

WASTE CONNECTIONS, INC.

Form 10-Q

October 23, 2012

Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2012

Or

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

For the transition period from            to

Commission file number 1-31507

# WASTE CONNECTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-3283464

(I.R.S. Employer Identification No.)

10001 Woodloch Forest Drive, Waterway Plaza Two, Suite 400 The Woodlands, TX 77380

(Address of principal executive offices)

(Zip code)

(832) 442-2200

(Registrant's telephone number, including area code)

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock:

As of October 12, 2012: 122,784,360 shares of common stock



**Table of Contents**

**WASTE CONNECTIONS, INC.**

**FORM 10-Q**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION (unaudited)</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Condensed Consolidated Balance Sheets</u>	1
<u>Condensed Consolidated Statements of Net Income</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income</u>	3
<u>Condensed Consolidated Statements of Equity</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	60
<u>Item 4. Controls and Procedures</u>	62
<b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	63
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	63
<u>Item 6. Exhibits</u>	63
<u>Signatures</u>	64
<u>Exhibit Index</u>	65

**Table of Contents**

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

## WASTE CONNECTIONS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share amounts)

	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 103,532	\$ 12,643
Accounts receivable, net of allowance for doubtful accounts of \$6,577 and \$6,617 at September 30, 2012 and December 31, 2011, respectively	196,617	176,277
Deferred income taxes	29,125	20,630
Prepaid expenses and other current assets	33,487	39,708
<b>Total current assets</b>	<b>362,761</b>	<b>249,258</b>
Property and equipment, net	1,561,415	1,450,469
Goodwill	1,183,363	1,116,888
Intangible assets, net	496,341	449,581
Restricted assets	32,982	30,544
Other assets, net	36,965	31,265
	<b>\$ 3,673,827</b>	<b>\$ 3,328,005</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 105,883	\$ 95,097
Book overdraft	8,786	12,169
Accrued liabilities	119,579	97,020
Deferred revenue	68,694	64,694
Current portion of contingent consideration	25,958	8,923
Current portion of long-term debt and notes payable	4,128	5,899
<b>Total current liabilities</b>	<b>333,028</b>	<b>283,802</b>
Long-term debt and notes payable	976,446	1,172,758
Long-term portion of contingent consideration	23,995	22,573
Other long-term liabilities	66,045	52,051
Deferred income taxes	422,487	397,134
<b>Total liabilities</b>	<b>1,822,001</b>	<b>1,928,318</b>
Commitments and contingencies (Note 17)		
Equity:		
Preferred stock: \$0.01 par value per share; 7,500,000 shares authorized; none issued and outstanding	1,228	1,109

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Common stock: \$0.01 par value per share; 250,000,000 shares authorized; 122,783,945 and 110,907,782 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively		
Additional paid-in capital	772,043	408,721
Accumulated other comprehensive loss	(6,080)	(3,480)
Retained earnings	1,079,482	988,560
<b>Total Waste Connections equity</b>	<b>1,846,673</b>	<b>1,394,910</b>
Noncontrolling interest in subsidiaries	5,153	4,777
<b>Total equity</b>	<b>1,851,826</b>	<b>1,399,687</b>
	\$ 3,673,827	\$ 3,328,005

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

**Table of Contents**

## WASTE CONNECTIONS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME

(Unaudited)

(In thousands, except share and per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenues	\$ 425,654	\$ 403,962	\$ 1,212,815	\$ 1,125,614
Operating expenses:				
Cost of operations	243,243	228,561	698,351	637,499
Selling, general and administrative	47,977	41,047	143,899	121,054
Depreciation	42,313	38,868	119,331	108,843
Amortization of intangibles	6,267	5,138	18,115	14,788
Loss on disposal of assets	244	1,034	715	742
Gain from litigation settlement	(3,537)		(3,537)	
Operating income	89,147	89,314	235,941	242,688
Interest expense	(11,949)	(12,029)	(36,063)	(31,948)
Interest income	333	132	630	408
Other income (expense), net	492	(899)	1,033	(750)
Income before income tax provision	78,023	76,518	201,541	210,398
Income tax provision	(28,403)	(29,934)	(77,967)	(82,415)
Net income	49,620	46,584	123,574	127,983
Less: Net income attributable to noncontrolling interests	(235)	(255)	(470)	(702)
Net income attributable to Waste Connections	\$ 49,385	\$ 46,329	\$ 123,104	\$ 127,281
Earnings per common share attributable to Waste Connections common stockholders:				
Basic	\$ 0.40	\$ 0.41	\$ 1.02	\$ 1.13
Diluted	\$ 0.40	\$ 0.41	\$ 1.02	\$ 1.12
Shares used in the per share calculations:				
Basic	123,031,259	112,327,410	120,571,106	113,130,314
Diluted	123,665,589	113,192,884	121,198,901	113,979,165
Cash dividends per common share	\$ 0.09	\$ 0.075	\$ 0.27	\$ 0.225

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

**Table of Contents**

## WASTE CONNECTIONS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except share and per share amounts)

	Three months ended September 30, 2012		Nine months ended September 30, 2011	
	2012	2011	2012	2011
Net income	\$ 49,620	\$ 46,584	\$ 123,574	\$ 127,983
Other comprehensive income (loss), before tax:				
Interest rate swap amounts reclassified into interest expense	1,380	1,186	3,886	4,641
Fuel hedge amounts reclassified into cost of operations	(1,093)	(1,101)	(3,327)	(3,189)
Changes in fair value of interest rate swaps	(2,415)	(2,081)	(7,208)	(4,684)
Changes in fair value of fuel hedges	1,782	(1,042)	2,455	2,882
Other comprehensive loss before tax	(346)	(3,038)	(4,194)	(350)
Income tax expense related to items of other comprehensive income	131	1,154	1,594	133
Other comprehensive loss, net of tax	(215)	(1,884)	(2,600)	(217)
Comprehensive income	49,405	44,700	120,974	127,766
Less: Comprehensive income attributable to noncontrolling interests	(235)	(255)	(470)	(702)
Comprehensive income attributable to Waste Connections	\$ 49,170	\$ 44,445	\$ 120,504	\$ 127,064

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



**Table of Contents**

## WASTE CONNECTIONS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

NINE MONTHS ENDED SEPTEMBER 30, 2012

(Unaudited)

(In thousands, except share amounts)

	Common Stock		Waste Connections Accumulated		Equity		Total
	Shares	Amount	Additional Paid-In Capital	Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interests	
<b>Balances at December 31, 2011</b>	110,907,782	\$ 1,109	\$ 408,721	\$ (3,480)	\$ 988,560	\$ 4,777	\$ 1,399,687
Vesting of restricted stock units	588,910	6	(6)				
Tax withholdings related to net share settlements of restricted stock units	(189,200)	(2)	(6,037)				(6,039)
Equity-based compensation			14,036				14,036
Exercise of stock options and warrants	95,900	1	1,041				1,042
Issuance of common stock, net of issuance costs of \$376	12,000,000	120	369,464				369,584
Excess tax benefit associated with equity-based compensation			3,415				3,415
Repurchase of common stock	(619,447)	(6)	(18,591)				(18,597)
Cash dividends on common stock					(32,182)		(32,182)
Amounts reclassified into earnings, net of taxes				347			347
Changes in fair value of cash flow hedges, net of taxes				(2,947)			(2,947)
Distributions to noncontrolling interests						(94)	(94)
Net income					123,104	470	123,574
<b>Balances at September 30, 2012</b>	122,783,945	\$ 1,228	\$ 772,043	\$ (6,080)	\$ 1,079,482	\$ 5,153	\$ 1,851,826

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

Table of Contents

## WASTE CONNECTIONS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

NINE MONTHS ENDED SEPTEMBER 30, 2011

(Unaudited)

(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Waste Connections Accumulated Other Comprehensive Income (Loss)	Equity Retained Earnings	Noncontrolling Interests	Total
	Shares	Amount					
<b>Balances at December 31, 2010</b>	113,950,081	\$ 1,139	\$ 509,218	\$ (3,095)	\$ 858,887	\$ 4,269	\$ 1,370,418
Vesting of restricted stock units	538,878	5	(5)				
Tax withholdings related to net share settlements of restricted stock units	(184,478)	(1)	(5,435)				(5,436)
Equity-based compensation			8,906				8,906
Exercise of stock options and warrants	383,082	4	4,952				4,956
Excess tax benefit associated with equity-based compensation			4,500				4,500
Repurchase of common stock	(2,823,235)	(28)	(85,040)				(85,068)
Cash dividends on common stock					(25,497)		(25,497)
Amounts reclassified into earnings, net of taxes				900			900
Changes in fair value of cash flow hedges, net of taxes				(1,117)			(1,117)
Distributions to noncontrolling interests						(675)	(675)
Fair value of noncontrolling interest associated with business acquired						251	251
Net income					127,281	702	127,983
<b>Balances at September 30, 2011</b>	111,864,328	\$ 1,119	\$ 437,096	\$ (3,312)	\$ 960,671	\$ 4,547	\$ 1,400,121

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

**Table of Contents**

## WASTE CONNECTIONS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine months ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 123,574	\$ 127,983
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of assets	715	742
Depreciation	119,331	108,843
Amortization of intangibles	18,115	14,788
Deferred income taxes, net of acquisitions	18,451	36,960
Amortization of debt issuance costs	1,247	1,005
Equity-based compensation	14,036	8,906
Interest income on restricted assets	(491)	(355)
Interest accretion	2,798	1,977
Excess tax benefit associated with equity-based compensation	(3,415)	(4,500)
Net change in operating assets and liabilities, net of acquisitions	32,378	1,375
Net cash provided by operating activities	326,739	297,724
Cash flows from investing activities:		
Payments for acquisitions, net of cash acquired	(223,256)	(247,862)
Capital expenditures for property and equipment	(110,995)	(84,051)
Proceeds from disposal of assets	2,107	3,238
Decrease in restricted assets, net of interest income	4,779	2,241
Other	(6,287)	(1,706)
Net cash used in investing activities	(333,652)	(328,140)
Cash flows from financing activities:		
Proceeds from long-term debt	334,000	515,500
Principal payments on notes payable and long-term debt	(545,069)	(343,726)
Payment of contingent consideration	(4,099)	(100)
Change in book overdraft	(3,383)	(937)
Proceeds from option and warrant exercises	1,042	4,956
Excess tax benefit associated with equity-based compensation	3,415	4,500
Payments for repurchase of common stock	(18,597)	(85,068)
Payments for cash dividends	(32,182)	(25,497)
Tax withholdings related to net share settlements of restricted stock units	(6,039)	(5,436)
Distributions to noncontrolling interests	(94)	(675)
Debt issuance costs	(776)	(6,414)
Proceeds from common stock offering, net	369,584	
Net cash provided by financing activities	97,802	57,103
Net increase in cash and equivalents	90,889	26,687
Cash and equivalents at beginning of period	12,643	9,873

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Cash and equivalents at end of period	\$	103,532	\$	36,560
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Non-cash financing activity:

Liabilities assumed and notes payable issued to sellers of businesses acquired	\$	51,004	\$	144,386
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Table of Contents**

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

1. BASIS OF PRESENTATION AND SUMMARY

The accompanying condensed consolidated financial statements relate to Waste Connections, Inc. and its subsidiaries ( WCI or the Company ) for the three and nine month periods ended September 30, 2012 and 2011. In the opinion of management, the accompanying balance sheets and related interim statements of net income, comprehensive income, cash flows and equity include all adjustments, consisting only of normal recurring items, necessary for their fair statement in conformity with U.S. generally accepted accounting principles ( GAAP ). Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Examples include accounting for landfills, self-insurance accruals, income taxes, allocation of acquisition purchase price and asset impairments. An additional area that involves estimation is when the Company estimates the amount of potential exposure it may have with respect to litigation, claims and assessments in accordance with the accounting guidance on contingencies. Actual results could differ materially from the estimates and assumptions that the Company uses in the preparation of its condensed consolidated financial statements.

Interim results are not necessarily indicative of results for a full year. These interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

2. NEW ACCOUNTING STANDARDS

Fair Value Measurement. In May 2011, the FASB issued additional guidance on fair value disclosures. This guidance contains certain updates to the measurement guidance as well as enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements including enhanced disclosure for: (1) the valuation processes used by the reporting entity; and (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any. This guidance was effective for interim and annual periods beginning on or after December 15, 2011. As of September 30, 2012, the only assets or liabilities which require Level 3 measurements are the Company s diesel fuel hedges. The Company adopted this guidance as of January 1, 2012. See Note 12 for further information.

Presentation of Comprehensive Income. In September 2011, the FASB issued guidance on the presentation of comprehensive income. This guidance eliminates the option to report other comprehensive income and its components in the statement of changes in equity. The guidance allows two presentation alternatives: present items of net income and other comprehensive income (1) in one continuous statement, referred to as the statement of comprehensive income; or (2) in two separate, but consecutive, statements of net income and other comprehensive income. This guidance was effective as of the beginning of a fiscal year that begins after December 15, 2011. Full retrospective application is required. The guidance also previously required the presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented; however, this portion of the guidance has been deferred. The Company adopted this guidance as of January 1, 2012 and elected to present items of net income and other comprehensive income in two separate, but consecutive, statements of net income and comprehensive income.

Impairment of Indefinite-lived Intangible Assets. In July 2012, the FASB issued guidance on testing indefinite-lived intangible assets for impairment. The guidance provides entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. However, an entity can choose to early adopt, provided that the entity has not yet performed its 2012 annual impairment test or issued its financial statements. The Company has elected to early adopt the guidance and will perform a qualitative assessment when it performs its indefinite-lived intangible asset impairment test in the fourth quarter of 2012.

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

## 3. RECLASSIFICATION

Certain amounts reported in the Company's prior year financial statements have been reclassified to conform with the 2012 presentation.

## 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist primarily of cash and equivalents, trade receivables, restricted assets, trade payables, debt instruments, interest rate swaps and fuel hedges. As of September 30, 2012 and December 31, 2011, the carrying values of cash and equivalents, trade receivables, restricted assets, and trade payables are considered to be representative of their respective fair values. The carrying values of the Company's debt instruments, excluding certain notes as listed in the table below, approximate their fair values as of September 30, 2012 and December 31, 2011, based on current borrowing rates for similar types of borrowing arrangements, and are therefore classified as Level 2 within the fair value hierarchy. The carrying values and fair values of the Company's debt instruments where the carrying values do not approximate their fair values as of September 30, 2012 and December 31, 2011, are as follows:

	Carrying Value at		Fair Value* at	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
6.22% Senior Notes due 2015	\$ 175,000	\$ 175,000	\$ 195,749	\$ 186,305
3.30% Senior Notes due 2016	\$ 100,000	\$ 100,000	\$ 103,370	\$ 98,980
4.00% Senior Notes due 2018	\$ 50,000	\$ 50,000	\$ 52,694	\$ 51,220
5.25% Senior Notes due 2019	\$ 175,000	\$ 175,000	\$ 196,766	\$ 174,125
4.64% Senior Notes due 2021	\$ 100,000	\$ 100,000	\$ 107,895	\$ 104,250

\* Senior Notes are classified as Level 2 within the fair value hierarchy. Fair value is based on quotes of bonds with similar ratings in similar industries.

For details on the fair value of the Company's interest rate swaps, fuel hedges and restricted assets, refer to Note 12.

## 5. LANDFILL ACCOUNTING

At September 30, 2012, the Company owned 38 landfills, and operated, but did not own, six landfills under life-of-site operating agreements and six landfills under limited-term operating agreements. The Company's landfills had site costs with a net book value of \$893,980 at September 30, 2012. With the exception of four landfills which only accept construction and demolition and other non-putrescible waste, all landfills that the Company owns or operates are municipal solid waste landfills. For the Company's landfills operated under limited-term operating agreements and life-of-site operating agreements, the owner of the property (generally a municipality) usually owns the permit and the Company operates the landfill for a contracted term. Where the contracted term is not the life of the landfill, the property owner is generally responsible for final capping, closure and post-closure obligations. The Company is responsible for all final capping, closure and post-closure liabilities at five of the six landfills that it operates under life-of-site operating agreements.

**Table of Contents**

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

The Company's internal and third-party engineers perform surveys at least annually to estimate the remaining disposal capacity at its landfills. Many of the Company's existing landfills have the potential for expanded disposal capacity beyond the amount currently permitted. The Company's landfill depletion rates are based on the remaining disposal capacity, considering both permitted and probable expansion airspace, at the landfills it owns, and certain landfills it operates, but does not own, under life-of-site agreements. The Company's landfill depletion rate is based on the term of the operating agreement at its operated landfill that has capitalized expenditures. Expansion airspace consists of additional disposal capacity being pursued through means of an expansion that has not yet been permitted. Expansion airspace that meets certain criteria is included in the estimate of total landfill airspace.

Based on remaining permitted capacity as of September 30, 2012, and projected annual disposal volumes, the average remaining landfill life for the Company's owned landfills and landfills operated under life-of-site operating agreements is estimated to be approximately 40 years. As of September 30, 2012, the Company is seeking to expand permitted capacity at seven of its owned landfills and two landfills that it operates under life-of-site operating agreements, and considers the achievement of these expansions to be probable. Although the Company cannot be certain that all future expansions will be permitted as designed, the average remaining life, when considering remaining permitted capacity, probable expansion capacity and projected annual disposal volume, of the Company's owned landfills and landfills operated under life-of-site operating agreements is 47 years, with lives ranging from 6 to 202 years.

During the nine months ended September 30, 2012 and 2011, the Company expensed \$35,219 and \$31,712, respectively, or an average of \$3.15 and \$2.94 per ton consumed, respectively, related to landfill depletion at owned landfills and landfills operated under life-of-site agreements.

The Company reserves for final capping, closure and post-closure maintenance obligations at the landfills it owns and five of the six landfills it operates under life-of-site operating agreements. The Company calculates the net present value of its final capping, closure and post-closure commitments by estimating the total obligation in current dollars, inflating the obligation based upon the expected date of the expenditure and discounting the inflated total to its present value using a credit-adjusted risk-free rate. Any changes in expectations that result in an upward revision to the estimated undiscounted cash flows are treated as a new liability and are inflated and discounted at rates reflecting current market conditions. Any changes in expectations that result in a downward revision (or no revision) to the estimated undiscounted cash flows result in a liability that is inflated and discounted at rates reflecting the market conditions at the time the cash flows were originally estimated. This policy results in the Company's final capping, closure and post-closure liabilities being recorded in layers. The Company's discount rate assumption for purposes of computing 2012 and 2011 layers for final capping, closure and post-closure obligations was 5.75% for each year, which reflects the Company's long-term cost of borrowing as of the end of 2011 and 2010. The Company's inflation rate assumption is 2.5% for the years ending December 31, 2012 and 2011. The resulting final capping, closure and post-closure obligations are recorded on the balance sheet along with an offsetting addition to site costs which is amortized to depletion expense as the remaining landfill airspace is consumed. Interest is accreted on the recorded liability using the corresponding discount rate. During the nine months ended September 30, 2012 and 2011, the Company expensed \$1,870 and \$1,451, respectively, or an average of \$0.17 and \$0.13 per ton consumed, respectively, related to final capping, closure and post-closure accretion expense.

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

The following is a reconciliation of the Company's final capping, closure and post-closure liability balance from December 31, 2011 to September 30, 2012:

Final capping, closure and post-closure liability at December 31, 2011	\$ 30,883
Adjustments to final capping, closure and post-closure liabilities	3,467
Liabilities incurred	2,072
Accretion expense	1,870
Closure payments	(17)
Assumption of closure liabilities from acquisitions	1,762
<b>Final capping, closure and post-closure liability at September 30, 2012</b>	<b>\$ 40,037</b>

The Adjustments to final capping, closure and post-closure liabilities primarily consisted of increases in estimated closure costs and changes in timing of closure activities at some of the Company's landfills, partially offset by a decrease in closure liabilities from third parties due to changes in timing of closure activities and reduced closure expenses. The Company performs its annual review of its cost and capacity estimates in the first quarter of each year.

At September 30, 2012, \$30,555 of the Company's restricted assets balance was for purposes of securing its performance of future final capping, closure and post-closure obligations.

**6. LONG-TERM DEBT**

Long-term debt consists of the following:

	September 30, 2012	December 31, 2011
Revolver under credit facility, bearing interest ranging from 1.39% to 3.65%*	\$ 325,000	\$ 519,000
2015 Notes, bearing interest at 6.22%	175,000	175,000
2016 Notes, bearing interest at 3.30%	100,000	100,000
2018 Notes, bearing interest at 4.00%	50,000	50,000
2019 Notes, bearing interest at 5.25%	175,000	175,000
2021 Notes, bearing interest at 4.64%	100,000	100,000
Tax-exempt bonds, bearing interest ranging from 0.12% to 0.43%*	37,455	38,460
Notes payable to sellers in connection with acquisitions, bearing interest at 2.50% to 10.35%*	15,453	18,356
Notes payable to third parties, bearing interest at 6.7% to 10.9%*	2,666	2,841
	980,574	1,178,657
Less current portion	(4,128)	(5,899)



\$ 976,446      \$ 1,172,758

\* Interest rates in the table above represent the range of interest rates incurred during the nine month period ended September 30, 2012.

**Table of Contents**

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

On September 16, 2012, the Company entered into a Commitment Letter (the "Commitment Letter") with Bank of America, N.A., as a joint arranger, pursuant to which the Company may borrow an aggregate principal amount of up to \$750,000 under an unsecured term loan facility (the "Senior Credit Facility") to partially fund the purchase of the business of R360 Environmental Solutions, Inc. ("R360"), as discussed in Note 7. On October 1, 2012, JPMorgan Chase Bank, N.A., and Wells Fargo Bank, National Association, joined the Commitment Letter, as additional joint arrangers. The Senior Credit Facility will bear interest, at the Company's option, at either the base rate plus the applicable base rate margin on base rate loans, or the Eurodollar rate plus the applicable Eurodollar margin on Eurodollar loans. The applicable margins under the Senior Credit Facility vary depending on the Company's leverage ratio, as defined in the Commitment Letter. The Senior Credit Facility will require the Company to maintain specified financial ratios. The Senior Credit Facility will mature five years after the closing date. The Senior Credit Facility is subject to conditions precedent to closing, as defined in the Commitment Letter, and to be more fully set forth in the definitive loan documentation. The Company expects the Senior Credit Facility to close in the fourth quarter of 2012. The Company may increase the size of the Senior Credit Facility above \$750,000 subject to receipt of lender commitments. The Company can provide no assurance that the Senior Credit Facility will close, or that it will close on the terms described above.

**7. ACQUISITIONS**

In July 2012, the Company completed the acquisition of 100% of the interests in the operations of SKB Environmental, Inc. ("SKB"), a provider of solid waste transfer and disposal services in Minnesota, in exchange for total consideration of \$86,763. Pursuant to the stock purchase agreement, the Company is required to remit additional consideration to the former shareholders of SKB if the acquired operations exceed earnings targets specified in the stock purchase agreement over a one-year period ending June 30, 2013. The Company computed the fair value of the contingent consideration using a probability-weighted discounted cash flow methodology, which resulted in an obligation recognized at the purchase date totaling \$20,711. Any changes in the fair value of the contingent consideration subsequent to the acquisition date will be charged or credited to expense until the contingency is settled.

On March 1, 2012, the Company completed the acquisition of 100% of the interests in the operations of Alaska Pacific Environmental Services Anchorage, LLC and Alaska Green Waste Solutions, LLC (together, "Alaska Waste"). Alaska Waste provides solid waste collection, transfer and composting services in Anchorage, the Mat-Su Valley, Fairbanks, the Kenai Peninsula and Kodiak Island. The Company paid \$133,402 for the purchased operations. Pursuant to the asset purchase agreement, the Company is required to remit up to \$4,000 of additional consideration to the former owners of Alaska Waste if new business is generated through the privatization of certain markets currently serviced by municipalities. The Company computed the fair value of the contingent consideration using a probability-weighted discounted cash flow methodology, which resulted in an obligation recognized at the purchase date totaling \$602. As of September 30, 2012, the obligation recognized at the purchase date has not materially changed. Any changes in the fair value of the contingent consideration subsequent to the acquisition date will be charged or credited to expense until the contingency is settled.

In addition to the acquisition of SKB and Alaska Waste, the Company acquired five individually immaterial non-hazardous solid waste collection, transfer and disposal businesses during the nine months ended September 30, 2012.

On April 1, 2011, the Company completed the acquisition of a 100% interest in Hudson Valley Waste Holding, Inc., and its wholly-owned subsidiary, County Waste and Recycling Service, Inc. (collectively, "County Waste"). As part of this acquisition, the Company acquired a 50% interest in Russell Sweepers, LLC, a provider of sweeper services, resulting in a 50% noncontrolling interest that was recognized at fair value on the purchase date. The operations include six collection operations, three transfer stations and one recycling facility across six markets in New York and Massachusetts. The Company paid \$299,000 for the purchased operations plus amounts paid for the purchase of accounts receivable and other prepaid assets and estimated working capital, which amounts are subject to post-closing adjustments. No other consideration, including contingent consideration, was transferred by the Company to acquire these operations. Total revenues for the six months ended September 30, 2011, generated from the County Waste operations and included within consolidated revenues were \$63,693. Total pre-tax earnings for the six months ended September 30, 2011, generated from the County Waste operations and included within consolidated income before income taxes were \$5,917.



**Table of Contents**

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

In August 2011, the Company's subsidiary, Capital Region Landfills, Inc. ( CRL ), entered into an agreement with the Town of Colonie, a municipal corporation of the state of New York, to operate a municipal solid waste disposal facility (the Colonie Landfill ) for an initial term of 25 years. The agreement became effective on September 19, 2011. As consideration for operating equipment and the right to operate the Colonie Landfill, CRL remitted an initial payment of \$23,860. CRL is also required to remit up to \$55,470 of additional consideration over the term of the agreement, comprised of \$11,500 payable over a five-year period ending September 2016 and up to \$43,970 payable over the term of the agreement if certain expansion criteria are met and certain annual tonnage targets are exceeded as specified in the operating agreement. CRL computed the present value of the additional consideration using a probability-weighted discounted cash flow methodology, resulting in a total obligation recognized at the effective date of \$32,928, which consisted of \$10,656 recorded as Notes issued to sellers and \$22,272 recorded as contingent consideration in Long-term contingent consideration. CRL is also responsible for all final capping, closure and post-closure liabilities and estimates the total obligation in current dollars to be \$21,287, the net present value of which is \$1,429. This obligation was recorded in Other long-term liabilities. As of September 30, 2012, the obligation for contingent consideration recognized at the purchase date increased \$1,110 due to the accretion of interest on the liability. Any changes in the fair value of the contingent consideration subsequent to the acquisition date will be charged or credited to income until the contingency is settled.

In addition to the County Waste acquisition and Colonie Landfill transaction, the Company acquired seven individually immaterial non-hazardous solid waste collection businesses during the nine months ended September 30, 2011.

The acquisitions completed during the nine months ended September 30, 2012 and 2011, were not material to the Company's results of operations, either individually or in the aggregate. As a result, pro forma financial information has not been provided. The results of operations of the acquired businesses have been included in the Company's condensed consolidated financial statements from their respective acquisition dates. The Company expects these acquired businesses to contribute towards the achievement of the Company's strategy to expand through acquisitions.

On September 16, 2012, the Company entered into a Purchase and Sale Agreement to acquire the business of R360. The aggregate purchase price, subject to adjustment, is approximately \$1,330,000 in cash. R360 provides non-hazardous oilfield waste treatment, recovery and disposal services in several of the most active natural resource producing areas in the United States, including the Permian, Bakken and Eagle Ford Basins. The acquisition of R360 remains subject to certain closing conditions. Closing is expected to occur in the fourth quarter of 2012.

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

The following table summarizes the consideration transferred to acquire these businesses and the amounts of identified assets acquired, liabilities assumed and noncontrolling interests associated with businesses acquired at the acquisition date for acquisitions consummated in the nine months ended September 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
	<b>Acquisitions</b>	<b>Acquisitions</b>
Fair value of consideration transferred:		
Cash	\$ 223,256	\$ 247,862
Debt assumed*	12,986	84,737
Notes issued to sellers		10,656
Contingent consideration	21,314	22,272
	257,556	365,527
Recognized amounts of identifiable assets acquired, liabilities assumed and noncontrolling interests associated with businesses acquired:		
Accounts receivable	10,565	9,412
Other current assets	1,362	1,056
Restricted assets	6,725	
Property and equipment	123,469	112,088
Long-term franchise agreements and contracts	6,059	3,269
Customer lists	21,468	33,978
Indefinite-lived intangibles	35,345	42,283
Other intangibles	2,296	10,367
Accounts payable	(3,303)	(6,183)
Accrued liabilities	(5,362)	(1,206)
Noncontrolling interests		(251)
Deferred revenue	(4,916)	(6,186)
Deferred taxes		(11,466)
Other long-term liabilities	(3,123)	(1,429)
Total identifiable net assets	190,585	185,732
Goodwill	\$ 66,971	\$ 179,795

\* Debt assumed was paid at close of acquisition.

The goodwill is attributable to the synergies and ancillary growth opportunities expected to arise after the Company's acquisition of these businesses. Goodwill acquired during the nine months ended September 30, 2012 and 2011, totaling \$66,971 and \$16,739, respectively, is expected to be deductible for tax purposes.

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The fair value of acquired working capital related to three acquisitions completed during the last 12 months is provisional pending receipt of information from the acquirees to support the fair value of the assets acquired and liabilities assumed. Any adjustments recorded relating to finalizing the working capital for these three acquisitions are not expected to be material to the Company's financial position.

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

The gross amount of trade receivables due under contracts acquired during the nine months ended September 30, 2012, is \$10,708, of which \$143 is expected to be uncollectible. The gross amount of trade receivables due under contracts acquired during the nine months ended September 30, 2011, is \$10,019, of which \$607 is expected to be uncollectible. The Company did not acquire any other class of receivable as a result of the acquisition of these businesses.

The Company paid \$4,099 of contingent consideration during the nine months ended September 30, 2012, which represented the remaining payout related to the completion of earnings targets for certain acquisitions closed in 2011 and 2010.

During the nine months ended September 30, 2012 and 2011, the Company incurred \$3,610 and \$1,278, respectively, of acquisition-related costs. These expenses are included in Selling, general and administrative expenses in the Company's Condensed Consolidated Statements of Net Income.

**8. INTANGIBLE ASSETS**

Intangible assets, exclusive of goodwill, consisted of the following at September 30, 2012:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortizable intangible assets:</b>			
Long-term franchise agreements and contracts	\$ 196,060	\$ (37,297)	\$ 158,763
Customer lists	117,969	(39,352)	78,617
Non-competition agreements	9,374	(6,707)	2,667
Other	33,899	(4,152)	29,747
	357,302	(87,508)	269,794
<b>Nonamortized intangible assets:</b>			
Indefinite-lived intangible assets	226,547		226,547
<b>Intangible assets, exclusive of goodwill</b>	<b>\$ 583,849</b>	<b>\$ (87,508)</b>	<b>\$ 496,341</b>

The weighted-average amortization period of long-term franchise agreements and contracts acquired during the nine months ended September 30, 2012 was 6.9 years. The weighted-average amortization period of customer lists acquired during the nine months ended September 30, 2012 was 9.4 years. The weighted-average amortization period of other intangibles acquired during the nine months ended September 30, 2012 was 40.0 years.

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

Intangible assets, exclusive of goodwill, consisted of the following at December 31, 2011:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortizable intangible assets:</b>			
Long-term franchise agreements and contracts	\$ 190,532	\$ (31,592)	\$ 158,940
Customer lists	96,501	(28,475)	68,026
Non-competition agreements	9,374	(6,389)	2,985
Other	31,603	(3,175)	28,428
	328,010	(69,631)	258,379
<b>Nonamortized intangible assets:</b>			
Indefinite-lived intangible assets	191,202		191,202
<b>Intangible assets, exclusive of goodwill</b>	<b>\$ 519,212</b>	<b>\$ (69,631)</b>	<b>\$ 449,581</b>

The weighted-average amortization period of long-term franchise agreements and contracts acquired during the year ended December 31, 2011 was 22.3 years. The weighted-average amortization period of customer lists acquired during the year ended December 31, 2011 was 6.8 years. The weighted-average amortization period of other intangibles acquired during the year ended December 31, 2011 was 40.0 years.

Estimated future amortization expense for the next five years of amortizable intangible assets is as follows:

For the year ending December 31, 2012	\$ 23,673
For the year ending December 31, 2013	\$ 23,409
For the year ending December 31, 2014	\$ 22,153
For the year ending December 31, 2015	\$ 21,581
For the year ending December 31, 2016	\$ 17,607

## 9. SEGMENT REPORTING

The Company's revenues are derived from one industry segment, which includes the collection, transfer, recycling and disposal of non-hazardous solid waste. No single contract or customer accounted for more than 10% of the Company's total revenues at the consolidated or reportable segment level during the periods presented.

The Company manages its operations through three geographic operating segments, which are also the Company's reportable segments. Each operating segment is responsible for managing several vertically integrated operations, which are comprised of districts. For the nine month periods ended September 30, 2012 and 2011, the Company's Western Region was comprised of operating locations in Alaska, California, Idaho, Montana, Nevada, Oregon, Washington and western Wyoming; the Company's Central Region was comprised of operating locations in Arizona, Colorado, Kansas, Louisiana, Minnesota, Nebraska, New Mexico, Oklahoma, South Dakota, Texas, Utah and eastern Wyoming; and the Company's Eastern Region was comprised of operating locations in Alabama, Illinois, Iowa, Kentucky, Massachusetts, Michigan, Mississippi, New York, North Carolina, South Carolina and Tennessee.



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The Company's Chief Operating Decision Maker ( CODM ) evaluates operating segment profitability and determines resource allocations based on operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement. Operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement is not a measure of operating income, operating performance or liquidity under GAAP and may not be comparable to similarly titled measures reported by other companies. The Company's management uses operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement in the evaluation of segment operating performance as it is a profit measure that is generally within the control of the operating segments. A reconciliation of operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement to income before income tax provision is included at the end of this Note 9.

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

Summarized financial information concerning the Company's reportable segments for the three and nine months ended September 30, 2012 and 2011, is shown in the following tables:

Three Months Ended	Gross Revenues	Intercompany Revenues <sup>(b)</sup>	Net Revenues	Operating Income Before Depreciation, Amortization, Gain
				(Loss) on Disposal of Assets and Gain From Litigation Settlement <sup>(c)</sup>
<b>September 30, 2012</b>				
Western	\$ 228,906	\$ (24,943)	\$ 203,963	\$ 61,119
Central	142,940	(14,007)	128,933	49,194
Eastern	112,753	(19,995)	92,758	26,113
Corporate <sup>(a)</sup>				(1,992)
	\$ 484,599	\$ (58,945)	\$ 425,654	\$ 134,434

Three Months Ended	Gross Revenues	Intercompany Revenues <sup>(b)</sup>	Net Revenues	Operating Income Before Depreciation, Amortization, Gain
				(Loss) on Disposal of Assets and Gain From Litigation Settlement <sup>(c)</sup>
<b>September 30, 2011</b>				
Western	\$ 223,156	\$ (25,896)	\$ 197,260	\$ 65,306
Central	126,389	(13,538)	112,851	40,174
Eastern	112,140	(18,289)	93,851	27,179
Corporate <sup>(a)</sup>				1,695
	\$ 461,685	\$ (57,723)	\$ 403,962	\$ 134,354

Nine Months Ended	Gross Revenues	Intercompany Revenues <sup>(b)</sup>	Net Revenues	Operating Income Before Depreciation, Amortization, Gain
				(Loss) on Disposal
<b>September 30, 2012</b>				

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				<b>of Assets and Gain From Litigation Settlement <sup>(c)</sup></b>
Western	\$ 660,679	\$ (74,513)	\$ 586,166	\$ 173,810
Central	393,433	(42,215)	351,218	128,699
Eastern	332,883	(57,452)	275,431	77,879
Corporate <sup>(a)</sup>				(9,823)
	\$ 1,386,995	\$ (174,180)	\$ 1,212,815	\$ 370,565

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

Nine Months Ended	Gross Revenues	Intercompany Revenues <sup>(b)</sup>	Net Revenues	Operating Income Before Depreciation, Amortization, Gain
				(Loss) on Disposal of Assets and Gain From Litigation Settlement <sup>(c)</sup>
September 30, 2011				
Western	\$ 633,784	\$ (74,407)	\$ 559,377	\$ 177,593
Central	362,351	(38,589)	323,762	115,261
Eastern	291,910	(49,435)	242,475	70,856
Corporate <sup>(a)</sup>				3,351
	\$ 1,288,045	\$ (162,431)	\$ 1,125,614	\$ 367,061

- (a) Corporate functions include accounting, legal, tax, treasury, information technology, risk management, human resources, training and other administrative functions. Amounts reflected are net of allocations to the three geographic operating segments.
- (b) Intercompany revenues reflect each segment's total intercompany sales, including intercompany sales within a segment and between segments. Transactions within and between segments are generally made on a basis intended to reflect the market value of the service.
- (c) For those items included in the determination of operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement, the accounting policies of the segments are the same as those described in the Company's most recent Annual Report on Form 10-K.

Total assets for each of the Company's reportable segments at September 30, 2012 and December 31, 2011, were as follows:

	September 30, 2012	December 31, 2011
Western	\$ 1,505,949	\$ 1,370,098
Central	1,167,727	1,040,962
Eastern	829,757	841,251
Corporate	170,394	75,694
Total Assets	\$ 3,673,827	\$ 3,328,005

The following tables show changes in goodwill during the nine months ended September 30, 2012 and 2011, by reportable segment:

	Western	Central	Eastern	Total
Balance as of December 31, 2011	\$ 313,038	\$ 424,223	\$ 379,627	\$ 1,116,888
Goodwill acquired	60,043	6,690	238	66,971
Goodwill divested		(496)		(496)

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Balance as of September 30, 2012	\$ 373,081	\$ 430,417	\$ 379,865	\$ 1,183,363
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Page 17

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

	Western	Central	Eastern	Total
Balance as of December 31, 2010	\$ 313,038	\$ 305,774	\$ 309,040	\$ 927,852
Goodwill transferred		111,806	(111,806)	
Goodwill acquired		6,638	173,157	179,795
Balance as of September 30, 2011	\$ 313,038	\$ 424,218	\$ 370,391	\$ 1,107,647

The Company has no accumulated impairment losses associated with goodwill.

A reconciliation of the Company's primary measure of segment profitability (operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement for reportable segments) to Income before income tax provision in the Condensed Consolidated Statements of Net Income is as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement	\$ 134,434	\$ 134,354	\$ 370,565	\$ 367,061
Depreciation	(42,313)	(38,868)	(119,331)	(108,843)
Amortization of intangibles	(6,267)	(5,138)	(18,115)	(14,788)
Loss on disposal of assets	(244)	(1,034)	(715)	(742)
Gain from litigation settlement	3,537		3,537	
Interest expense	(11,949)	(12,029)	(36,063)	(31,948)
Interest income	333	132	630	408
Other income (expense), net	492	(899)	1,033	(750)
Income before income tax provision	\$ 78,023	\$ 76,518	\$ 201,541	\$ 210,398

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

The following table shows, for the periods indicated, the Company's total reported revenues by service line and with intercompany eliminations:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Collection	\$ 304,166	\$ 282,176	\$ 880,920	\$ 796,783
Disposal and transfer	148,117	138,680	406,034	381,961
Intermodal, recycling and other	32,316	40,829	100,041	109,301
	484,599	461,685	1,386,995	1,288,045
Less: intercompany elimination	(58,945)	(57,723)	(174,180)	(162,431)
Total revenues	\$ 425,654	\$ 403,962	\$ 1,212,815	\$ 1,125,614

## 10. DERIVATIVE FINANCIAL INSTRUMENTS

The Company recognizes all derivatives on the balance sheet at fair value. All of the Company's derivatives have been designated as cash flow hedges; therefore, the effective portion of the changes in the fair value of derivatives will be recognized in accumulated other comprehensive loss ( AOCL ) until the hedged item is recognized in earnings. The ineffective portion of the changes in the fair value of derivatives will be immediately recognized in earnings. The Company classifies cash inflows and outflows from derivatives within operating activities in the Condensed Consolidated Statements of Cash Flows.

One of the Company's objectives for utilizing derivative instruments is to reduce its exposure to fluctuations in cash flows due to changes in the variable interest rates of certain borrowings issued under its credit facility. The Company's strategy to achieve that objective involves entering into interest rate swaps that are specifically designated to the Company's credit facility and accounted for as cash flow hedges.

At September 30, 2012, the Company's derivative instruments included three interest rate swap agreements as follows:

Date Entered	Notional Amount	Fixed Interest Rate Paid*	Variable Interest Rate Received	Effective Date	Expiration Date
March 2009	\$ 175,000	2.85%	1-month LIBOR	February 2011	February 2014
August 2011	\$ 150,000	0.80%	1-month LIBOR	April 2012	January 2015
December 2011	\$ 175,000	1.60%	1-month LIBOR	February 2014	February 2017

\* plus applicable margin.

Another of the Company's objectives for utilizing derivative instruments is to reduce its exposure to fluctuations in cash flows due to changes in the price of diesel fuel. The Company's strategy to achieve that objective involves entering into fuel hedges that are specifically designated to certain forecasted diesel fuel purchases and accounted for as cash flow hedges.





**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

At September 30, 2012, the Company's derivative instruments included two fuel hedge agreements as follows:

Date Entered	Notional Amount (in gallons per month)	Diesel Rate Paid Fixed (per gallon)	Diesel Rate Received Variable	Effective Date	Expiration Date
December 2008	400,000	\$ 3.03	DOE Diesel Fuel Index*	January 2012	December 2012
June 2012	300,000	\$ 3.60	DOE Diesel Fuel Index*	January 2014	December 2015

\* If the national U.S. on-highway average price for a gallon of diesel fuel (average price), as published by the Department of Energy (DOE), exceeds the contract price per gallon, the Company receives the difference between the average price and the contract price (multiplied by the notional number of gallons) from the counterparty. If the average price is less than the contract price per gallon, the Company pays the difference to the counterparty.

The fair values of derivative instruments designated as cash flow hedges as of September 30, 2012, are as follows:

Derivatives Designated as Cash	Asset Derivatives	Liability Derivatives
Flow Hedges	Balance Sheet Location	Fair Value
Interest rate swaps		Accrued liabilities <sup>(a)</sup> \$ (5,397)
Fuel hedges	Prepaid expenses and other current assets <sup>(b)</sup>	1,182
	Other assets	1,452
Total derivatives designated as cash flow hedges		\$ 2,634
		Other long-term liabilities (7,044)
		\$ (12,441)

(a) Represents the estimated amount of the existing unrealized losses on interest rate swaps as of September 30, 2012 (based on the interest rate yield curve at that date), included in accumulated other comprehensive loss expected to be reclassified into pre-tax earnings within the next 12 months. The actual amounts reclassified into earnings are dependent on future movements in interest rates.

(b) Represents the estimated amount of the existing unrealized gains on fuel hedges as of September 30, 2012 (based on the forward DOE diesel fuel index curve at that date), included in accumulated other comprehensive loss expected to be reclassified into pre-tax earnings within the next 12 months. The actual amounts reclassified into earnings are dependent on future movements in diesel fuel prices.

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

The fair values of derivative instruments designated as cash flow hedges as of December 31, 2011, are as follows:

Derivatives Designated as Cash	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Flow Hedges				
Interest rate swaps			Accrued liabilities	\$ (4,476)
			Other long-term liabilities	(4,642)
Fuel hedges	Prepaid expenses and other current assets	\$ 3,506		
Total derivatives designated as cash flow hedges		\$ 3,506		\$ (9,118)

The following table summarizes the impact of the Company's cash flow hedges on the results of operations, comprehensive income and AOCL as of and for the three and nine months ended September 30, 2012 and 2011:

Derivatives Designated as Cash	Amount of Gain or (Loss) Recognized as AOCL on Derivatives, Net of Tax (Effective Portion) <sup>(a)</sup>		Statement of Income Classification	Amount of (Gain) or Loss Reclassified from AOCL into Earnings, Net of Tax (Effective Portion) <sup>(b),(c)</sup>	
	Three Months Ended			Three Months Ended	
	September 30, 2012	September 30, 2011		September 30, 2012	September 30, 2011
Interest rate swaps	\$ (1,497)	\$ (1,290)	Interest expense	\$ 855	\$ 735
Fuel hedges	1,105	(646)	Cost of operations	(678)	(683)
Total	\$ (392)	\$ (1,936)		\$ 177	\$ 52

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

**Derivatives**

Designated as Cash Flow Hedges	Amount of Gain or (Loss) Recognized in AOCL on Derivatives, Net of Tax (Effective Portion) <sup>(a)</sup> Nine Months Ended		Statement of Income Classification	Amount of (Gain) or Loss Reclassified from AOCL into Earnings, Net of Tax (Effective Portion) <sup>(b),(c)</sup> Nine Months Ended	
	September 30, 2012	September 30, 2011		September 30, 2012	September 30, 2011
Interest rate swaps	\$ (4,469)	\$ (2,904)	Interest expense	\$ 2,409	\$ 2,877
Fuel hedges	1,522	1,787	Cost of operations	(2,062)	(1,977)
<b>Total</b>	<b>\$ (2,947)</b>	<b>\$ (1,117)</b>		<b>\$ 347</b>	<b>\$ 900</b>

- (a) In accordance with the derivatives and hedging guidance, the effective portions of the changes in fair values of interest rate swaps and fuel hedges have been recorded in equity as a component of AOCL. As the critical terms of the interest rate swaps match the underlying debt being hedged, no ineffectiveness is recognized on these swaps and, therefore, all unrealized changes in fair value are recorded in AOCL. Because changes in the actual price of diesel fuel and changes in the DOE index price do not offset exactly each reporting period, the Company assesses whether the fuel hedges are highly effective using the cumulative dollar offset approach.
- (b) Amounts reclassified from AOCL into earnings related to realized gains and losses on interest rate swaps are recognized when interest payments or receipts occur related to the swap contracts, which correspond to when interest payments are made on the Company's hedged debt.
- (c) Amounts reclassified from AOCL into earnings related to realized gains and losses on fuel hedges are recognized when settlement payments or receipts occur related to the hedge contracts, which correspond to when the underlying fuel is consumed.

The Company measures and records ineffectiveness on the fuel hedges in Cost of operations in the Condensed Consolidated Statements of Net Income on a monthly basis based on the difference between the DOE index price and the actual price of diesel fuel purchased, multiplied by the notional number of gallons on the contracts. There was no significant ineffectiveness recognized on the fuel hedges during the three and nine months ended September 30, 2012 and 2011.

See Note 13 for further discussion on the impact of the Company's hedge accounting to its consolidated Comprehensive income and AOCL.

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

## 11. NET INCOME PER SHARE INFORMATION

The following table sets forth the calculation of the numerator and denominator used in the computation of basic and diluted net income per common share attributable to the Company's common stockholders for the three and nine months ended September 30, 2012 and 2011:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
<b>Numerator:</b>				
Net income attributable to Waste Connections for basic and diluted earnings per share	\$ 49,385	\$ 46,329	\$ 123,104	\$ 127,281
<b>Denominator:</b>				
Basic shares outstanding	123,031,259	112,327,410	120,571,106	113,130,314
Dilutive effect of stock options and warrants	303,293	407,555	319,457	445,117
Dilutive effect of restricted stock units	331,037	457,919	308,338	403,734
<b>Diluted shares outstanding</b>	<b>123,665,589</b>	<b>113,192,884</b>	<b>121,198,901</b>	<b>113,979,165</b>

For the three months ended September 30, 2012, stock options and warrants to purchase 78,545 shares of common stock were excluded from the computation of diluted earnings per share as they were anti-dilutive. For the three months ended September 30, 2011, all outstanding stock options and warrants were dilutive and included in the computation of diluted earnings per share. For the nine months ended September 30, 2012 and 2011, stock options and warrants to purchase 72,324 and 1,312 shares of common stock, respectively, were excluded from the computation of diluted earnings per share as they were anti-dilutive.

## 12. FAIR VALUE MEASUREMENTS

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. These tiers include: Level 1, defined as quoted market prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and Level 3, defined as unobservable inputs that are not corroborated by market data.

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

The Company's financial assets and liabilities recorded at fair value on a recurring basis include derivative instruments and restricted assets. The Company's derivative instruments are pay-fixed, receive-variable interest rate swaps and pay-fixed, receive-variable diesel fuel hedges. The Company's interest rate swaps are recorded at their estimated fair values based on quotes received from financial institutions that trade these contracts. The Company verifies the reasonableness of these quotes using similar quotes from another financial institution as of each date for which financial statements are prepared. The Company uses a discounted cash flow (DCF) model to determine the estimated fair values of the diesel fuel hedges. The assumptions used in preparing the DCF model include: (i) estimates for the forward DOE index curve; and (ii) the discount rate based on risk-free interest rates over the term of the agreements. The DOE index curve used in the DCF model was obtained from financial institutions that trade these contracts and ranged from \$3.75 to \$4.12 at September 30, 2012. The weighted average DOE index curve used in the DCF model was \$3.86 at September 30, 2012. Significant increases (decreases) in the forward DOE index curve would result in a significantly higher (lower) fair value measurement. For the Company's interest rate swaps and fuel hedges, the Company also considers the Company's creditworthiness in its determination of the fair value measurement of these instruments in a net liability position and the banks creditworthiness in its determination of the fair value measurement of these instruments in a net asset position. The Company's restricted assets are valued at quoted market prices in active markets for identical assets, which the Company receives from the financial institutions that hold such investments on its behalf. The Company's restricted assets measured at fair value are invested primarily in U.S. government and agency securities.

The Company's assets and liabilities measured at fair value on a recurring basis at September 30, 2012 and December 31, 2011, were as follows:

Fair Value Measurement at September 30, 2012 Using Quoted Prices in				
	Total	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap derivative instruments net liability position	\$ (12,441)	\$	\$ (12,441)	\$
Fuel hedge derivative instruments net asset position	\$ 2,634	\$	\$	\$ 2,634
Restricted assets	\$ 31,599	\$ 31,599	\$	\$

Fair Value Measurement at December 31, 2011 Using Quoted Prices in				
	Total	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap derivative instruments net liability position	\$ (9,118)	\$	\$ (9,118)	\$
Fuel hedge derivative instruments net asset position	\$ 3,506	\$	\$	\$ 3,506
Restricted assets	\$ 30,728	\$ 30,728	\$	\$

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

The following table summarizes the change in the fair value for Level 3 derivatives for the nine months ended September 30, 2012:

	<b>Level 3 Derivatives</b>
Balance as of December 31, 2011	\$ 3,506
Realized gains included in earnings	(3,327)
Unrealized gains included in AOCL	2,455
Balance as of September 30, 2012	\$ 2,634

The following table summarizes the change in the fair value for Level 3 derivatives for the nine months ended September 30, 2011:

	<b>Level 3 Derivatives</b>
Balance as of December 31, 2010	\$ 4,730
Realized gains included in earnings	(3,189)
Unrealized gains included in AOCL	2,882
Balance as of September 30, 2011	\$ 4,423

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

## 13. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes changes in the fair value of interest rate swaps and fuel hedges that qualify for hedge accounting. The components of other comprehensive income (loss) and related tax effects for the three and nine month periods ended September 30, 2012 and 2011, are as follows:

	Three months ended September 30, 2012		
	Gross	Tax effect	Net of tax
Interest rate swap amounts reclassified into interest expense	\$ 1,380	\$ (525)	\$ 855
Fuel hedge amounts reclassified into cost of operations	(1,093)	415	(678)
Changes in fair value of interest rate swaps	(2,415)	918	(1,497)
Changes in fair value of fuel hedges	1,782	(677)	1,105
	\$ (346)	\$ 131	\$ (215)

	Three months ended September 30, 2011		
	Gross	Tax effect	Net of tax
Interest rate swap amounts reclassified into interest expense	\$ 1,186	\$ (451)	\$ 735
Fuel hedge amounts reclassified into cost of operations	(1,101)	418	(683)
Changes in fair value of interest rate swaps	(2,081)	791	(1,290)
Changes in fair value of fuel hedges	(1,042)	396	(646)
	\$ (3,038)	\$ 1,154	\$ (1,884)

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

	Nine months ended September 30, 2012		
	Gross	Tax effect	Net of tax
Interest rate swap amounts reclassified into interest expense	\$ 3,886	\$ (1,477)	\$ 2,409
Fuel hedge amounts reclassified into cost of operations	(3,327)	1,265	(2,062)
Changes in fair value of interest rate swaps	(7,208)	2,739	(4,469)
Changes in fair value of fuel hedges	2,455	(933)	1,522
	\$ (4,194)	\$ 1,594	\$ (2,600)

  

	Nine months ended September 30, 2011		
	Gross	Tax effect	Net of tax
Interest rate swap amounts reclassified into interest expense	\$ 4,641	\$ (1,764)	\$ 2,877
Fuel hedge amounts reclassified into cost of operations	(3,189)	1,212	(1,977)
Changes in fair value of interest rate swaps	(4,684)	1,780	(2,904)
Changes in fair value of fuel hedges	2,882	(1,095)	1,787
	\$ (350)	\$ 133	\$ (217)

A rollforward of the amounts included in AOCL, net of taxes, is as follows:

	Fuel Hedges	Interest Rate Swaps	Accumulated Other Comprehensive Loss
Balance at December 31, 2011	\$ 2,172	\$ (5,652)	\$ (3,480)
Amounts reclassified into earnings	(2,062)	2,409	347
Changes in fair value	1,522	(4,469)	(2,947)
Balance at September 30, 2012	\$ 1,632	\$ (7,712)	\$ (6,080)

See Note 10 for further discussion on the Company's derivative instruments.

## 14. STOCKHOLDERS' EQUITY

Sale of Common Stock

On February 27, 2012, the Company entered into an underwriting agreement with Morgan Stanley & Co. LLC, in connection with the offer and sale by the Company of 12,000,000 shares of its common stock, par value \$0.01 per share. The shares of common stock were sold to Morgan Stanley & Co. LLC at a price of \$30.83 per share. The offering closed on March 2, 2012. The Company received net proceeds from this offering of \$369,584 after deducting transaction expenses paid by the Company of approximately \$376.





**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

**Stock-Based Compensation**

A summary of activity related to restricted stock units under the Third Amended and Restated 2004 Equity Incentive Plan during the nine month period ended September 30, 2012, is presented below:

	<b>Unvested Shares</b>
Outstanding at December 31, 2011	1,393,009
Granted	624,566
Forfeited	(41,576)
Vested and Issued	(588,910)
Vested and Unissued	(71,744)
Outstanding at September 30, 2012	1,315,345

The weighted average grant-date fair value per share for the shares of common stock underlying the restricted stock units granted during the nine month period ended September 30, 2012 was \$31.50. During the nine months ended September 30, 2012 and 2011, the Company's stock-based compensation expense from restricted stock units was \$13,435 and \$8,873, respectively.

**Share Repurchase Program**

The Company's Board of Directors has authorized a common stock repurchase program for the repurchase of up to \$1,200,000 of common stock through December 31, 2014. Under the program, stock repurchases may be made in the open market or in privately negotiated transactions from time to time at management's discretion. The timing and amounts of any repurchases will depend on many factors, including the Company's capital structure, the market price of the common stock and overall market conditions. During the nine months ended September 30, 2012 and 2011, the Company repurchased 619,447 and 2,823,235 shares, respectively, of its common stock under this program at a cost of \$18,597 and \$85,068, respectively. As of September 30, 2012, the remaining maximum dollar value of shares available for repurchase under the program was approximately \$415,960. The Company's policy related to repurchases of its common stock is to charge any excess of cost over par value entirely to additional paid-in capital.

**Cash Dividend**

In October 2010, the Company's Board of Directors declared the initiation of a quarterly cash dividend of \$0.075 per share. In October 2011, the Company announced that its Board of Directors increased its regular quarterly cash dividend by \$0.015, from \$0.075 to \$0.09 per share. Cash dividends of \$32,182 and \$25,497 were paid during the nine months ended September 30, 2012 and 2011, respectively.

**15. CORPORATE OFFICE RELOCATION**

In December 2011, the Company commenced a relocation of its corporate headquarters from Folsom, California to The Woodlands, Texas. The relocation is expected to be completed in 2012. In connection with the relocation, the Company has incurred in aggregate \$6,491 and \$83 as of September 30, 2012 and December 31, 2011, respectively, related to personnel and office relocation expenses, and expects to incur an estimated additional \$2,500 of related costs during the remaining three months of 2012. These costs are recorded in Selling, general and administrative expenses in the Condensed Consolidated Statements of Net Income. In addition, the Company may incur a loss on lease in 2012 or 2013, which

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is dependent on the cessation of use of its former corporate headquarters in Folsom, California. The Company estimates the loss on lease could range between \$8,000 and \$10,000.

Page 28

**Table of Contents**

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

16. GAIN FROM LITIGATION SETTLEMENT

In November 2010, the Company's subsidiary, Potrero Hills Landfill, Inc. ( PHLF ), which owns and operates the Potrero Hills Landfill in Solano County, California, initiated contractual arbitration proceedings with Judicial Arbitration and Mediation Services, Inc. in San Francisco against The Ratto Group of Companies, Inc. ( Ratto ) alleging Ratto's breach of the parties' Solid Waste Disposal Agreement.

The case was arbitrated in February and March 2012 before the Honorable Fern Smith (ret.). On August 13, 2012, Judge Smith issued her Final Award finding that Ratto had breached the Solid Waste Disposal Agreement by failing to include PHLF in its 2010 bid to Sonoma County and awarding PHLF lost profits, attorney's fees and costs. Pursuant to this Final Award, on September 13, 2012, Ratto remitted to PHLF \$3,537, which was recorded as Gain from litigation settlement.

17. COMMITMENTS AND CONTINGENCIES

In the normal course of its business and as a result of the extensive governmental regulation of the solid waste industry, the Company is subject to various judicial and administrative proceedings involving federal, state or local agencies. In these proceedings, an agency may seek to impose fines on the Company or to revoke or deny renewal of an operating permit held by the Company. From time to time, the Company may also be subject to actions brought by special interest or other groups, adjacent landowners or residents in connection with the permitting and licensing of landfills and transfer stations, or alleging environmental damage or violations of the permits and licenses pursuant to which the Company operates.

In addition, the Company is a party to various claims and suits pending for alleged damages to persons and property, alleged violations of certain laws and alleged liabilities arising out of matters occurring during the normal operation of the waste management business. Except as noted in the matters described below, as of September 30, 2012, there is no current proceeding or litigation involving the Company or its property that the Company believes could have a material adverse impact on its business, financial condition, results of operations or cash flows.

Chaparral, New Mexico Landfill Permit Litigation

The Company's subsidiary, High Desert Solid Waste Facility, Inc. (formerly known as Rhino Solid Waste, Inc.) ( HDSWF ), owns undeveloped property in Chaparral, New Mexico, for which it sought a permit to operate a municipal solid waste landfill. After a public hearing, the New Mexico Environment Department (the Department ) approved the permit for the facility on January 30, 2002. Colonias Development Council ( CDC ), a nonprofit organization, opposed the permit at the public hearing and appealed the Department's decision to the courts of New Mexico, primarily on the grounds that the Department failed to consider the social impact of the landfill on the community of Chaparral, and failed to consider regional planning issues. On July 18, 2005, in Colonias Dev. Council v. Rhino Env'tl. Servs., Inc. (In re Rhino Env'tl. Servs.), 2005 NMSC 24, 117 P.3d 939, the New Mexico Supreme Court remanded the matter back to the Department to conduct a limited public hearing on certain evidence that CDC claimed was wrongfully excluded from consideration by the hearing officer, and to allow the Department to reconsider the evidence already proffered concerning the impact of the landfill on the surrounding community's quality of life. In July 2007, the Department, CDC, the Company and Otero County signed a stipulation requesting a postponement of the limited public hearing to allow the Company time to explore a possible relocation of the landfill to a new site. Since 2007, the Department has issued several orders postponing the limited public hearing, and on October 17, 2012, it granted a request by the parties to hold the limited public hearing in abeyance until further notice.

**Table of Contents**

## WASTE CONNECTIONS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

In July 2009, HDSWF purchased approximately 325 acres of undeveloped land comprising a proposed new site from the State of New Mexico. HDSWF filed a formal landfill permit application for the new site with the Department on September 17, 2010. On September 12, 2011, the Department deemed the permit application complete and a public hearing on the matter had been tentatively scheduled for April 9, 2012 in Chaparral, New Mexico. On November 9, 2011, HDSWF filed a motion with the Department to hold in abeyance indefinitely the notice for public hearing and the permit hearing. As part of its motion, HDSWF agreed to provide the Department with at least 120 days prior notice of any desired, future permit hearing. The Department issued a response in which it did not oppose the motion and agreed to the 120-day notice provision. HDSWF requested the abeyance to defer capital expenditures related to permitting the new site until mid to late 2014, when HDSWF expects to have a better understanding of several current market conditions and regulatory factors that affect the timing and feasibility of the project. These conditions and factors include: the status of the Company's Solid Waste Disposal and Operating Agreement for the collection and disposal of solid waste generated within the City of El Paso, effective April 28, 2004, which has a 10-year term; the status of El Paso Disposal, LP's Solid Waste Franchise Agreement for the collection of solid waste generated within the City of El Paso, effective September 1, 2011, which has a 40-month term; whether the City of El Paso implements flow control in September 2014 directing waste collected within its boundaries to City-owned disposal facilities; and whether certain closed or non-operating disposal facilities in the El Paso market area are reopened and whether those facilities are operated by private or public entities.

At September 30, 2012, the Company had \$11,778 of capitalized expenditures related to this landfill development project. Depending on the outcome of the market conditions and regulatory factors described above, the Company may decide in mid to late 2014 to abandon the project and expense the \$11,778 of capitalized expenditures, less the recoverable value of the undeveloped properties and other amounts recovered, which would likely have a material adverse effect on the Company's results of operations for that period. Alternatively, if the outcome of the market conditions and regulatory factors described above is such that the Company believes the market for disposal of solid waste generated in the City of El Paso will remain competitive, HDSWF may decide in mid to late 2014 to resume its permitting process for the new site. Under those circumstances, if the Department ultimately denies the landfill permit application for the new site, HDSWF intends to actively resume its efforts to enforce the previously issued landfill permit for the original site in Chaparral. If the Company is ultimately issued a permit to operate the landfill at the new site purchased in July 2009, the Company will be required to expense in a future period \$10,324 of capitalized expenditures related to the original Chaparral property, less the recoverable value of that undeveloped property and other amounts recovered, which would likely have a material adverse effect on the Company's results of operations for that period. If the Company instead is ultimately issued a permit to operate the landfill at the original Chaparral property, the Company will be required to expense in a future period \$1,454 of capitalized expenditures related to the new site purchased in July 2009, less the recoverable value of that undeveloped property and other amounts recovered. If the Company is not ultimately issued a permit to operate the landfill at either one of the two sites, the Company will be required to expense in a future period the \$11,778 of capitalized expenditures, less the recoverable value of the undeveloped properties and other amounts recovered, which would likely have a material adverse effect on the Company's results of operations for that period.

**Harper County, Kansas Landfill Permit Litigation**

The Company opened a municipal solid waste landfill in Harper County, Kansas in January 2006, following the issuance by the Kansas Department of Health and Environment (KDHE) of a final permit to operate the landfill. The landfill has operated continuously since that time. On October 3, 2005, landfill opponents filed a suit (Board of Comm'rs of Sumner County, Kansas, Tri-County Concerned Citizens and Dalton Holland v. Roderick Bremby, Sec'y of the Kansas Dep't of Health and Env't, et al.) in the District Court of Shawnee County, Kansas, seeking a judicial review of KDHE's decision to issue the permit, alleging that a site analysis prepared for the Company and submitted to KDHE as part of the process leading to the issuance of the permit was deficient in several respects. The action sought to stay the effectiveness of the permit and to nullify it. The Company intervened in this lawsuit shortly after it was filed. On April 7, 2006, the District Court issued an order denying the plaintiffs' request for judicial review on the grounds that they lacked standing to bring the action. The plaintiffs appealed that decision to the Kansas Court of Appeals, and on October 12, 2007, the Court of Appeals issued an opinion reversing and remanding the District Court's decision. The Company appealed the decision to the Kansas Supreme Court, and on July 25, 2008, the Supreme Court affirmed the decision of the Court of Appeals and remanded the case to the District Court for further proceedings on the merits. Plaintiffs filed a second amended petition on October 22, 2008, and the Company filed a motion to strike various allegations contained within the second amended petition. On July 2, 2009, the District Court granted in part and denied in part the Company's motion to strike. The District Court also set a new

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briefing schedule, and the parties completed the briefing during the first half of 2010. Oral argument in the case occurred on September 27, 2010.

Page 30

**Table of Contents**

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

On June 12, 2012, the Honorable Larry D. Hendricks, District Judge, entered a Memorandum Decision and Order denying the petitioners demand for revocation of the permit, and affirming KDHE's decision that the issuance of the permit met all applicable regulatory requirements. By its terms, the Memorandum Decision and Order is the District Court's final entry of judgment. However, on July 11, 2012, the attorney representing the plaintiffs filed a notice of appeal to the Kansas Court of Appeals. The plaintiffs filed a timely appeal and their appellate brief is due to be filed on or before October 24, 2012. The Company believes that it will prevail in this matter, and the Company will continue to have the right to operate the landfill during the pendency of the appeal. Only in the event that a final, materially adverse determination with respect to the permit is received would there likely be a material adverse effect on the Company's reported results of operations in the future. If as a result of this litigation, after exhausting all appeals, the Company was unable to continue to operate the landfill, the Company estimates that it would be required to record a pre-tax impairment charge of approximately \$17,700 to reduce the carrying value of the landfill to its estimated fair value. In addition, the Company estimates the current annual impact to its pre-tax earnings that would result if it was unable to continue to operate the landfill would be approximately \$4,600 per year.

**Solano County, California Measure E/Landfill Expansion Litigation**

The Company and one of its subsidiaries, Potrero Hills Landfill, Inc. (PHLF), were named as real parties in interest in an amended complaint captioned Sustainability, Parks, Recycling and Wildlife Legal Defense Fund v. County of Solano, which was filed in the Superior Court of California, County of Solano, on July 9, 2009 (the original complaint was filed on June 12, 2009). This lawsuit seeks to compel Solano County to comply with Measure E, a ballot initiative and County ordinance passed in 1984 that the County has not enforced against PHLF since at least 1992. Measure E directs in part that Solano County shall not allow the importation into the County of any solid waste which originated or was collected outside the County in excess of 95,000 tons per year. PHLF disposes of and accepts for beneficial reuse and recycling approximately 840,000 tons of solid waste annually, approximately 650,000 tons of which originate from sources outside of Solano County. The Sustainability, Parks, Recycling and Wildlife Legal Defense Fund (SPRAWLDEF) lawsuit also seeks to overturn Solano County's approval of the use permit for the expansion of the Potrero Hills Landfill and the related Environmental Impact Report (EIR), arguing that both violate Measure E and that the EIR violates the California Environmental Quality Act (CEQA). Two similar actions seeking to enforce Measure E, captioned Northern California Recycling Association v. County of Solano and Sierra Club v. County of Solano, were filed in the same court on June 10, 2009, and August 10, 2009, respectively. The Northern California Recycling Association (NCRA) case does not name the Company or any of its subsidiaries as parties and does not contain any CEQA claims. The Sierra Club case names PHLF as a real party in interest, and seeks to overturn the use permit for the expansion of the landfill on Measure E grounds (but does not raise CEQA claims). These lawsuits follow a previous lawsuit concerning Measure E that NCRA filed against PHLF in the same court on July 22, 2008, prior to the Company's acquisition of PHLF in April 2009, but which NCRA later dismissed.

**Table of Contents**

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

In December 2009, the Company and PHLF filed briefs vigorously opposing enforcement of Measure E on constitutional and other grounds. The Company's position is supported by Solano County, a co-defendant in the Measure E litigation. It is also supported by the Attorney General of the State of California, the National Solid Wastes Management Association (NSWMA) and the California Refuse Recycling Council (CRRC), each of which filed supporting friend of court briefs or letters. In addition, numerous waste hauling companies in California, Oregon and Nevada have intervened on the Company's side in the state cases, subsequent to their participation in the federal action challenging Measure E discussed below. A hearing on the merits for all three Measure E state cases was held on February 18, 2010.

On May 12, 2010, the Solano County Superior Court issued a written opinion addressing all three cases. The Court upheld Measure E in part by judicially rewriting the law, and then issued a writ of mandamus directing Solano County to enforce Measure E as rewritten. The Court decided that it could cure the law's discrimination against out-of-county waste by revising Measure E to only limit the importation of waste into Solano County from other counties in California, but not from other states. In the same opinion, the Court rejected the requests from petitioners in the cases for a writ of administrative mandamus to overturn the use permit approved by Solano County in June 2009 for the expansion of PHLF's landfill, thereby leaving the expansion permit in place. Petitioners Sierra Club and SPRAWLDEF filed motions to reconsider in which they asked the Court to issue a writ of administrative mandamus and void PHLF's use permit for the expansion. The County, the Company and PHLF opposed the motions to reconsider and a hearing was held on June 25, 2010. On August 30, 2010, the Court denied the motions to reconsider and reaffirmed its ruling denying the petitions for writs to overturn PHLF's use permit for the expansion.

In December 2010, the Court entered final judgments and writs of mandamus in the three cases, and Solano County, the Company, PHLF and the waste hauling company intervenors filed notices of appeal, which stayed the judgments and writs pending the outcome of the appeal. Petitioners Sierra Club and SPRAWLDEF cross-appealed the Court's ruling denying their petitions for writs to overturn PHLF's use permit for the expansion. The appeals and cross-appeals were consolidated and the parties entered into a stipulated briefing schedule that was completed in August 2011. In addition, seventeen separate entities filed friend of court briefs on behalf of the Company and Solano County in September 2011, including the California Attorney General on behalf of the California Department of Resources Recycling and Recovery; the City and County of San Francisco; solid waste joint powers authorities serving the areas of Napa County, the City of Vallejo, the South Lake Tahoe Basin, Central Contra Costa County and the Salinas Valley; the California Association of Sanitation Agencies; sanitation districts serving Los Angeles County and Orange County; the NSWMA; the National Association of Manufacturers; the CRRC; the Los Angeles County Waste Management Association; the Solid Waste Association of Orange County; the Inland Empire Disposal Association; and the California Manufacturers and Technology Association. Sierra Club and SPRAWLDEF filed responses to these briefs in October 2011. No friend of court briefs were filed on behalf of the petitioners. The case is now fully briefed and all parties have requested oral argument.

As part of the final judgments, the Solano County Superior Court retained jurisdiction over any motions for attorneys' fees under California's Private Attorney General statute. Petitioners NCRA, SPRAWLDEF and Sierra Club each filed a bill of costs and a motion for attorney fees totaling \$771. The Company vigorously opposed the award of attorney fees. The motions were heard in March 2011. On May 31, 2011, the court issued a final order awarding petitioners \$452 in attorneys' fees, \$411 of which relates to the SPRAWLDEF and Sierra Club cases in which the Company or PHLF is a named party. The court allocated 50% of the fee amount to PHLF, none of which the Company recorded as a liability at September 30, 2012. The Company and Solano County appealed this attorneys' fees order in July 2011. The Court of Appeal has not yet issued a briefing schedule. Once this procedural step is completed, the Company will request a stay of this appeal until the merits of the underlying Measure E cases have been finally determined. If the Company prevails on the appeals of the three underlying cases, then none of the Petitioners would be entitled to attorneys' fees and costs. If the Company is unsuccessful on these appeals and its future appeals of the attorneys' fees judgment, PHLF and the County would each ultimately be severally liable for \$206 in attorneys' fees for the SPRAWLDEF and Sierra Club cases. However, in all three cases, the Company may reimburse the County for any such attorneys' fees under the indemnification provision in PHLF's use permit.



**Table of Contents**

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

On February 9, 2012, the California Department of Resources Recycling and Recovery (CalRecycle) concurred in the solid waste facilities permit related to the Potrero Hills Landfill's expansion, and the permit was approved and issued by the Solano County Department of Resource Management on February 14, 2012.

On September 25, 2012, Governor Jerry Brown signed into law Assembly Bill 845 ( AB 845 ), an act of the California Legislature, effective January 1, 2013. AB 845 expressly prohibits counties from restricting or limiting the importation of solid waste into a privately owned facility in a county based on the waste's place of origin. Because the Company believes that neither the Court of Appeal nor the trial court can grant Petitioners any relief in light of AB 845, it filed a motion with the Court of Appeal on September 27, 2012. The motion seeks to dismiss the cross appeals and reverse and remand the portions of the judgments rendered in Petitioners' favor regarding enforcement and implementation of Measure E by Solano County, including Petitioners' recovery of costs, for mootness in light of AB 845, with instructions to the trial court to dismiss the underlying writ petitions with prejudice.

At this point, the Company is not able to determine the likelihood of any outcome in this matter. If the court grants the Company's motion to dismiss the appeals, the judgments requiring Solano County to enforce Measure E and for the Company to pay attorney's fees related to the Measure E litigation will be dismissed as moot. However, in the event that after all appeals are exhausted the Superior Court's writ of mandamus enforcing Measure E as rewritten is upheld, the Company estimates that the current annual impact to its pre-tax earnings resulting from the restriction on imports into Solano County would be approximately \$5,000 per year. The Company's estimate could be impacted by various factors, including the County's allocation of the 95,000 tons per year import restriction among PHLF and the other disposal and composting facilities in Solano County. In addition, if the final rulings on Measure E do not limit the importation of waste into Solano County from other states, the Company could potentially offset a portion of the estimated reduction to its pre-tax earnings by internalizing waste for disposal at PHLF from other states in which the Company operates, or by accepting waste volumes from third party haulers operating outside of California.

In response to the pending three state court actions to enforce Measure E described above, the Company, PHLF and other waste hauling companies in California, Oregon and Nevada that are damaged by Measure E and would be further damaged if Measure E was enforced, filed a federal lawsuit to enjoin Measure E and have it declared unconstitutional. On September 8, 2009, the coalition brought suit in the United States District Court for the Eastern District of California in Sacramento challenging Measure E under the Commerce Clause of the United States Constitution, captioned Potrero Hills Landfill, Inc. et al. v. County of Solano. In response, SPRAWLDEF, Sierra Club and NCRA intervened in the federal case to defend Measure E and filed motions to dismiss the federal suit, or in the alternative, for the court to abstain from hearing the case in light of the pending state court Measure E actions. On December 23, 2009, the federal court abstained and declined to accept jurisdiction over the Company's case, holding that Measure E raised unique state issues that should be resolved by the pending state court litigation, and granted the motions to dismiss. The Company appealed this ruling and on September 23, 2011, the Ninth Circuit Court of Appeals reversed the district court's decision. On remand, the district court held a hearing on January 11, 2012 regarding the intervenors' alternative grounds for abstention or dismissal. The district court ruled on April 12, 2012, that it was dismissing the federal lawsuit, with leave granted to the Company and other plaintiffs to amend their complaint within 20 days to meet certain requirements set by the Court, including alleging additional facts regarding the enforcement of Measure E and its harm to the plaintiffs. After consideration of all the relevant factors, the Company and its co-plaintiffs notified the court that they would not file an amended complaint and final judgment was entered on May 29, 2012. On June 26, 2012, SPRAWLDEF filed a motion seeking attorney's fees, claiming that the underlying action was meritless and that an unidentified civil right had been vindicated. The motion was fully briefed and at a hearing on August 22, 2012, the court denied SPRAWLDEF's fee motion in its entirety.

**Table of Contents**

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

Individual members of SPRAWLDEF were also plaintiffs in a lawsuit filed in the Solano County Superior Court on October 13, 2005, captioned *Protect the Marsh, et al. v. County of Solano, et al.*, challenging the EIR that Solano County certified in connection with its approval of the expansion of the Potrero Hills Landfill on September 13, 2005. A motion to discharge the Superior Court's writ of mandate directing the County to vacate and set aside its certification of the EIR was heard in August 2009. On November 3, 2009, the Superior Court upheld the County's certification of the EIR and the related permit approval actions. In response, the plaintiffs in *Protect the Marsh* filed a notice of appeal to the court's order on December 31, 2009. On October 8, 2010, the California Court of Appeal dismissed Plaintiffs' appeal for lack of standing. SPRAWLDEF subsequently filed a petition for review of this decision with the California Supreme Court. On December 21, 2010, the Supreme Court denied the petition, concluding this litigation in favor of the County and the Company.

SPRAWLDEF additionally filed a lawsuit seeking a writ of mandate in Sacramento County Superior Court on August 20, 2009, captioned *SPRAWLDEF v. California Integrated Waste Management Board (CIWMB), County of Solano, et al.*, challenging a CIWMB decision to dismiss SPRAWLDEF's administrative appeal to the CIWMB seeking to set aside a 2006 solid waste facilities permit issued to Potrero Hills Landfill by the Solano County Local Enforcement Agency. The case names the Company and PHLF as real parties in interest. The appeal was dismissed by the CIWMB for failure to raise a substantial issue. The 2006 facilities permit authorizes operational modifications and enhanced environmental control measures. The case was tried in Sacramento County Superior Court in October 2010, and the Superior Court rejected all of SPRAWLDEF's claims and ordered the writ petition dismissed. SPRAWLDEF appealed the dismissal to the Third District Court of Appeal. The case has been fully briefed. On March 8, 2012, the Court of Appeal asked for supplemental briefing on two questions, one of which implicates the standing of SPRAWLDEF relative to a claim against the former CIWMB, and the Company responded with a letter brief. Both CIWMB and the County also filed letter briefs. The Company believes (and so advised the Court of Appeal) the case may be moot in light of the February 14, 2012 issuance of the new solid waste facilities permit for the landfill, which supersedes the 2006 permit at issue in the appeal. While the Company believes that the respondent agencies will prevail in this case, in the unlikely event that the 2006 permit was set aside, PHLF would continue to operate the Potrero Hills Landfill under the site's new 2012 solid waste facilities permit.

On December 17, 2010, SPRAWLDEF and one its members filed a petition for writ of mandate in San Francisco Superior Court seeking to overturn the October 2010 approval of the marsh development permit issued by the San Francisco Bay Conservation and Development Commission (BCDC) for PHLF's landfill expansion, alleging that the approval is contrary to the Suisun Marsh Protection Act (the Marsh Act). Petitioners claim that BCDC abused its discretion by issuing the marsh development permit in contravention of the Marsh Act. The petition, captioned *SPRAWLDEF v. San Francisco Bay Conservation and Development Commission*, names BCDC as a respondent and the Company as the real party in interest. BCDC prepared the administrative record for its permit decision and the parties completed briefing on February 7, 2012. On its own motion, the San Francisco Superior Court stayed the action and, on April 5, 2012, transferred the case to Solano County Superior Court, citing that court's experience in the related CEQA case and judicial economy. On June 5, 2012, Solano County Superior Court assigned the case to Judge Beeman, who held a hearing for oral argument on October 4, 2012, but has not yet issued a ruling. At this point the Company is not able to determine the likelihood of any outcome in this matter.

**Table of Contents**

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

On June 10, 2011, June Guidotti, a property owner adjacent to PHLF, and SPRAWLDEF and one of its members, each filed administrative petitions for review with the State Water Resources Control Board ( State Board ) seeking to overturn a May 11, 2011 Order No. 2166-(a) approving waste discharge requirements issued by the San Francisco Bay Regional Water Quality Control Board ( Regional Board ) for PHLF's landfill expansion, alleging that the order is contrary to the State Board's Title 27 regulations authorizing waste discharge requirements for landfills, and in the case of the SPRAWLDEF petition, further alleging that the Regional Board's issuance of a Clean Water Act section 401 certification is not supported by an adequate alternatives analysis as required by the federal Clean Water Act. The Regional Board is preparing the administrative record of its decision to issue Order 2166-(a) to be filed with the State Board as well as its response to the petitions for review. It is anticipated that the Regional Board will vigorously defend its actions and seek dismissal of the petitions for review. A hearing date has not yet been set on either petition, and the State Board has held both the Guidotti and SPRAWLDEF petitions in abeyance at the petitioners' requests. At this point the Company is not able to determine the likelihood of any outcome in this matter.

If as a result of any of the matters described above, after exhausting all appeals, PHLF's use permit or marsh development permit is rescinded, and the Superior Court's writ of mandamus enforcing Measure E as rewritten is ultimately upheld, the Company estimates that it would be required to recognize a pre-tax impairment charge of approximately \$42,000 to reduce the carrying value of PHLF to its estimated fair value, in addition to the approximately \$5,000 annual impact to its pre-tax earnings described above. If PHLF's use permit or marsh development permit is rescinded but Measure E is ultimately ruled to be unenforceable, the Company estimates that it would be required to recognize a pre-tax impairment charge of approximately \$30,000 to reduce the carrying value of PHLF to its estimated fair value.

**Colonie, New York Landfill Privatization Litigation**

One of the Company's wholly-owned subsidiaries, Capital Region Landfills, Inc. ( CRL ) and the Town of Colonie, New York ( Colonie ), entered into a Solid Waste Facility Operating Agreement, dated August 4, 2011 ( Agreement ). CRL was selected to operate the Town's solid waste management operations, which include the Colonie Landfill, pursuant to a request for proposals initiated by Colonie pursuant to New York State General Municipal Law ( GML ) section 120-w. CRL commenced operating the Town's solid waste management operations pursuant to the Agreement on September 19, 2011.

By notice of petition and petition, dated September 29, 2011, filed in New York State Supreme Court for the County of Albany, seven individuals commenced a proceeding pursuant to Article 78 of the New York State Civil Practice Law and Rules ( CPLR ) against Colonie, its Town Board and its Supervisor, Paula A. Mahan ( Town Respondents ). The case is captioned, *Connors, et al. v. Town of Colonie, et al.*, Index No. 006312/2011 (Sup. Ct., Albany Co.). On October 17, 2011, an amended petition, dated October 11, 2011, was served on the Town, naming CRL and the Company as additional Respondents. The petition alleged that the petitioners are residents of Colonie, and own or reside on property abutting or in close proximity to the landfill, or which is affected by the Agreement. Petitioners claimed that the Agreement is the functional equivalent of a lease and therefore should have been subject to the permissive referendum requirements of New York State Town Law ( Town Law ) sections 64(2) and 90. The petition, as amended, asserted that Respondents failed, within ten days of the Town Board's adoption of a July 28, 2011 resolution authorizing Colonie to enter into the Agreement with CRL, to post and publish notice setting forth the date of adoption of the resolution, an abstract of the Town Board's action and a statement that the resolution was adopted subject to a permissive referendum. Petitioners sought judgment (i) annulling and setting aside the resolution, (ii) declaring the Agreement invalid, unlawful and unenforceable, (iii) restraining and enjoining Respondents from attempting to enforce the resolution or the Agreement, and (iv) awarding petitioners costs, disbursements and attorneys' fees incurred in connection with this proceeding; and such other and further relief as the Court deems just and proper.

On October 31, 2011 and November 2, 2011, the Town Respondents, CRL and the Company filed motions to dismiss on various procedural and substantive grounds. On November 3, 2011, petitioners filed an opposition to the motions to dismiss and cross-moved to file a second amended petition seeking to add the Town Clerk and landfill employees' unions as Respondents.



**Table of Contents**

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

By decision, order and judgment dated April 5, 2012, the Albany County Supreme Court dismissed the petition, as amended, in its entirety on two separate grounds. The Court assumed for the purposes of the motions to dismiss that the Agreement could be construed as a lease, but determined that: (i) a lease entered into pursuant to GML section 120-w is not subject to the permissive referendum requirements of Town Law sections 64(2) and 90; and (ii) because the Town followed certain proscribed procedures of GML section 120-w, challenges to the Agreement were statutorily limited to specific categories of claims set forth in GML section 120-w(6) and petitioners' claims did not fall within any of the permitted categories of claims. Because the Court dismissed the petition on the merits, it determined that the petitioners' request to file a second amended petition was moot. On May 3, 2012, petitioners filed a notice of appeal with the Appellate Division of the New York State Supreme Court, Third Department. The notice of appeal raises two issues: (1) whether GML section 120-W preempts and supersedes the specific provision of Town Law section 64(2), which requires a permissive referendum notice to be served before a town may lease real property to a private company to operate a landfill; and (2) whether the lower court erred in dismissing the petition on the merits prior to issue being joined. In order to perfect their appeal, the petitioners will need to file a record and brief, which they have not yet done.

At this stage, the Company is not able to determine the likelihood of any outcome in this matter. If, however, as a result of this litigation, after the parties have exhausted all appeals, the Agreement is nullified and CRL is unable to continue to operate Colonie's solid waste management operations, the Agreement requires Colonie to repay to CRL an amount equal to a prorated amount of \$23,000 of the initial payment made by CRL to Colonie plus the amount of any capital that CRL has invested in the Colonie Landfill. The prorated amount owed to CRL by Colonie would be calculated by dividing the \$23,000 plus the amount of invested capital by the number of years of remaining airspace at the Colonie Landfill, as measured from the effective date of the Agreement, and then multiplying the result by the number of years of remaining airspace at the Colonie Landfill, as measured from the date the Agreement is nullified. Furthermore, if the Agreement is nullified as a result of the litigation, Colonie would resume responsibility for all final capping, closure and post-closure liabilities for the Colonie Landfill.

Madera County, California Materials Recovery Facility Contract Litigation

The Company's subsidiary, Madera Disposal Systems, Inc. (MDSI) was named in a complaint captioned County of Madera vs. Madera Disposal Systems, Inc., et al, which was filed in the Superior Court of California, County of Madera (Case No. MCV 059402) on March 5, 2012. In its complaint, Madera County alleges that from 2007 through 2010, MDSI breached a contract with the County for the operation of a materials recovery facility by withholding profits from facility operations in excess of those authorized by the contract. The County further alleges that the breach gives the County the unilateral right to terminate all of its contracts with MDSI, including contracts for (1) the collection of residential and commercial waste in the unincorporated parts of the County, (2) operation of the materials recovery facility, (3) operation of the North Fork Transfer Station and (4) operation of the Fairmead Landfill. In the complaint, the County seeks monetary damages of \$2,962 from MDSI, plus pre-judgment interest at 10% per annum and a declaration that the County may terminate its contracts with MDSI effective November 1, 2012.

MDSI had been under contract with the County to collect residential and commercial waste and operate the county-owned Fairmead Landfill continuously since at least 1981. In 1994, MDSI contracted with the County to construct and operate a materials recovery facility for the County on the premises of the Fairmead Landfill. At the time it entered into the materials recovery facility contract, MDSI entered into new contracts with the County for waste collection and landfill operation that were to run concurrently with the materials recovery facility contract. In 1998, MDSI and the County agreed to extend the term of the materials recovery facility and the terms of the other County contracts until November 10, 2012, with MDSI holding a unilateral option to extend all of the contracts for an additional five-year term.

**Table of Contents**

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon, tonnage and per ton amounts)

In March 2011, the County issued a Notice of Default to MDSI under the materials recovery facility contract and gave MDSI 30 days to cure the default. MDSI provided information that it believed demonstrated that it was not in default under the contract and had not withheld profits that it was obligated to deliver to the County under the terms of the contract. The County disagreed and in December 2011, MDSI and the County attempted to mediate the dispute. The mediation was unsuccessful.

On February 7, 2012, the County issued a formal Notice of Termination to MDSI terminating all of its contracts effective November 1, 2012, or such earlier date as the County may specify to MDSI by at least 90 days prior written notice. The lawsuit followed on March 5, 2012. On March 26, 2012, MDSI filed a motion to transfer venue to a superior court in a neutral county. At the hearing on the motion on June 18, 2012, the Madera County Superior Court granted MDSI's motion and ordered the case transferred to Fresno County Superior Court. MDSI received notice from the Fresno County Superior Court that the transfer was complete on October 4, 2012, and MDSI now has until October 29, 2012 to file its response to the County's complaint.

At this point, the Company is not able to determine the likelihood of any outcome in this matter. The Company disputes Madera County's right to terminate the MDSI contracts effective November 1, 2012, and although the Company intends to cease providing services under the contracts and vacate all County-owned premises consistent with the County's demands, the Company also intends to file a cross-complaint for damages against the County for wrongful termination of the contracts. The Company estimates that the current annual impact to its pre-tax earnings resulting from the termination of MDSI's contracts with Madera County will be approximately \$2,300 per year, not including any monetary damages and interest the Court could order MDSI to pay the County.

18. SUBSEQUENT EVENT

On October 22, 2012, the Company announced that its Board of Directors increased its regular quarterly cash dividend by \$0.01, from \$0.09 to \$0.10 per share, and then declared a regular quarterly cash dividend of \$0.10 per share on the Company's common stock. The dividend will be paid on November 19, 2012, to stockholders of record on the close of business on November 5, 2012.

**Table of Contents**

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q are forward-looking in nature, including statements related to our ability to provide adequate cash to fund our operating activities, our ability to draw on our credit facility or raise additional capital, the impact of global economic conditions on our volume, business and results of operations, the effects of landfill special waste projects on volume results, the effects of seasonality on our business and results of operations, demand for recyclable commodities and recyclable commodity pricing, the impact of the relocation of our corporate headquarters to The Woodlands, Texas, our expectations with respect to capital expenditures, our expectations with respect to our ability to obtain expansions of permitted landfill capacity, our expectations with respect to our stock repurchase program and future dividend payments, our expectations with respect to the outcomes of our legal proceedings and our expectations with respect to the purchase of fuel and fuel prices. These statements can be identified by the use of forward-looking terminology such as believes, expects, may, will, should, or anticipates, or the negative thereof or comparable terminology, or by discussions of strategy.

Our business and operations are subject to a variety of risks and uncertainties and, consequently, actual results may differ materially from those projected by any forward-looking statements. Factors that could cause actual results to differ from those projected include, but are not limited to, the following:

Our acquisitions may not be successful, resulting in changes in strategy, operating losses or a loss on sale of the business acquired;

A portion of our growth and future financial performance depends on our ability to integrate acquired businesses into our organization and operations;

Competition for acquisition candidates, consolidation within the waste industry and economic and market conditions may limit our ability to grow through acquisitions;

We may be unable to compete effectively with larger and better capitalized companies, companies with lower return expectations, and governmental service providers;

We may lose contracts through competitive bidding, early termination or governmental action;

Price increases may not be adequate to offset the impact of increased costs or may cause us to lose volume;

Economic downturns adversely affect operating results;

Our results are vulnerable to economic conditions and seasonal factors affecting the regions in which we operate;

We may be subject in the normal course of business to judicial, administrative or other third party proceedings that could interrupt or limit our operations, require expensive remediation, result in adverse judgments, settlements or fines and create negative publicity;

Increases in the price of fuel may adversely affect our business and reduce our operating margins;

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Increases in labor and disposal and related transportation costs could impact our financial results;

Efforts by labor unions could divert management attention and adversely affect operating results;

Page 38



**Table of Contents**

We could face significant withdrawal liability if we withdraw from participation in one or more underfunded multiemployer pension plans in which we participate;

Increases in insurance costs and the amount that we self-insure for various risks could reduce our operating margins and reported earnings;

Our indebtedness could adversely affect our financial condition; we may incur substantially more debt in the future;

Each business that we acquire or have acquired may have liabilities or risks that we fail or are unable to discover, including environmental liabilities;

Liabilities for environmental damage may adversely affect our financial condition, business and earnings;

Our accruals for our landfill site closure and post-closure costs may be inadequate;

The financial soundness of our customers could affect our business and operating results;

We depend significantly on the services of the members of our senior, regional and district management team, and the departure of any of those persons could cause our operating results to suffer;

Our decentralized decision-making structure could allow local managers to make decisions that adversely affect our operating results;

We may incur charges related to capitalized expenditures of landfill development projects, which would decrease our earnings;

Because we depend on railroads for our intermodal operations, our operating results and financial condition are likely to be adversely affected by any reduction or deterioration in rail service;

Our financial results are based upon estimates and assumptions that may differ from actual results;

The adoption of new accounting standards or interpretations could adversely affect our financial results;

Pending or future litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements;

If we are not able to develop and protect intellectual property, or if a competitor develops or obtains exclusive rights to a breakthrough technology, our financial results may suffer;

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Fluctuations in prices for recycled commodities that we sell and rebates we offer to customers may cause our revenues and operating results to decline;

Our financial and operating performance may be affected by the inability to renew landfill operating permits, obtain new landfills and expand existing ones;

Future changes in laws or renewed enforcement of laws regulating the flow of solid waste in interstate commerce could adversely affect our operating results;

Page 39

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**Table of Contents**

Extensive and evolving environmental, health, safety and employment laws and regulations may restrict our operations and growth and increase our costs;

Climate change regulations may adversely affect operating results;

Extensive regulations that govern the design, operation and closure of landfills may restrict our landfill operations or increase our costs of operating landfills;

Alternatives to landfill disposal may cause our revenues and operating results to decline; and

Unusually adverse weather conditions may interfere with our operations, harming our operating results.

These risks and uncertainties, as well as others, are discussed in greater detail in this Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission, or SEC, including our most recent Annual Report on Form 10-K. There may be additional risks of which we are not presently aware or that we currently believe are immaterial which could have an adverse impact on our business. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances that may change.

**OVERVIEW**

The solid waste industry is a local and highly competitive business, requiring substantial labor and capital resources. The participants compete for collection accounts primarily on the basis of price and, to a lesser extent, the quality of service, and compete for landfill business on the basis of tipping fees, geographic location and quality of operations. The solid waste industry has been consolidating and continues to consolidate as a result of a number of factors, including the increasing costs and complexity associated with waste management operations and regulatory compliance. Many small independent operators and municipalities lack the capital resources, management, operating skills and technical expertise necessary to operate effectively in such an environment. The consolidation trend has caused solid waste companies to operate larger landfills that have complementary collection routes that can use company-owned disposal capacity. Controlling the point of transfer from haulers to landfills has become increasingly important as landfills continue to close and disposal capacity moves further from collection markets.

Generally, the most profitable industry operators are those companies that are vertically integrated or enter into long-term collection contracts. A vertically integrated operator will benefit from: (1) the internalization of waste, which is bringing waste to a company-owned landfill; (2) the ability to charge third-party haulers tipping fees either at landfills or at transfer stations; and (3) the efficiencies gained by being able to aggregate and process waste at a transfer station prior to landfilling.

We are an integrated solid waste services company that provides solid waste collection, transfer, disposal and recycling services in mostly exclusive and secondary markets in the U.S. We also provide intermodal services for the rail haul movement of cargo and solid waste containers in the Pacific Northwest through a network of intermodal facilities. We also own and operate a facility in Southwest Louisiana where we treat and dispose of non-hazardous waste that is generated in the exploration and production of oil and natural gas. We seek to avoid highly competitive, large urban markets and instead target markets where we can provide either solid waste services under exclusive arrangements, or markets where we can be integrated and attain high market share. In markets where waste collection services are provided under exclusive arrangements, or where waste disposal is municipally funded or available at multiple municipal sources, we believe that controlling the waste stream by providing collection services under exclusive arrangements is often more important to our growth and profitability than owning or operating landfills. As of September 30, 2012, we served more than two million residential, commercial and industrial customers from a network of operations in 30 states: Alabama, Alaska, Arizona, California, Colorado, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Michigan, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Mexico, New York, North Carolina, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Washington and Wyoming. As of that date, we owned or operated a network of 149 solid waste collection operations, 62 transfer stations, seven intermodal facilities, 39 recycling operations, 46 municipal solid waste landfills, four construction and demolition landfills and one exploration and production waste treatment and disposal facility.

**Table of Contents**

On September 16, 2012, we entered into a Purchase and Sale Agreement to acquire the business of R360 Environmental Solutions, Inc. ( R360 ). The aggregate purchase price, subject to adjustment, is approximately \$1.33 billion in cash. R360 provides non-hazardous oilfield waste treatment, recovery and disposal services in several of the most active natural resource producing areas in the United States, including the Permian, Bakken and Eagle Ford Basins. The acquisition of R360 remains subject to certain closing conditions. Closing is expected to occur in the fourth quarter of 2012.

**CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the condensed consolidated financial statements. As described by the SEC, critical accounting estimates and assumptions are those that may be material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and that have a material impact on the financial condition or operating performance of a company. Such critical accounting estimates and assumptions are applicable to our reportable segments. Refer to our most recent Annual Report on Form 10-K for a complete description of our critical accounting estimates and assumptions.

**NEW ACCOUNTING PRONOUNCEMENTS**

For a description of the new accounting standards that affect us, see Note 2 to our Condensed Consolidated Financial Statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q.

**Table of Contents**

## RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

The following table sets forth items in our condensed consolidated statements of net income as a percentage of revenues for the periods indicated.

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of operations	57.1	56.6	57.6	56.6
Selling, general and administrative	11.3	10.2	11.8	10.7
Depreciation	9.9	9.6	9.8	9.7
Amortization of intangibles	1.5	1.3	1.5	1.3
Loss on disposal of assets	0.1	0.2	0.1	0.1
Gain from litigation settlement	(0.8)		(0.3)	
Operating income	20.9	22.1	19.5	21.6
Interest expense	(2.8)	(3.0)	(3.0)	(2.8)
Interest income	0.1			
Other income (expense), net	0.1	(0.2)	0.1	(0.1)
Income tax provision	(6.6)	(7.4)	(6.4)	(7.3)
Net income attributable to noncontrolling interests	(0.1)			(0.1)
Net income attributable to Waste Connections	11.6%	11.5%	10.2%	11.3%

**Revenues.** Total revenues increased \$21.7 million, or 5.4%, to \$425.7 million for the three months ended September 30, 2012, from \$404.0 million for the three months ended September 30, 2011. Total revenues increased \$87.2 million, or 7.7%, to \$1.213 billion for the nine months ended September 30, 2012, from \$1.126 billion for the nine months ended September 30, 2011.

Acquisitions closed during, or subsequent to, the three months ended September 30, 2011, increased revenues by approximately \$34.3 million in the three months ended September 30, 2012. Operations divested during, or subsequent to, the three months ended September 30, 2011, decreased revenues by approximately \$1.5 million. Acquisitions closed during, or subsequent to, the nine months ended September 30, 2011, increased revenues by approximately \$96.0 million in the nine months ended September 30, 2012. Operations divested during, or subsequent to, the nine months ended September 30, 2011, decreased revenues by approximately \$6.3 million.

During the three months ended September 30, 2012, the net increase in prices charged to our customers from core price increases was \$11.6 million. There was minimal impact on revenues from changes in fuel, materials and environmental surcharges. During the nine months ended September 30, 2012, the net increase in prices charged to our customers was \$35.3 million, consisting of \$34.1 million of core price increases and \$1.2 million of fuel, materials and environmental surcharges.

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**Table of Contents**

Volume decreases in our existing business during the three and nine months ended September 30, 2012, decreased revenues by approximately \$13.8 million and \$22.3 million, respectively. The net decreases in volume were primarily attributable to decreases in landfill municipal solid waste volumes, due primarily to the decision to forego low-priced tonnage from one large hauler at one of our large landfills; lower landfill special waste volumes, due primarily to a decrease in large non-recurring projects; decreased commercial hauling revenue due primarily to service level declines with existing customers and a reduction in customer counts due to competition in our markets; and decreased roll off hauling activity due primarily to construction slowdowns affecting our markets, partially offset by increased exploration and production waste treatment and disposal activity due to increased drilling activity.

Decreased recyclable commodity prices during the three and nine months ended September 30, 2012, partially offset by increased recyclable commodity volumes collected, decreased revenues by \$9.4 million and \$15.9 million, respectively. The decrease in recyclable commodity prices was primarily due to decreased overseas demand for recyclable commodities.

Other revenues during the three and nine months ended September 30, 2012 increased by \$0.5 million and \$0.4 million, respectively. The increases were primarily due to an increase in cargo volume at our intermodal operations.

**Cost of Operations.** Total cost of operations increased \$14.6 million, or 6.4%, to \$243.2 million for the three months ended September 30, 2012, from \$228.6 million for the three months ended September 30, 2011. The increase was primarily attributable to \$17.6 million of additional operating costs associated with acquisitions closed during, or subsequent to, the three months ended September 30, 2011, and the following changes at operations owned in comparable periods in 2011 and 2012: an increase in employee benefit expenses of \$1.1 million due to an increase in claims severity under our self-insured medical plan, an increase in third party trucking and transportation expenses of \$0.9 million due to changes in the disposal internalization of collected waste volumes and increased trucking of purchased recyclable commodities, an increase in truck, container and equipment maintenance and repair expenses of \$0.4 million, an increase in labor expenses of \$0.3 million due to employee pay increases, an increase in leachate disposal costs of \$0.3 million at certain landfills we own and an increase in rail transportation expenses of \$0.3 million due to an increase in intermodal cargo volume, partially offset by a decrease in taxes on revenues of \$2.7 million due primarily to lower landfill volumes, a decrease in disposal expense on collected volumes of \$2.5 million due primarily to increased internalization of collected waste volumes in our New York markets and a decrease in diesel fuel expenses of \$1.1 million resulting from the net impact of a decline in diesel fuel gallons consumed in our operations and higher market prices for fuel.

Total cost of operations increased \$60.9 million, or 9.5%, to \$698.4 million for the nine months ended September 30, 2012, from \$637.5 million for the nine months ended September 30, 2011. The increase was primarily attributable to \$47.2 million of additional operating costs associated with acquisitions closed during, or subsequent to, the nine months ended September 30, 2011, and the following changes at operations owned in comparable periods in 2011 and 2012: an increase in labor expenses of \$4.4 million due to employee pay increases, an increase in truck, container and equipment maintenance and repair expenses of \$4.0 million, an increase in third party trucking and transportation expenses of \$2.7 million due to changes in the disposal internalization of collected waste volumes and increased special waste projects that require us to transport the volume to our disposal sites, an increase in disposal expenses on collected volumes of \$2.4 million due to disposal rate increases and re-directing collected waste volumes to alternative third party disposal sites, an increase in leachate disposal costs of \$1.8 million at certain landfills we own, an increase in auto and workers compensation expense under our high deductible insurance program of \$1.4 million due to an increase in projected losses on open claims, an increase in equipment and real estate rental expense of \$0.7 million, an increase in employee benefit expenses of \$0.7 million due to an increase in claims severity under our self-insured medical plan, an increase in landfill monitoring and maintenance expenses of \$0.6 million, an increase in diesel fuel expenses of \$0.5 million resulting from the net impact of higher market prices for fuel and reduced fuel gallons consumed in our operations and \$0.7 million of other net increases, partially offset by a decrease in taxes on revenues of \$4.5 million due to lower landfill revenues at certain sites we own and an adjustment to a prior year tax liability, a decrease in the cost of recyclable commodities of \$1.0 million due to declines in commodity values and a decrease in general liability and property insurance claims expense of \$0.7 million under our high deductible insurance program due to adjustments to prior year claims.

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**Table of Contents**

Cost of operations as a percentage of revenues increased 0.5 percentage points to 57.1% for the three months ended September 30, 2012, from 56.6% for the three months ended September 30, 2011. The increase was comprised of a 0.5 percentage point increase from increased labor expenses, a 0.4 percentage point increase from increased benefits expenses, a 0.3 percentage point increase from increased third party trucking, a 0.3 percentage point increase from increased vehicle, container and equipment maintenance expenses and a 0.1 percentage point increase from increased rail transportation expenses, partially offset by a 0.5 percentage point decrease from decreased taxes on revenues, a 0.4 percentage point decrease from decreased disposal expense, a 0.1 percentage point decrease due to acquisitions closed during, or subsequent to, the three months ended September 30, 2011 having lower costs, as a percentage of revenue, relative to our company average and a 0.1 percentage point decrease from decreased fuel expense.

Cost of operations as a percentage of revenues increased 1.0 percentage points to 57.6% for the nine months ended September 30, 2012, from 56.6% for the nine months ended September 30, 2011. The increase was comprised of a 0.4 percentage point increase from increased vehicle, container and equipment maintenance expenses, a 0.3 percentage point increase from increased labor expenses, a 0.2 percentage point increase in disposal expenses, a 0.2 percentage point increase from increased leachate disposal expenses, a 0.2 percentage point increase from increased third party trucking expenses, a 0.1 percentage point increase in equipment and real estate rental expenses and a 0.1 percentage point increase from increased auto and workers compensation expenses, partially offset by a 0.4 percentage point decrease from decreased taxes on revenues and a 0.1 percentage point decrease in the cost of recyclable commodities.

SG&A. SG&A expenses increased \$7.0 million, or 16.9%, to \$48.0 million for the three months ended September 30, 2012, from \$41.0 million for the three months ended September 30, 2011. The increase was primarily the result of \$2.2 million of additional SG&A expenses from acquisitions closed during, or subsequent to, the three months ended September 30, 2011, and the following changes at operations owned in comparable periods in 2011 and 2012: \$1.8 million of expenses associated with the relocation of our corporate headquarters from Folsom, California to The Woodlands, Texas, an increase in direct acquisition expenses of \$1.3 million, an increase in deferred compensation expense resulting from deferred compensation liabilities to employees being increased as a result of increases in the market value of investments to which employee deferred compensation balances are tracked of \$1.1 million, an increase in payroll and payroll-related expenses of \$0.6 million related to pay increases, an increase in equity-based compensation expense associated with our annual grant of restricted stock units to our personnel of \$0.3 million and \$0.1 million of other net increases, partially offset by a decrease in expenses for uncollectible accounts receivable of \$0.4 million.

SG&A expenses increased \$22.8 million, or 18.9%, to \$143.9 million for the nine months ended September 30, 2012, from \$121.1 million for the nine months ended September 30, 2011. The increase was primarily the result of \$6.3 million of additional SG&A expenses from acquisitions closed during, or subsequent to, the nine months ended September 30, 2011, and the following changes at operations owned in comparable periods in 2011 and 2012: \$6.5 million of expenses associated with the relocation of our corporate headquarters from Folsom, California to The Woodlands, Texas, \$3.6 million of equity-based compensation expense resulting from a grant of immediately vested restricted stock units to certain executive officers at the time the executives agreed to modifications to their employment contracts, an increase in payroll and payroll-related expenses of \$2.4 million related to pay increases, an increase in direct acquisition expenses of \$2.3 million, an increase in equity-based compensation expense associated with our annual grant of restricted stock units to our personnel of \$1.0 million, an increase in deferred compensation expense resulting from deferred compensation liabilities to employees being increased as a result of increases in the market value of investments to which employee deferred compensation balances are tracked of \$1.0 million, an increase in employee travel expenses of \$0.5 million and \$0.3 million of other net increases, partially offset by a decrease in cash incentive compensation expense of \$1.1 million due to us not achieving certain budgeted financial targets, for which cash incentive compensation payments are based, during the nine months ended September 30, 2012.

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**Table of Contents**

SG&A expenses as a percentage of revenues increased 1.1 percentage points to 11.3% for the three months ended September 30, 2012, from 10.2% for the three months ended September 30, 2011. The increase as a percentage of revenues was attributable to a 0.5 percentage point increase from expenses associated with the relocation of our corporate headquarters to The Woodlands, Texas, a 0.3 percentage point increase from increased direct acquisition expenses, a 0.3 percentage point increase from increased deferred compensation expense, a 0.3 percentage point increase from increased labor expenses and a 0.1 percentage point increase in equity-based compensation expense, partially offset by a 0.3 percentage point decrease due to acquisitions closed during, or subsequent to, the three months ended September 30, 2011 having lower SG&A expenses as a percentage of revenue than our company average and a 0.1 percentage point decrease due to a reduction in expenses for uncollectible accounts receivable.

SG&A expenses as a percentage of revenues increased 1.1 percentage points to 11.8% for the nine months ended September 30, 2012, from 10.7% for the nine months ended September 30, 2011. The increase as a percentage of revenues was attributable to a 0.6 percentage point increase from expenses associated with the relocation of our corporate headquarters to The Woodlands, Texas, a 0.4 percentage point increase from higher equity-based compensation expense, a 0.2 percentage point increase from the increase in direct acquisition expenses, a 0.2 percentage point increase from increased payroll and payroll-related expenses, a 0.1 percentage point increase from increased travel expenses and a 0.1 percentage point increase from increased deferred compensation expense, partially offset by a 0.4 percentage point decrease due to acquisitions closed during, or subsequent to, the nine months ended September 30, 2011 having lower SG&A expenses as a percentage of revenue than our company average and a 0.1 percentage point decrease due to the decrease in cash incentive compensation expense.

Depreciation. Depreciation expense increased \$3.4 million, or 8.9%, to \$42.3 million for the three months ended September 30, 2012, from \$38.9 million for the three months ended September 30, 2011. The increase was primarily attributable to \$1.5 million of depreciation and \$3.2 million of depletion associated with acquisitions closed during, or subsequent to, the three months ended September 30, 2011, and an increase in depreciation expense associated with additions to our fleet and equipment purchased to support our existing operations of \$0.3 million, partially offset by a \$1.6 million decrease in depletion at our existing operations due primarily to a decrease in municipal solid waste and special waste landfill volumes.

Depreciation expense increased \$10.5 million, or 9.6%, to \$119.3 million for the nine months ended September 30, 2012, from \$108.8 million for the nine months ended September 30, 2011. The increase was primarily attributable to \$5.4 million of depreciation and \$5.1 million of depletion associated with acquisitions closed during, or subsequent to, the nine months ended September 30, 2011, and an increase in depreciation expense associated with additions to our fleet and equipment purchased to support our existing operations of \$1.7 million, partially offset by a \$1.7 million decrease in depletion at our existing operations due primarily to a decrease in municipal solid waste and special waste landfill volumes.

Depreciation expense as a percentage of revenues increased 0.3 percentage points to 9.9% for the three months ended September 30, 2012, from 9.6% for the three months ended September 30, 2011. The increase as a percentage of revenues was attributable to a 0.6 percentage point increase in depletion expense from landfills acquired during, or subsequent to, the three months ended September 30, 2011, which have a higher depletion rate per ton relative to our company average, partially offset by a 0.3 percentage point decrease in depletion expense at our existing operations.

Depreciation expense as a percentage of revenues increased 0.1 percentage points to 9.8% for the nine months ended September 30, 2012, from 9.7% for the nine months ended September 30, 2011. The increase as a percentage of revenues was attributable to a 0.3 percentage point increase in depletion expense from landfills acquired during, or subsequent to, the three months ended September 30, 2011, which have a higher depletion rate per ton relative to our company average, partially offset by a 0.2 percentage point decrease in depletion expense at our existing operations.

Amortization of Intangibles. Amortization of intangibles expense increased \$1.2 million, or 22.0%, to \$6.3 million for the three months ended September 30, 2012, from \$5.1 million for the three months ended September 30, 2011, due primarily to the amortization of contracts and customer lists acquired during, or subsequent to, the three months ended September 30, 2011.



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**Table of Contents**

Amortization of intangibles expense increased \$3.3 million, or 22.5%, to \$18.1 million for the nine months ended September 30, 2012, from \$14.8 million for the nine months ended September 30, 2011, due primarily to the amortization of contracts and customer lists acquired during, or subsequent to, the nine months ended September 30, 2011.

Amortization expense as a percentage of revenues increased 0.2 percentage points to 1.5% for the three months ended September 30, 2012, from 1.3% for the three months ended September 30, 2011. Amortization expense as a percentage of revenues increased 0.2 percentage points to 1.5% for the nine months ended September 30, 2012, from 1.3% for the nine months ended September 30, 2011. The increases in amortization expense as a percentage of revenues were due to the aforementioned amortization expense increases.

**Gain from Litigation Settlement.** Gain from litigation settlement of \$3.5 million for the three and nine months ended September 30, 2012 consists of an award received from an arbitration we filed against a counter-party to a disposal agreement that breached that agreement.

**Operating Income.** Operating income decreased \$0.2 million, or 0.2%, to \$89.1 million for the three months ended September 30, 2012, from \$89.3 million for the three months ended September 30, 2011. The decrease was primarily attributable to the \$14.6 million increase in operating costs, \$7.0 million increase in SG&A expense, \$3.4 million increase in depreciation expense and \$1.2 million increase in amortization of intangibles expense, partially offset by the \$21.7 million increase in revenues, \$0.8 million decrease in loss on disposal of assets and \$3.5 million increase in gain from litigation settlement.

Operating income decreased \$6.8 million, or 2.8%, to \$235.9 million for the nine months ended September 30, 2012, from \$242.7 million for the nine months ended September 30, 2011. The decrease was primarily attributable to the \$60.9 million increase in operating costs, \$22.8 million increase in SG&A expense, \$10.5 million increase in depreciation expense and \$3.3 million increase in amortization of intangibles expense, partially offset by the \$87.2 million increase in revenues and \$3.5 million increase in gain from litigation settlement.

Operating income as a percentage of revenues decreased 1.2 percentage points to 20.9% for the three months ended September 30, 2012, from 22.1% for the three months ended September 30, 2011. The decrease as a percentage of revenues was due to the previously described 0.5 percentage point increase in cost of operations, 1.1 percentage point increase in SG&A expense, 0.3 percentage point increase in depreciation expense and 0.2 percentage point increase in amortization expense, partially offset by the 0.8 percentage point increase in gain from litigation settlement and 0.1 percentage point increase for the decrease in loss on disposal of assets.

Operating income as a percentage of revenues decreased 2.1 percentage points to 19.5% for the nine months ended September 30, 2012, from 21.6% for the nine months ended September 30, 2011. The decrease as a percentage of revenues was due to the previously described 1.1 percentage point increase in SG&A expense, 1.0 percentage point increase in cost of operations, 0.2 percentage point increase in amortization expense and 0.1 percentage point increase in depreciation expense, partially offset by the 0.3 increase in gain from litigation settlement.

**Interest Expense.** Interest expense decreased \$0.1 million, or 0.7%, to \$11.9 million for the three months ended September 30, 2012, from \$12.0 million for the three months ended September 30, 2011. The decrease was comprised of a \$0.8 million reduction in the average outstanding balance on our credit facility, partially offset by a \$0.4 million increase resulting from interest accretion expense recorded on long-term liabilities recorded at fair value associated with acquisitions closed during, or subsequent to, the three months ended September 30, 2011, a \$0.2 million increase due to the commencement of a \$150 million interest rate swap in April 2012 with a fixed rate of 0.80% and a \$0.1 million increase in the amortization of debt issuance costs and increased commitment fees on the increased unused portion of our credit facility.

**Table of Contents**

Interest expense increased \$4.2 million, or 12.9%, to \$36.1 million for the nine months ended September 30, 2012, from \$31.9 million for the nine months ended September 30, 2011. The increase was comprised of a \$2.5 million increase from the April 2011 issuance of our 2016 Notes, 2018 Notes and 2021 Notes, \$1.1 million from an increase in the amortization of debt issuance costs and increased commitment fees on the increased unused portion of our credit facility, \$1.0 million from an increase in the applicable margin above the base rate or Eurodollar rate under our new senior revolving credit facility that we entered into in July 2011, a \$1.0 million increase resulting from interest accretion expense recorded on long-term liabilities recorded at fair value associated with acquisitions closed during, or subsequent to, the nine months ended September 30, 2011, and a \$0.4 million increase due to the commencement of a \$150 million interest rate swap in April 2012 with a fixed rate of 0.80%, partially offset by a \$1.3 million decrease due to a reduction in the average outstanding balance on our credit facility, a \$0.3 million decrease due to the expiration of a \$50 million interest rate swap in June 2011 with a fixed rate of 4.29% and a \$0.2 million decrease due to a reduction in the fixed interest rate paid on \$175 million of interest rate swaps. In February 2011, three interest rate swaps with a combined notional amount of \$175 million and a fixed interest rate of 4.37% expired and we commenced a new \$175 million interest rate swap with a fixed interest rate of 2.85%.

**Income Tax Provision.** Income taxes decreased \$1.5 million, or 5.1%, to \$28.4 million for the three months ended September 30, 2012, from \$29.9 million for the three months ended September 30, 2011 and decreased \$4.4 million, or 5.4%, to \$78.0 million for the nine months ended September 30, 2012, from \$82.4 million for the nine months ended September 30, 2011, as a result of decreased pre-tax income.

Our effective tax rates for the three months ended September 30, 2012 and 2011, were 36.4% and 39.1%, respectively. Our effective tax rates for the nine months ended September 30, 2012 and 2011, were 38.7% and 39.2%, respectively.

Our reconciliation of the income tax provision to the 2011 federal and certain state tax returns, which were filed in the third quarter of 2012, decreased our tax expense by \$1.8 million and reduced our effective tax rates by 2.3 percentage points for the three months ended September 30, 2012 and 0.9 percentage points for the nine months ended September 30, 2012.

Additionally, during the nine months ended September 30, 2012, income tax expense and our effective tax rate were increased by \$1.1 million and 0.5 percentage points, respectively, due to \$2.9 million of the \$3.6 million equity-based compensation granted to certain executive officers, incurred at the time the executives agreed to modifications to their employment contracts, being non-deductible expenses.

**SEGMENT RESULTS****General**

Our revenues are derived from one industry segment, which includes the collection, transfer, recycling and disposal of non-hazardous solid waste. No single contract or customer accounted for more than 10% of our total revenues at the consolidated or reportable segment level during the periods presented. The table below shows for the periods indicated our total reported revenues attributable to services provided (dollars in thousands).

	Three months ended September 30,				Nine months ended September 30,			
	2012		2011		2012		2011	
Collection	\$ 304,166	62.8%	\$ 282,176	61.1%	\$ 880,920	63.5%	\$ 796,783	61.9%
Disposal and transfer	148,117	30.5	138,680	30.0	406,034	29.3	381,961	29.6
Intermodal, recycling and other	32,316	6.7	40,829	8.9	100,041	7.2	109,301	8.5
	484,599	100.0%	461,685	100.0%	1,386,995	100.0%	1,288,045	100.0%
Less: intercompany elimination	(58,945)		(57,723)		(174,180)		(162,431)	
Total revenue	\$ 425,654		\$ 403,962		\$ 1,212,815		\$ 1,125,614	

**Table of Contents**

Our Chief Operating Decision Maker evaluates performance and determines resource allocations based on several factors, of which the primary financial measure is operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement. Operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement is not a measure of operating income, operating performance or liquidity under GAAP and may not be comparable to similarly titled measures reported by other companies. Our management uses operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement in the evaluation of segment operating performance as it is a profit measure that is generally within the control of the operating segments.

We manage our operations through three geographic operating segments, which are also our reportable segments. Each operating segment is responsible for managing several vertically integrated operations, which are comprised of districts. For the nine month periods ended September 30, 2012 and 2011, our Western Region was comprised of operating locations in Alaska, California, Idaho, Montana, Nevada, Oregon, Washington and western Wyoming; our Central Region was comprised of operating locations in Arizona, Colorado, Kansas, Louisiana, Minnesota, Nebraska, New Mexico, Oklahoma, South Dakota, Texas, Utah and eastern Wyoming; and our Eastern Region was comprised of operating locations in Alabama, Illinois, Iowa, Kentucky, Massachusetts, Michigan, Mississippi, New York, North Carolina, South Carolina and Tennessee.

Revenues, net of intercompany eliminations, for our reportable segments are shown in the following table for the periods indicated (in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Western	\$ 203,963	\$ 197,260	\$ 586,166	\$ 559,377
Central	128,933	112,851	351,218	323,762
Eastern	92,758	93,851	275,431	242,475
	\$ 425,654	\$ 403,962	\$ 1,212,815	\$ 1,125,614

Operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement for our reportable segments is shown in the following table for the periods indicated (in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Western	\$ 61,119	\$ 65,306	\$ 173,810	\$ 177,593
Central	49,194	40,174	128,699	115,261
Eastern	26,113	27,179	77,879	70,856
Corporate <sup>(a)</sup>	(1,992)	1,695	(9,823)	3,351
	\$ 134,434	\$ 134,354	\$ 370,565	\$ 367,061

(a) Corporate functions include accounting, legal, tax, treasury, information technology, risk management, human resources, training and other administrative functions. Amounts reflected are net of allocations to our three geographic operating segments.

A reconciliation of Operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement to Income before income tax provision is included in Note 9 to the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Significant changes in revenue and operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement for our reportable segments for the three and nine month periods ended September 30, 2012, compared to the three and nine month

periods ended September 30, 2011, are discussed below:

**Table of Contents**

**Segment Revenue**

Revenue in our Western segment increased \$6.7 million, or 3.4%, to \$204.0 million for the three months ended September 30, 2012, from \$197.3 million for the three months ended September 30, 2011. The components of the increase consisted of revenue acquired from acquisitions closed during, or subsequent to, the three months ended September 30, 2011, of \$18.7 million, net price increases of \$4.5 million and intermodal revenue increases of \$0.7 million, partially offset by decreases of \$0.3 million from divested operations, volume decreases of \$10.3 million, recyclable commodity sales decreases of \$6.4 million and other revenue decreases of \$0.2 million.

Revenue in our Western segment increased \$26.8 million, or 4.8%, to \$586.2 million for the nine months ended September 30, 2012, from \$559.4 million for the nine months ended September 30, 2011. The components of the increase consisted of revenue acquired from acquisitions closed during, or subsequent to, the nine months ended September 30, 2011, of \$42.0 million, net price increases of \$13.4 million and intermodal revenue increases of \$0.4 million, partially offset by decreases of \$2.0 million from divested operations, volume decreases of \$15.0 million, recyclable commodity sales decreases of \$11.4 million and other revenue decreases of \$0.6 million.

Revenue in our Central segment increased \$16.0 million, or 14.3%, to \$128.9 million for the three months ended September 30, 2012, from \$112.9 million for the three months ended September 30, 2011. The components of the increase consisted of revenue acquired from acquisitions closed during, or subsequent to, the three months ended September 30, 2011, of \$12.7 million, net price increases of \$4.5 million and volume increases of \$1.0 million, partially offset by decreases of \$0.8 million from divested operations, recyclable commodity sales decreases of \$1.3 million and other revenue decreases of \$0.1 million.

Revenue in our Central segment increased \$27.4 million, or 8.5%, to \$351.2 million for the nine months ended September 30, 2012, from \$323.8 million for the nine months ended September 30, 2011. The components of the increase consisted of revenue acquired from acquisitions closed during, or subsequent to, the nine months ended September 30, 2011, of \$17.7 million and net price increases of \$14.6 million, partially offset by decreases of \$2.6 million from divested operations, volume decreases of \$0.2 million, recyclable commodity sales decreases of \$1.9 million and other revenue decreases of \$0.2 million.

Revenue in our Eastern segment decreased \$1.1 million, or 1.2%, to \$92.8 million for the three months ended September 30, 2012, from \$93.9 million for the three months ended September 30, 2011. The components of the decrease consisted of volume decreases of \$4.5 million, recyclable commodity sales decreases of \$1.7 million and decreases of \$0.4 million from divested operations, partially offset by revenue acquired from acquisitions closed during, or subsequent to, the three months ended September 30, 2011, of \$2.9 million, net price increases of \$2.5 million and other revenue increases of \$0.1 million.

Revenue in our Eastern segment increased \$32.9 million, or 13.6%, to \$275.4 million for the nine months ended September 30, 2012, from \$242.5 million for the nine months ended September 30, 2011. The components of the increase consisted of revenue acquired from acquisitions closed during, or subsequent to, the nine months ended September 30, 2011, of \$36.3 million, net price increases of \$7.2 million and other revenue increases of \$0.8 million, partially offset by decreases of \$1.7 million from divested operations, volume decreases of \$7.1 million and recyclable commodity sales decreases of \$2.6 million.

**Segment Operating Income before Depreciation, Amortization, Gain (Loss) on Disposal of Assets and Gain From Litigation Settlement**

Operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement in our Western segment decreased \$4.2 million, or 6.4%, to \$61.1 million for the three months ended September 30, 2012, from \$65.3 million for the three months ended September 30, 2011. The decrease was primarily due to decreased recyclable commodity revenue, decreased collection and landfill municipal solid waste and special waste volumes, increased leachate disposal expenses, increased disposal expenses, increased third party trucking and transportation expenses, increased rail transportation expenses and increased employee benefits expenses, partially offset by price increases charged to our customers, decreased taxes on revenues, decreased fuel expenses, decreased expenses associated with the cost of recyclable commodities and income generated from acquisitions closed during, or subsequent to, the three months ended September 30, 2011.

**Table of Contents**

Operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement in our Western segment decreased \$3.8 million, or 2.1%, to \$173.8 million for the nine months ended September 30, 2012, from \$177.6 million for the nine months ended September 30, 2011. The decrease was primarily due to decreased recyclable commodity revenue, decreased collection and landfill municipal solid waste and special waste volumes, increased labor expenses, increased leachate disposal expenses, increased disposal expenses, increased third party trucking and transportation expenses and increased equipment rent expenses, partially offset by price increases charged to our customers, decreased taxes on revenues, decreased fuel expenses, decreased expenses associated with the cost of recyclable commodities and income generated from acquisitions closed during, or subsequent to, the nine months ended September 30, 2011.

Operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement in our Central segment increased \$9.0 million, or 22.5%, to \$49.2 million for the three months ended September 30, 2012, from \$40.2 million for the three months ended September 30, 2011. The increase was primarily due to increased exploration and production waste treatment and disposal revenue, price increases charged to our customers, income generated from acquisitions closed during, or subsequent to, the three months ended September 30, 2011 and decreased diesel fuel expenses, partially offset by decreased collection and landfill municipal solid waste volumes, decreased recyclable commodity revenue, increased third party trucking and transportation expenses, increased truck, container and equipment maintenance and repair expenses, increased labor expenses and increased employee benefits expenses.

Operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement in our Central segment increased \$13.4 million, or 11.7%, to \$128.7 million for the nine months ended September 30, 2012, from \$115.3 million for the nine months ended September 30, 2011. The increase was primarily due to increased exploration and production waste treatment and disposal revenue, price increases charged to our customers and income generated from acquisitions closed during, or subsequent to, the nine months ended September 30, 2011, partially offset by decreased collection and landfill municipal solid waste volumes, decreased recyclable commodity revenue, increased third party trucking and transportation expenses, increased truck, container and equipment maintenance and repair expenses, increased landfill monitoring and maintenance expenses, increased diesel fuel expenses and increased labor expenses.

Operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement in our Eastern segment decreased \$1.1 million, or 3.9%, to \$26.1 million for the three months ended September 30, 2012, from \$27.2 million for the three months ended September 30, 2011. The decrease was primarily due to decreased collection and landfill municipal solid waste volumes, decreased recyclable commodity revenue, increased third party trucking and transportation expenses, increased truck, container and equipment maintenance and repair expenses, increased labor expenses and increased employee benefits expenses, partially offset by price increases charged to our customers, income generated from acquisitions closed during, or subsequent to, the three months ended September 30, 2011, decreased expenses for uncollectible accounts receivable and decreased disposal expenses on collected volumes.

Operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement in our Eastern segment increased \$7.0 million, or 9.9%, to \$77.9 million for the nine months ended September 30, 2012, from \$70.9 million for the nine months ended September 30, 2011. The increase was primarily due to price increases charged to our customers and income generated from acquisitions closed during, or subsequent to, the nine months ended September 30, 2011, partially offset by decreased collection and landfill municipal solid waste volumes, decreased recyclable commodity revenue, increased disposal expenses on collected volumes, increased diesel fuel expenses, increased third party trucking and transportation expenses, increased truck, container and equipment maintenance and repair expenses, increased auto and workers compensation expense under our high deductible insurance program and increased labor expenses.

**Table of Contents**

Operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement at Corporate decreased \$3.7 million, to a loss of \$2.0 million for the three months ended September 30, 2012, from income of \$1.7 million for the three months ended September 30, 2011. The decrease was primarily due to expenses associated with the relocation of our corporate headquarters from Folsom, California to The Woodlands, Texas, increased direct acquisition expenses, increased payroll and payroll-related expenses, increased deferred compensation expense resulting from deferred compensation liabilities to employees being increased as a result of increases in the market value of investments to which employee deferred compensation balances are tracked and increased equity-based compensation expense. Our estimated recurring corporate expenses, which can vary from the actual amount of incurred corporate expenses, are allocated to our three geographic operating segments.

Operating income before depreciation, amortization, gain (loss) on disposal of assets and gain from litigation settlement at Corporate decreased \$13.2 million, to a loss of \$9.8 million for the nine months ended September 30, 2012, from income of \$3.4 million for the nine months ended September 30, 2011. The decrease was primarily due to an increase in direct acquisition expenses, increased payroll and payroll-related expenses, increased deferred compensation expense resulting from deferred compensation liabilities to employees being increased as a result of increases in the market value of investments to which employee deferred compensation balances are tracked, increased employee travel expenses, expenses associated with the relocation of our corporate headquarters from Folsom, California to The Woodlands, Texas and increased equity-based compensation expense, including a grant of immediately vested restricted stock units to certain executive officers at the time the executives agreed to modifications to their employment contracts, partially offset by a decrease in cash incentive compensation due to us not achieving certain budgeted financial targets, for which cash incentive compensation payments are based, during the nine months ended September 30, 2012.

**LIQUIDITY AND CAPITAL RESOURCES**

The following table sets forth certain cash flow information for the nine month periods ended September 30, 2012 and 2011 (in thousands):

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2012</b>	<b>2011</b>
Net cash provided by operating activities	\$ 326,739	\$ 297,724
Net cash used in investing activities	(333,652)	(328,140)
Net cash provided by financing activities	97,802	57,103
Net increase in cash and equivalents	90,889	26,687
Cash and equivalents at beginning of period	12,643	9,873
Cash and equivalents at end of period	\$ 103,532	\$ 36,560

**Operating Activities Cash Flows**

For the nine months ended September 30, 2012, net cash provided by operating activities was \$326.7 million. For the nine months ended September 30, 2011, net cash provided by operating activities was \$297.7 million. The \$29.0 million net increase in cash provided by operating activities was due primarily to the following:

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**Table of Contents**

- 1) An increase in cash flows from operating assets and liabilities, net of effects from acquisitions, of \$31.0 million to cash provided by operating assets and liabilities of \$32.4 million for the nine months ended September 30, 2012, from cash provided by operating assets and liabilities of \$1.4 million for the nine months ended September 30, 2011. The significant components of the \$32.4 million in net cash inflows from changes in operating assets and liabilities for the nine months ended September 30, 2012, include the following:
  - a) an increase in cash resulting from an increase in accrued liabilities of \$20.1 million due primarily to increased accrued interest expense due to the timing of interest payments, increased current taxes payable and increased liabilities for auto and workers compensation claims;
  - b) an increase in cash resulting from a \$15.3 increase in accounts payable due primarily to the timing of payments;
  - c) an increase in cash resulting from a \$5.3 million decrease in prepaid expenses and other current assets due primarily to decreases in prepaid income taxes, partially offset by an increase in parts inventory and prepaid insurance expenses;
  - d) an increase in cash resulting from a \$2.4 million increase in other long term liabilities due primarily to increased deferred compensation plan liabilities resulting from employee contributions; less
  - e) a decrease in cash resulting from a \$9.8 million increase in accounts receivable due to an increase in revenues.
- 2) An increase in depreciation and amortization expense of \$13.8 million;
- 3) An increase in equity-based compensation expense of \$5.1 million due to a \$3.6 million grant of immediately vested restricted stock units to certain executive officers at the time the executives agreed to modifications to their employment contracts during the three months ended March 31, 2012, a \$1.0 million increase associated with our annual grant of restricted stock units to our personnel, and a \$0.5 million increase in the fair value of warrants issued as compensation for acquisition-related services; less
- 4) A decrease in deferred taxes of \$18.5 million due primarily to the recognition during the nine months ended September 30, 2011, of tax benefits associated with a change in our tax method for deducting depreciation expense for certain landfills as well as other tax deductible timing differences associated with depreciation; less
- 5) A decrease in net income of \$4.4 million.

As of September 30, 2012, we had working capital of \$29.7 million, including cash and equivalents of \$103.5 million. Our working capital increased \$64.2 million from a deficit of \$34.5 million at December 31, 2011. To date, we have experienced no loss or lack of access to our cash or cash equivalents; however, we can provide no assurances that access to our cash and cash equivalents will not be impacted by adverse conditions in the financial markets. Our strategy in managing our working capital is generally to apply the cash generated from our operations that remains after satisfying our working capital and capital expenditure requirements, along with stock repurchase and dividend programs, to reduce the unhedged portion of our indebtedness under our credit facility and to minimize our cash balances.



## **Table of Contents**

### **Investing Activities Cash Flows**

Net cash used in investing activities increased \$5.6 million to \$333.7 million for the nine months ended September 30, 2012, from \$328.1 million for the nine months ended September 30, 2011. The significant components of the increase include the following:

- 1) An increase in capital expenditures for property and equipment of \$26.9 million due to increases in expenditures for trucks, leasehold improvements, equipment and land, partially offset by a decrease in expenditures for buildings and site costs at various landfills;
- 2) An increase in other assets of \$4.6 million due to increases in notes receivable, deferred compensation plan investments and other investments; less
- 3) A decrease in payments for acquisitions of \$24.6 million primarily due to the cash consideration we paid for County Waste and Colonie Landfill during the nine months ended September 30, 2011, exceeding the cash consideration we paid for the 2012 acquisitions of Alaska Waste and SKB Environmental; less
- 4) An increase in cash provided of \$2.5 million due to an increase in the liquidation of restricted asset accounts that were replaced with financial surety bonds during the nine months ended September 30, 2012.

### **Financing Activities Cash Flows**

Net cash provided by financing activities increased \$40.7 million to \$97.8 million for the nine months ended September 30, 2012, from cash provided by financing activities of \$57.1 million for the nine months ended September 30, 2011. The significant components of the increase include the following:

- 1) An increase in cash flows from the proceeds from our common stock offering of \$369.6 million, net, due to the March 2012 sale of 12,000,000 shares of our common stock in a public offering;
- 2) A decrease in payments to repurchase our common stock of \$66.5 million due to less shares repurchased;
- 3) A decrease in debt issuance costs of \$5.6 million in conjunction with the credit agreement entered into during the nine months ended September 30, 2011; less
- 4) A decrease in net long-term borrowings of \$382.8 million due primarily to the repayment of debt with proceeds from our common stock offering; less
- 5) An increase in cash dividends paid of \$6.7 million due to an increase in our quarterly dividend rate per share to \$0.09 and an increase in our total common shares outstanding; less
- 6) An increase in payments of contingent consideration of \$4.0 million for the remaining payout related to the completion of earnings targets for acquisitions closed in 2011 and 2010; less

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- 7) A decrease in proceeds from option and warrant exercises of \$3.9 million due to a decrease in the number of options and warrants exercised in the nine months ended September 30, 2012; less
- 8) A change in book overdraft of \$2.4 million resulting from fluctuations in outstanding cash balances at banks for which outstanding check balances can be offset; less
- 9) A decrease in the excess tax benefit associated with equity-based compensation of \$1.1 million.

Page 53

## Table of Contents

Our business is capital intensive. Our capital requirements include acquisitions and fixed asset purchases. We will also make capital expenditures for landfill cell construction, landfill development, landfill closure activities and intermodal facility construction in the future.

On February 27, 2012, we entered into an underwriting agreement with Morgan Stanley & Co. LLC, in connection with the offer and sale by us of 12,000,000 shares of our common stock, par value \$0.01 per share. The shares of common stock were sold to Morgan Stanley & Co. LLC at a price of \$30.83 per share. The offering closed on March 2, 2012. We received net proceeds from this offering of \$369.6 million after deducting transaction expenses paid by us of approximately \$0.4 million. We used \$297.0 million of the net proceeds to repay the unhedged borrowings under our credit facility and intend to use the remaining proceeds for general corporate purposes, which may include acquisitions of additional assets or businesses, the repayment of other indebtedness and capital expenditures.

Our Board of Directors has authorized a common stock repurchase program for the repurchase of up to \$1.2 billion of our common stock through December 31, 2014. Under the program, stock repurchases may be made in the open market or in privately negotiated transactions from time to time at management's discretion. The timing and amounts of any repurchases will depend on many factors, including our capital structure, the market price of the common stock and overall market conditions. As of September 30, 2012 and 2011, we had repurchased in aggregate 39.9 million and 38.3 million shares, respectively, of our common stock at an aggregate cost of \$784.0 million and \$733.7 million, respectively. As of September 30, 2012, the remaining maximum dollar value of shares available for purchase under the program was approximately \$416.0 million.

In October 2010, our Board of Directors authorized the initiation of a quarterly cash dividend of \$0.075 per share. In October 2011, our Board of Directors authorized an increase to our regular quarterly cash dividend by \$0.015, from \$0.075 to \$0.09 per share. Cash dividends of \$32.2 million and \$25.5 million were paid during the nine months ended September 30, 2012 and 2011, respectively. In October 2012, the Board of Directors authorized an increase to our regular quarterly cash dividend by \$0.01, from \$0.09 to \$0.10 per share. We cannot assure you as to the amounts or timing of future dividends.

We made \$111.0 million in capital expenditures during the nine months ended September 30, 2012. We expect to make capital expenditures of approximately \$145 million in 2012 in connection with our existing business. We have funded and intend to fund the balance of our planned 2012 capital expenditures principally through cash on hand, internally generated funds and borrowings under our credit facility. In addition, we may make substantial additional capital expenditures in acquiring solid waste collection and disposal businesses. If we acquire additional landfill disposal facilities, we may also have to make significant expenditures to bring them into compliance with applicable regulatory requirements, obtain permits or expand our available disposal capacity. We cannot currently determine the amount of these expenditures because they will depend on the number, nature, condition and permitted status of any acquired landfill disposal facilities. We believe that our cash and equivalents, credit facility and the funds we expect to generate from operations will provide adequate cash to fund our working capital and other cash needs for the foreseeable future. However, disruptions in the capital and credit markets could adversely affect our ability to draw on our credit facility or raise other capital. Our access to funds under the credit facility is dependent on the ability of the banks that are parties to the facility to meet their funding commitments. Those banks may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time.

As of September 30, 2012, we had \$325.0 million outstanding under our credit facility, exclusive of outstanding standby letters of credit of \$88.9 million. As of September 30, 2012, we were in compliance with all applicable covenants in our credit agreement. Pursuant to interest rate swaps in place as of September 30, 2012, we intend to maintain a minimum balance of \$325 million on our revolving credit facility. Our revolving credit facility matures in July 2016.

**Table of Contents**

On September 16, 2012, we entered into a Purchase and Sale Agreement to acquire the business of R360. The aggregate purchase price, subject to adjustment, is approximately \$1.33 billion in cash and will be funded with the unsecured term loan facility described below, cash on hand and borrowings under our existing revolving credit facility. R360 provides non-hazardous oilfield waste treatment, recovery and disposal services in several of the most active natural resource producing areas in the United States, including the Permian, Bakken and Eagle Ford Basins. The acquisition of R360 remains subject to certain closing conditions. Closing is expected to occur in the fourth quarter of 2012.

On September 16, 2012, we entered into a Commitment Letter (the Commitment Letter) with Bank of America, N.A., as a joint arranger, pursuant to which we may borrow an aggregate principal amount of up to \$750 million under an unsecured term loan facility (Senior Credit Facility) to partially fund the purchase of the business of R360, as described above. On October 1, 2012, JPMorgan Chase Bank, N.A., and Wells Fargo Bank, National Association, joined the Commitment Letter, as additional joint arrangers. The Senior Credit Facility will bear interest, at our option, at either the base rate plus the applicable base rate margin on base rate loans, or the Eurodollar rate plus the applicable Eurodollar margin on Eurodollar loans. The applicable margins under the Senior Credit Facility vary depending on our leverage ratio, as defined in the Commitment Letter. The Senior Credit Facility will require us to maintain specified financial ratios. The Senior Credit Facility will mature five years after the closing date. The Senior Credit Facility is subject to conditions precedent to closing, as defined in the Commitment Letter, and to be more fully set forth in the definitive loan documentation. We expect the Senior Credit Facility to close in the fourth quarter of 2012. We may increase the size of the Senior Credit Facility above \$750 million subject to receipt of lender commitments. We can provide no assurance that the Senior Credit Facility will close, or that it will close on the terms described above.

As of September 30, 2012, we had the following contractual obligations:

Recorded Obligations	Payments Due by Period (amounts in thousands)				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Long-term debt	\$ 980,574	\$ 4,128	\$ 9,439	\$ 605,839	\$ 361,168
Cash interest payments	\$ 224,793	\$ 44,600	\$ 84,362	\$ 49,475	\$ 46,356

Long-term debt payments include:

- 1) \$325.0 million in principal payments due July 2016 related to our credit facility. Our credit facility bears interest, at our option, at either the base rate plus the applicable base rate margin (approximately 3.53% at September 30, 2012) on base rate loans, or the Eurodollar rate plus the applicable Eurodollar margin (approximately 1.51% at September 30, 2012) on Eurodollar loans. As of September 30, 2012, our credit facility allowed us to borrow up to \$1.2 billion.
- 2) \$175.0 million in principal payments due 2015 related to our 2015 Notes. Holders of the 2015 Notes may require us to purchase their notes in cash at a purchase price of 100% of the principal amount of the 2015 Notes plus accrued and unpaid interest, if any, upon a change in control, as defined in the Master Note Purchase Agreement. The 2015 Notes bear interest at a rate of 6.22%.
- 3) \$100.0 million in principal payments due 2016 related to our 2016 Notes. Holders of the 2016 Notes may require us to purchase their notes in cash at a purchase price of 100% of the principal amount of the 2016 Notes plus accrued and unpaid interest, if any, upon a change in control, as defined in the Master Note Purchase Agreement. The 2016 Notes bear interest at a rate of 3.30%.
- 4) \$50.0 million in principal payments due 2018 related to our 2018 Notes. Holders of the 2018 Notes may require us to purchase their notes in cash at a purchase price of 100% of the principal amount of the 2018 Notes plus accrued and unpaid interest, if any, upon a change in control, as defined in the Master Note Purchase Agreement. The 2018 Notes bear interest at a rate of 4.00%.



**Table of Contents**

- 5) \$175.0 million in principal payments due 2019 related to our 2019 Notes. Holders of the 2019 Notes may require us to purchase their notes in cash at a purchase price of 100% of the principal amount of the 2019 Notes plus accrued and unpaid interest, if any, upon a change in control, as defined in the Master Note Purchase Agreement. The 2019 Notes bear interest at a rate of 5.25%.
- 6) \$100.0 million in principal payments due 2021 related to our 2021 Notes. Holders of the 2021 Notes may require us to purchase their notes in cash at a purchase price of 100% of the principal amount of the 2021 Notes plus accrued and unpaid interest, if any, upon a change in control, as defined in the Master Note Purchase Agreement. The 2021 Notes bear interest at a rate of 4.64%.
- 7) \$37.5 million in principal payments related to our tax-exempt bonds, which bear interest at variable rates (between 0.21% and 0.31%) at September 30, 2012. The tax-exempt bonds have maturity dates ranging from 2014 to 2033.
- 8) \$15.5 million in principal payments related to our notes payable to sellers. Our notes payable to sellers bear interest at rates between 2.50% and 10.35% at September 30, 2012, and have maturity dates ranging from 2013 to 2036.
- 9) \$2.7 million in principal payments related to our notes payable to third parties. Our notes payable to third parties bear interest at rates between 6.7% and 10.9% at September 30, 2012, and have maturity dates ranging from 2012 to 2019.

The following assumptions were made in calculating cash interest payments:

- 1) We calculated cash interest payments on the credit facility using the Eurodollar rate plus the applicable Eurodollar margin at September 30, 2012. We assumed the credit facility is paid off when it matures in July 2016.
- 2) We calculated cash interest payments on our interest rate swaps using the stated interest rate in the swap agreement less the Eurodollar rate through the earlier expiration of the term of the swaps or the term of the credit facility.

Unrecorded Obligations <sup>(1)</sup>	Amount of Commitment Expiration Per Period (amounts in thousands)				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Operating leases	\$ 103,992	\$ 14,195	\$ 22,953	\$ 17,591	\$ 49,253

- (1) We are party to operating lease agreements. These lease agreements are established in the ordinary course of our business and are designed to provide us with access to facilities at competitive, market-driven prices. These arrangements have not materially affected our financial position, results of operations or liquidity during the nine months ended September 30, 2012, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

We have obtained financial surety bonds, primarily to support our financial assurance needs and landfill operations. We provided customers and various regulatory authorities with surety bonds in the aggregate amounts of approximately \$335.0 million and \$312.0 million at September 30, 2012 and December 31, 2011, respectively. These arrangements have not materially affected our financial position, results of operations or liquidity during the nine months ended September 30, 2012, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

From time to time, we evaluate our existing operations and their strategic importance to us. If we determine that a given operating unit does not have future strategic importance, we may sell or otherwise dispose of those operations. Although we believe our reporting units would not be impaired by such dispositions, we could incur losses on them.



**Table of Contents**

The disposal tonnage that we received in the nine month periods ended September 30, 2012 and 2011, at all of our landfills during the respective period, is shown below (tons in thousands):

	Nine months ended September 30, 2012		2011	
	Number of Sites	Total Tons	Number of Sites	Total Tons
Owned landfills and landfills operated under life-of-site agreements	44	11,191	40	10,785
Operated landfills	6	422	5	499
	50	11,613	45	11,284

## NON-GAAP FINANCIAL MEASURES

**Reconciliation of Adjusted Free Cash Flow**

We present adjusted free cash flow, a non-GAAP financial measure, supplementally because it is widely used by investors as a valuation and liquidity measure in the solid waste industry. We define adjusted free cash flow as net cash provided by operating activities, plus proceeds from disposal of assets, plus or minus change in book overdraft, plus excess tax benefit associated with equity-based compensation, less capital expenditures for property and equipment and distributions to noncontrolling interests. We further adjust this calculation to exclude the effects of items management believes impact the ability to assess the operating performance of our business. This measure is not a substitute for, and should be used in conjunction with, GAAP liquidity or financial measures. Management uses adjusted free cash flow as one of the principal measures to evaluate and monitor the ongoing financial performance of our operations. Other companies may calculate adjusted free cash flow differently. Our adjusted free cash flow for the nine month periods ended September 30, 2012 and 2011, is calculated as follows (amounts in thousands):

	Nine months ended September 30,	
	2012	2011
Net cash provided by operating activities	\$ 326,739	\$ 297,724
Less: Change in book overdraft	(3,383)	(937)
Plus: Proceeds from disposal of assets	2,107	3,238
Plus: Excess tax benefit associated with equity-based compensation	3,415	4,500
Less: Capital expenditures for property and equipment	(110,995)	(84,051)
Less: Distributions to noncontrolling interests	(94)	(675)
Adjustment:		
Corporate office relocation, net of taxes (a)	6,149	
Adjusted free cash flow	\$ 223,938	\$ 219,799

- (a) Reflects the addback of third party expenses and reimbursable advances to employees associated with the relocation of our corporate headquarters from California to Texas.



**Table of Contents****Adjusted Operating Income Before Depreciation and Amortization**

We present adjusted operating income before depreciation and amortization, a non-GAAP financial measure, supplementally because it is widely used by investors as a performance and valuation measure in the solid waste industry. We define adjusted operating income before depreciation and amortization as operating income, plus depreciation and amortization expense, plus closure and post-closure accretion expense, plus or minus any gain or loss on disposal of assets. We further adjust this calculation to exclude the effects of items management believes impact the ability to assess the operating performance of our business. This measure is not a substitute for, and should be used in conjunction with, GAAP financial measures. Management uses adjusted operating income before depreciation and amortization as one of the principal measures to evaluate and monitor the ongoing financial performance of our operations. Other companies may calculate adjusted operating income before depreciation and amortization differently. Our adjusted operating income before depreciation and amortization for the three and nine month periods ended September 30, 2012 and 2011, is calculated as follows (amounts in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Operating income	\$ 89,147	\$ 89,314	\$ 235,941	\$ 242,688
Plus: Depreciation and amortization	48,580	44,006	137,446	123,631
Plus: Closure and post-closure accretion	645	484	1,870	1,451
Plus: Loss on disposal of assets	244	1,034	715	742
Adjustments:				
Plus: Acquisition-related transaction costs (a)	1,451	183	3,610	1,278
Plus: Corporate relocation expenses (b)	1,774		6,491	
Plus: Named executive officers' one-time equity grants (c)			3,585	
Less: Gain from litigation settlement (d)	(3,537)		(3,537)	
Adjusted operating income before depreciation and amortization	\$ 138,304	\$ 135,021	\$ 386,121	\$ 369,790

- (a) Reflects the addback of acquisition-related transaction costs.  
(b) Reflects the addback of costs associated with the relocation of our corporate headquarters from California to Texas.  
(c) Reflects the addback of one-time equity compensation expense incurred at the time our named executive officers' employment contracts were modified.  
(d) Reflects the elimination of a non-recurring gain from an arbitration award.

**Table of Contents****Reconciliation of Net Income to Adjusted Net Income and Adjusted Net Income per diluted share**

We present adjusted net income and adjusted net income per diluted share, both non-GAAP financial measures, supplementally because they are widely used by investors as a valuation measure in the solid waste industry. We provide adjusted net income to exclude the effects of items management believes impact the comparability of operating results between periods. Adjusted net income has limitations due to the fact that it may exclude items that have an impact on our financial condition and results of operations. Adjusted net income and adjusted net income per diluted share are not a substitute for, and should be used in conjunction with, GAAP financial measures. Management uses adjusted net income and adjusted net income per diluted share as one of the principal measures to evaluate and monitor the ongoing financial performance of our operations. Other companies may calculate adjusted net income and adjusted net income per diluted share differently. Our adjusted net income and adjusted net income per diluted share for the three and nine month periods ended September 30, 2012 and 2011, is calculated as follows (amounts in thousands, except per share amounts):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Reported net income attributable to Waste Connections	\$ 49,385	\$ 46,329	\$ 123,104	\$ 127,281
Adjustments:				
Acquisition-related transaction costs, net of taxes (a)	900	114	2,238	1,037
Loss on disposal of assets, net of taxes (b)	151	641	443	460
Corporate relocation expenses, net of taxes (c)	1,100		4,024	
Named executive officers one-time equity grants, net of taxes (d)			3,315	
Gain from litigation settlement, net of taxes (e)	(2,193)		(2,193)	
Adjusted net income attributable to Waste Connections	\$ 49,343	\$ 47,084	\$ 130,931	\$ 128,778
Diluted earnings per common share attributable to Waste Connections common stockholders:				
Reported net income	\$ 0.40	\$ 0.41	\$ 1.02	\$ 1.12
Adjusted net income	\$ 0.40	\$ 0.42	\$ 1.08	\$ 1.13

- (a) Reflects the elimination of acquisition-related costs.
- (b) Reflects the elimination of a loss on disposal of assets.
- (c) Reflects the addback of costs associated with the relocation of our corporate headquarters from California to Texas.
- (d) Reflects the addback of one-time equity compensation expense incurred at the time our named executive officers' employment contracts were modified.
- (e) Reflects the elimination of a non-recurring gain from an arbitration award.

**INFLATION**

Other than volatility in fuel prices, inflation has not materially affected our operations in recent years. Consistent with industry practice, many of our contracts allow us to pass through certain costs to our customers, including increases in landfill tipping fees and, in some cases, fuel costs. Therefore, we believe that we should be able to increase prices to offset many cost increases that result from inflation in the ordinary course of business. However, competitive pressures or delays in the timing of rate increases under our contracts may require us to absorb at least part of these cost increases, especially if cost increases exceed the average rate of inflation. Management's estimates associated with inflation have an impact on our accounting for landfill liabilities.

**Table of Contents**

## SEASONALITY

We expect our operating results to vary seasonally, with revenues typically lowest in the first quarter, higher in the second and third quarters and lower in the fourth quarter than in the second and third quarters. This seasonality reflects the lower volume of solid waste generated during the late fall, winter and early spring because of decreased construction and demolition activities during winter months in the U.S. We expect the fluctuation in our revenues between our highest and lowest quarters to be approximately 7% to 10%. In addition, some of our operating costs may be higher in the winter months. Adverse winter weather conditions slow waste collection activities, resulting in higher labor and operational costs. Greater precipitation in the winter increases the weight of collected waste, resulting in higher disposal costs, which are calculated on a per ton basis.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, we are exposed to market risk, including changes in interest rates and prices of certain commodities. We use hedge agreements to manage a portion of our risks related to interest rates and fuel prices. While we are exposed to credit risk in the event of non-performance by counterparties to our hedge agreements, in all cases such counterparties are highly rated financial institutions and we do not anticipate non-performance. We do not hold or issue derivative financial instruments for trading purposes. We monitor our hedge positions by regularly evaluating the positions at market and by performing sensitivity analyses over the unhedged fuel and variable rate debt positions.

At September 30, 2012, our derivative instruments included three interest rate swap agreements that effectively fix the interest rate on the applicable notional amounts of our variable rate debt as follows (dollars in thousands):

Date Entered	Notional Amount	Fixed	Variable	Effective Date	Expiration Date
		Interest Rate Paid*	Interest Rate Received		
March 2009	\$ 175,000	2.85%	1-month LIBOR	February 2011	February 2014
August 2011	\$ 150,000	0.80%	1-month LIBOR	April 2012	January 2015
December 2011	\$ 175,000	1.60%	1-month LIBOR	February 2014	February 2017

\* plus applicable margin.

Under derivatives and hedging guidance, the interest rate swap agreements are considered cash flow hedges for a portion of our variable rate debt, and we apply hedge accounting to account for these instruments. The notional amount and all other significant terms of the swap agreements are matched to the provisions and terms of the variable rate debt being hedged.

We have performed sensitivity analyses to determine how market rate changes will affect the fair value of our unhedged floating rate debt. Such an analysis is inherently limited in that it reflects a singular, hypothetical set of assumptions. Actual market movements may vary significantly from our assumptions. Fair value sensitivity is not necessarily indicative of the ultimate cash flow or earnings effect we would recognize from the assumed market rate movements. We are exposed to cash flow risk due to changes in interest rates with respect to the unhedged floating rate balances owed at September 30, 2012 and December 31, 2011, of \$37.5 million and \$382.5 million, respectively, including floating rate debt under our credit facility and floating rate municipal bond obligations. A one percentage point increase in interest rates on our variable-rate debt as of September 30, 2012 and December 31, 2011, would decrease our annual pre-tax income by approximately \$0.4 million and \$3.8 million, respectively. All of our remaining debt instruments are at fixed rates, or effectively fixed under the interest rate swap agreements described above; therefore, changes in market interest rates under these instruments would not significantly impact our cash flows or results of operations, subject to counterparty default risk.

**Table of Contents**

The market price of diesel fuel is unpredictable and can fluctuate significantly. We purchase approximately 28 million gallons of diesel fuel per year; therefore, a significant increase in the price of fuel could adversely affect our business and reduce our operating margins. To manage a portion of this risk, we entered into fuel hedge agreements related to forecasted diesel fuel purchases.

At September 30, 2012, our derivative instruments included two fuel hedge agreements as follows:

Date Entered	Notional Amount (in gallons per month)	Diesel Rate Paid Fixed	Diesel Rate Received		Effective Date	Expiration Date
			Variable			
December 2008	400,000	\$ 3.03	DOE Diesel Fuel Index*		January 2012	December 2012
June 2012	300,000	\$ 3.60	DOE Diesel Fuel Index*		January 2014	December 2015

\* If the national U.S. on-highway average price for a gallon of diesel fuel ( average price ), as published by the Department of Energy, exceeds the contract price per gallon, we receive the difference between the average price and the contract price (multiplied by the notional number of gallons) from the counterparty. If the average price is less than the contract price per gallon, we pay the difference to the counterparty.

Under derivatives and hedging guidance, the fuel hedges are considered cash flow hedges for a portion of our forecasted diesel fuel purchases, and we apply hedge accounting to account for these instruments.

We have performed sensitivity analyses to determine how market rate changes will affect the fair value of our unhedged diesel fuel purchases. Such an analysis is inherently limited in that it reflects a singular, hypothetical set of assumptions. Actual market movements may vary significantly from our assumptions. Fair value sensitivity is not necessarily indicative of the ultimate cash flow or earnings effect we would recognize from the assumed market rate movements. For the year ending December 31, 2012, we expect to purchase approximately 28 million gallons of diesel fuel, of which 23.2 million gallons will be purchased at market prices and 4.8 million gallons will be purchased at a price that is fixed under our fuel hedge. During the three month period of October 1, 2012 to December 31, 2012, we expect to purchase approximately 5.8 million gallons of unhedged diesel fuel at market prices; therefore, a \$0.10 per gallon increase in the price of fuel over the remaining three months in 2012 would decrease our pre-tax income during this period by approximately \$0.6 million.

We market a variety of recyclable materials, including cardboard, office paper, plastic containers, glass bottles and ferrous and aluminum metals. We own and operate 39 recycling processing operations and sell other collected recyclable materials to third parties for processing before resale. To reduce our exposure to commodity price risk with respect to recycled materials, we have adopted a pricing strategy of charging collection and processing fees for recycling volume collected from third parties. In the event of a decline in recycled commodity prices, a 10% decrease in average recycled commodity prices from the average prices that were in effect during the nine months ended September 30, 2012 and 2011, would have had a \$5.5 million and \$6.6 million impact on revenues for the nine months ended September 30, 2012 and 2011, respectively.

**Table of Contents**

Item 4. Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of September 30, 2012, that our disclosure controls and procedures were effective at the reasonable assurance level such that information required to be disclosed in our Exchange Act reports: (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (2) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended September 30, 2012, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

## PART II OTHER INFORMATION

## Item 1. Legal Proceedings

Information regarding our legal proceedings can be found in Note 17 of our Condensed Consolidated Financial Statements included in Part I, Item 1 of this report and is incorporated herein by reference.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Our Board of Directors has authorized a common stock repurchase program for the repurchase of up to \$1.2 billion of our common stock through December 31, 2014. Under the program, stock repurchases may be made in the open market or in privately negotiated transactions from time to time at management's discretion. The timing and amounts of any repurchases will depend on many factors, including our capital structure, the market price of our common stock and overall market conditions. As of September 30, 2012, we have repurchased approximately 39.9 million shares of our common stock at a cost of \$784.0 million. The table below reflects repurchases we have made for the three months ended September 30, 2012 (in thousands, except share and per share amounts):

Period		Total Number of Shares Purchased	Average Price Paid Per Share <sup>(1)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
7/1/12	7/31/12	20,836	\$ 29.14	20,836	\$ 428,717
8/1/12	8/31/12	417,736	30.54	417,736	415,960
9/1/12	9/30/12				415,960
		438,572	30.47	438,572	

(1) This amount represents the weighted average price paid per common share. This price includes a per share commission paid for all repurchases.

## Item 6. Exhibits

See Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q.

**Table of Contents**

**SIGNATURES**

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

**WASTE CONNECTIONS, INC.**

Date: October 23, 2012

BY: /s/ Ronald J. Mittelstaedt  
Ronald J. Mittelstaedt,  
Chief Executive Officer

Date: October 23, 2012

BY: /s/ Worthing F. Jackman  
Worthing F. Jackman,  
Executive Vice President and  
  
Chief Financial Officer

Page 64

**Table of Contents**

<b>Exhibit Number</b>	<b>Description of Exhibits</b>
2.1*	Purchase and Sale Agreement, dated as of September 16, 2012, by an among R360 Environmental Solutions, Inc. and the other Sellers named therein and WCI Holdings Co., Inc. and, for the limited purposes described therein, the Registrant
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to the exhibit filed with the Registrant's Form 10-K filed on February 8, 2012)
3.2	Third Amended and Restated Bylaws of the Registrant, effective May 15, 2009 (incorporated by reference to the exhibit filed with the Registrant's Form 8-K filed on April 23, 2009)
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a)
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a)
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*	A copy of omitted schedules will be provided to the Securities and Exchange Commission upon request.