treatment process.

Pursue a Disciplined Acquisition Strategy to Add Complementary Capabilities. We pursue selective acquisitions to expand our disposal network, customer base and geographic footprint. We have had success achieving this in recent years through our targeted acquisition strategy, acquiring Stablex Canada Inc. ("Stablex") in 2010, Dynecol, Inc. in 2012, EQ in 2014 and Environmental Services Inc. ("ESI") and the Vernon, California based RCRA Part B, liquids and solids waste treatment and storage facility of Evoqua Water Technologies LLC in 2016. The acquisition of EQ also provided us with an entirely new line of complementary field and industrial service offerings. We continue to seek acquisition opportunities to further expand our service offerings across the hazardous waste value chain while maintaining our commitment to compliance, safety and customer service excellence.

Competitive Strengths

Difficult-to-Replicate Infrastructure. We consider our disposal facilities to be difficult to replicate due to the longstanding regulatory and public policy environment for hazardous waste processing facilities, which includes the generally high cost of obtaining permits, multi-year permitting timeframes, uncertainty of outcome, high initial capital expenditures and the potential for both broad-based and local community opposition to the development of new facilities. As a result, it has been more than 20 years since a new hazardous waste landfill has been built in the United States. We operate five of twenty landfills in the U.S. and Canada that are permitted to accept RCRA wastes. Our Richland, Washington LLRW facility is one of only three full-service Class A, B, and C disposal facilities in the U. S. Our personnel have extensive experience safely managing certain radioactive waste requiring the use of shielding and remote handling devices.

Significant Regulatory and Operating Expertise. We operate in a highly regulated marketplace. The permitting process for operating disposal assets in our industry is lengthy and complex, requiring a deep understanding of federal and state hazardous and radioactive waste laws and regulations. We maintain a regulatory compliance and permitting program at our disposal facilities that has allowed us to obtain approvals to expand our service offering in terms of the types, amounts and concentrations of wastes that we are authorized to accept. Our track record of successfully navigating government regulatory and permitting processes has been a consistent competitive advantage.

A Market Leader in Hazardous & Non-Hazardous Waste Treatment and Disposal. We are a leader in the North American hazardous waste services sector with more than six decades of experience. Our collection of disposal assets combined with our transportation network provides us with coast-to-coast treatment and disposal capabilities, allowing us to serve a diverse mix of customers and industries across the United States, Canada and Mexico.

Comprehensive Waste Services. Our comprehensive waste service offerings allow us to act as a full-service provider to our customers. Our full-service orientation creates incremental revenue growth as customers seek to minimize the number of outside vendors through "one-stop" service providers.

Diverse Markets and Customer Base. In 2016, we serviced more than 4,000 commercial and governmental entities, such as refineries, chemical production facilities, heavy manufacturers, steel mills, waste brokers and medical and academic institutions. Our broad range of end-markets gives us exposure to a variety of industrial cycles, lessening the impact of market volatility.

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Solid Safety and Compliance Record. Safety and environmental compliance is a cornerstone of US Ecology's business. The Company has dedicated environmental professionals who oversee and manage safety and environmental programs including, but not limited to, employee training, internal and independent external audits, safety incentive programs, VPP, the Safety & Health Achievement Recognition Program, and ISO 9001 and ISO 14001 programs. Dedicated senior managers regularly review and discuss environmental and safety results with operational staff, management and the Board of Directors to improve our safety results and focus on regulatory compliance. In addition, we have received multiple operating site safety awards including the VPP Star Worksite Award, Thoroughbred Safety Award and the CSX Chemical Safety Award.

Competition

Our Environmental Services segment competes with large and small companies in each of the commercial markets we serve. While niche services apply, the radioactive, hazardous and non-hazardous industrial waste management industry is generally very competitive. We believe that our primary hazardous waste and PCB disposal competitors are Clean Harbors, Inc., Heritage Environmental Services and Waste Management, Inc. Other hazardous waste disposal competitors include, but are not limited to, Peoria Disposal Company, Envirosafe Services of Ohio, Tradebe, Ross Environmental, Perma-Fix Environmental Services and Veolia Environmental Services. We believe that our primary radioactive material disposal competitors are Energy Solutions, Inc. and Waste Control Specialists, Inc. We believe the principal competitive factors applicable to these businesses are:

- price;
- specialized permits and "niche" service offerings;
- customer service;
- operational efficiency and technical expertise;
- regulatory compliance and worker safety;
- industry reputation and brand name recognition;
- transportation distance; and
- State or Province and local community support.

Competition within our Field & Industrial Services segment varies by locality and type of service rendered, with competition coming from large national and regional service providers and hundreds of privately-owned firms that offer field or industrial services. We believe that our primary field and industrial services competitors are Clean Harbors, Inc.; Stericycle, Inc., Veolia Environmental Services and Waste Management, Inc. Each of these competitors is able to provide most if not all of the field and industrial services we offer.

We believe that we are competitive in all markets we serve and that we offer a unique mix of services, including niche technologies and services that favorably distinguish us from competitors. We also believe that our strong brand name recognition from six decades of experience, compliance and safety record, customer service reputation and positive relations with regulators and local communities enhance our competitive position. Advantages exist for competitors that are larger in scale or have technology, permits or equipment to handle a broader range of waste, that operate in jurisdictions imposing lower disposal fees and/or are located closer to where wastes are generated.

Permits, Licenses and Regulatory Requirements

Obtaining authorization to construct and operate new hazardous or radioactive waste facilities is a lengthy and complex process. We believe we have demonstrated significant expertise in this area over multiple

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decades. We also believe we possess all permits, licenses and regulatory approvals required to maintain regulatory compliance and operate our facilities and have the specialized expertise required to obtain additional approvals to continue growing our business in the future.

We incur costs and make capital investments to comply with environmental regulations. These regulations require that we operate our facilities in accordance with permit-specific requirements. Most of our facilities are also required to provide financial assurance for closure and post-closure obligations should our facilities cease operations. Both human resource and capital investments are required to maintain compliance with these requirements.

United States Hazardous Waste Regulation

Our hazardous, industrial, non-hazardous and radioactive waste treatment, disposal and handling business is subject to extensive federal and state environmental, health, safety, and transportation laws, regulations, permits and licenses. Local government controls may also apply. The responsible government regulatory agencies regularly inspect our operations to monitor compliance. They have authority to enforce compliance through the suspension or revocation of operating licenses and permits and the imposition of civil or criminal penalties in case of violations. We believe that these laws and regulations, as well as the specialized services we provide, contribute to demand and create barriers to new competitors seeking to enter the markets we serve.

RCRA provides a comprehensive framework for regulating hazardous waste transportation, treatment, storage and disposal. RCRA regulation is the responsibility of the USEPA, which may delegate authority to state agencies. Chemical compounds and residues derived from USEPA-listed industrial processes are subject to RCRA standards unless they are delisted through rulemaking. RCRA liability may be imposed for improper waste management or failure to take corrective action for releases of hazardous substances. To the extent wastes are recycled or beneficially reused, regulatory controls and permitting requirements under RCRA diminish. LARM and NORM/NARM may also be managed to varying degrees under RCRA permits, as is authorized for our facilities in Grand View, Idaho; Beatty, Nevada; Belleville, Michigan and Robstown, Texas.

CWA legislation prohibits discharge of pollutants into the waters of the United States without governmental authorization and regulates the discharge of pollutants into surface waters and sewers from a variety of sources, including disposal sites and treatment facilities. The USEPA has promulgated "pretreatment" regulations under the CWA, which establish pretreatment standards for introduction of pollutants into publicly owned treatment works. In the course of the treatment process, our wastewater treatment facilities generate wastewater, which we discharge to publicly owned treatment works pursuant to permits issued by the appropriate governmental authority. We are required to obtain discharge permits and conduct sampling and monitoring programs.

CERCLA and its amendments impose strict, joint and several liability on owners or operators of facilities where a release of hazardous substances has occurred, on parties who generated hazardous substances released at such facilities and on parties who arranged for the transportation of hazardous substances. Liability under CERCLA may be imposed if releases of hazardous substances occur at treatment, storage or disposal sites. Since waste generators, transporters and those who arrange transportation are subject to the same liabilities, we believe they are motivated to minimize the number of disposal sites used. In addition, hazardous waste generated during the remediation of CERCLA cleanup projects and transferred offsite must be managed by a treatment and disposal facility authorized by EPA to manage CERCLA waste.

TSCA regulates the treatment, storage and disposal of PCBs. U.S. regulation and licensing of PCB wastes is the responsibility of the USEPA. Our Grand View, Idaho and Beatty, Nevada facilities have TSCA treatment, storage and disposal permits. Our Belleville, Michigan facility has a TSCA disposal permit. Our

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Robstown, Texas facility has a TSCA storage permit and may dispose of PCB-contaminated waste in limited concentrations not requiring a TSCA disposal permit.

The AEA assigns the NRC regulatory authority over receipt, possession, use and transfer of certain radioactive materials, including disposal. The NRC has adopted regulations for licensing commercial LLRW disposal and has delegated regulatory authority to certain states including Washington, where our Richland facility is located. The NRC and U.S. Department of Transportation regulate the transport of radioactive materials. Shippers must comply with both the general requirements for hazardous materials transportation and specific requirements for transporting radioactive materials.

The Energy Policy Act of 2005 amended the AEA to classify discrete (i.e. concentrated versus diffuse) NORM/NARM as byproduct material. The law does not apply to interstate Compacts ratified by Congress pursuant to the LLRW Policy Act.

Canadian Hazardous Waste Regulation

The Canadian federal government regulates issues of national scope where activities cross provincial boundaries and affect Canada's relations with other nations. The Provinces retain control over environmental matters within their boundaries including primary responsibility for regulation and management of hazardous waste.

The main federal laws governing hazardous waste management are CEPA and the Transportation of Dangerous Goods Act. Environment and Climate Change Canada is the federal agency with responsibility for environmental matters. CEPA charges Environment Canada and Health Canada with the protection of human health and the environment and seeks to control the production, importation and use of substances in Canada and their impact on the environment. The Export and Import of Hazardous Waste Regulations under CEPA govern trans-border movement of hazardous waste and hazardous recyclable materials. These regulations require that anyone proposing to export or import hazardous waste or hazardous recyclable materials or transport them through Canada notify the Minister of the Environment and obtain a permit to do so.

Our Stablex facility is located in Blainville, Québec, Canada and is subject to QEQA. This Act, independently developed by the Province, regulates the generation, characterization, transport, treatment and disposal of hazardous wastes. QEQA also provides for the establishment of waste management facilities which are controlled by the provincial statutes and regulations governing releases to air, groundwater and surface water.

Our Tilbury, Ontario, Canada facility is subject to Regulation 347 of the Ontario Environmental Protection Act. Regulation 347, independently developed by the Province, regulates the collection, storage, transportation, treatment, recovery and disposal of hazardous wastes.

Waste transporters require a permit to operate under the Province's regulations and are also subject to the requirements of the Federal Transportation of Dangerous Goods law which requires reporting of quantities and disposition of materials shipped.

A major difference between the United States regulatory regime and that in Canada relates to ownership and liability. Under Canadian federal regulation, ownership changes when waste is transferred to a properly permitted third-party carrier and subsequently to an approved treatment and disposal facility. As a result, the generator is no longer liable for proper handling, treatment or disposal. In the United States, joint and several liability is retained by the waste generator as well as the transporter and the treatment and disposal facility.

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Insurance, Financial Assurance and Risk Management

We carry a broad range of insurance coverage, including general liability, automobile liability, real and personal property, workers compensation, directors and officers liability, environmental impairment liability and other coverage customary to the industry. We do not expect the impact of any known casualty, property, environmental or other contingency to be material to our financial condition, results of operations or cash flows.

As noted above, applicable regulations require financial assurance to cover the cost of final closure and post-closure obligations at certain of our operating and non-operating disposal facilities. Acceptable forms of financial assurance include third-party standby letters of credit, surety bonds and insurance. Alternatively, we may be required to collect fees from waste generators to fund dedicated, state-controlled escrow or trust accounts during the operating life of the facility. Through December 31, 2016, we have met our financial assurance requirements through insurance, surety bonds, standby letters of credit and self-funded restricted trusts.

Insurance policies covering our U.S. closure and post-closure obligations expire in December 2017. While we expect to timely renew these policies as we have in the past, if we are unable to obtain adequate closure, post-closure or environmental insurance, any partial or completely uninsured claim against us, if successful, could have a material adverse effect on our financial condition, results of operations and cash flows. Failure to maintain adequate financial assurance could also result in regulatory action including early closure of facilities. As of December 31, 2016, we have provided collateral of $5.8 million in funded trust agreements, $12.0 million in surety bonds, issued $2.7 million in letters of credit for financial assurance and have insurance policies of approximately $81.6 million for closure and post-closure obligations. Financial assurance, premium and collateral cost requirement increases may have an adverse impact on our results of operations.

We maintain a surety bond for closure costs associated with the Blainville facility. Our lease agreement with the Province of Québec requires that the surety bond be maintained for 25 years after the lease expires. At December 31, 2016 we had $686,000 in commercial surety bonds dedicated for closure obligations.

Primary casualty insurance programs generally do not cover accidental environmental contamination losses. To provide insurance protection for potential claims, we maintain pollution legal liability insurance and professional environmental consultant's liability insurance for non-nuclear occurrences. For nuclear liability coverage, we maintain Facility Form and Workers' Form nuclear liability insurance provided under the federal Price Anderson Act. This insurance covers the operations of our facilities, suppliers and transporters. We purchase primary property, casualty and excess liability policies through traditional third-party insurance carriers.

Significant Customers

No customer accounted for more than 10% of total revenue for the years ended December 31, 2016 or 2015. Revenue from a single customer accounted for approximately 10% of total revenue for the year ended December 31, 2014.

Geographical Information

For the year ended December 31, 2016, we derived $428.8 million or 90% of our revenue in the United States and $48.9 million or 10% of our revenue in Canada. For the year ended December 31, 2015, we derived $521.1 million or 93% of our revenue in the United States and $42.0 million or 7% of our revenue in Canada. For the year ended December 31, 2014, we derived $388.1 million or 87% of our revenue in the United States and $59.3 million or 13% of our revenue in Canada. Additional information about the geographical areas in which our revenues are derived and in which our assets are located is presented in

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Note 20 to the Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Seasonal Effects

Seasonal fluctuations due to weather and budgetary cycles can influence the timing of customer spending for our services. Typically, in the first quarter of each calendar year there is less demand for our services due to reduced construction activities related to weather. While large, multi-year cleanup projects may continue in winter months, the pace of waste shipments may be slower, or stop temporarily, due to weather. Market conditions and federal funding decisions generally have a greater influence on the business than seasonality.

Personnel

On December 31, 2016, we had approximately 1,450 employees, of which approximately 200 in the United States and 100 in Canada were represented by various labor unions.

Executive Officers of Registrant

The following table sets forth the names, ages and titles, as well as a brief account of the business experience of each person who is currently an executive officer of US Ecology:

Name	Age	Title
Jeffrey R. Feeler	47	President and Chief Executive Officer
Simon G. Bell	46	Executive Vice President and Chief Operating Officer
Eric L. Gerratt	46	Executive Vice President, Chief Financial Officer and Treasurer
Steven D. Welling	58	Executive Vice President of Sales and Marketing

Jeffrey R. Feeler was appointed President and Chief Executive Officer in May 2013. Mr. Feeler was previously the Company's senior executive as President and Chief Operating Officer from October 2012 to May 2013 and as the Company's Vice President and Chief Financial Officer from May 2007 to October 2012. He joined US Ecology in 2006 as Vice President, Controller, Chief Accounting Officer, Treasurer and Secretary. He previously held financial and accounting management positions with MWI Veterinary Supply, Inc., Albertson's, Inc. and Hewlett-Packard Company. From 1993 to 2002, he held various accounting and auditing positions for PricewaterhouseCoopers LLP. Mr. Feeler is a Certified Public Accountant and holds a BBA of Accounting and a BBA of Finance from Boise State University.

Simon G. Bell was appointed Executive Vice President and Chief Operating Officer in November 2016. Mr. Bell previously served as the Company's Executive Vice President of Operations, Environmental Services from June 2014 to November 2016. From May 2013 to June 2014, he was Executive Vice President of Operations and Technology Development. From August 2007 to May 2013, he was Vice President of Operations. From 2005 to August 2007, he was Vice President of Hazardous Waste Operations. From 2002 to 2005, he was our Idaho facility General Manager and Environmental Manager. His 20 years of industry experience includes service as general manager of a competitor disposal facility and mining industry experience in Idaho, Nevada and South Dakota. He holds a BS in Geology from Colorado State University.

Eric L. Gerratt was appointed Executive Vice President, Chief Financial Officer and Treasurer in May 2013. Mr. Gerratt previously served as the Company's Vice President, Chief Financial Officer, Treasurer and Chief Accounting Officer from October 2012 to May 2013. He joined US Ecology in August 2007 as Vice President and Controller. He previously held various financial and accounting management positions at SUPERVALU, Inc. and Albertson's, Inc. From 1997 to 2003, he held various accounting and auditing positions for PricewaterhouseCoopers LLP. Mr. Gerratt is a Certified Public Accountant and holds a BS in Accounting from the University of Idaho.

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Steven D. Welling was appointed Executive Vice President of Sales and Marketing in May 2013. Mr. Welling previously served as the Company's Senior Vice President, Sales and Marketing from January 2010 to May 2013. He joined US Ecology in 2001 through the Envirosafe Services of Idaho acquisition. He previously served as National Accounts Manager for Envirosource Technologies and Western Sales Manager for Envirosafe Services of Idaho and before that managed new market development and sales for a national bulk chemical transportation company. Mr. Welling holds a BS from California State University-Stanislaus.

ITEM 1A. RISK FACTORS

In addition to the factors discussed elsewhere in this Form 10-K, the following are important factors which could cause actual results or events to differ materially from those contained in any forward-looking statements made by or on behalf of us.

Risks Affecting All of Our Businesses

The completion of, loss of or failure to renew one or more significant contracts could adversely affect our profitability.

We provide disposal and transportation services to customers on discrete Event Business (non-recurring project based work) which varies widely in size, duration and unit pricing. Some of these multi-year projects can account for a significant portion of our revenue and profit. The replacement of 2016 Event Business revenue and earnings depends on multiple factors, many of which are outside of our control including, but not limited to, general and industry-specific economic conditions, capital in the commercial credit markets, general level of government funding on environmental matters, real estate development and other industrial investment opportunities. Our inability to replace the contribution from 2016 Event Business projects with new business could result in a material adverse effect on our financial condition and results of operations.

Our market is highly competitive. Failure to compete successfully could have a material adverse effect on our business, financial condition and results of operations.

We face competition from companies with greater resources than us, companies with closer geographic proximity to waste sites, companies with service offerings we do not provide and companies that can provide lower pricing than we can in certain instances. An increase in the number or location of commercial treatment or disposal facilities for hazardous or radioactive waste, significant expansion of existing competitor permitted capabilities, acquisitions by competitors or a decrease in the treatment or disposal fees charged by competitors could materially and adversely affect our results of operations. Our business is also heavily affected by waste disposal fees imposed by government agencies. These fees, which vary from state to state and are periodically adjusted, may adversely impact the competitive environment in which we operate.

Adverse economic conditions, government funding or competitive pressures affecting our customers could harm our business.

We serve oil refineries, chemical production plants, steel mills, real estate developers, waste brokers/aggregators serving small manufacturers and other industrial customers that are, or may be, affected by changing economic conditions and competition. These customers may be significantly impacted by deterioration in the general economy and may curtail waste production and/or delay spending on plant maintenance, waste cleanup projects and other discretionary work. Spending by government customers may also be reduced or temporarily suspended due to declining tax revenues that may result from a general deterioration in economic conditions or other federal or state fiscal policy. Factors that can impact general economic conditions and the level of spending by customers include the general level of consumer and industrial spending, increases in fuel and energy costs, residential and commercial real estate and mortgage market conditions, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors affecting spending behavior. Market forces may also compel customers to cease or reduce operations, declare bankruptcy, liquidate or relocate to other countries, any of which could adversely affect our business.

Our operations are significantly affected by the commencement and completion of large and small cleanup projects; potential seasonal fluctuations due to weather; budgetary decisions and cash flow limitations influencing the timing of customer spending for remedial activities; the timing of regulatory agency decisions and judicial proceedings; changes in government regulations and enforcement policies and other factors that may delay or cause the cancellation of cleanup projects. We do not control such factors, which can cause our revenue and income to vary significantly from quarter to quarter and year to year.

If we fail to comply with applicable laws and regulations our business could be adversely affected.

The changing regulatory framework governing our business creates significant risks. We could be held liable if our operations cause contamination of air, groundwater or soil or expose our employees or the public to contamination. Under current law, we may be held liable for damage caused by conditions that existed before we acquired the assets or operations involved. Also, we may be liable if we arrange for the transportation, disposal or treatment of hazardous substances that cause environmental contamination at facilities operated by others, or if a predecessor made such arrangements and we are a successor. Liability for environmental damage could have a material adverse effect on our financial condition, results of operations and cash flows.

Stringent regulations of federal, state or provincial governments have a substantial impact on our business. Local government controls may also apply. Many complex laws, rules, orders and regulatory interpretations govern environmental protection, health, safety, noise, visual impact, odor, land use, zoning, transportation and related matters. Failure to obtain on a timely basis or comply with applicable federal, state, provincial and local governmental regulations, licenses, permits or approvals for our waste treatment and disposal facilities could prevent or restrict our ability to provide certain services, resulting in a potentially significant loss of revenue and earnings. Changes in environmental regulations may require us to make significant capital or other expenditures, or limit operations. Changes in laws or regulations or changes in the enforcement or interpretation of existing laws, regulations or permitted activities may require us to modify existing operating licenses or permits, or obtain additional approvals or limit operations. New governmental requirements that raise compliance standards or require changes in operating practices or technology may impose significant costs and/or limit operations.

Our revenue is primarily generated as a result of requirements imposed on our customers under federal, state, and provincial laws and regulations to protect public health and the environment. If requirements to comply with laws and regulations governing management of PCB, hazardous or radioactive waste were relaxed or less vigorously enforced, demand for our services could materially decrease and our revenues and earnings could be significantly reduced.

Failure to realize the anticipated benefits and operational performance from previously acquired operations could lead to an impairment of goodwill or other intangible assets.

As a result of acquisitions in 2016, 2014, 2012 and 2010, we have goodwill of $193.6 million and indefinite-lived intangible assets of $51.8 million at December 31, 2016. We are required to test goodwill and intangible assets with indefinite useful lives at least annually to determine if impairment has occurred. The testing of goodwill and other intangible assets for impairment requires us to make significant estimates about future performance and cash flows, as well as other assumptions. These estimates can be affected by numerous factors, including potential changes in economic, industry or market conditions, changes in laws or regulations, changes in business operations, changes in competition or changes in our stock price and market capitalization. Changes in these factors, or changes in actual performance compared with estimates

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of our future performance, may affect the fair value of goodwill or other intangible assets, which may result in an impairment charge.

Estimates of the future performance of our reporting units assume a certain level of revenue and earnings growth over the projection period. The projected revenue and earnings growth is based on various factors and assumptions that we consider to be reasonable, including, but not limited to, growth in the industries served by the Field Services and Resource Recovery reporting units, successful implementation of our business and marketing strategies for these reporting units and continuing favorable market conditions for the customers we serve. Should any of these assumptions turn out not to be true and the projected growth not occur for these or other reasons, or the reporting units otherwise fail to meet their current financial plans, or there are changes to any other key assumptions used in the estimates, the financial performance of these reporting units could result in a future goodwill impairment.

We cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill or other intangible assets become impaired as a result of a failure to realize the anticipated benefits and operational performance of acquired operations, our financial condition and results of operations could be adversely impacted.

Our indebtedness may limit the amount of cash flow available to invest in the ongoing needs of our business, and our Credit Agreement restricts our ability to engage in certain corporate and financial transactions.

On June 17, 2014 we entered into a new $540.0 million senior secured credit agreement (the "Credit Agreement") with a syndicate of banks, which substantially increased our outstanding indebtedness. As of December 31, 2016, we had total indebtedness of $285.2 million, comprised entirely of outstanding borrowings under the Credit Agreement. Our Credit Agreement requires us to dedicate a portion of our cash flow from operations to payments on our indebtedness, potentially reducing the availability of our cash flow to fund working capital, capital expenditures, development activity, acquisitions, and other general corporate purposes; increases our vulnerability to adverse general economic or industry conditions; makes us more vulnerable to increases in interest rates, as borrowings under our senior secured credit facilities are at variable rates; and limits our ability to obtain additional financing in the future for working capital or other purposes.

In addition, the Credit Agreement and related ancillary agreements with our lenders contain certain covenants that, among other things, restrict our ability to incur additional indebtedness, pay dividends and make other restricted payments, repurchase shares of outstanding stock, create certain liens and engage in certain types of transactions. Our ability to borrow under the Credit Agreement depends upon our compliance with the restrictions contained in the Credit Agreement and events beyond our control could affect our ability to comply with these covenants.

Failure to perform under our contracts may adversely harm our business.

Certain contracts require us to meet specified performance criteria. Our ability to meet these criteria requires that we expend significant resources. If we or our subcontractors are unable to perform as required, we could be subject to substantial monetary penalties and/or loss of the affected contracts which may adversely affect our business.

Loss of key management or sales personnel could harm our business.

We have an experienced management team including general managers at our operating facilities and rely on the continued service of these senior managers to achieve our objectives. Our objective is to retain our present management and sales teams and identify, hire, train, motivate and retain other highly skilled personnel. The loss of any key management employee or sales personnel could adversely affect our business and results of operations.

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A change or deterioration in labor relations could disrupt our business or increase costs, which could have a material adverse effect on our business, financial condition and results of operations.

The Company is a party to collective bargaining agreements covering approximately 300, or approximately 21%, of our employees. The agreements expire on April 30, 2017, May 31, 2018 and November 30, 2020, respectively. While we believe the Company will maintain good working relations with its employees on acceptable terms, there can be no assurance that we will be able to negotiate the terms of future agreements in a manner acceptable to the Company. Potential work disruptions from labor disputes may disrupt our businesses and adversely affect our financial condition and results of operations.

Our participation in multi-employer pension plans may subject us to liabilities that could materially adversely affect our liquidity, cash flows and results of operations.

Certain of the Company's wholly-owned subsidiaries participate in multi-employer defined benefit pension plans under the terms of collective bargaining agreements covering most of the subsidiaries' union employees. To the extent that those plans are underfunded, the Employee Retirement Income Security Act of 1974, as amended by the Multi-Employer Pension Plan Amendments Act of 1980 ("ERISA"), may subject us to substantial liabilities if we withdraw from such multi-employer plans or if they are terminated. Under current law regarding multi-employer defined benefit plans, a plan's termination, an employer's voluntary partial or complete withdrawal from, or the mass withdrawal of all contributing employers from, an underfunded multi-employer defined benefit plan requires participating employers to make payments to the plan for their proportionate share of the multi-employer plan's unfunded vested liabilities. Furthermore, the Pension Protection Act of 2006 added new funding rules generally applicable to plan years beginning after 2007 for multi-employer plans that are classified as "endangered," "seriously endangered," or "critical" status. If plans in which we participate are in critical status, benefit reductions may apply and/or we could be required to make additional contributions. Contributions to these funds could also increase as a result of future collective bargaining with the unions, a shrinking contribution base as a result of the insolvency of other companies who currently contribute to these funds, failure of the Plan to meet ERISA's minimum funding requirements, lower than expected returns on pension fund assets, or other funding deficiencies. Any of the foregoing events could materially adversely affect our liquidity, cash flows and results of operations.

Based upon the information available to us from plan administrators as of April 30, 2016, certain of the multi-employer pension plans in which we participate are underfunded. The Pension Protection Act requires that underfunded pension plans improve their funding ratios within prescribed intervals based on the level of their underfunding. In addition, if a multi-employer defined benefit plan fails to satisfy certain minimum funding requirements, the Internal Revenue Service may impose a nondeductible excise tax of 5% on the amount of the accumulated funding deficiency for those employers contributing to the fund. We have been notified that certain plans to which our subsidiaries contribute are in "critical" status and these plans may require additional contributions in the form of a surcharge on future benefit contributions required for future work performed by union employees covered by these plans. As a result, we expect our required contributions to these plans to increase in the future. The amount of additional funds we may be obligated to contribute in the future cannot be estimated, as such amounts will be based on future levels of work that require the specific use of the union employees covered by these plans, investment returns and the level of underfunding of such plans.

We may not be able or willing to pay future dividends.

Our ability to pay dividends is subject to our future financial condition and certain conditions such as continued compliance with covenants contained in our Credit Agreement. Our Board of Directors must also approve any dividends at their sole discretion. Pursuant to our Credit Agreement, we may only declare quarterly or annual dividends if on the date of declaration, no event of default has occurred and no other event or condition has occurred that would constitute an event of default due to the payment of the

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dividend. Unforeseen events or situations could cause non-compliance with these covenants, or cause the Board of Directors to discontinue or reduce the amount of any future dividend payment.

Future stock issuances could adversely affect common stock ownership interest and rights in comparison with those of other security holders.

Our board of directors has the authority to issue additional shares of common stock or preferred stock without stockholder approval. If additional funds are raised through the issuance of equity or securities convertible into common stock, or we use shares of our common stock to pay a portion of the purchase price in any future acquisition, the percentage of ownership of our existing stockholders would be reduced, and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders. If we issue additional common stock or securities convertible into common stock, such issuance would reduce the proportionate ownership and voting power of each other stockholder. In addition, such stock issuances might result in a reduction of the book value of our common stock.

Anti-takeover provisions in our organizational documents and under Delaware law may impede or discourage a takeover, which could cause the market price of our common stock to decline.

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change in control would be beneficial to our existing stockholders, which, under certain circumstances, could reduce the market price of our common stock. In addition, protective provisions in our Restated Certificate of Incorporation and Amended and Restated Bylaws or the implementation by our Board of Directors of a stockholder rights plan could prevent a takeover, which could harm our stockholders.

The price of our common stock has fluctuated in the past and this may make it difficult for stockholders to resell shares of common stock at times or may make it difficult for stockholders to sell shares of common stock at prices they find attractive.

The trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations have adversely affected, and may in the future adversely affect, the market price of our common stock. Among the factors that could affect our stock price are:

- changes in financial estimates and buy/sell recommendations by securities analysts or our failure to meet analysts' revenue or earnings estimates;
- actual or anticipated variations in our operating results;
- our earnings releases and financial performance;
- market conditions in our industry and the general state of the securities markets;
- fluctuations in the stock price and operating results of our competitors;
- actions by institutional stockholders;
- investor perception of us and the industry and markets in which we operate;
- general economic conditions in the United States and Canada;

international disorder and instability in foreign financial markets, including but not limited to potential sovereign defaults; and

other factors described in "Risk Factors."

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A cybersecurity incident could negatively impact our business and our relationships with customers.

We use computers in substantially all aspects of our business operations. We also use mobile devices and other online activities to connect with our employees and our customers. Such uses of technology give rise to cybersecurity risks, including security breach, espionage, system disruption, theft and inadvertent release of information. Our business involves the storage and transmission of numerous classes of sensitive and/or confidential information and intellectual property, including customers' personal information, private information about employees, and financial and strategic information about the Company and its business partners. Further, if the Company in the future pursues acquisitions or new initiatives that require expanding or improving our information technologies, this may result in a larger technological presence and corresponding exposure to cybersecurity risk. If we fail to assess and identify cybersecurity risks associated with acquisitions and new initiatives, we may become increasingly vulnerable to such risks. Further, despite these security measures, the Company's computer systems and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance, or other disruptions. Additionally, while we have implemented measures to prevent security breaches and cyber incidents, our preventative measures and incident response efforts may not be entirely effective. The theft, destruction, loss, misappropriation, or release of sensitive and/or confidential information or intellectual property, or interference with our information technology systems or the technology systems of third parties on which we rely, could result in business disruption, negative publicity, brand damage, violation of privacy laws, loss of customers, potential liability and competitive disadvantage.

Additional Risks of Our Environmental Services Business

A significant portion of our business depends upon non-recurring event cleanup projects over which we have no control.

A significant portion of our disposal revenue is attributable to discrete Event Business which varies widely in size, duration and unit pricing. For the year ended December 31, 2016, approximately 18% of our T&D revenue was derived from Event Business projects. The one-time nature of Event Business, diverse spectrum of waste types received and widely varying unit pricing necessarily creates variability in revenue and earnings. This variability may be influenced by general and industry-specific economic conditions, funding availability, changes in laws and regulations, government enforcement actions or court orders, public controversy, litigation, weather, commercial real estate, closed military bases and other project timing, government appropriation and funding cycles and other factors. This variability can cause significant quarter-to-quarter and year-to-year differences in revenue, gross profit, gross margin, operating income and net income. Also, while we pursue many large projects months or years in advance of work performance, both large and small cleanup project opportunities routinely arise with little or no prior notice. These market dynamics are inherent to the waste disposal business and are factored into our projections and externally communicated business outlook statements. Our projections combine historical experience with identified sales pipeline opportunities, new or expanded service line projections and prevailing market conditions. A reduction in the number and size of new cleanup projects won to replace completed work could have a material adverse effect on our financial condition and results of operations.

If we are unable to obtain regulatory approvals and contracts for construction of additional disposal space by the time our current disposal capacity is exhausted, our business would be adversely affected.

Construction of new disposal capacity at our operating disposal facilities beyond currently permitted capacity requires state and provincial regulatory agency approvals. Administrative processes for such approval reviews vary. The State of Texas, which regulates our Robstown facility, provides for an adjudicatory hearing process administered by a hearing officer appointed by the State. There can be no assurance that we will be successful in obtaining future expansion approvals in a timely manner or at all. If we are not successful in receiving these approvals, our disposal capacity could eventually be exhausted,

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preventing us from accepting additional waste at an affected facility. This would have a material adverse effect on our business.

If we are unable to renew our operating permits or lease agreements with regulatory bodies, our business would be adversely affected.

Our facilities operate using permits and licenses issued by various regulatory bodies at various state, provincial and federal government levels. In addition, three of our facilities operate on land leased from government agencies. Failure to renew our permits and licenses necessary to operate our facilities or failure to renew or maintain compliance with our site lease agreements would have a material adverse effect on our business. There can be no assurance we will continue to be successful in obtaining timely permit applications approval, maintaining compliance with our lease agreements and obtaining timely lease renewals.

Our business requires the handling of dangerous substances. Improper handling of such substances could result in an adverse impact on our financial condition and results of operations.

We are subject to unexpected occurrences related, or unrelated, to the routine handling of dangerous substances. A fire or other incident could impair the ability of one or more facilities to continue to perform normal operations, which could have a material adverse impact on our financial condition and results of operations. Improper handling of these substances could also violate laws and regulations resulting in fines and/or suspension of operations.

If we are unable to obtain at a reasonable cost or under reasonable terms and conditions the necessary levels of insurance and financial assurances required for operations, our business and results of operations would be adversely affected.

We are required by law, license, permit and prudence to maintain various insurance instruments and financial assurances. We carry a broad range of insurance coverages that we believe are customary for a company of our size in our business. We obtain these coverages to mitigate risk of loss, allowing us to manage our self-insured exposure from potential claims. We are self-insured for employee health-care coverage. Stop-loss insurance is carried covering liability on claims in excess of $150,000 per individual or on an aggregate basis for the monthly population. Accrued costs related to the self-insured health care coverage were $1.0 million and $1.1 million at December 31, 2016 and 2015, respectively. We also maintain a Pollution and Remediation Legal Liability Policy pursuant to RCRA regulations subject to a $250,000 self-insured retention. In addition, we are insured for consultant's environmental liability subject to a $100,000 self-insured retention. We are also insured for losses or damage to third party property or people subject to a $100,000 self-insured retention. If our insurers were unable to meet their obligations, or our own obligations for claims were more than expected, there could be a material adverse effect to our financial condition and results of operation.

Through December 31, 2016, we have met our financial assurance requirements through a combination of insurance policies, commercial surety bonds and trust funds. Our insurance policies covering closure and post-closure activities expire in December 2017 for covered U.S. operating facilities (dedicated state-controlled closure and post-closure funds provide financial assurance for our Washington and Nevada facilities). We continue to use self-funded trust accounts for our post-closure obligations at our U.S. non-operating sites. We use commercial surety bonds for our Canadian operations that expire in November and December 2017, respectively. We currently have in place all financial assurance instruments necessary for our operations. While we expect to continue renewing these policies and surety bonds, if we were unable to obtain adequate closure, post-closure or environmental insurance, bonds or other instruments in the future, any partially or completely uninsured claim against us, if successful and of sufficient magnitude, could have a material adverse effect on our results of operations and cash flows. Additionally, continued access to casualty and pollution legal liability insurance with sufficient limits, at acceptable terms, is important to obtaining new business. Failure to maintain adequate financial assurance could also result in regulatory action including early closure of facilities. As of December 31, 2016, we have provided collateral of $5.8 million in funded trust agreements, $12.0 million in surety bonds, issued $2.7 million in letters of credit for financial assurance and have insurance policies of approximately $81.6 million for closure and post-closure obligations at covered U.S. operating facilities. We have $686,000 in commercial surety bonds dedicated for closure obligations at our Canadian operating facility. While we believe we will be able to maintain the requisite financial assurance policies at a reasonable cost, premium and collateral requirements may materially increase. Such increases could have a material adverse effect on our financial condition and results of operations.

The hazardous and radioactive waste industries in which we operate are subject to litigation risk.

The handling of radioactive, PCBs and hazardous material subjects us to potential liability claims by employees, contractors, property owners, neighbors and others. There can be no assurance that our existing liability insurance is adequate to cover claims asserted against us or that we will be able to maintain adequate insurance in the future. Adverse rulings in judicial or administrative proceedings could also have a material adverse effect on our financial condition and results of operations.

We may not be able to obtain timely or cost effective transportation services which could adversely affect our profitability.

Revenue at each of our facilities is subject to potential risks from disruptions in rail or truck transportation services relied upon to deliver waste to our facilities. Increases in fuel costs and unforeseen events such as labor disputes, public health pandemics, severe weather, natural disasters and other acts of God, war or terror could prevent or delay shipments and reduce both volumes and revenue. Our rail transportation service agreements with our customers generally allow us to pass on fuel surcharges assessed by the railroads. This may decrease or eliminate our exposure to fuel cost increases. Transportation services may be limited by economic conditions, including increased demand for rail or trucking services, resulting in periods of slower service to the point that individual customer needs cannot be met. No assurance can be given that we can procure transportation services in a timely manner at competitive rates or pass through fuel cost increases in all cases. Such factors could also limit our ability to achieve revenue and earnings objectives.

We may not be able to effectively adopt or adapt to new or improved technologies.

We expect to continue implementing new or improved technologies at our facilities to meet customer service demands and expand our business. If we are unable to identify and implement new technologies in response to market conditions and customer requirements in a timely, cost effective manner, our financial condition and results of operations could be adversely impacted.

Our financial results could be adversely affected by foreign exchange fluctuations.

We operate in the United States and Canada but report revenue, costs and earnings in U.S. dollars. Exchange rates between the U.S. dollar and the Canadian dollar are likely to fluctuate from period to period. Because our financial results are reported in U.S. dollars, we are subject to the risk of non-cash translation losses for reporting purposes. If we continue to expand our international operations, we will conduct more transactions in currencies other than the U.S. dollar. To the extent that foreign revenue and expense transactions are not denominated in the local currency, we are further subject to the risk of transaction losses. We have not entered into derivative instruments to offset the impact of foreign exchange fluctuations. Fluctuations in foreign currency exchange rates could have a material adverse effect on our financial condition and results of operations.

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We are subject to risks associated with operating in a foreign country.

Our Canadian subsidiaries' facilities are located in Blainville, Québec and Tilbury, Ontario, Canada and use the Canadian dollar as their functional currency. International operations are subject to risks that may have material adverse effects on our financial condition and results of operations. The risks that our international operations are subject to include, among other things:

- difficulties and costs relating to staffing and managing foreign operations;
- foreign labor union relations;
- fluctuations in the value of the Canadian dollar;
- repatriation of cash from Canadian subsidiaries to the United States;
- imposition of additional taxes on our foreign income; and
- regulatory, economic and public policy changes.

Additional Risks of Our Field & Industrial Services Business

A significant portion of our Field & Industrial Services segment depends upon the demand for cleanup of major spills and other remedial projects and regulatory developments over which we have no control.

A significant portion of our Field & Industrial Services segment consists of remediation, recycling, industrial cleaning and maintenance, transportation, total waste management, technical services, and emergency response services. Demand for these services can be affected by the commencement and completion of cleanup of major spills and other events, customers' decisions to undertake remedial projects, seasonal fluctuations due to weather and budgetary cycles influencing the timing of customers' spending for remedial activities, the timing of regulatory decisions relating to hazardous waste management projects, changes in regulations governing the management of hazardous waste, changes in the waste processing industry towards waste minimization and the propensity for delays in the demand for remedial services, and changes in governmental regulations relevant to our diverse operations. We do not control such factors and, as a result, our revenue and income can vary from quarter to quarter or year to year, and past financial performance may not be a reliable indicator of future performance.

Additional Risks of Completed and Potential Acquisitions

Acquisitions that we undertake could be difficult to integrate, disrupt our business, dilute stockholder value and adversely affect our results of operations.

Acquisitions involve multiple risks. Our inability to successfully integrate an acquired business could have a material adverse effect on our financial condition and results of operations. These risks include but are not limited to:

- failure of the acquired company to achieve anticipated revenues, earnings or cash flows;
- assumption of liabilities, including those related to environmental matters, that were not disclosed to us or that exceed our estimates;
- problems integrating the purchased operations with our own, which could result in substantial costs and delays or other operational, technical or financial problems;

potential compliance issues relating to the protection of health and the environment, compliance with securities laws and regulations, adequacy of internal controls and other matters;

diversion of management's attention or other resources from our existing business;

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- risks associated with entering markets or product/service areas in which we have limited prior experience;
- increases in working capital investment to fund the growth of acquired operations;
- unexpected capital expenditures to upgrade waste handling or other infrastructure or replace equipment to operate safely and efficiently;
- potential loss of key employees and customers of the acquired company; and
- future write-offs of intangible and other assets, including goodwill, if the acquired operations fail to generate sufficient cash flows.

If we are not able to achieve these objectives, the anticipated benefits of the acquisition may not be realized fully, if at all, or may take longer to realize than expected. It is possible that the integration process could result in the loss of key employees, the disruption of our ongoing business, failure to implement the business plan for the combined businesses, unanticipated issues in integrating service offerings, logistics information, communications and other systems or other unanticipated issues, expenses and liabilities, any or all of which could adversely affect our ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the acquisition.

In the event that we undertake future acquisitions, we may not be able to successfully execute our acquisition strategy.

We may experience delays in making acquisitions or be unable to make acquisitions we desire for a number of reasons. Suitable acquisition candidates may not be available at purchase prices that are attractive to us or on terms that are acceptable to us. In pursuing acquisition opportunities, we typically compete with other companies, some of which have greater financial and other resources than we do. We may not have available funds or common stock with a sufficient market price to complete an acquisition. If we are unable to secure sufficient funding for potential acquisitions, we may not be able to complete acquisitions that we otherwise find advantageous.

The timing and number of acquisitions we pursue may cause volatility in our financial results.

We are unable to predict the size, timing and number of acquisitions we may complete, if any. In addition, we may incur expenses associated with sourcing, evaluating and negotiating acquisitions (including those that are not completed), and we also may pay fees and expenses associated with financing acquisitions to investment banks and others. Any of these amounts may be substantial, and together with the size, timing and number of acquisitions we pursue, may negatively impact and cause significant volatility in our financial results and the price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The following table describes our principal physical properties and facilities at December 31, 2016 owned or leased by us. We believe that our existing properties are in good condition and suitable for conducting our business.

Location	Segment	Function	Own/Lease
Beatty, Nevada	Environmental Svcs.	Waste treatment and landfill disposal	Lease
Robstown, Texas	Environmental Svcs.	Waste treatment and landfill disposal	Own
Grand View, Idaho	Environmental Svcs.	Waste treatment and landfill disposal	Own
Belleville, Michigan	Environmental Svcs.	Waste treatment and landfill disposal	Own
Blainville, Québec, Canada	Environmental Svcs.	Waste treatment and landfill disposal	Own/Lease
Richland, Washington	Environmental Svcs.	Landfill disposal	Sublease
Detroit, Michigan	Environmental Svcs.	Waste treatment	Own
Canton, Ohio	Environmental Svcs.	Waste treatment	Own
Harvey, Illinois	Environmental Svcs.	Waste treatment	Own
York, Pennsylvania	Environmental Svcs.	Waste treatment	Own
Tulsa, Oklahoma	Environmental Svcs.	Waste treatment	Own
Romulus, Michigan	Environmental Svcs.	Waste treatment	Own
Mt. Airy, North Carolina	Environmental Svcs.	Waste treatment	Own
Tilbury, Ontario, Canada	Environmental Svcs.	Waste treatment	Own
Vernon, California	Environmental Svcs.	Waste treatment	Own
Sulligent, Alabama	Field & Industrial Svcs.	Field and industrial waste management	Own
Tampa, Florida	Field & Industrial Svcs.	Field and industrial waste management	Own
Taylor, Michigan	Field & Industrial Svcs.	Field and industrial waste management	Own
Bayonne, New Jersey	Field & Industrial Svcs.	Field and industrial waste management	Lease
Atlanta, Georgia	Field & Industrial Svcs.	Field and industrial waste management	Lease
Wrentham, Massachusetts	Field & Industrial Svcs.	Field and industrial waste management	Own
Boise, Idaho	Corporate	Corporate Office	Lease
Livonia, Michigan	Corporate	Regional Office	Lease

In addition to the principal physical properties detailed in the table above, the Company owns or leases a number of smaller (less than 20,000 sq. ft.) properties supporting our Field & Industrial Services segment.

The following table provides additional information for our treatment facilities with onsite landfills including total acreage owned or controlled by us at each facility, estimated amount of permitted airspace available at each facility, the estimated amount of non-permitted airspace and the estimated life at each facility. All estimates are as of December 31, 2016.

Location	Total Acreage	Permitted Airspace (Cubic Yards)	Non-Permitted Airspace (Cubic Yards)	Estimated Life (Years)
Beatty, Nevada(1)	480	8,826,464		51
Robstown, Texas(2)	873	1,003,649		6
Grand View, Idaho(3)	1,411	10,476,524	18,100,000	160
Belleville, Michigan(4)	455	12,230,638		39
Blainville, Québec, Canada(5)	350	6,342,357		28
Richland, Washington(6)	100	646,768		39
Total		39,526,400	18,100,000	

(1) Our Beatty, Nevada facility, which began receiving hazardous waste in 1970, is located in the Amargosa Desert approximately 120 miles northwest of Las Vegas, Nevada and approximately 30 miles east of Death Valley, California. The facility operates through an operating agreement with the State of Nevada on 480 acres owned by the State. In 2016, the facility secured permit modifications from the Nevada Division of Environmental Protection and the USEPA authorizing the construction of a new landfill unit at the facility. The first phase of this new landfill is anticipated to be

completed in early 2017. In April 2007, we renewed our lease with the State of Nevada as a year-to-year periodic tenancy until (i) that area reaches full capacity and can no longer accept waste (an estimated life of 51 years using 2016 volume); (ii) the lease is terminated by us at our option; or (iii) the State terminates the lease due to our breach of the lease terms. The State of Nevada assesses disposal fees to fund a dedicated trust account to pay for future closure and post-closure costs.

(2)

Our Robstown, Texas facility began operations in 1973. It is located on 240 acres owned by the Company approximately 10 miles west of Corpus Christi, Texas. We own an additional 633 acres of adjacent land for future expansion. We also own 174 acres of land five miles west of the facility adjacent to a rail line where we have operated a rail transfer station since 2006. We are currently working with the Texas Commission of Environmental Quality to permit 180 acres of adjacent land that we anticipate will add approximately 10 million cubic yards, or 30 years, of future airspace. We expect our permit to be approved in 2017.

(3)

Our Grand View, Idaho facility, purchased in 2001, is located on 1,252 acres of Company-owned land approximately 60 miles southeast of Boise, Idaho in the Owyhee Desert. We own an additional 159 acres approximately two miles east of the facility that provides a clay source for site operations (liner construction and waste treatment). We also own 189 acres where our rail transfer station is located approximately 30 miles northeast of the disposal facility. This site has two enclosed rail-to-truck waste transfer facilities located adjacent to the main line of the Union Pacific Railroad.

(4)

Our Belleville, Michigan facility began operations in 1957 and began disposing of waste in the onsite landfill in 1969. The facility is located on 455 acres owned by the Company approximately 30 miles from Detroit, Michigan. We also own 12 acres of land nine miles from the facility adjacent to a rail line where we have operated a rail transfer station since 1998.

(5)

Our Blainville, Québec, Canada facility has been in operation since 1983 and is located approximately 30 miles northwest of Montreal, Québec, Canada. The facility includes an indoor hazardous and industrial waste treatment and storage facility and a rail transfer station located on 25 acres adjacent to a 325 acre disposal site. The treatment processing facility is on land owned by the Company. The disposal site which is adjacent to the owned treatment processing facility is leased from the Province of Québec with a term through 2018 and one five-year renewal option. The site is permitted to accept up to 875,000 metric tons (962,500 U.S. tons) over the five-year permit period. Of this amount, up to 350,000 metric tons (385,000 U.S. tons) can be accepted as soil. While there are no specific restrictions on waste soils received from the U.S., non-soil waste received from the U.S. is limited to 350,000 metric tons (385,000 U.S. tons) over the five-year permit period. The Province assesses fees to fund a dedicated government trust account to pay for post-closure costs at the disposal site.

(6)

Our Richland, Washington LLRW facility has been in operation since 1965 and is located on 100 acres of land leased by the State of Washington from the federal government on the U.S. Department of Energy Hanford Reservation approximately 35 miles west of Richland, Washington. We sublease this property from the State of Washington. The lease between the State of Washington and the federal government expires in 2063. We renewed our sublease with the State in 2005 for ten years with four ten-year renewal options, giving us control of the property until the year 2055 provided that we meet our obligations and operate in a compliant manner. The facility's intended operating life is equal to the period of the sublease. The State assesses user fees for local economic development, state regulatory agency expenses and a dedicated trust account to pay for long-term care after the facility closes. The State maintains separate, dedicated trust funds for future closure and post-closure costs.

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ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we are involved in judicial and administrative proceedings involving federal, state, provincial or local governmental authorities, including regulatory agencies that oversee and enforce compliance with permits. Fines or penalties may be assessed by our regulators for non-compliance. Actions may also be brought by individuals or groups in connection with permitting of planned facilities, modification or alleged violations of existing permits, or alleged damages suffered from exposure to hazardous substances purportedly released from our operated sites, as well as other litigation. We maintain insurance intended to cover property and damage claims asserted as a result of our operations. Periodically, management reviews and may establish reserves for legal and administrative matters, or other fees expected to be incurred in relation to these matters.

We are not currently a party to any material pending legal proceedings and are not aware of any other claims that could, individually or in the aggregate, have a materially adverse effect on our financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Price

Our common stock is listed on the NASDAQ Global Select Market under the symbol ECOL. As of January 4, 2017 there were approximately 13,923 beneficial owners of our common stock. High and low sales prices for the common stock for each quarter in the last two years are shown below:

	2016		2015	
	High	Low	High	Low
First Quarter	$ 44.68	$ 29.89	$ 52.42	$ 38.58
Second Quarter	$ 49.39	$ 40.62	$ 51.93	$ 45.30
Third Quarter	$ 48.84	$ 42.13	$ 52.99	$ 43.28
Fourth Quarter	$ 50.25	$ 38.00	$ 48.01	$ 32.76

Dividend History

We have paid the following dividends on our common stock ($s in thousands except per share amounts):

	2016		2015	
	Per share	Dollars	Per share	Dollars
First Quarter	$ 0.18	$ 3,918	$ 0.18	$ 3,894
Second Quarter	0.18	3,917	0.18	3,899
Third Quarter	0.18	3,919	0.18	3,907
Fourth Quarter	0.18	3,919	0.18	3,912
Total	$ 0.72	$ 15,673	$ 0.72	$ 15,612

On January 3, 2017, the Company declared a dividend of $0.18 per common share for stockholders of record on January 20, 2017. The dividend was paid from cash on hand on January 27, 2016 in an aggregate amount of $3.9 million.

Pursuant to the Credit Agreement, we may only declare quarterly or annual dividends if on the date of declaration, no event of default has occurred and no other event or condition has occurred that would constitute an event of default due to the payment of the dividend. No events of default under the Credit Agreement have occurred to date.

Stock Performance Graph

The following graph compares the five-year cumulative total return on our common stock with the comparable five-year cumulative total returns of the NASDAQ Composite Index and Dow Jones Waste & Disposal Services Index for the period from the end of fiscal 2011 to the end of fiscal 2016. The stock price performance shown below is not necessarily indicative of future performance.

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Comparison of Cumulative Total Stockholder Return(1) Among US Ecology, Inc., NASDAQ Composite Index and Dow Jones Waste & Disposal Services Index

Date	US Ecology, Inc.	Nasdaq Composite	Dow Jones US Waste & Disposal Services Index
December 31, 2011	$ 100.00	$ 100.00	$ 100.00
December 31, 2012	$ 131.01	$ 116.41	$ 108.50
December 31, 2013	$ 210.40	$ 165.47	$ 135.56
December 31, 2014	$ 231.36	$ 188.69	$ 154.20
December 31, 2015	$ 213.49	$ 200.32	$ 160.66
December 31, 2016	$ 293.07	$ 216.54	$ 194.63

(1) Total return assuming $100 invested on December 31, 2011 and reinvestment of dividends on the day they were paid.

The performance graph above is being furnished solely to accompany this Annual Report on Form 10-K pursuant to Item 201(e) of Regulation S-K, is not being filed for purposes of Section 18 of the Exchange Act, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Securities Authorized for Issuance Under Equity Compensation Plans

Information with respect to compensation plans under which our equity securities are authorized for issuance is discussed in Item 12 of Part III of this Annual Report on Form 10-K.

Issuer Purchases of Equity Securities

On June 1, 2016, the Company's Board of Directors authorized the repurchase of $25.0 million of the Company's outstanding common stock. Repurchases may be made from time to time in the open market or through privately negotiated transactions. The timing of any repurchases will be based upon prevailing

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market conditions and other factors. The Company did not repurchase any shares of common stock under the repurchase program during the year ended December 31, 2016. The repurchase program will remain in effect until June 2, 2018, unless extended by our Board of Directors.

The following table summarizes the purchases of shares of our common stock during the year ended December 31, 2016:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
January 1 to 31, 2016		$		$
February 1 to 29, 2016				
March 1 to 31, 2016	5,564	40.49		
April 1 to 30, 2016				
May 1 to 31, 2016				
June 1 to 30, 2016	103	45.95		25,000,000
July 1 to 31, 2016				25,000,000
August 1 to 31, 2016	922	43.20		25,000,000
September 1 to 30, 2016				25,000,000
October 1 to 31, 2016				25,000,000
November 1 to 30, 2016				25,000,000
December 1 to 31, 2016				25,000,000
Total	6,589	$ 40.95		$ 25,000,000

(1) Represents shares surrendered or forfeited in connection with certain employees' tax withholding obligations related to the vesting of shares of restricted stock.

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ITEM 6. SELECTED FINANCIAL DATA

This summary should be read in conjunction with the consolidated financial statements and related notes.

$s in thousands, except per share amounts	2016(2)	2015(2)	2014(1)	2013	2012
Revenue	$ 477,665	$ 563,070	$ 447,411	$ 201,126	$ 169,138
Impairment charges		6,700			
Operating income	70,029	71,631	72,450	52,931	40,638
Foreign currency gain (loss)	(138)	(2,196)	(1,499)	(2,327)	1,213
Income tax expense	21,049	21,244	22,814	17,996	16,059
Net income	$ 34,252	$ 25,611	$ 38,236	$ 32,151	$ 25,659
Earnings per share basic:	$ 1.58	$ 1.18	$ 1.78	$ 1.73	$ 1.41
Earnings per share diluted:	$ 1.57	$ 1.18	$ 1.77	$ 1.72	$ 1.40
Shares used in earnings per share calculation:					
Basic	21,704	21,637	21,537	18,592	18,238
Diluted	21,789	21,733	21,655	18,676	18,281
Dividends paid per share	$ 0.72	$ 0.72	$ 0.72	$ 0.54	$ 0.90
Total assets	$ 776,400	$ 771,987	$ 910,047	$ 300,556	$ 218,694
Working capital(3)	$ 52,774	$ 54,516	$ 76,869	$ 85,356	$ 13,021
Long-term debt	$ 277,362	$ 293,740	$ 384,381	$	$ 44,797
Stockholders' equity	$ 280,024	$ 256,135	$ 251,337	$ 231,538	$ 112,022
Return on invested capital(4)	6.1%	6.2%	6.0%	17.3%	14.6%
Adjusted EBITDA(5)	$ 112,786	$ 125,450	$ 108,976	$ 71,186	$ 58,352

(1) 2014 financial data reflects the acquisition of EQ on June 17, 2014.

(2) 2015 and 2016 financial data reflects the divestiture of Allstate on November 1, 2015.

(3) Calculated as current assets minus current liabilities.

(4) Calculated as operating income less applicable taxes divided by the sum of stockholders' equity, long-term debt, closure and post-closure obligations and monetized operating leases, less cash and short-term investments.

(5) We define Adjusted EBITDA as net income before interest expense, interest income, income tax expense, depreciation, amortization, stock based compensation, accretion of closure and post-closure liabilities, foreign currency gain/loss, non-cash impairment charges, loss on divestiture and other income/expense. See "Adjusted EBITDA" under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this report for further discussion of Adjusted EBITDA and a reconciliation to the most directly comparable GAAP measure, net income.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

US Ecology, Inc. is a leading North American provider of environmental services to commercial and government entities. The Company addresses the complex waste management needs of its customers, offering treatment, disposal and recycling of hazardous, non-hazardous and radioactive waste, as well as a wide range of complementary field and industrial services. US Ecology's comprehensive knowledge of the waste business, its collection of waste management facilities and focus on safety, environmental

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compliance, and customer service enables us to effectively meet the needs of our customers and to build long-lasting relationships.

We have fixed facilities and service centers operating in the United States, Canada and Mexico. Our fixed facilities include five RCRA subtitle C hazardous waste landfills and one LLRW landfill located near Beatty, Nevada; Richland, Washington; Robstown, Texas; Grand View, Idaho; Detroit, Michigan and Blainville, Québec, Canada. These facilities generate revenue from fees charged to treat and dispose of waste and from fees charged to perform various field and industrial services for our customers.

On June 17, 2014, the Company acquired 100% of the outstanding shares of EQ Holdings, Inc. and its wholly-owned subsidiaries (collectively "EQ"). EQ is a fully integrated environmental services company providing waste treatment and disposal, wastewater treatment, remediation, recycling, industrial cleaning and maintenance, transportation, total waste management, technical services, and emergency response services to a variety of industries and customers in North America.

On November 1, 2015, we sold our Allstate Power Vac, Inc. ("Allstate") subsidiary to a private investor group. See Note 5 to the Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for additional information.

Our operations are managed in two reportable segments reflecting our internal management reporting structure and nature of services offered as follows:

Environmental Services This segment provides a broad range of hazardous material management services including transportation, recycling, treatment and disposal of hazardous and non-hazardous waste at Company-owned landfill, wastewater and other treatment facilities.

Field & Industrial Services This segment provides packaging and collection of hazardous waste and total waste management solutions at customer sites and through our 10-day transfer facilities. Services include on-site management, waste characterization, transportation and disposal of non-hazardous and hazardous waste. This segment also provides specialty services such as high-pressure cleaning, tank cleaning, decontamination, remediation, transportation, spill cleanup and emergency response and other services to commercial and industrial facilities and to government entities.

Effective January 1, 2016, we changed our internal reporting structure by moving the financial results of our Sulligent, Alabama and Tampa, Florida facilities from our Environmental Services segment to our Field & Industrial Services segment. The purpose of this change is to align our internal reporting structure with how we manage our business based on the primary service offering of each facility. Throughout this Annual Report on Form 10-K, our segment results for all periods presented have been recast to reflect this change.

In order to provide insight into the underlying drivers of our waste volumes and related treatment and disposal ("T&D") revenues, we evaluate period-to-period changes in our T&D revenue for our Environmental Services segment based on the industry of the waste *generator*, based on North American Industry Classification System ("NAICS") codes.

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The composition of the Environmental Services segment T&D revenues by waste generator industry for the years ended December 31, 2016 and 2015 were as follows:

Generator Industry	% of Treatment and Disposal Revenue(1) for the Years Ended December 31, 2016	2015
Metal Manufacturing	16%	16%
Broker / TSDF	15%	14%
General Manufacturing	14%	12%
Chemical Manufacturing	13%	19%
Refining	11%	10%
Government	6%	7%
Utilities	4%	4%
Mining, Exploration and Production	3%	3%
Transportation	3%	3%
Waste Management & Remediation	2%	2%
Other(2)	13%	10%

(1) Excludes all transportation service revenue

(2) Includes retail and wholesale trade, rate regulated, construction and other industries

We also categorize our Environmental Services T&D revenue as either "Base Business" or "Event Business" based on the underlying nature of the revenue source. We define Event Business as non-recurring projects that are expected to equal or exceed 1,000 tons, with Base Business defined as all other business not meeting the definition of Event Business.

A significant portion of our disposal revenue is attributable to discrete Event Business projects which vary widely in size, duration and unit pricing. For the year ended December 31, 2016, approximately 18% of our T&D revenue was derived from Event Business projects. The one-time nature of Event Business, diverse spectrum of waste types received and widely varying unit pricing necessarily creates variability in revenue and earnings. This variability may be influenced by general and industry-specific economic conditions, funding availability, changes in laws and regulations, government enforcement actions or court orders, public controversy, litigation, weather, commercial real estate, closed military bases and other project timing, government appropriation and funding cycles and other factors. The types and amounts of waste received from Base Business also vary from quarter to quarter. This variability can also cause significant quarter-to-quarter and year-to-year differences in revenue, gross profit, gross margin, operating income and net income. While we pursue many projects months or years in advance of work performance, cleanup project opportunities routinely arise with little or no prior notice. These market dynamics are inherent to the waste disposal business and are factored into our projections and externally communicated business outlook statements. Our projections combine historical experience with identified sales pipeline opportunities, new or expanded service line projections and prevailing market conditions.

During 2016, Base Business revenue growth was up 2% compared to 2015. Base Business revenue was approximately 82% of total 2016 T&D revenue, up from 75% in 2015. Our business is highly competitive and no assurance can be given that we will maintain these revenue levels or increase our market share.

Depending on project-specific customer needs and competitive economics, transportation services may be offered at or near our cost to help secure new business. For waste transported by rail from the eastern United States and other locations distant from our Grand View, Idaho and Robstown, Texas facilities, transportation-related revenue can account for as much as 75% of total project revenue. While bundling

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transportation and disposal services reduces overall gross profit as a percentage of total revenue ("gross margin"), this value-added service has allowed us to win multiple projects that management believes we could not have otherwise competed for successfully. Our Company-owned fleet of gondola railcars, which is periodically supplemented with railcars obtained under operating leases, has reduced our transportation expenses by largely eliminating reliance on more costly short-term rentals. These Company-owned railcars also help us to win business during times of demand-driven railcar scarcity.

The increased waste volumes resulting from projects won through this bundled service strategy further drive operating leverage benefits inherent to the disposal business, increasing profitability. While waste treatment and other variable costs are project-specific, the incremental earnings contribution from large and small projects generally increases as overall disposal volumes increase. Based on past experience, management believes that maximizing operating income, net income and earnings per share is a higher priority than maintaining or increasing gross margin. We intend to continue aggressively bidding bundled transportation and disposal services based on this proven strategy.

We serve oil refineries, chemical production plants, steel mills, waste brokers/aggregators serving small manufacturers and other industrial customers that are generally affected by the prevailing economic conditions and credit environment. Adverse conditions may cause our customers as well as those they serve to curtail operations, resulting in lower waste production and/or delayed spending on off-site waste shipments, maintenance, waste cleanup projects and other work. Factors that can impact general economic conditions and the level of spending by customers include, but are not limited to, consumer and industrial spending, increases in fuel and energy costs, conditions in the real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence and other global economic factors affecting spending behavior. Market forces may also induce customers to reduce or cease operations, declare bankruptcy, liquidate or relocate to other countries, any of which could adversely affect our business. To the extent business is either government funded or driven by government regulations or enforcement actions, we believe it is less susceptible to general economic conditions. Spending by government agencies may be reduced due to declining tax revenues resulting from a weak economy or changes in policy. Disbursement of funds appropriated by Congress may also be delayed for various reasons.

Our results of operations have been affected by certain significant events during the past three fiscal years including, but not limited to:

2016 Events

Divestiture of Augusta, Georgia Facility: On April 5, 2016, we completed the divestiture of our Augusta, Georgia facility for cash proceeds of $1.9 million. The Augusta, Georgia facility was reported as part of our Environmental Services segment. Sales, net income and total assets of the Augusta, Georgia facility are not material to our consolidated financial position or results of operations in any period presented. We recognized a $1.9 million pre-tax gain on the divestiture of the Augusta, Georgia facility, which is included in Other income (expense) in our consolidated statements of operations for the year ended December 31, 2016.

Acquisition of Environmental Services Inc.: On May 2, 2016, the Company acquired 100% of the outstanding shares of Environmental Services Inc., ("ESI"), an environmental services company based in Tilbury, Ontario, Canada. The total purchase price was $4.9 million, net of cash acquired, and was funded with cash on hand. Revenues and total assets of ESI are not material to our consolidated financial position or results of operations. We recorded $1.5 million of intangible assets and $1.0 million of goodwill on the consolidated balance sheets as a result of the acquisition. Definite-lived intangibles will be amortized over a weighted average life of approximately 14 years. Goodwill and indefinite-lived intangibles are tested for impairment at least annually.

Acquisition of Vernon, California Facility: On October 1, 2016, the Company acquired the Vernon, California based RCRA Part B, liquids and solids waste treatment and storage facility of Evoqua Water

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Technologies LLC. The total purchase price was $5.0 million and was funded with cash on hand. Revenues and total assets of the Vernon, California facility are not material to our consolidated financial position or results of operations. We recorded $3.2 million of intangible assets and $354,000 of goodwill on the consolidated balance sheets as a result of the acquisition. Definite-lived intangibles will be amortized over a weighted average life of approximately 20 years. Goodwill and indefinite-lived intangibles are tested for impairment at least annually.

2015 Events

Full Year of EQ Operations: 2015 includes a full year of operating results for EQ, which was acquired on June 17, 2014.

Sale of Allstate Power Vac, Inc. ("Allstate") and Goodwill Impairment: On November 1, 2015, we sold our Allstate subsidiary to a private investor group for cash proceeds of $58.8 million. Allstate represented the majority of the industrial services business we acquired with the acquisition of EQ. As a result of this divestiture and management's strategic review, we evaluated the recoverability of the assets associated with our industrial services business. Based on this analysis, we recorded a non-cash goodwill impairment charge of $6.7 million, or $0.31 per diluted share, in the second quarter of 2015. We recognized a pre-tax loss on the divestiture of Allstate, including transaction-related costs, of $542,000 in the fourth quarter of 2015. In the second quarter of 2016, we received additional cash proceeds of $827,000 in settlement of final post-closing adjustments and recognized an additional $178,000 pre-tax gain. Gains and losses related to the sale of Allstate are included in Other income (expense) in our consolidated statements of operations. Cash proceeds from the transaction were used to repay debt. See Note 5 to the Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for additional information on the sale of Allstate.

2014 Events

Acquisition of EQ Holdings, Inc.: On June 17, 2014, the Company acquired 100% of the outstanding shares of EQ. EQ is a fully integrated environmental services company providing waste treatment and disposal, wastewater treatment, remediation, recycling, industrial cleaning and maintenance, transportation, total waste management, technical services, and emergency response services to a variety of industries and customers in North America. The total purchase price was $460.9 million, net of cash acquired, and was funded through a combination of cash on hand and borrowings under a new $415.0 million term loan. The acquisition of EQ affects the comparability of 2014 with other years, including as follows:

- Revenue and operating income from the legacy EQ business for the period from June 17, 2014 to December 31, 2014 included in the Company's consolidated statements of operations for the year ended December 31, 2014 were $228.2 million and $18.5 million, respectively.

- We incurred $6.4 million of business development expenses during the year ended December 31, 2014 in connection with the EQ acquisition primarily for due diligence and business integration purposes.

- We recorded $252.9 million of intangible assets and $197.6 million of goodwill on our Consolidated Balance Sheet as a result of the acquisition. Acquired finite-lived intangibles will be amortized over their estimated useful life ranging from one to 45 years. Goodwill and indefinite-lived intangibles are tested for impairment at least annually.

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Results of Operations

Our operating results and percentage of revenues for the years ended December 31, 2016, 2015 and 2014 were as follows:

$s in thousands	Year Ended December 31, 2016	%	2015	%	2014	%	2016 vs. 2015 $ Change	% Change	2015 vs. 2014 $ Change	% Change
Revenue										
Environmental Services	$ 337,771	71%	$ 359,040	64%	$ 311,486	70%	$ (21,269)	6%	$ 47,554	15%
Field & Industrial Services	139,894	29%	204,030	36%	135,925	30%	(64,136)	31%	68,105	50%
Total	477,665	100%	563,070	100%	447,411	100%	(85,405)	15%	115,659	26%
Gross Profit										
Environmental Services	126,818	38%	137,633	38%	123,769	40%	(10,815)	8%	13,864	11%
Field & Industrial Services	20,777	15%	33,777	17%	22,017	16%	(13,000)	38%	11,760	53%
Total	147,595	31%	171,410	30%	145,786	33%	(23,815)	14%	25,624	18%
Selling, General & Administrative Expenses										
Environmental Services	21,418	6%	22,752	6%	18,591	6%	(1,334)	6%	4,161	22%
Field & Industrial Services	10,115	7%	21,961	11%	14,499	11%	(11,846)	54%	7,462	51%
Corporate	46,033	n/m	48,366	n/m	40,246	n/m	(2,333)	5%	8,120	20%
Total	77,566	16%	93,079	17%	73,336	16%	(15,513)	17%	19,743	27%
Adjusted EBITDA										
Environmental Services	139,698	41%	150,067	42%	123,086	40%	(10,369)	7%	26,981	22%
Field & Industrial Services	16,342	12%	21,388	10%	8,638	6%	(5,046)	24%	12,750	148%
Corporate	(43,254)	n/m	(46,005)	n/m	(22,748)	n/m	2,751	6%	(23,257)	102%
Total	$ 112,786	24%	$ 125,450	22%	$ 108,976	24%	$ (12,664)	10%	$ 16,474	15%

The primary financial measure used by management to assess segment performance is Adjusted EBITDA. Adjusted EBITDA is defined as net income before interest expense, interest income, income tax expense, depreciation, amortization, stock based compensation, accretion of closure and post-closure liabilities, foreign currency gain/loss, non-cash impairment charges, loss on divestiture and other income/expense.

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The reconciliation of Net Income to Adjusted EBITDA for the years ended December 31, 2016, 2015 and 2014 is as follows:

	Year Ended December 31,			2016 vs. 2015		2015 vs. 2014	
$s in thousands	2016	2015	2014	$ Change	% Change	$ Change	% Change
Net Income	$ 34,252	$ 25,611	$ 38,236	$ 8,641	34%	$ (12,625)	33%
Income tax expense	21,049	21,244	22,814	(195)	1%	(1,570)	7%
Interest expense	17,317	23,370	10,677	(6,053)	26%	12,693	119%
Interest income	(96)	(65)	(107)	(31)	48%	42	39%
Foreign currency loss	138	2,196	1,499	(2,058)	94%	697	46%
Loss (gain) on divestiture	(2,034)	542		(2,576)	475%	542	n/m
Other income	(597)	(1,267)	(669)	670	53%	(598)	89%
Impairment charges		6,700		(6,700)	100%	6,700	n/m
Depreciation and amortization of plant and equipment	25,304	27,931	24,413	(2,627)	9%	3,518	14%
Amortization of intangibles	10,575	12,307	8,207	(1,732)	14%	4,100	50%
Stock-based compensation	2,925	2,297	1,250	628	27%	1,047	84%
Accretion and non-cash adjustment of closure and post-closure liabilities	3,953	4,584	2,656	(631)	14%	1,928	73%
Adjusted EBITDA	$ 112,786	$ 125,450	$ 108,976	$ (12,664)	10%	$ 16,474	15%

Adjusted EBITDA is a complement to results provided in accordance with accounting principles generally accepted in the United States ("GAAP") and we believe that such information provides additional useful information to analysts, stockholders and other users to understand the Company's operating performance. Since Adjusted EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies. Items excluded from Adjusted EBITDA are significant components in understanding and assessing our financial performance. Adjusted EBITDA should not be considered in isolation or as an alternative to, or substitute for, net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity.

Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or a substitute for analyzing our results as reported under GAAP. Some of the limitations are:

- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect our interest expense, or the requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect our income tax expenses or the cash requirements to pay our taxes;
- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments; and
- Although depreciation and amortization charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements.

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2016 Compared to 2015

Revenue

Total revenue decreased 15% to $477.7 million in 2016, compared with $563.1 million in 2015.

Environmental Services

Environmental Services segment revenue decreased 6% to $337.8 million in 2016, compared to $359.0 million in 2015. T&D revenue decreased 5% in 2016, primarily as a result of a 30% decrease in project-based Event Business. Transportation and logistics service revenue decreased 8% in 2016 compared to 2015, reflecting fewer Event Business projects utilizing the Company's transportation and logistics services. Tons of waste disposed of or processed decreased 14% in 2016 compared to 2015.

T&D revenue from recurring Base Business waste generators increased 2% in 2016 compared to 2015 and comprised 82% of total T&D revenue. During 2016, increases in Base Business T&D revenue from the refining, "Other", utilities and general manufacturing industry groups were partially offset by decreases in T&D revenue from Base Business in the chemical manufacturing and broker/TSDF industry groups.

T&D revenue from Event Business waste generators decreased 30% in 2016 compared to 2015 and comprised 18% of total T&D revenue. The decrease in Event Business T&D revenue compared to the prior year primarily reflects lower T&D revenue from the chemical manufacturing, refining and government industry groups, partially offset by higher T&D revenue from the general manufacturing and "Other" industry groups. The decrease in revenue from the chemical manufacturing industry group is primarily attributable to the completion of a large East Coast remedial cleanup project in the third quarter of 2015 and the completion of a nuclear fuels fabrication plant decommissioning in the first quarter of 2016. The decrease in revenue from the refining and government industry groups is primarily attributable to lower Event Business volumes.

The following table summarizes combined Base Business and Event Business T&D revenue growth, within the Environmental Services segment, by waste generator industry for 2016 compared to 2015:

	T&D Revenue Growth 2016 vs. 2015
Other	15%
General Manufacturing	14%
Waste Management & Remediation	10%
Utilities	9%
Refining	0%
Metal Manufacturing	3%
Broker / TSDF	3%
Mining and E&P	4%
Transportation	5%
Government	28%
Chemical Manufacturing	35%

Field & Industrial Services

Field & Industrial Services segment revenue decreased 31% to $139.9 million in 2016 compared with $204.0 million in 2015. The decrease is primarily attributable to the divested Allstate business which contributed segment revenue of $59.1 million for our period of ownership in 2015.

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Gross Profit

Total gross profit decreased 14% to $147.6 million in 2016, down from $171.4 million in 2015. Total gross margin was 31% for 2016 compared with 30% for 2015.

Environmental Services

Environmental Services segment gross profit decreased 8% to $126.8 million in 2016, down from $137.6 million in 2015. This decrease primarily reflects lower T&D volumes in 2016 compared to 2015. Total segment gross margin was 38% for both 2016 and 2015. T&D gross margin was 42% for 2016 compared with 43% for 2015.

Field & Industrial Services

Field & Industrial Services segment gross profit decreased 38% to $20.8 million in 2016, down from $33.8 million in 2015. Total segment gross margin was 15% for 2016 compared with 17% for 2015. The divested Allstate business contributed segment gross profit of $12.4 million for our period of ownership in 2015.

Selling, General and Administrative Expenses ("SG&A")

Total SG&A decreased to $77.6 million, or 16% of total revenue, in 2016 compared with $93.1 million, or 17% of total revenue, in 2015.

Environmental Services

Environmental Services segment SG&A decreased 6% to $21.4 million, or 6% of segment revenue, in 2016 compared with $22.8 million, or 6% of segment revenue, in 2015, primarily reflecting higher gains on sales of assets in 2016 compared to 2015.

Field & Industrial Services

Field & Industrial Services segment SG&A decreased 54% to $10.1 million, or 7% of segment revenue, in 2016 compared with $22.0 million, or 11% of segment revenue, in 2015. The divested Allstate business contributed segment SG&A of $10.9 million for our period of ownership in 2015. The remaining decrease in segment SG&A primarily reflects lower employee labor costs in 2016 compared to 2015.

Corporate

Corporate SG&A was $46.0 million, or 10% of total revenue, in 2016 compared with $48.4 million, or 9% of total revenue, in 2015, primarily reflecting lower business development expenses and lower professional services expenses in 2016 compared to 2015.

Components of Adjusted EBITDA

Income tax expense

Our effective income tax rate for 2016 was 38.1% compared with 45.3% in 2015. The decrease reflects nonrecurring non-deductible goodwill impairment charges incurred in 2015, a nondeductible loss on the sale of the Allstate business recorded during 2015 and a decrease in our U.S. effective tax rate, driven by a lower overall effective state tax rate. The lower effective state tax rate was driven by changes in apportionment of income and deferred taxes between the various states in which we operate. The decrease in the effective tax rate was partially offset by a lower proportion of earnings from our Canadian operations in 2016, which are taxed at a lower corporate tax rate. As of December 31, 2016, we had approximately $12.7 million in state and local net operating loss carry forwards ("NOLs") for which we maintain a valuation allowance on the majority of the balance. We maintain a valuation allowance on state and local NOLs when we no longer do business within a state or locality or determine it is unlikely that we will utilize these NOLs in the future. We consider it more likely than not that we will not utilize the majority of these NOLs in the future.

Interest expense

Interest expense was $17.3 million in 2016 compared with $23.4 million in 2015. The decrease is primarily due to $291,000 of incremental non-cash amortization of deferred financing fees associated with debt principal payments in 2016 compared with $2.4 million of incremental amortization in 2015. The remaining decrease is attributable to lower debt levels in 2016 compared with 2015.

Foreign currency gain (loss)

We recognized a $138,000 non-cash foreign currency loss in 2016 compared with a $2.2 million non-cash foreign currency loss in 2015. Foreign currency gains and losses reflect changes in business activity conducted in a currency other than the USD, our functional currency. Our Canadian subsidiaries' facilities are located in Blainville, Québec and Tilbury, Ontario, Canada and use the Canadian dollar ("CAD") as their functional currency. Additionally, we established intercompany loans between our Canadian subsidiaries, whose functional currency is the CAD, and our parent company, US Ecology, as part of a tax and treasury management strategy allowing for repayment of third-party bank debt. These intercompany loans are payable by our Canadian subsidiaries to US Ecology in CAD requiring us to revalue the outstanding loan balance through our statements of operations based on USD/CAD currency movements from period to period. At December 31, 2016, we had $20.8 million of intercompany loans subject to currency revaluation.

Gain on divestiture

Other income in 2016 includes approximately $2.0 million related to the gain on sale of the Augusta, Georgia facility in April 2016 and final closing adjustments on the Allstate divestiture.

Depreciation and amortization of plant and equipment

Depreciation and amortization expense was $25.3 million in 2016 compared with $27.9 million in 2015. The divested Allstate business contributed depreciation and amortization expense of $2.2 million for our period of ownership in 2015.

Amortization of intangibles

Intangible assets amortization expense was $10.6 million in 2016 compared with $12.3 million in 2015. The divested Allstate business contributed intangible assets amortization expense of $1.4 million for our period of ownership in 2015.

Stock-based compensation

Stock-based compensation expense increased 27% to $2.9 million in 2016, compared with $2.3 million 2015 as a result of an increase in equity-based awards granted to employees.

Accretion and non-cash adjustment of closure and post-closure liabilities

Accretion and non-cash adjustment of closure and post-closure liabilities was $4.0 million in 2016 compared with $4.6 million in 2015.

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Impairment charges

On August 4, 2015, we entered into a definitive agreement to sell Allstate to a private investor group. Allstate represented the majority of the industrial services business we acquired with the acquisition of EQ. As a result of this agreement and management's strategic review, we evaluated the recoverability of the assets associated with our industrial services business. Based on this analysis, we recorded a non-cash goodwill impairment charge of $6.7 million in the second quarter of 2015. See Note 5 to the Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for additional information on the sale of Allstate.

2015 Compared to 2014

Revenue

Total revenue increased 26% to $563.1 million in 2015, compared with $447.4 million in 2014. The acquired EQ operations contributed $359.0 million of revenue in 2015, compared with $228.2 million for our period of ownership in 2014. Excluding EQ operations, total revenue decreased 7% to $204.1 million in 2015, compared with $219.2 million in 2014. Revenue from EQ is excluded from percentages of Base and Event Business and waste generator industry information in the following paragraphs.

Environmental Services

Environmental Services segment revenue increased 15% to $359.0 million in 2015, compared to $311.5 million in 2014. The acquired EQ operations contributed $154.9 million of segment revenue in 2015 compared with $92.3 million of segment revenue for our period of ownership in 2014. Excluding EQ operations, segment revenue decreased 7% to $204.1 million in 2015, compared with $219.2 million in 2014. T&D revenue (excluding EQ) decreased 8% in 2015 compared to 2014, primarily as a result of a 23% decrease in project-based Event Business. Transportation service revenue (excluding EQ) increased 2% compared to 2014, reflecting more Event Business projects utilizing our transportation and logistics services. Tons of waste disposed of or processed increased 5% in 2015 compared to 2014. Excluding EQ, tons of waste disposed of or processed decreased 20% in 2015 compared to 2014.

Growth in T&D revenue from recurring Base Business waste generators was flat compared to 2014 and comprised 74% of total T&D revenue in 2015. During 2015, increases in Base Business T&D revenue from the refining and broker/TSDF industries were offset by decreases in T&D revenue from Base Business in the chemical manufacturing, utilities, and mining, exploration and production industries.

T&D revenue from Event Business waste generators decreased 23% in 2015 compared to 2014 and comprised 26% of total T&D revenue in 2015. The decrease in Event Business T&D revenue compared to the prior year primarily reflects lower T&D revenue from the chemical and metal manufacturing, transportation, broker/TSDF, and mining, exploration and production industries, partially offset by higher T&D revenue from the utilities, government and refining industries. The decrease in T&D revenue from the chemical manufacturing industry is primarily attributable to reductions in volume from a large East Coast remedial cleanup project and lower overall industry activity in 2015. The decrease in T&D revenue from the metal manufacturing industry is primarily attributable to lower domestic production of metal related products and services. The decrease in T&D revenue from the mining, exploration and production industry primarily reflects lower industry activity due to lower commodity prices.

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The following table summarizes combined Base Business and Event Business T&D revenue growth by waste generator industry for 2015 compared to 2014:

	T&D Revenue Growth(1) 2015 vs. 2014
Utilities	25%
Refining	20%
Government	15%
Other	5%
Waste Management & Remediation	4%
General Manufacturing	2%
Broker / TSDF	1%
Metal Manufacturing	12%
Mining and E&P	31%
Chemical Manufacturing	35%
Transportation	44%

(1) Excludes EQ Holdings, Inc. which was acquired on June 17, 2014

Field & Industrial Services

Our Field & Industrial Services segment was added subsequent to, and as a result of, our acquisition of EQ on June 17, 2014. This segment includes all of the field and industrial service business of the legacy EQ operations and none of the legacy US Ecology operations. Field & Industrial Services segment revenue was $204.0 million in 2015 compared with $135.9 million for our period of ownership in 2014. The divested Allstate business contributed segment revenue of $59.1 million for our period of ownership in 2015 compared with $37.0 million for our period of ownership in 2014.

Gross Profit

Total gross profit increased 18% to $171.4 million in 2015, up from $145.8 million in 2014. The acquired EQ operations contributed $91.7 million of gross profit in 2015, compared with $57.4 million for our period of ownership in 2014. Excluding EQ operations, total gross profit decreased 10% to $79.7 million in 2015, compared with $88.4 million in 2014. Total gross margin in 2015 was 30%. Excluding EQ operations, total gross margin was 39%.

Environmental Services

Environmental Services segment gross profit increased 11% to $137.6 million in 2015, up from $123.8 million in 2014. The acquired EQ operations contributed $57.9 million of segment gross profit in 2015 compared with $35.4 million of segment gross profit for our period of ownership in 2014. Excluding EQ operations, segment gross profit decreased 10% to $79.7 million in 2015, compared with $88.4 million in 2014. This decrease primarily reflects lower T&D volumes in 2015 compared to 2014. Total segment gross margin in 2015 was 38%. Excluding EQ operations, total segment margin was 39%. Excluding EQ operations, T&D gross margin was 48% in 2015 compared to 49% in 2014.

Field & Industrial Services

Our Field & Industrial Services segment was added in 2014 as a result of our acquisition of EQ on June 17, 2014. This segment includes all of the field and industrial service business of the legacy EQ operations and none of the legacy US Ecology operations. Field & Industrial Services segment gross profit and gross margin were $33.8 million and 17%, respectively, in 2015 compared with $22.0 million and 16%, respectively, for our period of ownership in 2014. The divested Allstate business contributed segment gross

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profit of $12.4 million for our period of ownership in 2015 compared with $8.2 million for our period of ownership in 2014.

Selling, General and Administrative Expenses ("SG&A")

Total SG&A increased 27% to $93.1 million in 2015, up from $73.3 million in 2014. The acquired EQ operations contributed $56.6 million of SG&A in 2015, compared with $38.9 million for our period of ownership in 2014. Excluding EQ operations, total SG&A was $36.5 million, or 18% of total revenue in 2015, compared with $34.4 million, or 16% of total revenue, in 2014.

Environmental Services

Environmental Services segment SG&A increased 22% to $22.8 million, or 6% of segment revenue, in 2015, up from $18.6 million, or 6% of segment revenue, in 2014. The acquired EQ operations contributed $11.6 million of segment SG&A in 2015 compared with $6.8 million of segment SG&A for our period of ownership in 2014. Excluding EQ operations, total segment SG&A was $11.1 million, or 5% of segment revenue, in 2015 compared with $11.8 million, or 5% of segment revenue, in 2014.

Field & Industrial Services

Our Field & Industrial Services segment was added in 2014 as a result of our acquisition of EQ on June 17, 2014. This segment includes all of the field and industrial service business of the legacy EQ operations and none of the legacy US Ecology operations. Field & Industrial Services segment SG&A was $22.0 million in 2015 compared with $14.5 million for our period of ownership in 2014. The divested Allstate business contributed segment SG&A of $10.9 million for our period of ownership in 2015 compared with $6.6 million for our period of ownership in 2014.

Corporate

Corporate SG&A increased 20% to $48.4 million in 2015, up from $40.2 million in 2014. The acquired EQ operations contributed $23.0 million of corporate SG&A in 2015 compared with $17.6 million of corporate SG&A for our period of ownership in 2014. Excluding EQ operations, total corporate SG&A was $25.4 million, or 12% of total revenue in 2015, compared with $22.6 million, or 10% of total revenue in 2014, primarily reflecting higher labor costs and professional fees and expenses, partially offset by lower business development expenses in 2015 compared to 2014.

Components of Adjusted EBITDA

Income tax expense

Our effective income tax rate for 2015 was 45.3% compared to 37.4% in 2014. The increase reflects non-deductible goodwill impairment charges, a non-deductible loss on the sale of the Allstate business recorded during 2015 and an increase in our U.S. effective tax rate, primarily driven by a higher overall effective state tax rate. The higher effective state tax rate was driven by changes in apportionment of income and deferred taxes between the various states in which we operate. The increase in the effective tax rate was also partially attributable to a lower proportion of earnings from our Canadian operations in 2015, which are taxed at a lower corporate tax rate. As of December 31, 2015, we had approximately $161,000 in federal NOLs acquired from EQ. As of December 31, 2015, we had approximately $34.2 million in state and local NOLs for which we maintain a substantial valuation allowance. We maintain a valuation allowance on state and local NOLs when we no longer do business within a state or locality or determine it is unlikely that we will utilize these NOLs in the future. We consider it unlikely that we will utilize the majority of these NOLs in the future.

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Interest expense

Interest expense was $23.4 million in 2015 compared with $10.7 million in 2014. The increase is a result of higher outstanding debt levels and the related interest expense on borrowings under our Revolving Credit Facility used to finance the acquisition of EQ in June 2014. Additionally, we recorded $2.4 million of incremental non-cash amortization of deferred financing fees in 2015 primarily as a result of significant debt principal payments during the year.

Foreign currency gain (loss)

We recognized a $2.2 million non-cash foreign currency loss in 2015 compared with a $1.5 million non-cash foreign currency loss in 2014. Foreign currency gains and losses reflect changes in business activity conducted in a currency other than the USD, our functional currency. Our Stablex facility is located in Blainville, Québec, Canada and uses the CAD as its functional currency. Also, as part of our treasury management strategy we established intercompany loans between our parent company, US Ecology and Stablex. These intercompany loans are payable by Stablex to US Ecology in CAD requiring us to revalue the outstanding loan balance through our statements of operations based on USD/CAD currency movements from period to period. At December 31, 2015, we had $15.0 million of intercompany loans subject to currency revaluation.

Loss on divestiture

On November 1, 2015, we completed the divestiture of Allstate for cash proceeds of $58.8 million, subject to post-closing adjustments. We recognized a pre-tax loss on the divestiture of Allstate, including transaction-related costs, of $542,000 during the fourth quarter of 2015.

Impairment charges

On August 4, 2015, we entered into a definitive agreement to sell Allstate to a private investor group. Allstate represented the majority of the industrial services business we acquired with the acquisition of EQ. As a result of this agreement and management's strategic review, we evaluated the recoverability of the assets associated with our industrial services business. Based on this analysis, we recorded a non-cash goodwill impairment charge of $6.7 million in the second quarter of 2015. See Note 5 to the Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for additional information on the sale of Allstate.

Depreciation and amortization of plant and equipment

Depreciation and amortization expense was $27.9 million in 2015, an increase of 14% compared to 2014. The acquired EQ operations contributed $13.9 million of depreciation and amortization expense in 2015 compared with $9.0 million of depreciation and amortization expense for our period of ownership in 2014. Excluding EQ operations, depreciation and amortization expense was $14.0 million in 2015, compared with $15.4 million in 2014.

Amortization of intangibles

Intangible assets amortization expense was $12.3 million in 2015, an increase of 50% compared to 2014. Excluding intangible assets amortization expense of $11.1 million and $6.8 million recorded in 2015 and 2014, respectively, on new intangible assets recorded as a result of the acquisition of EQ, intangible assets amortization expense was $1.2 million in 2015, compared with $1.4 million in 2014.

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Stock-based compensation

Stock-based compensation expense increased 84% to $2.3 million in 2015, compared with $1.3 million 2014 as a result of an increase in equity-based awards granted to employees.

Accretion and non-cash adjustment of closure and post-closure liabilities

Accretion and non-cash adjustment of closure and post-closure liabilities increased 73% to $4.6 million in 2015, compared with $2.7 million in 2014. The acquired EQ operations contributed $2.5 million of accretion and non-cash adjustment of closure and post-closure liabilities in 2015 compared with $1.2 million of accretion and non-cash adjustment of closure and post-closure liabilities for our period of ownership in 2014. Excluding EQ operations, accretion and non-cash adjustment of closure and post-closure liabilities was $2.1 million in 2015, compared with $1.5 million in 2014.

Liquidity and Capital Resources

Our primary sources of liquidity are cash and cash equivalents, cash generated from operations and borrowings under the Credit Agreement. At December 31, 2016, we had $7.0 million in cash and cash equivalents immediately available and $116.8 million of borrowing capacity available under our Revolving Credit Facility. We assess our liquidity in terms of our ability to generate cash to fund our operating, investing and financing activities. Our primary ongoing cash requirements are funding operations, capital expenditures, paying interest and required principal payments of our long-term debt, and paying declared dividends pursuant to our dividend policy. We believe future operating cash flows will be sufficient to meet our future operating, investing and dividend cash needs for the foreseeable future. Furthermore, existing cash balances and availability of additional borrowings under our Credit Agreement provide additional sources of liquidity should they be required.

Operating Activities. In 2016, net cash provided by operating activities was $74.6 million. This primarily reflects net income of $34.3 million, non-cash depreciation, amortization and accretion of $39.8 million, a decrease in accounts receivable of $10.9 million, share-based compensation expense of $2.9 million, non-cash amortization of debt issuance costs of $2.0 million, and a decrease in other assets of $1.2 million, partially offset by a decrease in accounts payable and accrued liabilities of $7.7 million, a decrease in deferred income taxes of $2.7 million, the gain recognized on the divestiture of the Augusta, Georgia facility in April 2016, final closing adjustments on the Allstate divestiture of $2.0 million, and a decrease in income taxes receivable of $2.0 million. Impacts on net income are due to the factors discussed above under "Results of Operations." The decrease in receivables is primarily attributable to the timing of customer payments. Changes in income taxes receivable and payable are primarily attributable to the timing of income tax payments.

Days sales outstanding were 73 days as of December 31, 2016, compared to 68 days as of December 31, 2015. The increase in days sales outstanding compared to December 31, 2015 is primarily attributable to a decrease in revenue in 2016, compared to 2015, which resulted in a higher proportion of accounts receivable as a percentage of revenues.

In 2015, net cash provided by operating activities was $71.5 million. This primarily reflects net income of $25.6 million, non-cash depreciation, amortization and accretion of $44.8 million, non-cash impairment charges of $6.7 million, a decrease in income taxes receivable of $4.8 million, non-cash amortization of debt issuance costs of $4.4 million, unrealized foreign currency losses of $3.3 million, share-based compensation expense of $2.3 million and a decrease in accounts receivable of $1.6 million, partially offset by a decrease in accounts payable and accrued liabilities of $6.5 million, a decrease in closure and post-closure obligations of $5.7 million, a decrease in deferred revenue of $4.4 million, a decrease in income taxes payable of $3.9 million and a decrease in deferred income taxes of $2.7 million. Impacts on net income are due to the factors discussed above under Results of Operations. The decrease in receivables and deferred revenue is primarily attributable to the timing of the treatment and disposal of

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waste associated with a significant East Coast remedial cleanup project. The changes in income taxes receivable and payable are primarily attributable to the timing of income tax payments. The decrease in closure and post-closure obligations is primarily attributable to payments made for closure and post-closure activities primarily at our closed landfills.

In 2014, net cash provided by operating activities was $71.4 million. This primarily reflects net income of $38.2 million, non-cash depreciation, amortization and accretion of $35.3 million, unrealized foreign currency losses of $2.4 million, an increase in deferred revenue of $1.9 million and an increase in deferred income taxes of $2.0 million, partially offset by an increase in receivables of $4.4 million, a decrease in accounts payable and accrued liabilities of $2.9 million and an increase in income taxes receivable of $1.8 million. Impacts on net income are due to the factors discussed above under Results of Operations. Non-cash foreign currency losses reflect a weaker CAD relative to the USD in 2014. The increase in deferred revenue and receivables is primarily attributable to the timing of the treatment and disposal of waste associated with a significant East Coast remedial cleanup project. The changes in income taxes receivable are primarily attributable to the timing of income tax payments.

Investing Activities. In 2016, net cash used in investing activities was $42.0 million, primarily related to capital expenditures of $35.7 million, the purchase of the Vernon, California based RCRA Part B, liquids and solids waste treatment and storage facility of Evoqua Water Technologies LLC for $5.0 million and the purchase of Environmental Services Inc., ("ESI"), for $4.9 million, net of cash acquired, partially offset by proceeds from the divestiture of our Augusta, Georgia facility for $2.7 million, net of cash divested. Significant capital projects included construction of additional disposal capacity at our Blainville, Québec, Canada, Beatty, Nevada and Robstown, Texas facilities and equipment purchases and infrastructure upgrades at our corporate and operating facilities.

In 2015, net cash provided by investing activities was $20.3 million, primarily related to the divestiture of Allstate for $58.7 million, net of cash divested, partially offset by capital expenditures of $39.4 million. Significant capital projects included construction of additional disposal capacity at our Blainville, Québec, Canada and Robstown, Texas locations and equipment purchases and infrastructure upgrades at all of our corporate and operating facilities.

In 2014, net cash used in investing activities was $488.5 million, primarily related to the purchase of EQ for $460.9 million, net of cash acquired, and capital expenditures of $28.4 million. Significant capital projects included construction of additional disposal capacity at our Blainville, Québec, Canada location and equipment purchases and infrastructure upgrades at all of our corporate and operating facilities.

Financing Activities. During 2016, net cash used in financing activities was $31.6 million, consisting primarily of $18.0 million of payments on our Term Loan and $15.7 million of dividend payments to our stockholders, partially offset by $2.2 million of net proceeds on our Revolving Credit Facility to fund working capital requirements.

During 2015, net cash used in financing activities was $108.4 million, consisting primarily of $94.6 million of payments on our Term Loan and $15.6 million of dividend payments to our stockholders.

During 2014, net cash provided by financing activities was $366.8 million, consisting primarily of $414.0 million of net proceeds from our new Term Loan used to partially finance the acquisition of EQ, offset in part by $19.4 million of term loan repayments, $15.5 million of dividend payments to our stockholders and $14.0 million of deferred financing costs associated with our Credit Agreement.

Credit Facility

On June 17, 2014, in connection with the acquisition of EQ, the Company entered into a new $540.0 million senior secured credit agreement (the "Credit Agreement") with a syndicate of banks comprised of a $415.0 million term loan (the "Term Loan") with a maturity date of June 17, 2021 and a $125.0 million revolving line of credit (the "Revolving Credit Facility") with a maturity date of June 17,

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2019. Upon entering into the Credit Agreement, the Company terminated its existing credit agreement with Wells Fargo, dated October, 29, 2010, as amended (the "Former Agreement"). Immediately prior to the termination of the Former Agreement, there were no outstanding borrowings under the Former Agreement. No early termination penalties were incurred as a result of the termination of the Former Agreement.

Term Loan

The Term Loan provides an initial commitment amount of $415.0 million, the proceeds of which were used to acquire 100% of the outstanding shares of EQ and pay related transaction fees and expenses. The Term Loan bears interest at a base rate (as defined in the Credit Agreement) plus 2.00% or LIBOR plus 3.00%, at the Company's option. The Term Loan is subject to amortization in equal quarterly installments in an aggregate annual amount equal to 1.00% of the original principal amount of the Term Loan. At December 31, 2016, the effective interest rate on the Term Loan, including the impact of our interest rate swap, was 4.76%. Interest only payments are due either monthly or on the last day of any interest period, as applicable. As set forth in the Credit Agreement, the Company is required to enter into one or more interest rate hedge agreements in amounts sufficient to fix the interest rate on at least 50% of the principal amount of the $415.0 million Term Loan. In October 2014, the Company entered into an interest rate swap agreement with Wells Fargo, effectively fixing the interest rate on $210.0 million, or 74%, of the Term Loan principal outstanding as of December 31, 2016.

Revolving Credit Facility

The Revolving Credit Facility provides up to $125.0 million of revolving credit loans or letters of credit with the use of proceeds restricted solely for working capital and other general corporate purposes. Under the Revolving Credit Facility, revolving loans are available based on a base rate (as defined in the Credit Agreement) or LIBOR, at the Company's option, plus an applicable margin which is determined according to a pricing grid under which the interest rate decreases or increases based on our ratio of funded debt to consolidated earnings before interest, taxes, depreciation and amortization (as defined in the Credit Agreement). The Company is required to pay a commitment fee of 0.50% per annum on the unused portion of the Revolving Credit Facility, with such commitment fee to be reduced based upon the Company's total leverage ratio (as defined in the Credit Agreement). The maximum letter of credit capacity under the Revolving Credit Facility is $50.0 million and the Credit Agreement provides for a letter of credit fee equal to the applicable margin for LIBOR loans under the Revolving Credit Facility. Interest payments are due either monthly or on the last day of any interest period, as applicable. At December 31, 2016, there were $2.2 million of working capital borrowings outstanding on the Revolving Credit Facility. These borrowings are due "on demand" and presented as short-term debt in the consolidated balance sheets. The availability under the Revolving Credit Facility was $116.8 million with $6.0 million of the Revolving Credit Facility issued in the form of standby letters of credit utilized as collateral for closure and post-closure financial assurance and other assurance obligations.

See Note 15 to the Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for additional information on the Company's debt.

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Contractual Obligations and Guarantees

Contractual Obligations

US Ecology's contractual obligations at December 31, 2016 become due as follows:

	Payments Due by Period				
$s in thousands	**Total**	**2017**	**2018 - 2019**	**2020 - 2021**	**Thereafter**
Closure and post-closure obligations(1)	$ 310,553	$ 2,735	$ 5,239	$ 18,977	$ 283,602
Operating lease commitments	13,194	6,189	6,246	430	329
Credit agreement obligations(2)	283,040	2,903	5,806	274,331	
Interest expense(3)	56,575	13,350	25,523	17,702	
Total contractual obligations	$ 663,362	$ 25,177	$ 42,814	$ 311,440	$ 283,931

(1) For the purposes of the table above, closure and post-closure obligations are shown on an undiscounted basis and inflated using an estimated annual inflation rate of 2.6%. Cash payments for closure and post-closure obligation extend to the year 2105.

(2) The Term Loan portion of the Credit Agreement with Wells Fargo matures on June 17, 2021 and is subject to amortization in equal quarterly installments in an aggregate annual amount of $2.9 million beginning March 31, 2017, with a final payment for the remaining principal balance due upon maturity.

(3) Interest expense has been calculated using the effective interest rate of 3.75% in effect at December 31, 2016 on the unhedged variable rate portion of the outstanding principal and 5.17% on the fixed rate hedged portion of the outstanding principal beginning December 31, 2014, the effective date of the Company's interest rate swap agreement with Wells Fargo. The interest expense calculation reflects assumed principal reductions consistent with the disclosures in footnote (2) above.

Guarantees

We enter into a wide range of indemnification arrangements, guarantees and assurances in the ordinary course of business and have evaluated agreements that contain guarantees and indemnification clauses. These include tort indemnities, tax indemnities, indemnities against third-party claims arising out of arrangements to provide services to us and indemnities related to the sale of our securities. We also indemnify individuals made party to any suit or proceeding if that individual was acting as an officer or director of US Ecology or was serving at the request of US Ecology or any of its subsidiaries during their tenure as a director or officer. We also provide guarantees and indemnifications for the benefit of our wholly-owned subsidiaries to satisfy performance obligations, including closure and post-closure financial assurances. It is difficult to quantify the maximum potential liability under these indemnification arrangements; however, we are not currently aware of any material liabilities to the Company or any of its subsidiaries arising from these arrangements.

Environmental Matters

We maintain funded trusts agreements, surety bonds and insurance policies for future closure and post-closure obligations at both current and formerly operated disposal facilities. These funded trust agreements, surety bonds and insurance policies are based on management estimates of future closure and post-closure monitoring using engineering evaluations and interpretations of regulatory requirements which are periodically updated. Accounting for closure and post-closure costs includes final disposal cell capping and revegetation, soil and groundwater monitoring and routine maintenance and surveillance required after a site is closed.

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We estimate that our undiscounted future closure and post-closure costs for all facilities was approximately $310.6 million at December 31, 2016, with a median payment year of 2061. Our future closure and post-closure estimates are our best estimate of current costs and are updated periodically to reflect current technology, cost of materials and services, applicable laws, regulations, permit conditions or orders and other factors. These current costs are adjusted for anticipated annual inflation, which we assumed to be 2.6% as of December 31, 2016. These future closure and post-closure estimates are discounted to their present value for financial reporting purposes using our credit-adjusted risk-free interest rate, which approximates our incremental long-term borrowing rate in effect at the time the obligation is established or when there are upward revisions to our estimated closure and post-closure costs. At December 31, 2016, our weighted-average credit-adjusted risk-free interest rate was 5.9%. For financial reporting purposes, our recorded closure and post-closure obligations were $75.1 million and $71.2 million as of December 31, 2016 and 2015, respectively.

Through December 31, 2016, we have met our financial assurance requirements through insurance, surety bonds, standby letters of credit and self-funded restricted trusts.

US Operating and Non-Operating Facilities

We cover our closure and post-closure obligations for our U.S. operating facilities through the use of third-party insurance policies, surety bonds and standby letters of credit. Insurance policies covering our closure and post-closure obligations expire in December 2017. Our total policy limits are approximately $81.6 million. At December 31, 2016 our trust accounts had $5.8 million for our closure and post-closure obligations and are identified as Restricted cash and investments on our consolidated balance sheets.

All closure and post-closure funding obligations for our Beatty, Nevada and Richland, Washington facilities revert to the respective State. Volume based fees are collected from our customers and remitted to state controlled trust funds to cover the estimated cost of closure and post-closure obligations.

Stablex

We use commercial surety bonds to cover our closure obligations for our Stablex facility located in Blainville, Québec, Canada. Our lease agreement with the Province of Québec requires that the surety bond be maintained for 25 years after the lease expires in 2023. At December 31, 2016 we had $686,000 in commercial surety bonds dedicated for closure obligations. These bonds were renewed in November and December 2016 and expire in November and December 2017. Post-closure funding obligations for the Stablex landfill revert back to the Province of Québec through a dedicated trust account that is funded based on a per-metric-ton disposed fee by Stablex.

We expect to renew insurance policies and commercial surety bonds in the future. If we are unable to obtain adequate closure, post-closure or environmental liability insurance and/or commercial surety bonds in future years, any partial or completely uninsured claim against us, if successful and of sufficient magnitude, could have a material adverse effect on our financial condition, results of operations or cash flows. Additionally, continued access to casualty and pollution legal liability insurance with sufficient limits, at acceptable terms, is important to obtaining new business. Failure to maintain adequate financial assurance could also result in regulatory action including early closure of facilities. While we believe we will be able to maintain the requisite financial assurance policies at a reasonable cost, premium and collateral requirements may materially increase.

Operation of disposal facilities creates operational, closure and post-closure obligations that could result in unplanned monitoring and corrective action costs. We cannot predict the likelihood or effect of all such costs, new laws or regulations, litigation or other future events affecting our facilities. We do not believe that continuing to satisfy our environmental obligations will have a material adverse effect on our financial condition or results of operations.

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Seasonal Effects

Seasonal fluctuations due to weather and budgetary cycles can influence the timing of customer spending for our services. Typically, in the first quarter of each calendar year there is less demand for our services due to reduced construction and business activities related to weather while we experience improvement in our second and third quarters of each calendar year as weather conditions and other business activity improves.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates included in our critical accounting policies discussed below and those accounting policies and use of estimates discussed in Notes 2 and 3 to the Consolidated Financial Statements located in "Part II, Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. We base our estimates on historical experience and on various assumptions and other factors we believe to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We make adjustments to judgments and estimates based on current facts and circumstances on an ongoing basis. Historically, actual results have not deviated significantly from those determined using the estimates described below or in Notes 2 and 3 to the Consolidated Financial Statements located in "Part II, Item 8. Financial Statements and Supplementary Data" to this Annual Report on Form 10-K. However, actual amounts could differ materially from those estimated at the time the consolidated financial statements are prepared.

We believe the following critical accounting policies are important to understand our financial condition and results of operations and require management's most difficult, subjective or complex judgments, often as a result of the need to estimate the effect of matters that are inherently uncertain.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery and disposal have occurred or services have been rendered, the price is fixed or determinable and collection is reasonably assured. We recognize revenue from three primary sources: 1) waste treatment, recycling and disposal, 2) field and industrial waste management services and 3) waste transportation services.

Waste treatment and disposal revenue results primarily from fees charged to customers for treatment and/or disposal or recycling of specified wastes. Waste treatment and disposal revenue is generally charged on a per-ton or per-yard basis based on contracted prices and is recognized when services are complete.

Field and industrial waste management services revenue results primarily from specialty onsite services such as high-pressure cleaning, tank cleaning, decontamination, remediation, transportation, spill cleanup and emergency response at refineries, chemical plants, steel and automotive plants, and other government, commercial and industrial facilities. These services are provided based on purchase orders or agreements with the customer and include prices based upon daily, hourly or job rates for equipment, materials and personnel. Revenues are recognized over the term of the agreements or as services are performed. Revenue is recognized on contracts with retainage when services have been rendered and collectability is reasonably assured.

Transportation revenue results from delivering customer waste to a disposal facility for treatment and/or disposal or recycling. Transportation services are generally not provided on a stand-alone basis and instead are bundled with other Company services. However, in some instances we provide transportation and

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logistics services for shipment of waste from cleanup sites to disposal facilities operated by other companies. We account for our bundled arrangements as multiple deliverable arrangements and determine the amount of revenue recognized for each deliverable (unit of accounting) using the relative fair value method. Transportation revenue is recognized when the transported waste is received at the disposal facility. Waste treatment and disposal revenue under bundled arrangements is recognized when services are complete and the waste is disposed in the landfill.

Burial fees collected from customers for each ton or cubic yard of waste disposed in our landfills are paid to the respective local and/or state government entity and are not included in revenue. Revenue and associated costs from waste that has been received but not yet treated and disposed of in our landfills are deferred until disposal occurs.

Our Richland, Washington disposal facility is regulated by the WUTC, which approves our rates for disposal of LLRW. Annual revenue levels are established based on a six-year rate agreement with the WUTC at amounts sufficient to cover the costs of operation and provide us with a reasonable profit. Per-unit rates charged to LLRW customers during the year are based on our evaluation of disposal volume and radioactivity projections submitted to us by waste generators. Our proposed rates are then reviewed and approved by the WUTC. If annual revenue exceeds the approved levels set by the WUTC, we are required to refund excess collections to facility users on a pro-rata basis. The current rate agreement with the WUTC was extended in 2013 and is effective until January 1, 2020.

Disposal Facility Accounting

We amortize landfill and disposal assets and certain related permits over their estimated useful lives. The units-of-consumption method is used to amortize landfill cell construction and development costs and asset retirement costs. Under the units-of-consumption method, we include costs incurred to date as well as future estimated construction costs in the amortization base of the landfill assets. Additionally, where appropriate, as discussed below, we also include probable expansion airspace that has yet to be permitted in the calculation of the total remaining useful life of the landfill asset. If we determine that expansion capacity should no longer be considered in calculating the total remaining useful life of a landfill asset, we may be required to recognize an asset impairment or incur significantly higher amortization expense over the remaining estimated useful life of the landfill asset. If at any time we make the decision to abandon the expansion effort, the capitalized costs related to the expansion effort would be expensed in the period of abandonment.

Our landfill assets and liabilities fall into the following two categories, each of which require accounting judgments and estimates:

- Landfill assets comprised of capitalized landfill development costs.
- Disposal facility retirement obligations relating to our capping, closure and post-closure liabilities that result in corresponding retirement assets.

Landfill Assets

Landfill assets include the costs of landfill site acquisition, permits and cell design and construction incurred to date. Landfill cells represent individual disposal areas within the overall treatment and disposal site and may be subject to specific permit requirements in addition to the general permit requirements associated with the overall site.

To develop, construct and operate a landfill cell, we must obtain permits from various regulatory agencies at the local, state and federal levels. The permitting process requires an initial site study to determine whether the location is feasible for landfill operations. The initial studies are reviewed by our environmental management group and then submitted to the regulatory agencies for approval. During the development stage we capitalize certain costs that we incur after site selection but before the receipt of all required permits if we believe that it is probable that the landfill cell will be permitted.

Upon receipt of regulatory approval, technical landfill cell designs are prepared. The technical designs, which include the detailed specifications to develop and construct all components of the landfill cell including the types and quantities of materials that will be required, are reviewed by our environmental management group. The technical designs are submitted to the regulatory agencies for approval. Upon approval of the technical designs, the regulatory agencies issue permits to develop and operate the landfill cell.

The types of costs that are detailed in the technical design specifications generally include excavation, natural and synthetic liners, construction of leachate collection systems, installation of groundwater monitoring wells, construction of leachate management facilities and other costs associated with the development of the site. We review the adequacy of our cost estimates at least annually. These development costs, together with any costs incurred to acquire, design and permit the landfill cell, including personnel costs of employees directly associated with the landfill cell design, are recorded to the landfill asset on the balance sheet as incurred.

To match the expense related to the landfill asset with the revenue generated by the landfill operations, we amortize the landfill asset on a units-of-consumption basis over its operating life, typically on a cubic yard or cubic meter of disposal space consumed. The landfill asset is fully amortized at the end of a landfill cell's operating life. The per-unit amortization rate is calculated by dividing the sum of the landfill asset net book value plus estimated future development costs (as described above) for the landfill cell, by the landfill cell's estimated remaining disposal capacity. Amortization rates are influenced by the original cost basis of the landfill cell, including acquisition costs, which in turn is determined by geographic location and market values. We have secured significant landfill assets through business acquisitions and valued them at the time of acquisition based on fair value.

Included in the technical designs are factors that determine the ultimate disposal capacity of the landfill cell. These factors include the area over which the landfill cell will be developed, such as the depth of excavation, the height of the landfill cell elevation and the angle of the side-slope construction. Landfill cell capacity used in the determination of amortization rates of our landfill assets includes both permitted and unpermitted disposal capacity. Unpermitted disposal capacity is included when management believes achieving final regulatory approval is probable based on our analysis of site conditions and interactions with applicable regulatory agencies.

We review the estimates of future development costs and remaining disposal capacity for each landfill cell at least annually. These costs and disposal capacity estimates are developed using input from independent engineers and internal technical and accounting managers and are reviewed and approved by our environmental management group. Any changes in future estimated costs or estimated disposal capacity are reflected prospectively in the landfill cell amortization rates.

We assess our long-lived landfill assets for impairment when an event occurs or circumstances change that indicate the carrying amount may not be recoverable. Examples of events or circumstances that may indicate impairment of any of our landfill assets include, but are not limited to, the following:

- Changes in legislative or regulatory requirements impacting the landfill site permitting process making it more difficult and costly to obtain and/or maintain a landfill permit;

- Actions by neighboring parties, private citizen groups or others to oppose our efforts to obtain, maintain or expand permits, which could result in denial, revocation or suspension of a permit and adversely impact the economic viability of the landfill. As a result of opposition to our obtaining a permit, improved technical information as a project progresses, or changes in the anticipated economics associated with a project, we may decide to reduce the scope of, or abandon, a project, which could result in an asset impairment; and

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Unexpected significant increases in estimated costs, significant reductions in prices we are able to charge our customers or reductions in disposal capacity that affect the ongoing economic viability of the landfill.

Disposal Facility Retirement Obligations

Disposal facility retirement obligations include the cost to close, maintain and monitor landfill cells and support facilities. As individual landfill cells reach capacity, we must cap and close the cells in accordance with the landfill cell permits. These capping and closure requirements are detailed in the technical design of each landfill cell and included as part of our approved regulatory permit. After the entire landfill cell has reached capacity and is certified closed, we must continue to maintain and monitor the landfill cell for a post-closure period, which generally extends for 30 years. Costs associated with closure and post-closure requirements generally include maintenance of the landfill cell and groundwater systems, and other activities that occur after the landfill cell has ceased accepting waste. Costs associated with post-closure monitoring generally include groundwater sampling, analysis and statistical reports, transportation and disposal of landfill leachate, and erosion control costs related to the final cap.

We have a legally enforceable obligation to operate our landfill cells in accordance with the specific requirements, regulations and criteria set forth in our permits. This includes executing the approved closure/post-closure plan and closing/capping the entire landfill cell in accordance with the established requirements, design and criteria contained in the permit. As a result, we record the fair value of our disposal facility retirement obligations as a liability in the period in which the regulatory obligation to retire a specific asset is triggered. For our individual landfill cells, the required closure and post-closure obligations under the terms of our permits and our intended operation of the landfill cell are triggered and recorded when the cell is placed into service and waste is initially disposed in the landfill cell. The fair value is based on the total estimated costs to close the landfill cell and perform post-closure activities once the landfill cell has reached capacity and is no longer accepting waste, discounted using a credit-adjusted risk-free rate. Retirement obligations are increased each year to reflect the passage of time by accreting the balance at the weighted average credit-adjusted risk-free rate that is used to calculate the recorded liability, with accretion charged to direct operating costs. Actual cash expenditures to perform closure and post-closure activities reduce the retirement obligation liabilities as incurred. After initial measurement, asset retirement obligations are adjusted at the end of each period to reflect changes, if any, in the estimated future cash flows underlying the obligation. Disposal facility retirement assets are capitalized as the related disposal facility retirement obligations are incurred. Disposal facility retirement assets are amortized on a units-of-consumption basis as the disposal capacity is consumed.

Our disposal facility retirement obligations represent the present value of current cost estimates to close, maintain and monitor landfills and support facilities as described above. Cost estimates are developed using input from independent engineers, internal technical and accounting managers, as well as our environmental management group's interpretation of current legal and regulatory requirements, and are intended to approximate fair value. We estimate the timing of future payments based on expected annual disposal airspace consumption and then inflate the current cost estimate by an inflation rate, estimated at December 31, 2016 to be 2.6%. Inflated current costs are then discounted using our credit-adjusted risk-free interest rate, which approximates our incremental borrowing rate in effect at the time the obligation is established or when there are upward revisions to our estimated closure and post-closure costs. Our weighted-average credit-adjusted risk-free interest rate at December 31, 2016 was approximately 5.9%. Final closure and post-closure obligations are currently estimated as being paid through the year 2105. During 2016 we updated several assumptions, including estimated costs and timing of closing our disposal cells. These updates resulted in a net increase to our post-closure obligations of $1.7 million.

We update our estimates of future capping, closure and post-closure costs and of future disposal capacity for each landfill cell on an annual basis. Changes in inflation rates or the estimated costs, timing or extent of the required future activities to close, maintain and monitor landfills and facilities result in both: (i) a current adjustment to the recorded liability and related asset and (ii) a change in accretion and amortization rates which are applied prospectively over the remaining life of the asset. A hypothetical 1% increase in the inflation rate would increase our closure/post-closure obligation by $18.0 million. A hypothetical 10% increase in our cost estimates would increase our closure/post-closure obligation by $8.1 million.

Goodwill and Intangible Assets

As of December 31, 2016, the Company's goodwill balance was $193.6 million. We assess goodwill for impairment during the fourth quarter as of October 1 of each year, and also if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The assessment consists of comparing the fair value of the reporting unit to the carrying value of the net assets assigned to the reporting unit, including goodwill. Some of the factors that could indicate impairment include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, or failure to generate sufficient cash flows at the reporting unit. For example, field and industrial services represents an emerging business for the Company and has been the focus of a shift in strategy since the acquisition of EQ. Failure to execute on planned growth initiatives within this business could lead to the impairment of goodwill and intangible assets in future periods.

We determine our reporting units by identifying the components of each operating segment, and then aggregate components having similar economic characteristics based on quantitative and/or qualitative factors. At December 31, 2016, we had 15 reporting units, 10 of which had allocated goodwill.

Fair values are generally determined by using both the market approach, applying a multiple of earnings based on guideline for publicly traded companies, and the income approach, discounting projected future cash flows based on our expectations of the current and future operating environment. Estimating future cash flows requires significant judgment about factors such as general economic conditions and projected growth rates, and our estimates often vary from the cash flows eventually realized. The rates used to discount projected future cash flows reflect a weighted average cost of capital based on our industry, capital structure and risk premiums including those reflected in the current market capitalization. In the event the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill test would be performed to measure the amount of impairment loss. In the event that we determine that the value of goodwill has become impaired, we will incur an accounting charge for the amount of impairment during the period in which the determination has been made.

The result of the annual assessment of goodwill undertaken in the fourth quarter of 2016 indicated that the fair value of each of our reporting units was substantially in excess of its respective carrying value.

We review intangible assets with indefinite useful lives for impairment during the fourth quarter as of October 1 of each year. Fair value is generally determined by considering an internally developed discounted projected cash flow analysis. Estimating future cash flows requires significant judgment about factors such as general economic conditions and projected growth rates, and our estimates often vary from the cash flows eventually realized. If the fair value of an asset is determined to be less than the carrying amount of the intangible asset, an impairment in the amount of the difference is recorded in the period in which the annual assessment occurs.

The result of the annual assessment of intangible assets with indefinite useful lives undertaken in the fourth quarter of 2016 indicated no impairment charges were required.

We also review finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of an intangible asset may not be recoverable. In order to assess whether a potential impairment exists, the assets' carrying values are compared with their undiscounted expected

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future cash flows. Estimating future cash flows requires significant judgment about factors such as general economic conditions and projected growth rates, and our estimates often vary from the cash flows eventually realized. Impairments are measured by comparing the fair value of the asset to its carrying value. Fair value is generally determined by considering: (i) the internally developed discounted projected cash flow analysis; (ii) a third-party valuation; and/or (iii) information available regarding the current market environment for similar assets. If the fair value of an intangible asset is determined to be less than the carrying amount of the intangible asset, an impairment in the amount of the difference is recorded in the period in which the events or changes in circumstances that indicated the carrying value of the intangible assets may not be recoverable occurred.

The result of the assessment of finite-lived intangible assets undertaken in 2016 indicated no impairment charges were required.

On August 4, 2015, we entered into a definitive agreement to sell Allstate to a private investor group. Allstate represents the majority of the industrial services business we acquired with the acquisition of EQ. As a result of this agreement and management's strategic review, we evaluated the recoverability of the assets associated with our industrial services business. Our interim goodwill impairment test which included both Step I and Step II analysis was performed and resulted in a non-cash goodwill impairment charge of $6.7 million being recognized in the second quarter of 2015. See Note 5 to the Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for additional information on the sale of Allstate.

No events or circumstances occurred during 2016 that would indicate that our intangible assets may be impaired, therefore no other impairment tests were performed during 2016 other than the annual assessment of goodwill and intangible assets with indefinite useful lives conducted in the fourth quarter of every year.

Our acquired permits and licenses generally have renewal terms of approximately 5-10 years. We have a history of renewing these permits and licenses as demonstrated by the fact that each of the sites' treatment permits and licenses have been renewed regularly since the facility began operations. We intend to continue to renew our permits and licenses as they come up for renewal for the foreseeable future. Costs incurred to renew or extend the term of our permits and licenses are recorded in Selling, general and administrative expenses in our consolidated statements of operations.

Share Based Payments

On May 27, 2015, our stockholders approved the Omnibus Incentive Plan ("Omnibus Plan"), which was approved by our Board of Directors on April 7, 2015. The Omnibus Plan was developed to provide additional incentives through equity ownership in US Ecology and, as a result, encourage employees and directors to contribute to our success. The Omnibus Plan provides, among other things, the ability for the Company to grant restricted stock, performance stock, options, stock appreciation rights, restricted stock units, performance stock units ("PSUs") and other stock-based awards or cash awards to officers, employees, consultants and non-employee directors. Subsequent to the approval of the Omnibus Plan in May 2015, we stopped granting equity awards under our 2008 Stock Option Incentive Plan and our 2006 Restricted Stock Plan ("Previous Plans"), and the Previous Plans will remain in effect solely for the settlement of awards granted under the Previous Plans. No shares that are reserved but unissued under the Previous Plans or that are outstanding under the Previous Plans and reacquired by the Company for any reason will be available for issuance under the Omnibus Plan. The Omnibus Plan expires on April 7, 2025 and authorizes 1,500,000 shares of common stock for grant over the life of the Omnibus Plan.

As of December 31, 2016, we have PSUs outstanding under the Omnibus Plan. Each PSU represents the right to receive, on the settlement date, one share of the Company's common stock. The total number of PSUs each participant is eligible to earn ranges from 0% to 200% of the target number of PSUs granted. The actual number of PSUs that will vest and be settled in shares is determined at the end of a three-year performance period, based on total stockholder return relative to a set of peer companies and the S&P 600. The fair value of the PSUs is determined using a Monte Carlo simulation. Refer to Note 18 to the Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for a summary of the assumptions utilized in the Monte Carlo valuation of awards granted during 2016 and 2015.

As of December 31, 2016, we have stock option awards outstanding under the 1992 Stock Option Plan for Employees ("1992 Employee Plan") and the 2008 Stock Option Incentive Plan ("2008 Stock Option Plan"). Subsequent to the approval of the Omnibus Plan in May 2015, we stopped granting equity awards under the 2008 Stock Option Plan. The 2008 Stock Option Plan will remain in effect solely for the settlement of awards previously granted. In April 2013, the 1992 Employee Plan expired and was cancelled except for options then outstanding.

The determination of fair value of stock option awards on the date of grant using the Black-Scholes model is affected by our stock price and subjective assumptions. These assumptions include, but are not limited to, the expected term of stock options and expected stock price volatility over the term of the awards. Refer to Note 18 to the Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for a summary of the assumptions utilized in 2016, 2015 and 2014. Our stock options have characteristics significantly different from those of traded options, and changes in the assumptions can materially affect the fair value estimates.

Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. When actual forfeitures vary from our estimates, we recognize the difference in compensation expense in the period the actual forfeitures occur or when options vest.

Income Taxes

Income taxes are accounted for using an asset and liability approach whereby we recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable tax rates. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date. Deferred tax assets are evaluated for the likelihood of use in future periods. A valuation allowance is recorded against deferred tax assets if, based on the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The determination of the need for a valuation allowance, if any, requires our judgment and the use of estimates. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes. As of December 31, 2016, we have deferred tax assets totaling approximately $24.3 million, a valuation allowance of $3.1 million and deferred tax liabilities totaling approximately $102.6 million.

The application of income tax law is inherently complex. Tax laws and regulations are voluminous and at times ambiguous and interpretations of guidance regarding such tax laws and regulations change over time. This requires us to make many subjective assumptions and judgments regarding the timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions. A liability for uncertain tax positions is recorded in our financial statements on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax position taken will be sustained based on the technical merits of the position and (2) for those tax positions that meet the more likely than not recognition threshold, we recognize the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with the related tax authority. As facts and circumstances change, we reassess these probabilities and record any changes in the financial statements as appropriate. Changes in our assumptions and judgments can materially affect our financial position, results of operations and cash flows. We recognize interest assessed by taxing authorities or interest associated with uncertain tax positions as a component of interest expense. We recognize any penalties assessed by taxing authorities or penalties associated with uncertain tax positions as a component of selling, general and administrative expenses.

Litigation

We have, in the past, been involved in litigation requiring estimates of timing and loss potential whose timing and ultimate disposition is controlled by the judicial process. As of December 31, 2016, we did not have any ongoing, pending or threatened legal action that management believes, either individually or in the aggregate, would have a material adverse effect on our financial position, results of operations or cash flows. The decision to accrue costs or write off assets is based on the pertinent facts and our evaluation of present circumstances.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements or interests in variable interest entities that would require consolidation. US Ecology operates through wholly-owned subsidiaries.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We do not maintain equities, commodities, derivatives, or any other similar instruments for trading purposes. We have minimal interest rate risk on investments or other assets due to our preservation of capital approach to investments. At December 31, 2016, $5.8 million of restricted cash was invested in fixed-income U.S. Treasury and U.S. government agency securities and money market accounts.

We are exposed to changes in interest rates as a result of our borrowings under the Credit Agreement. Under the Credit Agreement, Term Loan borrowings incur interest at a base rate (as defined in the Credit Agreement) or LIBOR, at the Company's option, plus an applicable margin. Revolving loans under the Revolving Credit Facility are available based on a base rate (as defined in the Credit Agreement) or LIBOR, at the Company's option, plus an applicable margin which is determined according to a pricing grid under which the interest rate decreases or increases based on our ratio of funded debt to consolidated earnings before interest, taxes, depreciation and amortization (as defined in the Credit Agreement). On October 29, 2014, the Company entered into an interest rate swap agreement with Wells Fargo with the intention of hedging the Company's interest rate exposure on a portion of the Company's outstanding LIBOR-based variable rate debt. Under the terms of the swap, effective December 31, 2014, the Company will pay to Wells Fargo interest at the fixed effective rate of 5.17% and will receive from Wells Fargo interest at the variable one-month LIBOR rate on an initial notional amount of $250.0 million.

As of December 31, 2016, there were $283.0 million of borrowings outstanding under the Term Loan and $2.2 million of working capital borrowings outstanding under the Revolving Credit Facility. If interest rates were to rise and outstanding balances remain unchanged, we would be subject to higher interest payments on our outstanding debt. Subsequent to the effective date of the interest rate swap on December 31, 2014, we would be subject to higher interest payments on only the unhedged borrowings under the Credit Agreement.

Based on the outstanding indebtedness of $285.2 million under our Credit Agreement at December 31, 2016 and the impact of our interest rate hedge, if market rates used to calculate interest expense were to average 1% higher in the next twelve months, our interest expense would increase by approximately $665,000 for the corresponding period.

Foreign Currency Risk

We are subject to currency exposures and volatility because of currency fluctuations. The majority of our transactions are in USD; however, our Canadian subsidiaries conduct business in both Canada and the

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United States. In addition, contracts for services that our Canadian subsidiaries provide to U.S. customers are generally denominated in USD. During 2016, our Canadian subsidiaries transacted approximately 54% of their revenue in USD and at any time have cash on deposit in USD and outstanding USD trade receivables and payables related to these transactions. These USD cash, receivable and payable accounts are subject to non-cash foreign currency translation gains or losses. Exchange rate movements also affect the translation of Canadian generated profits and losses into USD.

We established intercompany loans between our Canadian subsidiaries and our parent company, US Ecology, as part of a tax and treasury management strategy allowing for repayment of third-party bank debt. These intercompany loans are payable using CAD and are subject to mark-to-market adjustments with movements in the CAD. At December 31, 2016, we had $20.8 million of intercompany loans outstanding between our Canadian subsidiaries and US Ecology. During 2016, the CAD weakened as compared to the USD resulting in a $107,000 non-cash foreign currency translation loss being recognized in the Company's consolidated statements of operations related to the intercompany loans. Based on intercompany balances as of December 31, 2016, a $0.01 CAD increase or decrease in currency rate compared to the USD at December 31, 2016 would have generated a gain or loss of approximately $208,000 for the year ended December 31, 2016.

We had a total pre-tax foreign currency loss of $138,000 for the year ended December 31, 2016. We currently have no foreign exchange contracts, option contracts or other foreign currency hedging arrangements. Management evaluates our risk position on an ongoing basis to determine whether foreign exchange hedging strategies should be employed.

ITEM 8.   FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
US Ecology, Inc.
Boise, Idaho

We have audited the accompanying consolidated balance sheets of US Ecology, Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. We also have audited the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

As described in Management's Annual Report on Internal Controls over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Environmental Services Inc. ("ESI") and the Vernon, California based RCRA Part B, liquids and solids waste treatment and storage facility of Evoqua Water Technologies LLC ("Vernon"), which were acquired May 2, 2016 and October 1, 2016 and whose financial statements constitute 1% and 1% of total assets, respectively, and 1% and less than 1% of revenues, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2016. Accordingly, our audits did not include the internal control over financial reporting at ESI and Vernon.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of US Ecology, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

Boise, Idaho
February 27, 2017

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US ECOLOGY, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	As of December 31,	
	2016	2015
Assets		
Current Assets:		
Cash and cash equivalents	$ 7,015	$ 5,989
Receivables, net	96,819	106,380
Prepaid expenses and other current assets	7,458	8,484
Income taxes receivable	4,076	2,017
Total current assets	115,368	122,870
Property and equipment, net	226,237	210,334
Restricted cash and investments	5,787	5,748
Intangible assets, net	234,356	239,571
Goodwill	193,621	191,823
Other assets	1,031	1,641
Total assets	$ 776,400	$ 771,987
Liabilities And Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 13,948	$ 17,169
Deferred revenue	7,820	8,078
Accrued liabilities	22,605	25,634
Accrued salaries and benefits	10,720	11,513
Income taxes payable	165	117
Current portion of closure and post-closure obligations	2,256	2,787
Revolving credit facility	2,177	
Current portion of long-term debt	2,903	3,056
Total current liabilities	62,594	68,354
Long-term closure and post-closure obligations	72,826	68,367
Long-term debt	274,459	290,684
Other long-term liabilities	5,164	5,825
Deferred income taxes	81,333	82,622
Total liabilities	496,376	515,852
Commitments and contingencies		
Stockholders' Equity:		
Common stock $0.01 par value, 50,000 authorized; 21,780 and 21,744 shares issued, respectively	218	217
Additional paid-in capital	172,704	169,873
Retained earnings	121,879	103,300

Treasury stock, at cost, 7 and 5 shares, respectively	(52)	(189)
Accumulated other comprehensive loss	(14,725)	(17,066)
Total stockholders' equity	280,024	256,135
Total liabilities and stockholders' equity	$ 776,400	$ 771,987

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

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US ECOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

		For the Year Ended December 31,				
		2016		2015	2014	
Revenue	$	477,665		$ 563,070	$ 447,411	
Direct operating costs		330,070		391,660	301,625	
Gross profit		147,595		171,410	145,786	
Selling, general and administrative expenses		77,566		93,079	73,336	
Impairment charges				6,700		
Operating income		70,029		71,631	72,450	
Other income (expense), net:						
Interest income		96		65	107	
Interest expense		(17,317)		(23,370)	(10,677)	
Foreign currency loss		(138)		(2,196)	(1,499)	
Gain (loss) on divestiture			(13.3%, Due 2/2010)	Senior Term Debt (3) (5)	2,887,500	2,898,328
SCS Acquisition Corp.	Service-chemically treated equipment		Senior Term Debt (3) (5) (9) (9.3%, Due 12/2011)	6,250,000	6,257,812	
	distribution		Senior Term Debt (3) (5) (10) (11.3%, Due 12/2011)	6,568,750	6,576,961	
Thibaut Acquisition Co.	Design and Disbtribution-wall		Credit Facility (11) (9.8%, Due 1/2011)			
	coverings		Senior Term Debt (5) (9.8%, Due 1/2011)	3,325,000	3,325,000	
			Senior Term Debt (3) (5) (12.3%, Due 1/2011)	3,000,000	3,000,000	
Visual Edge Technology, Inc. Graphic Enterprises, Inc. Copeco, Inc.	Service-office equipment distribution		Senior Subordinated Term Debt (5) (13.3%, Due 8/2011)	5,000,000	4,987,500	
Westlake Hardware, Inc. WHI Holding Corp.	Retail-hardware and variety		Senior Subordinated Term Debt (5) (12.6%, Due 1/2011)	15,000,000	14,981,250	
Winchester Electronics	Manufacturing-high bandwidth connectors and cables		Senior Term Debt (3) (5) (12.3%, Due 6/2012)	6,000,000	6,007,500	
Xspedius Communications LLC	Service-telecommunications		Senior Subordinated Term Debt (5) (15.8%, Due 3/2010)	5,157,821	5,306,110	
Total:				**$ 216,202,986**	**$ 217,642,750**	

(1) We do not Control, and are not an Affiliate of, any of our portfolio companies, each as defined in the Investment Company Act of 1940, as amended (the 1940 Act). In general, under the 1940 Act, we would Control a portfolio company if we owned 25% or more of its voting securities and would be an Affiliate

of a portfolio company if we owned 5% or more of its voting securities.

(2) Percentage represents interest rates in effect at September 30, 2006 and due date represents the contractual maturity date.

(3) Last Out Tranche of senior debt, meaning if the company is liquidated then the holder of the Last Out Tranche is paid after the senior debt.

(4) Last Out Tranche of senior debt, meaning if the company is liquidated then the holder of the Last Out Tranche is paid after the senior debt, however the debt is junior to another Last Out Tranche.

(5) Fair value was based on opinions of value submitted by Standard & Poor s Securities Evaluations, Inc.

(6) Marketable securities, such as syndicated loans, are valued based on the indicative bid price, as of September 30, 2006 from the respective originating syndication agent s trading desk.

(7) Availability under the credit facility totals $1,500,000. There were no borrowings outstanding at September 30, 2006.

(8) Availability under the credit facility totals $500,000. There were no borrowings outstanding at September 30, 2006.

(9) Availability under the debt facility totals $7,500,000. The outstanding balance of the debt facility was $6,250,000 at September 30, 2006.

(10) Availability under the debt facility totals $7,500,000. The outstanding balance of the debt facility was $6,568,750 at September 30, 2006.

(11) Availability under the credit facility totals $1,000,000. There were no borrowings outstanding at September 30, 2006.

(12) Availability under the credit facility totals $750,000. Borrowings of $200,000 were outstanding at September 30, 2006.

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(13) The company may borrow an additional $500,000 under the senior term debt facility, subject to certain conditions including Gladstone Capital s approval.

(14) The company may borrow an additional $2,250,000 under the senior term debt facility, subject to certain conditions including Gladstone Capital s approval.

(15) Availability under the credit facility totals $3,000,000. Borrowings of $350,000 were outstanding at September 30, 2006.

(16) Availability under the credit facility totals $1,500,000. There were no borrowings outstanding at September 30, 2006

(17) Availability under the credit facility totals $1,250,000. There were no borrowings outstanding at September 30, 2006

(18) Includes a success fee with a fair value of $742,000 and no cost basis.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30, 2007	2006
INVESTMENT INCOME		
Interest income investments	$ 8,911,643	$ 5,775,522
Interest income cash and cash equivalents	109,269	8,178
Interest income notes receivable from employees	132,795	108,877
Prepayment fees and other income	47,572	630,239
Total investment income	9,201,279	6,522,816
EXPENSES		
Interest expense	1,762,249	702,449
Loan servicing (Refer to Notes 4 and 5)	897,634	693,965
Base management fee (Refer to Note 4)	727,259	334,814
Incentive fee (Refer to Note 4)	1,166,529	
Administration fee (Refer to Note 4)	186,895	
Professional fees	148,609	166,405
Amortization of deferred financing fees	72,133	36,036
Stockholder related costs	39,434	28,371
Directors fees	56,250	27,500
Insurance expense	66,246	50,589
Stock option compensation		202,296
Other expenses	82,062	35,083
Expenses before credit from Adviser	5,205,300	2,277,508
Credit to base management and incentive fees from Adviser (Refer to Note 4)	(1,708,888)	(542,774)
Total expenses net of credits to base management and incentive fees	3,496,412	1,734,734
NET INVESTMENT INCOME	5,704,867	4,788,082
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Realized loss on sale of investments	(5,021)	(100,850)
Realized gain on settlement of derivative	8,405	1,367
Unrealized (depreciation) appreciation on derivative	(264)	41,486
Net unrealized appreciation on investments	256,613	812,991
Net gain on investments	259,733	754,994
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 5,964,600	$ 5,543,076
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE:		
Basic	$ 0.44	$ 0.49
Diluted	$ 0.44	$ 0.48
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:		
Basic	13,561,511	11,337,291
Diluted	13,561,511	11,570,425

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Nine Months Ended June 30, 2007	2006
INVESTMENT INCOME		
Interest income investments	$ 25,064,702	$ 18,497,893
Interest income cash and cash equivalents	178,183	21,714
Interest income notes receivable from employees	403,917	323,003
Prepayment fees and other income	431,973	711,225
Total investment income	26,078,775	19,553,835
EXPENSES		
Interest expense	4,693,525	2,302,693
Loan servicing (Refer to Notes 4 and 5)	2,377,409	2,144,024
Base management fee (Refer to Note 4)	1,806,075	955,894
Incentive fee (Refer to Note 4)	3,474,007	
Administration fee (Refer to Note 4)	481,746	
Professional fees	368,610	399,758
Amortization of deferred financing fees	198,633	94,572
Stockholder related costs	190,450	273,170
Directors fees	167,470	81,712
Insurance expense	191,338	151,956
Stock option compensation		279,618
Other expenses	219,522	151,663
Expenses before credit from Adviser	14,168,785	6,835,060
Credit to base management and incentive fees from Adviser (Refer to Note 4)	(4,682,160)	(1,765,774)
Total expenses net of credits to base management and incentive fees	9,486,625	5,069,286
NET INVESTMENT INCOME BEFORE INCOME TAXES	16,592,150	14,484,549
Income tax expense		50,237
NET INVESTMENT INCOME	16,592,150	14,434,312
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain (loss) on sale of investments	81,498	(903,945)
Realized gain on settlement of derivative	31,198	1,367
Unrealized (depreciation) appreciation on derivative	(25,877)	65,252
Net unrealized (depreciation) appreciation on investments	(2,465,915)	5,769,820
Net (loss) gain on investments	(2,379,096)	4,932,494
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 14,213,054	$ 19,366,806
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE:		
Basic	$ 1.12	$ 1.71
Diluted	$ 1.12	$ 1.68
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:		
Basic	12,701,845	11,317,437
Diluted	12,701,845	11,549,054

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(UNAUDITED)

	Nine Months Ended June 30, 2007	2006
Operations:		
Net investment income	$ 16,592,150	$ 14,434,312
Net realized gain (loss) on sale of investments	81,498	(903,945)
Realized gain on settlement of derivative	31,198	1,367
Unrealized (depreciation) appreciation on derivatives	(25,877)	65,252
Net unrealized (depreciation) appreciation on investments	(2,465,915)	5,769,820
Net increase in net assets from operations	14,213,054	19,366,806
Capital transactions:		
Issuance of common stock under shelf offering	46,075,000	
Distributions to stockholders	(16,012,661)	(13,751,539)
Shelf offering costs	(405,708)	
Repayment of principal on employee notes	300,941	129,943
Stock option compensation		279,618
Issuance of common stock under stock option plan		1,150,245
Stock surrendered in settlement of withholding tax	(1,488,193)	
Increase (decrease) in net assets from capital share transactions	28,469,379	(12,191,733)
Total increase in net assets	42,682,433	7,175,073
Net assets at beginning of year	172,570,487	151,610,683
Net assets at end of period	$ 215,252,920	$ 158,785,756

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

GLADSTONE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended June 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets resulting from operations	$ 14,213,054	$ 19,366,806
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities:		
Purchase of investments	(253,727,829)	(105,076,400)
Principal repayments on investments	99,802,867	107,876,077
Net amortization of premiums and discounts	29,872	(144,501)
Amortization of deferred financing fees	198,633	94,572
Stock compensation expense		279,618
Realized loss on investments	122,680	1,329,458
Unrealized depreciation (appreciation) on derivative	25,877	(65,252)
Change in net unrealized depreciation (appreciation) on investments	2,465,915	(5,769,820)
(Increase) decrease in interest receivable	(822,007)	276,230
Decrease in funds due from custodian	457,261	130,150
Decrease in prepaid assets	40,102	105,902
Increase in due from affiliate		(207,960)
Increase in other assets	(165,163)	(27,845)
Increase in accounts payable	1,088	23,449
Increase in interest payable	269,250	4,685
Increase (decrease) in accrued expenses and deferred liabilities	133,035	(125,298)
Increase (decrease) in fees due to affiliate	163,877	(209,924)
Increase in administration fee due to Gladstone Administration	186,895	
(Decrease) increase in funds held in escrow	(760)	40
Increase in investment balance due to payment in kind interest		(74,701)
Net cash (used in) provided by operating activities	(136,605,353)	17,785,286
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of principal on notes receivable - employees	300,941	129,943
Net cash provided by investing activities	300,941	129,943
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of common shares	45,669,292	
Borrowings from the lines of credit	277,800,000	113,090,000
Repayments on the lines of credit	(166,605,000)	(118,278,064)
Distributions paid	(16,012,661)	(13,751,539)
Exercise of employee stock options		1,150,245
Deferred financing fees	(299,275)	(173,333)
Withholding tax obligation settlement	(1,488,193)	
Net cash provided by (used in) financing activities	139,064,163	(17,962,691)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS(1)	2,759,751	(47,462)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	731,744	503,776
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,491,495	$ 456,314
CASH PAID DURING PERIOD FOR INTEREST	$ 4,424,275	$ 2,298,008
NON-CASH FINANCING ACTIVITIES		
Notes receivable issued in exchange for common stock associated with the exercise of employee stock options	$	$ 199,980

(1) Cash and cash equivalents consist of demand deposits and highly liquid investments with original maturities of three months or less when purchased.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

GLADSTONE CAPITAL CORPORATION
FINANCIAL HIGHLIGHTS
(UNAUDITED)

	Three Months Ended June 30, 2007		2006	
Per Share Data(1)				
Net asset value at beginning of period	$ 13.82		$ 13.84	
Income from investment operations:				
Net investment income(2)	0.42		0.42	
Realized gain (loss) on sale of investments(2)			(0.01	)
Net unrealized (loss) gain on investments(2)	0.02		0.07	
Net unrealized gain on derivatives(2)			0.01	
Total from investment operations	0.44		0.49	
Less distributions:				
Distributions from net investment income	(0.42	)	(0.41	)
Total distributions	(0.42	)	(0.41	)
Issuance of common stock under shelf offering	1.50			
Offering costs and underwriting discount	(0.23	)		
Issuance of common stock under stock option plan			0.10	
Repayment of principal on notes receivable			0.01	
Dilutive effect of share issuance			(0.08	)
Net asset value at end of period	$ 15.11		$ 13.95	
Per share market value at beginning of period	$ 23.68		$ 21.55	
Per share market value at end of period	21.46		21.39	
Total return(3)(4)	-7.69	%	1.11	%
Shares outstanding at end of period	14,249,683		11,384,363	
Ratios/Supplemental Data				
Net assets at end of period	$ 215,252,920		$ 158,785,756	
Average net assets(5)	$ 197,994,217		$ 156,053,816	
Ratio of expenses to average net assets-annualized(6)	10.52	%	5.83	%
Ratio of net expenses to average net assets-annualized(7)	7.06	%	4.45	%
Ratio of net investment income to average net assets-annualized	11.53	%	12.27	%

(1) Based on actual shares outstanding at the end of the corresponding period.

(2) Based on weighted average basic per share data.

(3) Total return equals the increase or decrease of the ending market value over the beginning market value plus monthly dividends divided by the monthly beginning market value, assuming monthly dividend reinvestment.

(4) Amounts were not annualized.

(5) Average net assets are computed using the average of the balance of net assets at the end of each month of the reporting period.

(6) Ratio of expenses to average net assets is computed using expenses before credits from Adviser to the base management and incentive fees and including income tax expense.

(7) Ratio of net expenses to average net assets is computed using total expenses net of credits from Adviser to the base management and incentive fees and including income tax expense.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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GLADSTONE CAPITAL CORPORATION
FINANCIAL HIGHLIGHTS
(UNAUDITED)

	Nine Months Ended June 30, 2007	2006
Per Share Data(1)		
Net asset value at beginning of period	$ 14.02	$ 13.41
Income from investment operations:		
Net investment income(2)	1.31	1.28
Realized loss on sale of investments(2)		(0.08)
Net unrealized (loss) gain on investments(2)	(0.19)	0.51
Total from investment operations	1.12	1.71
Less distributions:		
Distributions from net investment income	(1.26)	(1.22)
Total distributions	(1.26)	(1.22)
Issuance of common stock under shelf offering	1.50	
Offering costs and underwriting discount	(0.23)	
Issuance of common stock under stock option plan		0.10
Repayment of principal on notes receivable	0.02	0.01
Stock surrendered to settle withholding tax obligation	(0.06)	
Dilutive effect of share issuance		(0.06)
Net asset value at end of period	$ 15.11	$ 13.95
Per share market value at beginning of period	$ 22.01	$ 22.55
Per share market value at end of period	21.46	21.39
Total return(3)(4)	2.92 %	0.35 %
Shares outstanding at end of period	14,249,683	11,384,363
Ratios/Supplemental Data		
Net assets at end of period	$ 215,252,920	$ 158,785,756
Average net assets(5)	$ 179,127,176	$ 153,804,303
Ratio of expenses to average net assets-annualized(6)	10.55 %	5.97 %
Ratio of net expenses to average net assets-annualized(7)	7.06 %	4.44 %
Ratio of net investment income to average net assets-annualized	12.35 %	12.51 %

(1) Based on actual shares outstanding at the end of the corresponding period.

(2) Based on weighted average basic per share data.

(3) Total return equals the increase or decrease of the ending market value over the beginning market value plus monthly dividends divided by the monthly beginning market value, assuming monthly dividend reinvestment.

(4) Amounts were not annualized.

(5) Average net assets are computed using the average of the balance of net assets at the end of each month of the reporting period.

(6) Ratio of expenses to average net assets is computed using expenses before credits from Adviser to the base management and incentive fees and including income tax expense.

(7) Ratio of net expenses to average net assets is computed using total expenses net of credits from Adviser to the base management and incentive fees and including income tax expense.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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GLADSTONE CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007
(UNAUDITED)

NOTE 1. ORGANIZATION

Gladstone Capital Corporation (the Company) was incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001. The Company is a closed-end, non-diversified management investment company that has elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, the Company has elected to be treated for tax purposes as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). The Company s investment objectives are to achieve a high level of current income by investing in debt and equity securities of established private businesses.

Gladstone Business Loan LLC (Business Loan), a wholly-owned subsidiary of the Company, was established on February 3, 2003 for the purpose of holding the Company s portfolio of loan investments. Gladstone Capital Advisers, Inc. is also a wholly-owned subsidiary.

Gladstone SSBIC Corporation (Gladstone SSBIC), a wholly-owned subsidiary of the Company, was established on November 21, 2006 for the purpose of holding a license to operate as a Specialized Small Business Investment Company. Gladstone SSBIC acquired this license in February 2007. This will enable the Company, through this subsidiary, to make investments in accordance with the United States Small Business Administration guidelines for specialized small business investment companies.

The financial statements of the subsidiaries are consolidated with those of the Company.

The Company is externally managed by Gladstone Management Corporation (the Adviser), an unconsolidated affiliate of the Company.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim periods have been included. The current period s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Company s Form 10-K for the fiscal year ended September 30, 2006, as filed with the Securities and Exchange Commission (the SEC) on December 6, 2006.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year s financial statements have been reclassified to conform to the current year presentation with no effect to net increase in net assets resulting from operations.

Investment Valuation

The Company carries its investments at fair value, as determined by its Board of Directors. Securities that are publicly traded are valued at the closing price on the valuation date. Securities for which a limited market exists, such as certain participations in syndicated loans, are valued at the indicative bid price on or near the valuation date from the respective originating syndication agent s trading desk. Debt and equity securities that are not publicly traded, or for which a limited market does not exist, are valued at fair value. The Company s Board of Directors has established a valuation policy and consistently applied valuation procedures used to determine the fair value of these securities quarterly.

The procedures for the determination of value of the Company s debt securities that that are not publicly traded and that are issued to portfolio companies where the Company has no equity, or equity-like securities, rely on the opinions of value submitted to us by Standard & Poor s Securities Evaluations, Inc. (SPSE). The Company may also submit paid in kind (PIK) interest to SPSE for valuation when it is determined the PIK interest is likely to be received. SPSE will only evaluate the debt portion of the Company s investments for which the Company specifically requests evaluation, and may decline to make requested evaluations for any reason at its sole discretion. SPSE opinions of value are submitted to the Board of Directors along with the Adviser s supplemental assessment and recommendation regarding valuation of each of these investments. Lastly, the Company adds any amortized original issue discount (OID) interest to the fair value, unless adverse factors lead to a determination of a lesser valuation.

The fair value of convertible debt, equity, success or exit fees or other equity-like securities is determined based on the collateral, the enterprise value of the issuer, the issuer s ability to make payments, the earnings of the issuer, recent sales to third parties of similar securities, the comparison to publicly traded securities, discounted cash flow or other pertinent factors. In gathering the sales to third parties of similar securities, the Company may reference industry statistics and use outside experts.

Debt securities that are issued to portfolio companies where the Company has equity, or equity-like securities are valued at cost, if there is adequate total enterprise value determined when valuing the Company s equity securities of the portfolio company. Fair values are discounted for any shortfall of total enterprise value over the total debt outstanding for the borrower.

The Board of Directors then reviews whether the Adviser has followed its established procedures for determinations of fair value, and votes whether or not to accept the recommended valuation of the Company s investment portfolio.

Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have resulted had a ready market for the securities existed, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuation currently assigned. Because there is a delay between when the Company closes an investment and when the investment can be evaluated by SPSE, new investments are not valued immediately by SPSE; rather, the Adviser makes its own determination about the recommended value of these investments in accordance with the Company s valuation policy without the input of SPSE during the specific quarter in which the investment is made. Because SPSE does not currently perform independent valuations of mortgage loans or equity securities for the Company, the Adviser also determines a recommendation for the fair value of these investments, if any, without the input of SPSE. The Adviser considers a number of qualitative and quantitative factors in current market conditions when performing valuations. The Board of Directors then determines whether or not to accept the Adviser s recommendations for the aggregate valuation of the Company s portfolio of investments. The Board of Directors is ultimately responsible for setting the fair value and disclosure of investments in the financial statements.

Interest Income Recognition

Interest income, adjusted for amortization of premiums and accretion of discounts, is recorded on the accrual basis to the extent that such amounts are expected to be collected. The Company stops accruing interest on its investments when it is determined that interest is no longer collectible. At June 30, 2007, one investment was on non-accrual. Conditional interest or a success fee is recorded when earned upon full repayment of a loan investment.

Paid in Kind Interest

The Company seeks to avoid PIK interest, however, the Company had one loan in its portfolio that contained a PIK provision during the six months ended March 31, 2006 and no loans with PIK provisions for the remainder of fiscal year 2006. A PIK provision requires the borrower to accrue a payment to the Company but the borrower does not have to pay that interest until the loan is paid in full. The PIK interest is added to the principal balance of the loan and recorded as income to the Company even though the cash has not been received. To maintain the Company s status as a RIC (as discussed in Note 10), this non-cash source of income must be paid out to stockholders in the form of cash dividends, even though the Company has not yet collected the cash. The Company recorded no PIK interest income for the three and nine months ended June 30, 2007 and $63,217, respectively, for the nine months ended June 30, 2006, there were no PIK loans in the Company s portfolio during the three months ended June 30, 2006.

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Services Provided to Portfolio Companies

The 1940 Act requires that a business development company make available managerial assistance to its portfolio companies by providing significant guidance and counsel concerning the management, operations, or business objectives and policies of the respective portfolio company. The Company provides these and other services to its portfolio companies through its Adviser. Currently, neither the Company nor the Adviser charges a fee for managerial assistance.

The Adviser receives fees for other services it provides to portfolio companies. These other fees are typically non-recurring, are recognized as revenue when earned and are generally paid directly to the Adviser by the borrower or potential borrower upon closing of the investment. The services the Adviser provides to portfolio companies vary by investment, but generally include a broad array of services, such as investment banking services, arranging bank and equity financing, structuring financing from multiple lenders and investors, reviewing existing credit facilities, restructuring existing investments, raising equity and debt capital, turnaround management, merger and acquisition services and recruiting new management personnel. When the Adviser receives fees for these services, fifty percent of certain of those fees are credited to the base management fees due to the Adviser from the Company. Any services of this nature subsequent to the closing would typically generate a separate fee at the time of completion.

The Adviser also receives fees for monitoring and reviewing portfolio company investments. These fees are recurring and are generally paid annually or quarterly in advance to the Adviser throughout the life of the investment. Fees of this nature are recorded as revenue by the Adviser when earned and are not credited against the base management fees.

While the Adviser receives all fees in connection with the Company s investments, such fees received by the Adviser, with the exception of monitoring and review fees, are credited to the Company as a reduction of the advisory fee payable under the advisory agreement between the Company and the Adviser. Prior to April 1, 2007, these fees were entirely credited against the advisory fee payable and starting on April 1, 2007, these fees were credited at 50% against the advisory fee payable. For the three and nine months ended June 30, 2007, the Adviser received $1,061,750 and $2,147,750, respectively, of such fees, of which $530,875 and $1,616,875, respectively, were credited against the base management fee payable for the three and nine months ended June 30, 2007, as compared to $539,000 and $1,762,000, respectively, for the three and nine months ended June 30, 2006 and the advisory fee payable by the Company to the Adviser was reduced by these amounts. None of these fees were for managerial assistance even though the Adviser provided managerial assistance to many of the Company s portfolio companies.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and highly liquid investments with original maturities of three months or less when purchased. Cash and cash equivalents are carried at cost which approximates fair value as of June 30, 2007 and September 30, 2006.

Realized Gain or Loss and Unrealized Appreciation or Depreciation of Portfolio Investments

Realized gain or loss is recognized when an investment is disposed of and is computed as the difference between the Company s cost basis in the investment at the disposition date and the net proceeds received from such disposition. Unrealized appreciation or depreciation displays the difference between the fair market value of the investment and the cost basis of such investment.

Federal and State Income Taxes

The Company intends to continue to qualify for treatment as a RIC under Subchapter M of the Code. As a RIC, the Company is not subject to federal or state income tax on the portion of its taxable income and gains distributed to stockholders. To qualify as a RIC, the Company is required to distribute to its stockholders at least 90% of its investment company taxable income, as defined by the Code and, as such, no income tax provisions have been recorded for the individual companies of Gladstone Capital Corporation and Gladstone Business Loan LLC.

During the nine months ended June 30, 2006, Gladstone Capital Corporation recorded approximately $50,000 in connection with penalties incurred on misclassified revenue on its fiscal year 2004 corporate tax return.

Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, *Accounting Changes and Error Corrections,* a replacement of APB Opinion No. 20, *Accounting Changes,* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements* and changed the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle and also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 requires retrospective application to prior periods financial statements of changes in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company adopted the provisions of SFAS No. 154, as applicable, on October 1, 2006.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB statements No. 133 and 140* (SFAS No. 155). SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) as long as the entire instrument is valued on a fair value basis. The statement also resolves and clarifies other specific SFAS No. 133 and SFAS No. 140 related issues. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The Company adopted SFAS No. 155 on October 1, 2006 and has not realized a material impact of the financial statements since all investments are valued on a fair value basis.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109,* which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes.* This Statement shall be effective as of the beginning of an entity s first fiscal year that begins after December 15, 2006. The Company will adopt this Interpretation effective October 1, 2007. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies broadly to securities and other types of assets and liabilities. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within that fiscal year. The Company will be required to adopt SFAS No. 157 on October 1, 2008 and is currently evaluating the impact of this pronouncement on its consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements and requires registrants to consider the effect of all carry over and reversing effects of prior year misstatements when quantifying errors in current year financial statements. SAB 108 does not change the SEC s previous guidance in SAB No. 99, *Materiality,* on evaluating the materiality of misstatements. A registrant applying the new guidance for the first time that identifies material errors in existence at the beginning of the first fiscal year ending after November 15, 2006, may correct those errors through a one-time cumulative effect adjustment to beginning-of-year retained earnings. The cumulative effect alternative is available only if the application of the new guidance results in a conclusion that a material error exists as of the beginning of the first fiscal year ending after November 15, 2006, and those misstatements were determined to be immaterial based on a proper application of the registrant s previous method for quantifying misstatements. The adoption of SAB 108 did not have an impact on the Company s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* which is effective for fiscal years beginning after November 15, 2007. This pronouncement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The Company is currently evaluating the potential impact of this pronouncement on its consolidated financial statements.

NOTE 3. INVESTMENTS

Investments at fair value consisted of the following industry classifications as of June 30, 2007 and September 30, 2006:

Industry Classification	June 30, 2007 Fair Value	% of Total Investments		% of Net Assets		September 30, 2006 Fair Value	% of Total Investments		% of Net Assets	
Aerospace & Defense	$ 4,755,812	1.3	%	2.2	%	$ 5,529,891	2.5	%	3.2	%
Automobile	6,442,958	1.8	%	3.0	%	6,332,906	2.9	%	3.7	%
Broadcasting (TV, Radio & Cable)	36,289,808	9.8	%	16.9	%					
Cargo Transport	16,018,000	4.3	%	7.4	%	8,650,000	4.0	%	5.0	%
Chemicals, Plastics & Rubber	25,732,964	7.0	%	12.0	%	31,105,148	14.3	%	18.0	%
Diversified/Conglomerate Manufacturing	3,999,950	1.1	%	1.9	%					
Electronics	32,128,375	8.7	%	14.9	%	33,360,123	15.4	%	19.3	%
Entertainment						3,491,250	1.6	%	2.0	%
Farming & Agriculture	11,825,984	3.2	%	5.5	%	709,431	0.3	%	0.4	%
Finance	2,504,988	0.7	%	1.2	%					
Healthcare, Education & Childcare	39,512,077	10.7	%	18.4	%	16,707,500	7.7	%	9.7	%
Home & Office Furnishings	17,020,625	4.6	%	7.9	%	20,636,991	9.5	%	12.0	%
Leisure, Amusement & Movies	9,707,063	2.6	%	4.5	%					
Machinery	9,814,228	2.7	%	4.6	%					
Mining, Steel, Iron & Non-precious Metals	26,963,375	7.3	%	12.5	%	5,233,750	2.4	%	3.0	%
Oil & Gas	5,771,250	1.6	%	2.7	%	6,056,250	2.8	%	3.5	%
Personal, Food and Miscellaneous Services						6,011,288	2.8	%	3.5	%
Personal & Nondurable Consumer Products	9,000,000	2.4	%	4.2	%					
Printing, Publishing & Broadcasting	85,830,553	23.3	%	39.9	%	16,203,000	7.4	%	9.4	%
Retail Stores	14,925,000	4.0	%	6.9	%	14,981,250	6.9	%	8.7	%
Telecommunications						23,596,040	10.8	%	13.7	%
Textiles & Leather	10,706,237	2.9	%	5.0	%	13,785,932	6.3	%	8.0	%
Utilities						5,252,000	2.4	%	3.0	%
Total	$ 368,949,247	100.0	%			$ 217,642,750	100.0	%		

The investments at fair value consisted of the following geographic regions of the United States at June 30, 2007 and September 30, 2006:

Geographic Region	June 30, 2007 Fair Value	% of Total Investments		September 30, 2006 Fair Value	% of Total Investments	
Midwest	$ 163,405,522	44.3	%	$ 99,413,970	45.7	%
West	72,358,060	19.6	%	15,502,538	7.1	%
Mid-Atlantic	57,231,151	15.5	%	53,044,805	24.4	%
Southeast	50,493,423	13.7	%	24,697,113	11.3	%
Northeast	17,705,250	4.8	%	17,209,141	7.9	%
US Territory	7,755,841	2.1	%	7,775,183	3.6	%
	$ 368,949,247	100.0	%	$ 217,642,750	100.0	%

The geographic region depicts the location of the headquarters for the Company s portfolio companies. A portfolio company may have a number of other locations in other geographic regions.

NOTE 4. RELATED PARTY TRANSACTIONS

Loans to Employees

The Company provided loans to employees of the Adviser for the exercise of options under the Amended and Restated 2001 Equity Incentive Plan (the 2001 Plan), which has since been terminated and is no longer in operation. The loans require the quarterly payment of interest at the market rate in effect at the date of issue, have varying terms not exceeding ten years and have been recorded as a reduction of net assets. The loans are evidenced by full recourse notes that are due upon maturity or 60 days following termination of employment, and the shares of common stock purchased with the proceeds of the loan are posted as collateral. No new loans were issued during the three and nine months ended June 30, 2007 and the Company received $300,941 of principal repayments during the nine months ended June 30, 2007. During the nine months ended June 30, 2006, the Company issued one loan to an employee for $199,980 and received principal repayments of $129,943 in connection with the full repayment of one loan and a partial repayment on another loan. The Company recognized interest income from all employee stock option loans of $132,795 and $403,917, respectively, for the three and nine months ended June 30, 2007, as compared to $108,877 and $323,003, respectively, for the three and nine months ended June 30, 2006.

Investment Advisory and Management and Administration Agreements

The Company is externally managed by the Adviser, which is controlled by our chairman and chief executive officer, under a contractual investment advisory agreement. On October 1, 2006, the Company entered into an amended and restated investment advisory agreement (the Amended Advisory Agreement). Prior to October 1, 2006, the relationship was governed by the initial advisory agreement (the Initial Advisory Agreement).

Terms of the Amended Advisory Agreement

Under the Amended Advisory Agreement, the Company pays the Adviser an annual base management fee of 2% of its average gross assets, which is defined as total assets less cash and cash equivalents pledged to creditors calculated as of the end of the two most recently completed fiscal quarters and also consists of a two-part incentive fee.

The first part of the incentive fee is an income-based incentive fee which rewards the Adviser if the Company s quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of the Company s net assets (the hurdle rate). The Company pays the Adviser an income incentive fee with respect to its pre-incentive fee net investment income in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which its pre-incentive fee net investment income does not exceed the hurdle rate (7% annualized);

- 100% of pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized); and

- 20% of the amount of pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized).

The second part of the incentive fee is a capital gains incentive fee that is determined and payable in arrears as of the end of each fiscal year (or upon termination of the Amended Advisory Agreement, as of the termination date) and equals 20% of the Company s realized capital gains as of the end of the fiscal year. In determining the capital gains incentive fee payable to the Adviser, the Company calculates the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since the Company s inception, and the aggregate unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in its portfolio.

The Adviser s board of directors voluntarily waived, for the fiscal quarter ended June 30, 2007, the annual 2.0% base management fee to 0.5% for senior syndicated loan participations and also waived a portion of the incentive fee due.

In addition to the base management and incentive fees under the Amended Advisory Agreement, certain fees received by the Adviser from the Company s portfolio companies were credited against the investment advisory fee under the Initial Advisory Agreement, and will continue to be paid to the Adviser and credited under the Amended Advisory Agreement. Effective April 1, 2007, 50% of certain of the fees received by the Adviser are credited against the base management fee. In addition, the Company will continue to pay its direct expenses including, but not limited to, directors fees, legal and accounting fees, stockholder related expenses, and directors and officers insurance under the Amended Advisory Agreement.

For the three months ended June 30, 2007, the Company recorded a base management fee of $727,259, after reductions for loan servicing fees paid to the Adviser of $897,634, less a 50% credit of $530,875 for fees received by the Adviser and a $139,261 fee reduction for the waiver of the 2% fee on senior syndicated loans to 0.5%, for a net base management fee of $57,123 as compared to a base management fee of $334,814, after reductions for loan servicing fees paid to the Adviser of $693,965, less a credit of $539,000 for fees received by the Adviser and a $3,774 fee reduction for the waiver of the 2% fee on senior syndicated loans to 0.5%, for a net base management fee credit of $207,960 for the three months ended June 30, 2006. For the nine months ended June 30, 2007, the Company recorded a base management fee of $1,806,075, after reductions for loan servicing fees paid to the Adviser of $2,377,409, less a credit of $1,616,875 for fees received by the Adviser and a $369,161 fee reduction for the waiver of the 2% fee on senior syndicated loans to 0.5%, for a net base management fee credit of $179,961 as compared to a base management fee of $955,894, after reductions for loan servicing fees paid to the Adviser of $2,144,024, less a credit of $1,762,000 for fees received by the Adviser and a $3,774 fee reduction for the waiver of the 2% fee on senior syndicated loans to 0.5%, for a net base management fee credit of $809,880 for the nine months ended June 30, 2006. The Company also recorded a gross incentive fee of $1,166,529 and $3,474,007, for the three and nine months ended June 30, 2007, respectively, offset by a credit from a voluntary waiver issued by the Adviser s board of directors of $1,038,752 and $2,696,124, for the three and nine months ended June 30, 2007, respectively, for a net incentive fee of $127,777 and $777,883, for the three and nine months ended June 30, 2007, respectively. There was no incentive fee in effect at June 30, 2006. As of June 30, 2007, the Company owed $57,123 of unpaid base management fee due to the Adviser and owed $127,777 of unpaid incentive fees to the Adviser, presented in the net fees due to Adviser in the accompanying consolidated statements of assets and liabilities. The credits to the base management fee and incentive fee are reflected on the consolidated statement of operations as credits to base management and incentive fees. Overall, the base management fee due to the Adviser cannot exceed 2% of total assets (as reduced by cash and cash equivalents pledged to creditors) during any given fiscal year.

Terms of the Initial Advisory Agreement

As compensation for its services, under the Initial Advisory Agreement, the Company paid the Adviser an annual advisory fee of 1.25% of total assets (as reduced by cash and cash equivalents pledged to creditors), payable in quarterly computed increments of 0.3125%, and an annual administrative fee of 0.75% of total assets (as reduced by cash and cash equivalents pledged to creditors), payable in quarterly computed increments of 0.1875%, for a total annual management fee of 2.0% (0.50% quarterly) of total assets (as reduced by cash and cash equivalents pledged to creditors). The Company also paid all of its direct expenses including, but not limited to, directors fees, legal and accounting fees, stockholder related expenses, and directors and officers insurance.

Loan Servicing and Portfolio Company Fees

The Adviser also services the loans held by Business Loan, in return for which it receives a 1.5% annual fee based on the monthly aggregate outstanding balance of the loans pledged under the Company s line of credit. Since the Company owns these loans, all loan servicing fees paid to the Adviser have been and continue to be treated as reductions directly against the 2% management fee, under both the Initial and Amended Advisory Agreements. Effective in April 2006, the Adviser s board of directors voluntarily agreed to a waiver of the annual servicing fee rate for senior syndicated loans that, on a temporary basis, reduced the annual servicing fee rate on these loans to 0.5%. For the three and nine months ended June 30, 2007, these loan servicing fees totaled $897,634 and $2,377,409, respectively, as compared to the loan servicing fees for the three and nine months ended June 30, 2006 of $693,965 and $2,144,024, respectively, all of which were deducted against the 2% base management fee in order to derive the base management fee which is presented as the line item base management fee in the consolidated statements of operations. At June 30, 2007, the Company owed $219,339 of unpaid loan servicing fees to the Adviser, which are netted and recorded in fees due to Adviser. At September 30, 2006, the Company owed $214,608 in loan servicing fees to the Adviser, recorded in fees due to Adviser in the consolidated statements of assets and liabilities. Under the Initial and Amended Advisory Agreements, the Adviser has also provided and continues to provide managerial assistance and other services to the Company s portfolio companies and may receive fees for services other than managerial assistance services.

Administration Agreement

On October 1, 2006, the Company entered into an administration agreement (the Administration Agreement) with Gladstone Administration, LLC (the Administrator), a wholly-owned subsidiary of the Adviser. Under the Administration Agreement, the Company pays separately for administrative services. The Administration Agreement provides for payments equal to the Company s allocable portion of the Administrator s overhead expenses in performing its obligations under the Administration Agreement, including, but not limited to, rent for employees of the Administrator, and the allocable portion of salaries and benefits expenses of the Company s chief financial officer, controller, chief compliance officer, treasurer and their respective staffs. The Company recorded an administration fee of $186,895 and $481,746, respectively, for the three and nine months ended June 30, 2007. The administration fee was not in effect during the three and nine months ended June 30, 2006.

Sale of Investments to Affiliate

During the three and nine months ended June 30, 2007, the Company sold to its affiliate, Gladstone Investment Corporation (Gladstone Investment), certain of its investments in syndicated loan participations at market value totaling approximately $9.7 million and approximately $22.1 million, respectively. An independent broker was engaged to execute these transactions between the Company and Gladstone Investment. The independent broker accepted the quotes from the respective agent bank for each syndicated loan and then executed these transactions between the Company and Gladstone Investment. The cumulative effect of these transactions, net of any unamortized premiums or discounts associated with the loans, resulted in a realized net gain of $26,965 and $83,182, respectively, for the three and nine months ended June 30, 2007. The sales that occurred during the three months ended June 30, 2007 were all initiated during the three months ended March 31, 2007.

NOTE 5. LINE OF CREDIT

Through Business Loan, the Company has a $220 million revolving credit facility (the DB Facility) with Deutsche Bank AG, as administrative agent, pursuant to which Business Loan pledges the loans it holds to secure future advances by certain institutional lenders. The interest rate charged on the advances under the DB Facility is based on the London Interbank Offered Rate (LIBOR), the Prime Rate or the Federal Funds Rate, depending on market conditions, and adjusts periodically. The DB Facility is in effect through May 23, 2008. As of June 30, 2007, the outstanding principal balance under the DB Facility was $161,188,000 at an interest rate of approximately 5.3%. Available borrowings are subject to various constraints imposed under the credit agreement, based on the aggregate loan balance pledged by Business Loan, which varies as loans are added and repaid, regardless of whether such repayments are early prepayment or are made as contractually required. At June 30, 2007, the remaining borrowing capacity available under the DB Facility was approximately $58.8 million.

The DB Facility contains covenants that require Business Loan to maintain its status as a separate entity; prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions); and restrict material changes to the Company s credit and collection policies. The DB Facility also restricts some of the terms and provisions (including interest rates, terms to maturity and payments schedules) and limits the borrower and industry concentrations of loans that are eligible to secure advances. As of June 30, 2007, Business Loan was in compliance with all of the facility covenants.

The administrative agent also requires that any interest or principal payments on pledged loans be remitted directly by the borrower into a lockbox account with the Bank of New York as custodian. Deutsche Bank AG is also the trustee of the account and once a month remits the collected funds to the Company. At June 30, 2007, the amount due from custodian was $3,129,891 and at September 30, 2006, the amount due from custodian was $3,587,152.

The Adviser also services the loans pledged under the DB Facility. As a condition to this servicing arrangement, the Company executed a performance guaranty pursuant to which it guaranteed that the Adviser would comply fully with all of its obligations under the DB Facility. The performance guaranty requires that the Company maintain a minimum net worth of $100 million and maintain asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Section 18 of the 1940 Act. As of June 30, 2007, the Company was in compliance with all covenants under the performance guaranty.

NOTE 6. INTEREST RATE CAP AGREEMENT

Pursuant to the DB Facility, the Company has an interest rate cap agreement that effectively limits the interest rate on a portion of the borrowings under the line of credit.

The use of a cap involves risks that are different from those associated with ordinary portfolio securities transactions. Cap agreements may be considered to be illiquid. Although the Company will not enter into any such agreements unless it believes that the other party to the transaction is creditworthy, the Company does bear the risk of loss of the amount expected to be received under such agreements in the event of default or bankruptcy of the agreement counterparty.

In February 2004, the Company entered into an interest rate cap agreement with a notional amount of $35.0 million at a cost of $304,000. The interest rate cap agreement s current notional amount is $8.8 million and it has a current fair value of $24,407 which is recorded in other assets on the Company s consolidated balance sheet at June 30, 2007. At September 30, 2006, the interest rate cap agreement had a fair market value of $50,284. The Company records changes in the fair market value of the interest rate cap agreement monthly based on the current market valuation at month end as unrealized depreciation or appreciation on derivative on the Company s consolidated statement of operations. The interest rate cap agreement expires in February 2009. The agreement provides that the Company s floating interest rate or cost of funds on a portion of the portfolio s borrowings will be capped at 5% when the LIBOR rate is in excess of 5%. During the three and nine months ended June 30, 2007, the Company recorded $8,405 and $31,198, respectively, as compared to $1,367 for the three and nine months ended June 30, 2006 of income from the interest rate cap agreement recorded as a realized gain on the settlement of derivative on the Company s consolidated statements of operations.

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NOTE 7. COMMON STOCK TRANSACTIONS

As of June 30, 2006 and June 30, 2007, 50,000,000 shares of $0.001 par value common stock were authorized and 11,384,363 and 14,249,683 shares were outstanding, respectively.

Transactions in common stock were as follows:

	Common Stock Shares	Amount
Balance at September 30, 2005	11,303,510	$ 11,304
Issuance of Common Stock Under Stock Option Plan	80,853	81
Balance at June 30, 2006	11,384,363	$ 11,385
Balance at September 30, 2006	12,305,008	$ 12,305
Issuance of Common Stock Under Shelf Offering	2,000,000	2,000
Issuance of Common Stock Under Stock Option Plan	5,000	5
Stock surrendered for settlement of withholding tax	(60,325)	(60)
Balance at June 30, 2007	14,249,683	$ 14,250

In May 2007, the Company completed a public offering of 2,000,000 shares of its common stock at $24.25 per share, less an underwriting discount of $1.21 per share or 5%. In October 2006, 5,000 shares of common stock were issued as a result of an option exercise which took place on the last business day of the prior fiscal year. These shares were issued by the transfer agent at the start of the current fiscal year and during the nine months ended June 30, 2007, 60,325 shares of stock were surrendered to the Company from certain optionees who exercised non-qualified stock options during the third and fourth quarters of fiscal year 2006 in order to satisfy settlement of withholding taxes that were paid by the Company with respect to the shares underlying the exercise of such options.

NOTE 8. STOCK OPTIONS

There were no stock options outstanding at June 30, 2007. Prior to its termination on September 30, 2006, the Company had authorized 2,000,000 shares of capital stock for the issuance of options under the 2001 Plan to employees and directors. Options granted under the 2001 Plan originally could have been exercised during a term not to exceed ten years from the date of grant. Only employees of the Company and its affiliates were eligible to receive incentive stock options and both employees and non-employee directors were eligible to receive nonstatutory stock options under the 2001 Plan. Options granted under the 2001 Plan were either incentive stock options or nonstatutory stock options. The option exercise price was equal to the market price on the date of the grant. In connection with the externalization of the Company s management, all of the Company s officers and employees became direct employees of the Adviser, as of October 1, 2004. However, these individuals continued to be eligible to receive stock options under the 2001 Plan. Effective October 1, 2004, the Company accounted for any options granted to employees of the Adviser, who qualify as leased employees of the Company under FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25.*

On October 1, 2005, the Company adopted SFAS No. 123 (revised 2004) *Share-based Payment* (SFAS No. 123(R)) using the modified prospective approach. Under the modified prospective approach, stock-based compensation expense was recorded for the unvested portion of previously issued awards that remained outstanding at October 1, 2005 using the same estimate of the grant date fair value and the same attribution method previously used to determine the pro forma disclosure under SFAS No. 123. SFAS No. 123(R) also requires that all share-based payments to employees after October 1, 2005, including employee stock options, be recognized in the financial statements as stock-based compensation expense based on the fair value on the date of grant.

For the three and nine months ended June 30, 2006, the Company recorded stock option compensation expense for the cost of stock options issued under the 2001 Plan of $202,296 and $279,618, respectively. The Company s expensing of stock options decreased both basic and diluted net increase to net assets resulting from operations per share by $0.02 for the three and nine months ended June 30, 2006, respectively. Additionally, SFAS No. 123(R) states that any potential tax benefits associated with incentive stock options should be recognized only at the time of settlement if those options settle through a disqualifying disposition. Thus, the related stock-based compensation expense must be treated as a permanent difference until that time which, in turn, results in an increase to the Company s effective tax rate. The Company did not record tax benefits associated with the expensing of stock options since the Company intends to qualify as a RIC under Subchapter M of the Code and as such the Company is not subject to federal income tax on the portion of its taxable income and gains distributed to stockholders, provided that at least 90% of the taxable income is distributed.

NOTE 9. INCREASE IN NET ASSETS PER SHARE RESULTING FROM OPERATIONS

The following table sets forth the computation of basic and diluted net increase in net assets per share resulting from operations for the three and nine months ended June 30, 2007 and June 30, 2006:

	Three Months Ended June 30, 2007	2006	Nine Months Ended June 30, 2007	2006
Numerator for basic and diluted net increase in net assets resulting from operations per share	$ 5,964,600	$ 5,543,076	$ 14,213,054	$ 19,366,806
Denominator for basic weighted average shares	13,561,511	11,337,291	12,701,845	11,317,437
Dilutive effect of stock options		233,134		231,617
Denominator for diluted weighted average shares	13,561,511	11,570,425	12,701,845	11,549,054
Basic net increase in net assets resulting from operations per share	$ 0.44	$ 0.49	$ 1.12	$ 1.71
Diluted net increase in net assets resulting from operations per share	$ 0.44	$ 0.48	$ 1.12	$ 1.68

There were no stock options outstanding at June 30, 2007. There were 1,224,645 options outstanding to purchase common stock at June 30, 2006. Of these, 336,000 options were not included in the computation of diluted earnings per share for the three and nine months ended June 30, 2006, because the options exercise prices were greater than the average market price of the common shares for the period and, therefore, were anti-dilutive.

NOTE 10. DIVIDENDS

The Company is required to pay out as a dividend 90% of its ordinary income and short-term capital gains for each taxable year in order to maintain its status as a RIC under Subtitle A, Chapter 1 of Subchapter M of the Code. It is the policy of the Company to pay out as a dividend up to 100% of those amounts. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is based on the annual earnings estimated by the management of the Company. Based on that estimate, three monthly dividends are declared each quarter. At year-end the Company may pay a bonus dividend, in addition to the monthly dividends, to ensure that it has paid out at least 90% of its ordinary income and realized net short-term capital gains for the year. Long-term capital gains are composed of success fees, prepayment fees and gains from the sale of securities held for one year or more. The Company intends to retain long-term capital gains from the sale of securities, if any, and not pay them out as dividends, however, the Board of Directors may decide to declare and pay out capital gains during any fiscal year. If the Company decides to retain long-term capital gains, the portion of the retained capital gains will be subject to 35% tax. The tax characteristics of all dividends will be reported to stockholders on Form 1099 at the end of each calendar year. The following table lists the per share dividends paid for the nine months ended June 30, 2007 and 2006:

Fiscal Year	Record Date	Payment Date	Dividend per Share	
2007	June 21, 2007	June 29, 2007	$	0.14
	May 22, 2007	May 31, 2007	$	0.14
	April 20, 2007	April 30, 2007	$	0.14
	March 22, 2007	March 30, 2007	$	0.14
	February 20, 2007	February 28, 2007	$	0.14
	January 23, 2007	January 31, 2007	$	0.14
	December 20, 2006	December 29, 2006	$	0.14
	November 21, 2006	November 30, 2006	$	0.14
	October 23, 2006	October 31, 2006	$	0.14
		Total	$	1.26
2006	June 22, 2006	June 30, 2006	$	0.135
	May 22, 2006	May 31, 2006	$	0.135
	April 20, 2006	April 28, 2006	$	0.135
	March 23, 2006	March 31, 2006	$	0.135
	February 20, 2006	February 28, 2006	$	0.135
	January 19, 2006	January 31, 2006	$	0.135
	December 21, 2005	December 30, 2005	$	0.135
	November 21, 2005	November 30, 2005	$	0.135
	October 21, 2005	October 31, 2005	$	0.135
		Total	$	1.215

NOTE 11. CONTRACTUAL OBLIGATIONS

As of June 30, 2007, the Company was a party to signed and non-binding term sheets for two loan originations for an aggregate of $15.0 million. The Company expects to fund these potential investments as follows:

		Payment Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Investments	15,000,000	15,000,000			
Total	$ 15,000,000	$ 15,000,000	$	$	$

All prospective investments are subject to, among other things, the satisfactory completion of the Company s due diligence investigation of each borrower, acceptance of terms and structure and receipt of necessary consents. With respect to each prospective loan, the Company will only agree to provide the loan if, among other things, the results of its due diligence investigations are satisfactory, the terms and conditions of the loan are acceptable and all necessary consents are received. The Company has initiated its due diligence investigations of the potential borrowers, however there can be no guarantee that facts will not be discovered in the course of completing the due diligence that would render a particular investment imprudent or that any of these investments will actually be made.

As of July 31, 2007, the above mentioned investments had not yet funded.

NOTE 12. SUBSEQUENT EVENTS

In July 2007, the Company s Board of Directors declared the following monthly cash dividends:

Fiscal Year	Record Date	Payment Date	Dividend per Share
2007	July 23, 2007	July 31, 2007	$0.14
	August 23, 2007	August 31, 2007	$0.14
	September 20, 2007	September 28, 2007	$0.14

On July 24, 2007, the Company completed an offering of 400,000 shares of its common stock, at a price of $20.41 per share, under a shelf registration statement on Form N-2 (File No. 333-143027), and pursuant to the terms set forth in a prospectus dated July 5, 2007, as supplemented by a final prospectus dated July 24, 2007. Net proceeds of the offering, after offering expenses, were approximately $8,149,000 and were used to repay outstanding borrowings under the Company s line of credit.

On July 26, 2007, a loan to an employee, and the shares pledged as collateral under the loan under a separate pledge agreement, were cancelled due to an event of default which was triggered by a stop loss provision in the employee s promissory note and pledge agreement. The provision specified that in the event that the aggregate value of the shares pledged under the note, as determined by the intra-day price of the shares on Nasdaq, became less than or equal to the aggregate outstanding principal amount of the note, the note would become immediately due and collectible through cancellation of the shares under the terms of the pledge agreement. The Company cancelled 37,109 shares which, in turn, cancelled via a non-cash transaction the remaining outstanding principal of the note of approximately $716,711.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

All statements contained herein, other than historical facts, may constitute forward-looking statements. These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as may, might, believe, will, provided, anticipate, future, could, growth, plan, intend, would, if, seek, possible, potential, likely or the negative of such terms or comparable terminology. These forward-looking statem involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: (1) adverse changes in interest rates; (2) our failure or inability to establish or maintain referral arrangements with leveraged buyout funds and venture capital funds to generate loan opportunities; (3) the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker, or George Stelljes III; (4) our inability to extend, refinance or maintain our credit facilities on terms reasonably acceptable to us, if at all in future equity capital resources; (5) our inability to successfully securitize our loan portfolio on terms reasonably acceptable to us, if at all; (6) the decision of our competitors to aggressively seek to make senior and subordinated loans to small and medium-sized businesses on terms more favorable than we intend to provide; and (7) those factors listed under the caption Risk Factors of the Annual Report on Form 10-K as filed with the Securities and Exchange Commission on December 6, 2006 and our Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 2, 2007. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Form 10-Q.

The following analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes thereto contained elsewhere in this report and our annual report on Form 10-K for the fiscal year ended September 30, 2006.

OVERVIEW

We were incorporated under the General Corporation Laws of the State of Maryland on May 30, 2001. Our investment objectives are to achieve a high level of current income by investing in debt securities, consisting primarily of senior notes, second lien notes, and senior subordinated notes of established private businesses that are backed by leveraged buyout funds, venture capital funds or others, with a particular emphasis on second lien and senior subordinated notes. In addition, we may acquire existing loans, which meet this profile, from leveraged buyout funds, venture capital funds and others. We also seek to provide our stockholders with long-term capital growth through the appreciation in the value of warrants, or other equity instruments that we may receive when we extend loans. We operate as a closed-end, non-diversified management investment company, and have elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the 1940 Act).

We seek to invest in small and medium-sized businesses that meet certain criteria, including some or all of the following: (1) the potential for growth in cash flow, (2) adequate assets for loan collateral, (3) experienced management teams with a significant ownership interest in the borrower, (4) profitable operations based on the borrower s cash flow, (5) reasonable capitalization of the borrower (usually by buyout funds or venture capital funds) and (6) the potential to realize appreciation and gain liquidity in our equity position, if any. We anticipate that liquidity in our equity position will be achieved through a merger or acquisition of the borrower, a public offering by the borrower or by exercise of our right to require the borrower to buy back its warrants. We lend to borrowers that need funds to, among other things, effect a change of control, restructure their balance sheets, or finance growth, including acquisitions.

Our loans typically range from $5 million to $15 million, although this investment size may vary proportionately as the size of our capital base changes, generally mature in no more than seven years and accrue interest at fixed or variable rates. Some of our loans may contain a provision that calls for some portion of the interest payments to be deferred and added to the principal balance so that the interest is paid, together with the principal, at maturity. This form of deferred interest is often called paid in kind or PIK interest, and, when earned, we record PIK interest as interest income and add the PIK interest to the principal balance of the loans. We seek to avoid PIK interest with all potential investments under review. We currently do not hold any investments with PIK and, therefore, there was no PIK accrued on our balance sheet as of June 30, 2007.

Because the majority of our portfolio loans consist of term debt of private companies who typically cannot or will not expend the resources to have their debt securities rated by a credit rating agency, we expect that most of the debt securities we acquire will be unrated. We cannot accurately predict what ratings these loans might receive if they were in fact rated, and thus cannot determine whether or not they could be considered investment grade quality.

To the extent possible, our loans generally are collateralized by a security interest in the borrower s assets. Interest payments are generally made monthly or quarterly (except to the extent of any PIK interest) with amortization of principal generally being deferred for several years. The principal amount of the loans and any accrued but unpaid interest generally become due at maturity at five to seven years. When we receive a warrant to purchase stock in a borrower in connection with a loan, the warrant will typically have an exercise price equal to the fair value of the portfolio company s common stock at the time of the loan and entitle us to purchase a modest percentage of the borrower s stock.

Original issue discounts (OID) arise when we extend a loan and receive an equity interest in the borrower at the same time. To the extent that the price paid for the equity is not at market value, we must allocate part of the price paid for the loan, to the value of the equity. Then the amount allocated to the equity, the OID, must be amortized over the life of the loan. As with PIK interest, the amortization of OID also produces income that must be recognized for purposes of satisfying the distribution requirements for a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code), whereas the cash is received, if at all, when the equity instrument is sold. We seek to avoid OID and to date do not hold any investments with OID.

In addition, as a business development company under the 1940 Act, we are required to make available significant managerial assistance to our portfolio companies. Our investment adviser, Gladstone Management Corporation (the Adviser) provides these services on our behalf through its officers who are also our officers. In addition, our Adviser provides other services to our portfolio companies, for which it receives fees, in connection with our investments. The fees for these services are generally paid to the Adviser in part at the time a prospective portfolio company signs a non-binding term sheet with us (as further described in the following paragraph), with the remainder paid at the closing of the investment. These fees are generally non-recurring, however in some instances they may have a recurring component which is also paid to the Adviser. Fees for certain of these services are credited 50% against the base management fee payable to the Adviser pursuant to the terms of our advisory agreement, which has the effect of reducing our expenses to the extent of any such credits. The specific other services the Adviser provides vary by portfolio company, but generally include a broad array of services to the portfolio companies such as investment banking services, arranging bank financing, arranging equity financing, structuring financing from multiple lenders and investors, reviewing existing credit facilities, restructuring existing investments, raising equity and debt capital, turnaround management, merger and acquisition services and recruiting new management personnel. To date the Adviser has not charged for managerial assistance services, however, if the Adviser does receive fees for such managerial assistance, the Adviser will credit the managerial assistance fees to the base management fee due from us to the Adviser.

Prior to making an investment, we ordinarily enter into a non-binding term sheet with the potential borrower. These non-binding term sheets are generally subject to a number of conditions, including, but not limited to, the satisfactory completion of our due diligence investigations of the potential borrower s business, reaching agreement on the legal documentation for the loan, and the receipt of all necessary consents. Upon execution of the non-binding term sheet, the potential borrower generally pays the Adviser a non-refundable fee for its services rendered through the date of the non-binding term sheet. These fees are received by the Adviser and are offset against the base management fee payable to the Adviser, which has the effect of reducing our expenses to the extent of any such fees received by the Adviser.

In the event that we expend significant effort in considering and negotiating a potential investment that ultimately is not consummated, we generally will seek reimbursement from the proposed borrower for our reasonable expenses incurred in connection with the transaction, including legal fees. Any amounts collected for expenses incurred by the Adviser in connection with unconsummated investments will be reimbursed to the Adviser. Amounts collected for these expenses incurred by us will be reimbursed to us and will be recognized in the period in which such reimbursement is received, however, there can be no guarantee that we will be successful in collecting any such reimbursements.

During the nine months ended June 30, 2007, we extended, directly or through participations or acquisitions, approximately $253.7 million of new loans to a total of 52 companies. This includes an acquisition of approximately $63.3 million in senior debt with 16 different borrowers in June 2007. Also, during the nine months ended June 30, 2007, four borrowers repaid their loans ahead of contractual maturity, one borrower refinanced its investment and we sold or were repaid in full on twenty four syndicated loans of approximately $90.8 million, and we received scheduled contractual principal repayments of approximately $9.0 million, for total principal repayments of approximately $99.8 million. Since our initial public offering in August 2001, we have made 227 different loans to, or investments in, 120 companies for a total of approximately $760.2 million, before giving effect to principal repayments on investments and divestitures.

These prospective loans are subject to, among other things, the satisfactory completion of our due diligence investigation of each borrower, acceptance of terms and structure and attainment of necessary consents. With respect to each prospective loan, we will only agree to provide the loan if, among other things, the results of our due diligence investigations are satisfactory, the terms and conditions of the loan are acceptable and all necessary consents are received. Our management has initiated its due diligence investigations of the potential borrowers, however we cannot assure you that we will not discover facts in the course of completing our due diligence that would render a particular investment imprudent or that any of these loans will actually be made.

Our Investment Adviser and Administrator

Our Adviser is led by a management team which has extensive experience in our lines of business. Our Adviser is controlled by David Gladstone, our chairman and chief executive officer. Mr. Gladstone is also the chairman and chief executive officer of our Adviser. Terry Lee Brubaker, our vice chairman, chief operating officer, secretary and director, is a member of the board of directors of our Adviser and its vice chairman and chief operating officer. George Stelljes III, our president, chief investment officer and director, is a member of the board of directors of our Adviser and its president and chief investment officer. Harry Brill, our chief financial officer, is also the chief financial officer of our Adviser. Our Adviser also has a wholly-owned subsidiary, Gladstone Administration, LLC (the Administrator), which employs our chief financial officer, chief compliance officer, controller, treasurer and their respective staffs.

Our Adviser and Administrator also provide investment advisory and administrative services to our affiliates, Gladstone Commercial Corporation, a publicly traded real estate investment trust; Gladstone Investment Corporation, a publicly traded business development company; and Gladstone Land Corporation, an agricultural real estate company owned by Mr. Gladstone. All of our directors and executive officers serve as either directors or executive officers, or both, of Gladstone Commercial Corporation and Gladstone Investment Corporation. In the future, our Adviser may provide investment advisory and administrative services to other funds, both public and private, of which it is the sponsor.

We have been externally managed by our Adviser pursuant to an investment advisory and management agreement since October 1, 2004. Our Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. Our Adviser is headquartered in McLean, Virginia, a suburb of Washington D.C., and also has offices in New York, New Jersey, Pennsylvania, Illinois, Texas and Washington.

Investment Advisory and Management Agreement

On December 2, 2005, our stockholders approved a proposal to enter into an amended and restated investment advisory agreement (the Amended Advisory Agreement) with the Adviser and an administration agreement (the Administration Agreement) between us and our Administrator, both of which became effective on October 1, 2006. The Amended Advisory Agreement replaced the original advisory agreement (the Initial Advisory Agreement), which terminated on September 30, 2006. We will continue to pay our direct expenses including, but not limited to, directors fees, legal and accounting fees, stockholder related expenses, and directors and officers insurance under the Amended Advisory Agreement.

Pursuant to the Initial Advisory Agreement, we paid the Adviser an annual advisory fee of 1.25% of our total assets (as reduced by cash and cash equivalents pledged to creditors), payable in quarterly computed increments of 0.3125%, and an annual administrative fee of 0.75% of our total assets (as reduced by cash and cash equivalents pledged to creditors), payable in quarterly computed increments of 0.1875%, for a total annual base management fee of 2%. This fee was then directly reduced by the amount of loan servicing fees paid to the Adviser and any other fees received by the Adviser from our borrowers and potential borrowers.

Under the Amended Advisory Agreement, we pay the Adviser an annual base management fee of 2% of our average gross assets, which is defined as total assets less cash and cash equivalents pledged to creditors calculated as of the end of the two most recently completed fiscal quarters and also consists of a two-part incentive fee.

The first part of the incentive fee is an income-based incentive fee which rewards the Adviser if our quarterly net investment income (before giving effect to any incentive fee) exceeds 1.75% of our net assets (the hurdle rate). We will pay the Adviser an income incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate (7% annualized);

- 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized); and

- 20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized).

The second part of the incentive fee is a capital gains incentive fee that will be determined and payable in arrears as of the end of each fiscal year (or upon termination of the Amended Advisory Agreement, as of the termination date), commencing on October 1, 2006, and will equal 20% of our realized capital gains as of the end of the fiscal year. In determining the capital gains incentive fee payable to the Adviser, we will calculate the cumulative aggregate realized capital gains and cumulative aggregate realized capital losses since our inception, and the aggregate unrealized capital depreciation as of the date of the calculation, as applicable, with respect to each of the investments in our portfolio.

The Adviser s board of directors has agreed to voluntarily waive 1.5% of the annual 2.0% base management fee to 0.5% for senior syndicated loans for the three and nine months ended June 30, 2007.

In addition to the base management and incentive fees under the Amended Advisory Agreement, certain fees received by the Adviser from our portfolio companies were credited against the investment advisory fee under the Initial Advisory Agreement, and will continue to be paid to the Adviser and credited under the Amended Advisory Agreement.

The Adviser services our loan portfolio pursuant to a loan servicing agreement with Gladstone Business Loan, LLC (Business Loan) in return for a 1.5% annual fee, based on the monthly aggregate outstanding loan balance of the loans pledged under our credit facility. Effective in April 2006, the Adviser s board of directors voted to reduce the portion of the 1.5% annual fee to 0.5% for senior syndicated loans. This fee directly reduces the amount of fee payable under both the Initial and Amended Advisory Agreements.

Administration Agreement

Under the Administration Agreement, we pay separately for administrative services. The Administration Agreement provides for payments equal to our allocable portion of the Administrator s overhead expenses in performing its obligations under the Administration Agreement including, but not limited to, rent for employees of the Administrator, and our allocable portion of the salaries and benefits expenses of our chief financial officer, controller, chief compliance officer, treasurer and their respective staffs. Our allocable portion of expenses is derived by multiplying our Administrator s total expenses by the percentage of our average total assets (the total assets at the beginning and end of each quarter) in comparison to the average total assets of all companies managed by our Adviser.

Off-Balance Sheet Arrangements

We do not have any significant off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Securities and Exchange Commission (SEC) Regulation S-K as of June 30, 2007.

Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, *Accounting Changes and Error Corrections,* a replacement of APB Opinion No. 20, *Accounting Changes,* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements* and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle and also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 requires retrospective application to prior periods financial statements of changes in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We adopted the provisions of SFAS No.

154, as applicable, on October 1, 2006.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB statements No. 133 and 140* (SFAS No. 155). SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) as long as the entire instrument is valued on a fair value basis. The statement also resolves and clarifies other specific SFAS No. 133 and SFAS No. 140 related issues. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. We adopted SFAS No. 155 on October 1, 2006 and have not realized a material impact of the financial statements since all investments are valued on a fair value basis.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109,* which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes.* This Statement shall be effective as of the beginning of an entity s first fiscal year that begins after December 15, 2006. We will adopt this Interpretation effective October 1, 2007, and are currently evaluating the impact of this pronouncement on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies broadly to securities and other types of assets and liabilities. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within that fiscal year. We will be required to adopt SFAS No. 157 on October 1, 2008 and are currently evaluating the impact of this pronouncement on the consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements and requires registrants to consider the effect of all carry over and reversing effects of prior year misstatements when quantifying errors in current year financial statements. SAB 108 does not change the SEC s previous guidance in SAB No. 99, *Materiality,* on evaluating the materiality of misstatements. A registrant applying the new guidance for the first time that identifies material errors in existence at the beginning of the first fiscal year ending after November 15, 2006, may correct those errors through a one-time cumulative effect adjustment to beginning-of-year retained earnings. The cumulative effect alternative is available only if the application of the new guidance results in a conclusion that a material error exists as of the beginning of the first fiscal year ending after November 15, 2006, and those misstatements were determined to be immaterial based on a proper application of the registrant s previous method for quantifying misstatements. The adoption of SAB 108 did not have an impact on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115,* which is effective for fiscal years beginning after November 15, 2007. This pronouncement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. We are currently evaluating the potential impact of this pronouncement on the consolidated financial statements.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported consolidated amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ materially from those estimates. Our accounting policies are more fully described in the Notes to Consolidated Financial Statements contained elsewhere in this report. We have identified our investment valuation process as our most critical accounting policy.

Investment Valuation

The most significant estimate inherent in the preparation of our consolidated financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded.

General Valuation Policy: Using procedures established by our Board of Directors, we value our investment portfolio each quarter. We carry our investments at fair value, as determined in good faith by or under the direction of our Board of Directors. Securities that are publicly traded, if any, are valued at the closing price of the exchange or securities market on which they are listed on the valuation date. Securities that are not traded on a public exchange or securities market, but for which a limited market exists and that have been rated by a nationally recognized statistical rating organizations, (NRSRO), (such as certain participations in syndicated loans) are valued at the indicative bid price offered by the respective originating syndication agent s desk on or near the valuation date.

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Debt and equity securities that are not publicly traded, for which a limited market does not exist, or for which a limited market exists but that have not been rated by a NRSRO (or for which we have various degrees of trading restrictions) are valued at fair value as determined in good faith by or under the direction of our Board of Directors. In making the good faith determination of the value of these securities, we start with the cost basis of the security, which includes the amortized OID and PIK interest, if any. We then apply the methods set out below in *Valuation Methods.* Members of our Adviser s portfolio management team prepare the valuations of our investments in portfolio companies using the most recent portfolio company financial statements and forecasts. These individuals also consult with portfolio company senior management and ownership to obtain further updates on the portfolio company s performance, including information such as industry trends, new product development, and other operational issues. Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have been obtained had a ready market for the securities existed, and the differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. There is no single standard for determining fair value in good faith, as fair value depends upon circumstances of each individual case. In general, fair value is the amount that we might reasonably expect to receive upon the current sale of the security.

At June 30, 2007, we engaged Standard & Poor s Securities Evaluations, Inc. (SPSE) to submit opinions of value for most of our loan securities. We request that SPSE also evaluate and assign values to success fees (conditional interest included in some loan securities) when we determine that the probability of receiving a success fee on a given loan is above 6-8%, a threshold of significance. We may also submit paid in kind (PIK) interest to SPSE for valuation when it is determined the PIK interest is likely to be received. SPSE will only evaluate the debt portion of our investments for which we specifically request evaluation, and may decline to make requested evaluations for any reason at its sole discretion. We also add any amortized original issue discount (OID) interest to the fair value, unless adverse factors lead to a determination of a lesser valuation. Upon completing our collection of data with respect to the investments (including the information described under *Credit Information,* the risk ratings of the loans described under *Loan Grading and Risk Rating* and the factors described under *Valuation Methods*), this valuation data is forwarded along to SPSE for review and analysis. SPSE makes its independent assessment of the data that we have assembled and assesses its independent data to form an opinion as to what they consider to be the market values for the securities. With regard to its work, SPSE has issued the following paragraph:

SPSE provides evaluated price opinions which are reflective of what SPSE believes the bid side of the market would be for each loan after careful review and analysis of descriptive, market and credit information. Each price reflects SPSE s best judgment based upon careful examination of a variety of market factors. Because of fluctuation in the market and in other factors beyond its control, SPSE cannot guarantee these evaluations. The evaluations reflect the market prices, or estimates thereof, on the date specified. The prices are based on comparable market prices for similar securities. Market information has been obtained from reputable secondary market sources. Although these sources are considered reliable, SPSE cannot guarantee their accuracy.

SPSE opinions of value are submitted to our Board of Directors along with our Adviser s supplemental assessment and recommendation regarding valuation of each of these investments. Our Adviser generally accepts the opinion of value given by SPSE, however, in certain limited circumstances, such as when our Adviser may learn new information regarding an investment between the time of submission to SPSE and the date of the Board assessment, our Adviser s conclusions as to value may differ from the opinion of value delivered by SPSE. Our Board of Directors then reviews whether our Adviser has followed its established procedures for determinations of fair value, and votes whether to accept the recommended valuation of our investment portfolio. Our Adviser and our management recommended, and the Board of Directors voted to accept, the opinions of value delivered by SPSE on the loans in our portfolio as denoted on the schedule of investments as of June 30, 2007 and September 30, 2006, included in our consolidated financial statements.

Because there is a delay between when we close an investment and when the investment can be evaluated by SPSE, new loans are not valued immediately by SPSE; rather, management makes its own determination about the value of these investments in accordance with our valuation policy. Because SPSE does not provide values for our equity securities, our Adviser determines the fair value of these investments using valuation policies approved by our Board of Directors.

Credit Information: Our Adviser monitors a wide variety of key credit statistics that provide information regarding our portfolio companies to help us assess credit quality and portfolio performance. If we held a controlled or affiliate investment, we and our Adviser would participate in periodic board meetings of such portfolio companies and also require them to provide annual audited and monthly unaudited financial statements. Using these statements and board discussions, our Adviser would calculate and evaluate the credit statistics.

Loan Grading and Risk Rating: As part of our valuation procedures we risk rate all of our investments in debt securities. For syndicated loans that have been rated by a NRSRO (as defined in Rule 2a-7 under the 1940 Act), we use the NRSRO s risk rating for such security. For all other debt securities, we use a proprietary risk rating system. Our risk rating system uses a scale of 0 to 10, with 10 being the lowest probability of default. This system is used to estimate the probability of default on debt securities and the

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probability of loss if there is a default. These types of systems are referred to as risk rating systems and are used by banks and rating agencies. The risk rating system covers both qualitative and quantitative aspects of the business and the securities we hold.

For the debt securities for which we do not use a third-party NRSRO risk rating, we seek to have our risk rating system mirror the risk rating systems of major risk rating organizations, such as those provided by a NRSRO. While we seek to mirror the NRSRO systems, we cannot provide any assurance that our risk rating system will provide the same risk rating as a NRSRO for these securities. The following chart is an estimate of the relationship of our risk rating system to the designations used by two NRSROs as they risk rate debt securities of major companies. Because our system rates debt securities of companies that are unrated by any NRSRO, there can be no assurance that the correlation to the NRSRO set out below is accurate. We believe our risk rating would be significantly higher than a typical NRSRO risk rating because the risk rating of the typical NRSRO is designed for larger businesses. However, our risk rating has been designed to risk rate the securities of smaller businesses that are not rated by a typical NRSRO. Therefore, when we use our risk rating on larger business securities, the risk rating is higher than a typical NRSRO rating. The primary difference between our risk rating and the rating of a typical NRSRO is that our risk rating uses more quantitative determinants and includes qualitative determinants that we believe are not used in the NRSRO rating. It is our understanding that most debt securities of medium-sized companies do not exceed the grade of BBB on a NRSRO scale, so there would be no debt securities in the middle market that would meet the definition of AAA, AA or A. Therefore, our scale begins with the designation 10 as the best risk rating which may be equivalent to a BBB from a NRSRO, however, no assurance can be given that a 10 on our scale is equal to a BBB on a NRSRO scale.

Company s ystem	**First NRSRO**	**Second NRSRO**	**Gladstone Capital s Description(a)**
>10	Baa2	BBB	Probability of Default (PD during the next ten years is 4% and the Expected Loss (EL) is 1% or less
10	Baa3	BBB-	PD is 5% and the EL is 1% to 2%
9	Ba1	BB+	PD is 10% and the EL is 2% to 3%
8	Ba2	BB	PD is 16% and the EL is 3% to 4%
7	Ba3	BB-	PD is 17.8% and the EL is 4% to 5%
6	B1	B+	PD is 22% and the EL is 5% to 6.5%
5	B2	B	PD is 25% and the EL is 6.5% to 8%
4	B3	B-	PD is 27% and the EL is 8% to 10%
3	Caa1	CCC+	PD is 30% and the EL is 10% to 13.3%
2	Caa2	CCC	PD is 35% and the EL is 13.3% to 16.7%
1	Caa3	CC	PD is 65% and the EL is 16.7% to 20%
0	N/a	D	PD is 85% or there is a Payment Default: and the EL is greater than 20%

(a) The default rates set here are for a ten year term debt security. If the company s debt security is less than ten years then the probability of default is adjusted to a lower percentage for the shorter period which may move the security higher on our risk rating scale.

The above scale gives an indication of the probability of default and the magnitude of the loss if there is a default. Our policy is to stop accruing interest on an investment if we determine that interest is no longer collectible. Currently, our investment in MCA Communications LLC is on non-accrual, the investment is currently not accruing interest nor is it paying any past due interest. Additionally, we do not risk rate our equity securities.

The following table lists the risk ratings for all non-syndicated loans in our portfolio at June 30, 2007 and September 30, 2006, representing approximately 76% and 73%, respectively, of all loans in our portfolio:

Rating	**June 30, 2007**	**Sept. 30, 2006**
Average	**7.1**	**7.2**
Weighted Average	**7.0**	**7.2**
Highest	**9.0**	**9.0**
Lowest	**4.0**	**6.0**

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The following table lists the risk ratings for syndicated loans in our portfolio that are not currently rated by an NRSRO at June 30, 2007 and September 30, 2006, representing approximately 6% and 17%, respectively, of all loans in our portfolio:

Rating	June 30, 2007	Sept. 30, 2006
Average	**6.0**	**6.1**
Weighted Average	**6.0**	**6.3**
Highest	**6.0**	**8.0**
Lowest	**6.0**	**4.0**

For syndicated loans that are currently rated by an NRSRO, we risk rate such loans in accordance with the risk rating systems of major risk rating organizations such as those provided by a NRSRO. The following table lists the risk ratings for all syndicated loans in our portfolio that are currently rated by an NRSRO at June 30, 2007 and September 30, 2006, representing approximately 18% and 10%, respectively, of all loans in our portfolio:

Rating	June 30, 2007	Sept. 30, 2006
Average	**CCC+/Caa1**	**CCC+/Caa1**
Weighted Average	**CCC+/Caa1**	**CCC+/Caa1**
Highest	**B/B3**	**B-/B3**
Lowest	**CCC/Caa2**	**CCC/Caa1**

Valuation Methods: We determine the value of publicly-traded debt securities based on the closing price for the security on the exchange or securities market on which it is listed on the valuation date. We value debt securities that are not publicly traded, but for which a limited market for the security exists, such as certain participations in syndicated loans, at the indicative bid price offered by the respective originating syndication agent s trading desk on or near the valuation date. At June 30, 2007, none of the debt securities in our portfolio were publicly traded and there was a limited market for 31 debt securities in our portfolio. At September 30, 2006, none of the debt securities in our portfolio were publicly traded and there was a limited market for 9 debt securities in our portfolio.

Debt securities that are issued to portfolio companies where we have an equity, or equity-like interest that are not publicly traded, for which there is no market, or for which there is a market but the securities have not been rated by a NRSRO, are valued at cost, if there is adequate total enterprise value determined when valuing our equity holdings in the borrower. Fair values are discounted for any shortfall of total enterprise value over the total debt outstanding for the borrower. At June 30, 2007, for our debt investment in Clinton Aluminum Holdings LLC, where we hold a warrant, we solicited and were provided an opinion of value by SPSE. Prospectively, in accordance with our valuation policies, due to its accompanying equity-like security, the debt securities for this investment will not be assessed by SPSE.

Debt securities that are not publicly traded and that are issued to portfolio companies where we have no equity or equity-like securities, for which there is no market, or for which there is a market but have not been rated by a NRSRO, we begin with the risk rating designation of the security as described above. Using this risk rating designation, we seek to determine the value of the security as if we currently intended to sell the security and consider some or all of the following factors:

- the cost basis and the type of the security;
- the nature and realizable value of the collateral;
- the portfolio company s ability to make payments and discounted cash flow;
- reports from portfolio company senior management and board meetings;
- reported values of similar securities of the portfolio company or comparable companies; and
- changes in the economy affecting the portfolio company.

We value convertible debt, equity, success or exit fees or other equity-like securities for which there is a market based on the market prices for such securities, even if that market is not robust. At June 30, 2007 and September 30, 2006, there was no market for any of the equity securities we owned. To value equity securities for which no market exists, we use the same information we would use for a debt security valuation described above, except risk-rating, as well as standard valuation techniques used by major valuation firms to value the equity securities of private companies. These valuation techniques also include discounted cash flow of the expected sale price in the future, valuation of the securities based on recent sales to third parties in comparable transactions, or a review of similar companies that are publicly traded and the market multiple of their equity securities. In gathering the sales to third parties of similar securities, we may reference industry statistics and use outside experts. At June 30, 2007 and September 30, 2006, we had $146,124 and $37,000, respectively, invested, at cost, in equity securities compared to our debt portfolio with a cost basis of $369,829,274 and $216,165,986, respectively.

At June 30, 2007, we had total unrealized depreciation of $4,288,673, which was mainly comprised of unrealized deprecation of $1,375,000 on our senior subordinated term debt investment in Visual Edge Technology, Inc., unrealized depreciation of $1,022,250, on the aggregate of our investments in LocalTel, Inc. and unrealized depreciation of $282,750 on our senior term debt investment in It s Just Lunch International, LLC. Unrealized appreciation of $3,262,522 was primarily composed of unrealized appreciation of $2,935,858 on our warrants in Finn Corporation. In the aggregate, we recorded net unrealized depreciation of $1,026,151 on our total investment portfolio as of June 30, 2007.

At September 30, 2006, we had total unrealized appreciation of $2,015,198, which was mainly comprised of unrealized appreciation of $672,431 on our warrants of Finn Corporation, unrealized appreciation of $607,625 on our senior term debt in Mistras Holding Corporation and unrealized appreciation of $148,287 on our senior subordinated term debt investment in Xspedius Communications, LLC. This unrealized appreciation was offset by unrealized depreciation of $575,434, most notably composed of unrealized depreciation of $131,367 on our senior subordinated term debt investment in Consolidated Bedding, Inc. and unrealized depreciation of $115,750 on our senior term debt in LocalTel Inc. In the aggregate, we recorded net unrealized appreciation of $1,439,764 on our total investment portfolio as of September 30, 2006.

Tax Status

Federal Income Taxes

We intend to continue to qualify for treatment as a RIC under Subtitle A, Chapter 1 of Subchapter M of the Code. As a RIC, we are not subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To qualify as a RIC, we are required to distribute to stockholders at least 90% of our investment company taxable income, as defined by the Code. We have a policy to pay out as a dividend up to 100% of that amount.

In an effort to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year, an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years.

Revenue Recognition

Interest Income Recognition

Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. We will stop accruing interest on investments and write off any previously accrued and uncollected interest when it is determined that interest is no longer collectible. Conditional interest or a success fee is recorded when earned upon full repayment of a loan investment.

Paid in Kind Interest

In the future, we may hold loans in our portfolio which contain a PIK interest provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends, even though we have not yet collected the cash.

RESULTS OF OPERATIONS

Comparison of the Three Months Ended June 30, 2007 to the Three Months Ended June 30, 2006

Investment Income

Investment income for the three months ended June 30, 2007 was $9,201,279, as compared to $6,522,816 for the three months ended June 30, 2006.

Interest income from our investments in debt securities of private companies was $8,911,643 for the three months ended June 30, 2007, as compared with $5,775,522 for the three months ended June 30, 2006. This increase consisted of approximately $88.5 million of net new investments. As a result of repayments by Allied Extruders LLC, and SCPH Holdings during the three months ended June 2007, we recorded success fees of approximately $515,000. In June 2007, we purchased a senior debt portfolio of approximately $63.3 million to 16 different lenders, which is included in the net new investments described above

The annualized weighted average yield on our portfolio for the three months ended June 30, 2007 was 11.8%; there was no PIK interest accrued during the three months ended June 30, 2007. The annualized weighted average yield on our portfolio for the three months ended June 30, 2006 was 11.7% (with and without giving effect to PIK interest).

Interest income from invested cash and cash equivalents for the three months ended June 30, 2007 was $109,269, as compared to $8,178 for the three months ended June 30, 2006. Interest income increased from the prior year due to the amount of cash that was held in interest bearing accounts and the interest earned on our custodial account prior to disbursement.

For the three months ended June 30, 2007 and June 30, 2006, we recorded $132,795 and $108,877, respectively, in interest income from loans to our employees in connection with the exercise of employee stock options. The increase is the result of additional loans issued in connection with employee stock option exercises during the fourth quarter of the previous fiscal year.

For the three months ended June 30, 2007, we recorded $47,572 of prepayment fees and other income, as compared to $630,239 for the three months ended June 30, 2006. The income for both periods consisted of prepayment penalty fees received upon the full repayment of certain loan investments ahead of contractual maturity and prepayment fees received upon the early unscheduled principal repayments which, in both instances, were based on a percentage of the outstanding principal amount of the loan at the date of prepayment.

Operating Expenses

Operating expenses, prior to credit from the Adviser for fees earned and voluntary waivers to the base management fees and incentive fees, for the three months ended June 30, 2007 were $5,205,300, as compared to $2,277,508 for the three months ended June 30, 2006. Operating expenses for the three months ended June 30, 2007 reflected a significant increase in interest expense and management fees, prior to credits, as well as the addition of the incentive and administration fees, prior to credits, under the Amended Advisory and Administration Agreements.

Loan servicing fees of $897,634 were incurred for the three months ended June 30, 2007, as compared to $693,965 for the three months ended June 30, 2006. These fees were incurred in connection with a loan servicing agreement between Business Loan and our Adviser, which is based on the size of the portfolio. These fees were reduced against the amount of the base management fee due to our Adviser.

For the three months ended June 30, 2007, we incurred a base management fee of $727,259 , after reductions for loan servicing fees received by our Adviser of $897,634, less credits for fees received by our Adviser of $530,875 and a $139,261 fee reduction for the waiver of the 2% fee on senior syndicated loans to 0.5%, for a net base management fee of $57,123 as compared to the three months ended June 30, 2006, in which we incurred a base management fee of $334,814 after reductions for loan servicing fees received by our Adviser of $693,965, less credits for fees received by our Adviser of $539,000 and a $3,774 fee reduction for the waiver of the 2% fee on senior syndicated loans to 0.5%, for a net base management credit of $207,960. The base management fee is computed quarterly as described under *Investment Advisory and Management Agreement.* Effective April 1, 2007, the board of our Adviser reduced the amount of credit for fees received by our Adviser from 100% of the fees received to 50% of the fees received, therefore the three months ended June 30, 2007 reflects the reduced credit for fees received by our Adviser. The gross base management fee before the reduction for loan servicing fees for the three months ended June 30, 2007 and June 30, 2006, was $1,624,893 and $1,028,779, respectively, increased in the current period due to the growth of the investment portfolio as compared to the same period of the prior year.

Effective October 1, 2006, the income based incentive fee became effective and as such we recorded a gross incentive fee of $1,166,529, which was reduced by a voluntary waiver issued by our Adviser s board of directors of $1,038,752, which resulted in a net incentive fee of $127,777, which is recorded in fees due to Adviser on our consolidated statements of assets and liabilities at June 30, 2007. There was no incentive fee recorded for the three months ended June 30, 2006, as the Amended Advisory Agreement was not in effect.

Effective October 1, 2006, the Administration Agreement became effective in which we provide payments equal to our allocable portion of our Administrator s overhead expenses in performing its obligations under the Administration Agreement including, but not limited to, rent for employees of our Administrator, and our allocable portion of the salaries and benefits expenses of our chief financial officer, chief compliance officer and controller and their respective staffs. We incurred an administration fee of $186,895 for the three months ended June 30, 2007. There was no administration fee recorded during the three months ended June 30, 2006, as the Administration Agreement was not in effect.

Professional fees, consisting primarily of legal and audit fees, for the three months ended June 30, 2007 were $148,609, as compared to $166,405 for the three months ended June 30, 2006. The decrease is due to the reimbursement of certain legal fees at the time of the investment funding.

Amortization of deferred financing costs, in connection with our line of credit, was $72,133 for the three months ended June 30, 2007 and $36,036 for the three months ended June 30, 2006. The increase is due to the amortization of additional fees incurred with our line of credit which were not in place during the prior year period.

Interest expense for the three months ended June 30, 2007 was $1,762,249, as compared to $702,449 for the three months ended June 30, 2006. This increase is primarily a result of increased borrowings under our line of credit during the three months ended June 30, 2007, which borrowings were partially used to finance our increased investments, borrowings remaining outstanding for longer periods of time and an increase in the interest rates on our borrowings.

Stockholder related costs for the three months ended June 30, 2007 were $39,434, as compared to $28,371 for the three months ended June 30, 2006. Stockholder related costs include such recurring items as transfer agent fees, NASDAQ listing fees, SEC filing fees and annual report printing fees. These fees increased during the three months ended June 30, 2007 due to additional filing fees as compared to the prior year.

Directors fees for the three months ended June 30, 2007 were $56,250, as compared to $27,500 for the three months ended June 30, 2006 due to the increase in annual stipend fees and their related monthly amortization.

Insurance expense for the three months ended June 30, 2007 was $66,246, as compared to $50,589 for the three months ended June 30, 2006. The increase was primarily the result of an increase in the amortization of our directors and officers insurance policy premiums.

There was no stock option compensation expense recorded for the three months ended June 30, 2007 as there was no longer a stock option plan in effect. Stock option compensation expense for the three months ended June 30, 2006 was $202,296 and was the result of the adoption of the SFAS No. 123 (revised 2004) *Share-based Payment.*

Other expenses were $82,062 for the three months ended June 30, 2007, as compared to $35,083 for the three months ended June 30, 2006. The expenses primarily represent direct expenses such as travel related specifically to our portfolio companies, loan evaluation services for our portfolio companies, press releases and backup servicer expenses.

Net Realized Gain (Loss) on Sale of Investments

During the three months ended June 30, 2007, we sold or were repaid in full on eleven syndicate loan investments for a net loss of $5,021, as compared to a realized net loss of $100,850 as a result of the repayment in full of syndicate investments that contained unamortized premiums during the three months ended June 30, 2006.

Realized Gain on Settlement of Derivative

During the three months ended June 30, 2007, we received interest rate cap agreement payments of $8,405 as a result of the one month LIBOR exceeding 5% as compared to $1,367 during the three months ended June 30, 2006.

Net Unrealized Depreciation on Derivative

During the three months ended June 30, 2007, we recorded net unrealized depreciation of $264 due to a decrease in the fair market value of our interest rate cap agreement, as compared to unrealized appreciation of $41,486 during the three months ended June 30, 2006.

Net Unrealized Appreciation on Investments

For the three months ended June 30, 2007, we recorded net unrealized appreciation on investments of $256,613, as compared to net unrealized appreciation of $812,991, for the three months ended June 30, 2006. The unrealized appreciation is mainly attributable to the increase in fair value on our portfolio due to the repayment in full of certain underperforming investments, most notably Consolidated Bedding, Inc.

Net Increase in Net Assets from Operations

Overall, we realized a net increase in net assets resulting from operations of $5,964,600 for the three months ended June 30, 2007. Based on a weighted-average of 13,561,511 basic and diluted shares outstanding, our net increase in net assets from operations per weighted-average common share for the three months ended June 30, 2007 was $0.44, basic and diluted.

For the three months ended June 30, 2006, we realized a net increase in net assets resulting from operations of $5,543,076. Based on a weighted-average of 11,337,291 (basic) and 11,570,425 (diluted) shares outstanding, our net increase in net assets from operations per weighted-average common share for the three months ended June 30, 2006 was $0.49 (basic) and $0.48 (diluted).

Comparison of the Nine months ended June 30, 2007 to the Nine months ended June 30, 2006

Investment Income

Investment income for the nine months ended June 30, 2007 was $26,078,775, as compared to $19,553,835 for the nine months ended June 30, 2006.

Interest income from our investments in debt securities of private companies was $25,064,702 for the nine months ended June 30, 2007 as compared with $18,497,893 for the nine months ended June 30, 2006, which included $63,217 of PIK interest. This increase consisted of net new investments of approximately $153.9 million for the nine months ended June 30, 2007, as compared to net new investments of approximately $2.8 million for the nine months ended June 30, 2006. As a result of a refinancing by Badanco Acquisition Corp. and a full repayment by Mistras Holdings Corp., Allied Extruders LLC, and SCPH Holdings we recorded success fees of approximately $2,250,000 during the nine months ended June 30, 2007. In June 2007, we purchased a senior debt portfolio of approximately $63.3 million to 16 different lenders, which is included in the net new investments described above.

The annualized weighted average yield on our portfolio for the nine months ended June 30, 2007 was 12.3%; there was no PIK interest accrued during the nine months ended June 30, 2007. The annualized weighted average yield on our portfolio for the nine months ended June 30, 2006 was 12.3% (with and without giving effect to PIK interest).

Interest income from invested cash and cash equivalents for the nine months ended June 30, 2007 was $178,183, as compared to $21,714 for the nine months ended June 30, 2006. Interest income increased from the prior year due to the amount of cash that was held interest bearing accounts and the interest earned on our custodial account prior to disbursement.

For the nine months ended June 30, 2007 and June 30, 2006, we recorded $403,917 and $323,003, respectively, in interest income from loans to our employees in connection with the exercise of employee stock options. The increase is the result of additional loans issued in connection with employee stock option exercises during the fourth quarter of the previous fiscal year.

For the nine months ended June 30, 2007, we recorded $431,973 of prepayment fees and other income, as compared to $711,225 for the nine months ended June 30, 2006. The income for both periods consisted of prepayment penalty fees received upon the full repayment of certain loan investments ahead of contractual maturity and prepayment fees received upon the early unscheduled principal repayments which, in both instances, were based on a percentage of the outstanding principal amount of the loan at the date of prepayment.

Operating Expenses

Operating expenses, prior to credit from the Adviser for fees earned and voluntary waivers to the base management and incentive fees, for the nine months ended June 30, 2007 were $14,168,785, as compared to $6,835,060 for the nine months ended June 30, 2006. Operating expenses for the nine months ended June 30, 2007 reflected a significant increase in interest expense and management fees, prior to credits, as well as the addition of the incentive and administration fees, prior to credits, under the Amended Advisory and Administration Agreements.

Loan servicing fees of $2,377,409 were incurred for the nine months ended June 30, 2007, as compared to $2,144,024 for the nine months ended June 30, 2006. These fees were incurred in connection with a loan servicing agreement between Business Loan and our Adviser, which is based on the size of the portfolio. These fees were reduced against the amount of the base management fee due to our Adviser.

For the nine months ended June 30, 2007, we incurred a base management fee of $1,806,075 after reductions for loan servicing fees received by our Adviser of $2,377,409, less credits for fees received by our Adviser of $1,616,875 and a $369,161 fee reduction for the waiver of the 2% fee on senior syndicated loans to 0.5%, for a net base management fee credit of $179,961, as compared to the nine months ended June 30, 2006, in which we incurred a base management fee of $955,894 after reductions for loan servicing fees received by our Adviser of $2,144,024, less credits for fees received by our Adviser of $1,762,000 and a $3,774 fee reduction for the waiver of the 2% fee on senior syndicated loans to 0.5%, for a net base management credit of $809,880. The base management fee is computed quarterly as described under *Investment Advisory and Management Agreement.* Effective April 1, 2007, the board of our Adviser reduced the amount of credit for fees received by our Adviser from 100% of the fees received to 50% of the fees received, therefore, the three months ended June 30, 2007 reflect the reduced credit for fees received by our Adviser. The gross base management fee before the reduction for loan servicing fees for the nine months ended June 30, 2007 and June 30, 2006, was $4,183,484 and $3,099,918, respectively, which increased in the current period due to the growth of the investment portfolio as compared to the same period of the prior year and fewer credits for fees received by our Adviser.

Effective October 1, 2006, the income based incentive fee became effective and as such we recorded a gross incentive fee of $3,474,007, which was reduced by a voluntary waiver issued by our Adviser s board of directors of $2,696,124, which resulted in a net incentive fee of $777,883, which is recorded in fees due to Adviser on our consolidated statements of assets and liabilities at June 30, 2007. There was no incentive fee recorded for the nine months ended June 30, 2006, as the Amended Advisory Agreement was not in effect.

Effective October 1, 2006, the Administration Agreement became effective in which we provide payments equal to our allocable portion of our Administrator s overhead expenses in performing its obligations under the Administration Agreement including, but not limited to, rent for employees of our Administrator, and our allocable portion of the salaries and benefits expenses of our chief financial officer, chief compliance officer and controller and their respective staffs. We incurred an administration fee of $481,746 for the nine months ended June 30, 2007. There was no administration fee recorded during the nine months ended June 30, 2006, as the Administration Agreement was not in effect.

Professional fees, consisting primarily of legal and audit fees, for the nine months ended June 30, 2007 were $368,610, as compared to $399,758 for the nine months ended June 30, 2006. The slight decrease is due to the reimbursement of certain legal fees at the time of investment funding.

Amortization of deferred financing costs, in connection with our line of credit, was $198,633 for the nine months ended June 30, 2007 and $94,572 for the nine months ended June 30, 2006. The increase is due to the amortization of additional fees incurred with our line of credit which were not in place during the prior year period.

Interest expense for the nine months ended June 30, 2007 was $4,693,525, as compared to $2,302,693 for the nine months ended June 30, 2006. This increase is primarily a result of increased borrowings under our line of credit during the nine months ended June 30, 2007, which borrowings were partially used to finance our increased investments, borrowings remaining outstanding for longer periods of time and an increase in the interest rates on our borrowings.

Stockholder related costs for the nine months ended June 30, 2007 were $190,450, as compared to $273,170 for the nine months ended June 30, 2006. Stockholder related costs include such recurring items as transfer agent fees, NASDAQ listing fees, SEC filing fees and annual report printing fees. These fees decreased during the nine months ended June 30, 2007 since there were no special proxy solicitation or stock option termination notices filed as there were during the nine months ended June 30, 2006.

Directors fees for the nine months ended June 30, 2007 were $167,470, as compared to $81,712 for the nine months ended June 30, 2006 due to the increase in annual stipend fees and their related monthly amortization.

Insurance expense for the nine months ended June 30, 2007 was $191,338, as compared to $151,956 for the nine months ended June 30, 2006. The increase is primarily the result of an increase in the amortization of our directors and officers insurance policy premiums.

There was no stock option compensation expense recorded for the nine months ended June 30, 2007 as there was no longer a stock option plan in effect. Stock option compensation expense for the nine months ended June 30, 2006 was $279,618 and was the result of the adoption of the SFAS No. 123 (revised 2004) *Share-based Payment*.

Other expenses were $219,552 for the nine months ended June 30, 2007, as compared to $151,663 for the nine months ended June 30, 2006. The expenses primarily represent direct expenses such as travel related specifically to our portfolio companies, loan evaluation services for our portfolio companies, press releases and backup servicer expenses.

Income Tax Expense

During the nine months ended June 30, 2006, Gladstone Capital Corporation recorded approximately $50,000 in connection with penalties incurred on misclassified revenue on its fiscal year 2004 corporate tax return.

Net Realized Gain (Loss) on Sale of Investments

During the nine months ended June 30, 2007, we sold or were repaid in full on 24 syndicate loan investments for a net gain of $81,498, as compared to an aggregate net loss of $903,945, which was composed of $1,180,595 loss from the sale of two investments and a net gain of $276,650 from the sale and repayments of syndicate investments during the nine months ended June 30, 2006.

Realized Gain on Settlement of Derivative

During the nine months ended June 30, 2007, we received interest rate cap agreement payments of $31,198 as a result of the one month LIBOR exceeding 5%, as compared to $1,367 received during the nine months ended June 30, 2006.

Net Unrealized (Depreciation) Appreciation on Derivative

During the nine months ended June 30, 2007, we recorded net unrealized depreciation of $25,877 due to a decrease in the fair market value of our interest rate cap agreement, as compared to unrealized appreciation of $65,252 during the nine months ended June 30, 2006.

Net Unrealized (Depreciation) Appreciation on Investments

For the nine months ended June 30, 2007, we recorded net unrealized depreciation on investments of $2,465,915, as compared to net unrealized appreciation of $5,769,820, for the nine months ended June 30, 2006. The unrealized depreciation is mainly attributable to the depreciated fair value on certain investments, most notably unrealized depreciation on Its Just Lunch International LLC, LocalTel, Inc. and Visual Edge Technology, Inc., partially offset by appreciation of our warrants in Finn Corporation.

Net Increase in Net Assets from Operations

Overall, we realized a net increase in net assets resulting from operations of $14,213,054 for the nine months ended June 30, 2007. Based on a weighted-average of 12,701,845 basic and diluted shares outstanding, our net increase in net assets from operations per weighted-average common share for the nine months ended June 30, 2007 was $1.12, basic and diluted.

For the nine months ended June 30, 2006, we realized a net increase in net assets resulting from operations of $19,366,806. Based on a weighted-average of 11,317,437 (basic) and 11,549,054 (diluted) shares outstanding, our net increase in net assets from operations per weighted-average common share for the nine months ended June 30, 2006 was $1.71 (basic) and $1.68 (diluted).

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2007, we had investments in debt securities of, or loans to, 59 private companies, totaling approximately $370.0 million (cost basis) of total assets.

During the nine months ended June 30, 2007 and June 30, 2006, the following investment activity occurred:

Quarter Ended	New Investments	Principal Repayments	Net Gain/(Loss) on Disposal
June 30, 2007	$ 126,086,654	$ 37,572,621	$ (5,021)
March 31, 2007	75,330,167	38,263,017	84,205
December 31, 2006	52,311,008	23,967,229	2,314
	$ 253,727,829	$ 99,802,867	$ 81,498
June 30, 2006	$ 39,916,834	$ 44,358,944	$ (100,850)
March 31, 2006	38,471,109	24,815,067	377,500
December 31, 2005	26,688,457	38,702,066	(1,180,595)
	$ 105,076,400	$ 107,876,077	$ (903,945)

The following table summarizes the contractual principal amortization and maturity of our investment portfolio by fiscal year:

Fiscal Year Ended September 30,	Amount
2007	$ 8,358,133
2008	9,922,956
2009	26,109,512
2010	43,759,511
2011	94,200,816
Thereafter	187,624,470
	$ 369,975,398

Net cash used in operating activities for the nine months ended June 30, 2007, consisting primarily of the items described in *Results of Operations* and the investment activity described above, was approximately $136.6 million as compared to net cash provided by operating activities of approximately $17.8 million for the nine months ended June 30, 2006. Net cash provided by investing activities consisted of $300,941 and $129,943 for the nine months ended June 30, 2007 and June 30, 2006, respectively, and consisted of the principal repayments of employee loans. Net cash provided by financing activities for the nine months ended June 30, 2007 was approximately $139.1 million and mainly consisted of an offering of common stock for net proceeds of approximately $45.7 million, borrowings on our line of credit of approximately $277.8 million, offset by repayments on line of credit borrowings of approximately $166.6 million, and approximately $16.0 million for the payment of dividends. Net cash used in financing activities was approximately $18.0 million for the nine months ended June 30, 2006 and consisted primarily of net repayments on our line of credit of approximately $5.2 million and the payment of dividends of approximately $13.8 million.

During the nine months ended June 30, 2007, cash and cash equivalents increased from approximately $732,000 to approximately $3.5 million.

In order to qualify as a RIC and to avoid corporate level tax on the income we distribute to our stockholders, we are required, under Subchapter M of the Code, to distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on an annual basis. In accordance with these requirements, we declared and paid monthly cash dividends of $0.14 per common share for July, August, September, October, November and December 2006 and January, February, March, April, May and June 2007 and $0.135 per common share for January, February, March, April, May and June 2006, and October, November and December 2005. In July 2007, our Board of Directors declared a monthly dividend of $0.14 per common share for each of July, August, and September 2007.

We anticipate continuing to borrow funds and, from time to time issuing additional equity securities, to obtain additional capital to make further investments. On May 2, 2007, we completed a public offering of 2,000,000 shares of our common stock, at a price of $24.25 per share, under a shelf registration statement on Form N-2 (File No. 333-100385), and pursuant to the terms set forth in a prospectus dated April 16, 2007, as supplemented by a final prospectus dated April 27, 2007. Net proceeds of the offering, after underwriting discounts and offering expenses were approximately $45,669,292 and were used to repay outstanding borrowings under our line of credit. In May 2007, we filed with the SEC a new shelf registration statement on Form N-2 (File No. 333-143027) (the Registration Statement) which the SEC declared effective on July 5, 2007 that would permit us to issue, through one or more transactions, up to an aggregate of $300 million in securities, consisting of common stock, preferred stock and/or debt securities. On July 24, 2007, we completed an offering of 400,000 shares of our common stock, at a price of $20.41 per share, under the Registration Statement, and pursuant to the terms set forth in a prospectus dated July 5, 2007, as supplemented by a final prospectus dated July 24, 2007. Net proceeds from this offering, after offering expenses, were approximately $8,149,000 and were used to repay outstanding borrowings under our line of credit. After this offering, we have the capacity to issue up to an aggregate of approximately $291.8 million in securities under the Registration Statement.

Revolving Credit Facilities

Through our wholly-owned subsidiary, Business Loan, we have a $220 million revolving credit facility (the DB Facility) with Deutsche Bank AG, as administrative agent, which is scheduled to mature on May 23, 2008. Pursuant to the DB Facility, Business Loan has pledged the loans it holds to secure future advances by certain institutional lenders. Interest rates charged on the advances under the DB Facility will be based on LIBOR, the Prime Rate or the Federal Funds Rate, depending on market conditions, and will adjust periodically. As of June 30, 2007, our outstanding principal balance under the DB Facility was approximately $161.2 million at an interest rate of approximately 5.3%. Available borrowings are subject to various constraints imposed by Deutsche Bank AG, based on the aggregate loan balance pledged by Business Loan, which varies as loans are added and repaid, regardless of whether such repayments are early prepayment or are made as contractually required. At June 30, 2007, the remaining borrowing capacity available under the DB Facility was approximately $58.8 million.

The DB Facility contains covenants that, among other things, require Business Loan to maintain its status as a separate entity; prohibit certain significant corporate transactions (such as mergers, consolidations, liquidations or dissolutions); and restrict material changes to our credit and collection policies. The DB Facility also restricts some of the terms and provisions (including interest rates, terms to maturity and payments schedules) and limits the borrower and industry concentrations of loans that are eligible to secure advances. As of June 30, 2007, Business Loan was in compliance with all of the DB Facility covenants. We currently intend to securitize all of the loans held by Business Loan and to use the proceeds from the securitization to pay down any amounts then outstanding under the revolving credit facility. However, there can be no assurance that we will be able to successfully securitize any of these loans on terms acceptable to us, if at all.

The administrative agent also requires that any interest or principal payments on pledged loans be remitted directly by the borrower into a lockbox account with the Bank of New York as custodian. Deutsche Bank AG is also the trustee of the account and once a month remits the collected funds to us. For the nine months ended June 30, 2007, the amount due from custodian decreased by $457,261.

Our Adviser, services the loans pledged under the DB Facility. As a condition to this servicing arrangement, we executed a performance guaranty pursuant to which we guaranteed that our Adviser would comply fully with all of its obligations under the facility. The performance guaranty requires us to maintain a minimum net worth of $100 million and to maintain asset coverage with respect to senior securities representing indebtedness of at least 200%, in accordance with Section 18 of the 1940 Act. As of June 30, 2007, we were in compliance with our covenants under the performance guaranty.

The DB facility is available for general corporate purposes.

Contractual Obligations

As of June 30, 2007, we were a party to signed and non-binding term sheets for two loan originations for an aggregate of $15.0 million. To date, these investments have not yet funded and we expect to fund these potential investments as follows:

		Payment Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Investments	15,000,000	15,000,000			
Total	$ 15,000,000	$ 15,000,000	$	$	$

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are subject to financial market risks, including changes in interest rates. We estimate that ultimately approximately 20% of the loans in our portfolio will be made at fixed rates and approximately 80% will be made at variable rates. Currently our portfolio has approximately 51% of the total loan portfolio cost basis at variable rates with a floor, approximately 2% of the total loan portfolio cost basis at a variable rate with a floor and ceiling, approximately 46% of the total loan portfolio cost basis at variable rates without a floor or ceiling and approximately 1% of the total loan portfolio cost basis is at a fixed rate. All of our variable based loans have rates associated with either the current Prime Rate or LIBOR.

We have a $220 million revolving credit facility, based on variable rates, with Deutsche Bank AG which matures May 2008.

In February 2004, we entered into an interest rate cap agreement in order to fulfill an obligation under our line of credit to enter into certain hedging transactions in connection with our borrowings under the line of credit. We purchased this interest rate cap agreement with a notional amount of $35 million (which is amortized quarterly) for a one-time, up-front payment of $304,000. The interest rate cap agreement entitles us to receive payments, if any, equal to the amount by which interest payments on the current notional amount at one month LIBOR exceed the payments on the current notional amount at 5%. The cap expires in February 2009. This interest rate cap agreement effectively caps our interest payments on our line of credit borrowing, up to the notional amount of the interest rate cap, at five percent. This mitigates our exposure to increases in interest rates on our borrowings on our lines of credit, which are at variable rates. At June 30, 2007, the cap agreement had a fair market value of $24,407 and a current notional amount of $8.8 million. At June 30, 2007, the one month LIBOR rate was approximately 5.32%.

To illustrate the potential impact of changes in interest rates on our net increase in net assets resulting from operations, we have performed the following analysis, which assumes that our balance sheet remains constant and no further actions beyond the interest rate cap agreement are taken to alter our existing interest rate sensitivity. Under this analysis, a hypothetical increase in the one month LIBOR or the Prime Rate by 1% would increase our net increase in net assets resulting from operations by approximately $2.0 million, or 10.5%, over the next twelve months, compared to the net increase in net assets resulting from operations for the twelve months ended June 30, 2007. A hypothetical decrease in the one month LIBOR or the Prime Rate by 1% would decrease net increase in net assets resulting from operations by approximately $2.0 million, or 10.5%, over the next twelve months, compared to the net increase in net assets resulting from operations for the twelve months ended June 30, 2007. Although management believes that this analysis is indicative of our existing interest rate sensitivity, it does not adjust for potential changes in credit quality, size and composition of our loan portfolio on the balance sheet and other business developments that could affect net increase in net assets resulting from operations. Accordingly, no assurances can be given that actual results would not differ materially from the results under this hypothetical analysis.

In the event that we securitize a portion of our loan portfolio, we believe that we will likely be required to enter into further hedging arrangements in the future with respect to securitized loans. While hedging activities may mitigate our exposure to adverse fluctuations in interest rates, certain hedging transactions that we may enter into in the future, such as interest rate swap agreements, may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments.

We may also experience risk associated with investing in securities of companies with foreign operations. We currently do not anticipate investing in debt or equity of foreign companies, however, some potential portfolio companies may have operations located outside the United States. These risks include, but are not limited to, fluctuations in foreign currency exchange rates, imposition of foreign taxes, changes in exportation regulations and political and social instability.

ITEM 4. CONTROLS AND PROCEDURES.

As of June 30, 2007, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective in timely alerting management, including the Chief Executive Officer and Chief Financial Officer, of material information about us required to be included in periodic Securities and Exchange Commission filings. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Neither we, nor any of our subsidiaries, are currently subject to any material legal proceeding, nor, to our knowledge, is any material legal proceeding threatened against us or any of our subsidiaries.

ITEM 1A. RISK FACTORS.

Our business is subject to certain risks and events that, if they occur, could adversely affect our financial condition and results of operations and the trading price of our common stock. For a discussion of these risks, please refer to the Risk Factors section of our Annual Report on Form 10-K for the fiscal year ended September 30, 2006, filed by us with the Securities and Exchange Commission on December 6, 2006 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, filed by us with the Securities and Exchange Commission on May 2, 2007.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the three months ended June 30, 2007.

ITEM 5. OTHER INFORMATION.

Not applicable

ITEM 6. EXHIBITS

See the exhibit index.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GLADSTONE CAPITAL CORPORATION

By: /s/ HARRY BRILL

Harry Brill
Chief Financial Officer

Date: August 6, 2007

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EXHIBIT INDEX

Exhibit	**Description**
3.1	Articles of Amendment and Restatement of the Articles of Incorporation, incorporated by reference to Exhibit a.2 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-63700), filed July 27, 2001.
3.2	By-laws, incorporated by reference to Exhibit b to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-63700), filed July 27, 2001.
3.3	Amendment to by-laws, incorporated by reference to Exhibit 3.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended December 31, 2003 (File No. 814-00237), filed February 17, 2004.
3.4	Second amendment to bylaws, incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K (File No. 814-00237), filed July 10, 2007.
10.1	Amendment No. 3 to the Amended and Restated Credit Agreement by and among Gladstone Business Loan LLC, Deutsche Bank AG, and certain other parties, dated as of May 25, 2007, incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K (File No. 814-00237), filed May 29, 2007.
11	Computation of Per Share Earnings (included in the notes to the unaudited consolidated financial statements contained in this report).
31.1	Certification of Chief Executive Officer pursuant to section 302 of The Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to section 302 of The Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.

All other exhibits for which provision is made in the applicable regulations of the Securities and Exchange Commission are not required under the related instruction or are inapplicable and therefore have been omitted.