Waste Connections, Inc.
Form 10-Q
July 28, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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.)

3 Waterway Square Place, Suite 110
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 þ 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 þ 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):

þ 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 þ

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

As of July 20, 2015: 123,412,340 shares of common stock

WASTE CONNECTIONS, INC.

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

WASTE CONNECTIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share amounts)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and equivalents	$ 15,624	$ 14,353
Accounts receivable, net of allowance for doubtful accounts of $8,343 and $9,175 at June 30, 2015 and December 31, 2014, respectively	256,139	259,969
Deferred income taxes	42,581	49,508
Prepaid expenses and other current assets	28,072	42,314
Total current assets	342,416	366,144
Property and equipment, net	2,598,865	2,594,205
Goodwill	1,722,324	1,693,789
Intangible assets, net	537,657	509,995
Restricted assets	41,737	40,841
Other assets, net	41,472	40,293
	$ 5,284,471	$ 5,245,267
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 129,836	$ 120,717
Book overdraft	12,424	12,446
Accrued liabilities	132,509	120,947
Deferred revenue	84,563	80,915
Current portion of contingent consideration	23,986	21,637
Current portion of long-term debt and notes payable	3,942	3,649
Total current liabilities	387,260	360,311
Long-term debt and notes payable	1,930,483	1,971,152
Long-term portion of contingent consideration	49,099	48,528
Other long-term liabilities	99,052	92,900
Deferred income taxes	545,186	538,635
Total liabilities	3,011,080	3,011,526
Commitments and contingencies (Note 15)		
Equity:		
	-	-

Preferred stock: $0.01 par value per share; 7,500,000 shares authorized; none issued and outstanding		
Common stock: $0.01 par value per share; 250,000,000 shares authorized; 123,419,698 and 123,984,527 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	1,234	1,240
Additional paid-in capital	775,472	811,289
Accumulated other comprehensive loss	(7,597)	(5,593)
Retained earnings	1,498,230	1,421,249
Total Waste Connections' equity	2,267,339	2,228,185
Noncontrolling interest in subsidiaries	6,052	5,556
Total equity	2,273,391	2,233,741
	$ 5,284,471	$ 5,245,267

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

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WASTE CONNECTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME

(Unaudited)

(In thousands, except share and per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenues	$531,312	$524,693	$1,037,412	$1,006,402
Operating expenses:				
Cost of operations	297,437	286,950	578,560	550,011
Selling, general and administrative	57,264	56,526	115,409	112,172
Depreciation	59,639	57,105	116,945	112,922
Amortization of intangibles	7,264	6,720	14,263	13,456
Impairments and other operating charges (gains)	(316)	(1,074)	346	(549)
Operating income	110,024	118,466	211,889	218,390
Interest expense	(15,322)	(15,940)	(31,018)	(32,851)
Other income (expense), net	92	911	(128)	1,053
Income before income tax provision	94,794	103,437	180,743	186,592
Income tax provision	(37,153)	(40,537)	(71,020)	(74,470)
Net income	57,641	62,900	109,723	112,122
Less: Net income attributable to noncontrolling interests	(281)	(236)	(539)	(443)
Net income attributable to Waste Connections	$57,360	$62,664	$109,184	$111,679
Earnings per common share attributable to Waste Connections' common stockholders:				
Basic	$0.46	$0.50	$0.88	$0.90
Diluted	$0.46	$0.50	$0.88	$0.89
Shares used in the per share calculations:				
Basic	124,079,184	124,230,572	124,044,130	124,096,619
Diluted	124,352,062	124,848,351	124,360,059	124,781,097
Cash dividends per common share	$0.13	$0.115	$0.26	$0.23

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

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WASTE CONNECTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except share and per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income	$ 57,641	$ 62,900	$ 109,723	$ 112,122
Other comprehensive income (loss), before tax:				
Interest rate swap amounts reclassified into interest expense	1,037	886	2,072	1,954
Fuel hedge amounts reclassified into cost of operations	677	(304)	1,292	(627)
Changes in fair value of interest rate swaps	1,036	(2,210)	(4,437)	(2,504)
Changes in fair value of fuel hedges	(1,662)	466	(2,178)	181
Other comprehensive income (loss), before tax	1,088	(1,162)	(3,251)	(996)
Income tax (expense) benefit related to items of other comprehensive income (loss)	(417)	446	1,247	385
Other comprehensive income (loss), net of tax	671	(716)	(2,004)	(611)
Comprehensive income	58,312	62,184	107,719	111,511
Less: Comprehensive income attributable to noncontrolling interests	(281)	(236)	(539)	(443)
Comprehensive income attributable to Waste Connections	$ 58,031	$ 61,948	$ 107,180	$ 111,068

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

WASTE CONNECTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

SIX MONTHS ENDED JUNE 30, 2015

(Unaudited)

(In thousands, except share amounts)

	Waste Connections' Equity						
	Common Stock		**Additional Paid-In**	**Accumulated Other Comprehensive**	**Retained**	**Noncontrolling**	
	Shares	**Amount**	**Capital**	**Income (Loss)**	**Earnings**	**Interests**	**Total**
Balances at December 31, 2014	123,984,527	$ 1,240	$ 811,289	$ (5,593)	$ 1,421,249	$ 5,556	$ 2,233,741
Vesting of restricted stock units	426,864	4	(4)	-	-	-	-
Restricted stock units released from deferred compensation plan	13,652	-	-	-	-	-	-
Tax withholdings related to net share settlements of restricted stock units	(136,781)	(1)	(6,358)	-	-	-	(6,359)
Equity-based compensation	-	-	9,580	-	-	-	9,580
Exercise of stock options and warrants	35,205	-	417	-	-	-	417
Excess tax benefit associated with equity-based compensation	-	-	1,850	-	-	-	1,850
Repurchase of common stock	(903,769)	(9)	(41,302)	-	-	-	(41,311)
Cash dividends on common stock	-	-	-	-	(32,203)	-	(32,203)
Amounts reclassified into earnings, net of taxes	-	-	-	2,074	-	-	2,074
Changes in fair value of cash flow hedges, net of taxes	-	-	-	(4,078)	-	-	(4,078)
Distributions to noncontrolling interests	-	-	-	-	-	(43)	(43)
Net income	-	-	-	-	109,184	539	109,723

Balances at June 30, 2015	123,419,698	$ 1,234	$ 775,472	$ (7,597)	$ 1,498,230	$ 6,052	$ 2,273,391

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

WASTE CONNECTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

SIX MONTHS ENDED JUNE 30, 2014

(Unaudited)

(In thousands, except share amounts)

	Waste Connections' Equity						
	Common Stock		**Additional Paid-In**	**Accumulated Other Comprehensive**	**Retained**	**Noncontrolling**	
	Shares	**Amount**	**Capital**	**Income (Loss)**	**Earnings**	**Interests**	**Total**
Balances at December 31, 2013	123,566,487	$ 1,236	$ 796,085	$ (1,869)	$ 1,247,630	$ 5,125	$ 2,048,207
Vesting of restricted stock units	497,586	5	(5)	-	-	-	-
Tax withholdings related to net share settlements of restricted stock units	(158,182)	(2)	(6,727)	-	-	-	(6,729)
Equity-based compensation	-	-	9,444	-	-	-	9,444
Exercise of stock options and warrants	210,902	2	2,956	-	-	-	2,958
Excess tax benefit associated with equity-based compensation	-	-	7,096	-	-	-	7,096
Cash dividends on common stock	-	-	-	-	(28,496)	-	(28,496)
Amounts reclassified into earnings, net of taxes	-	-	-	818	-	-	818
Changes in fair value of cash flow hedges, net of taxes	-	-	-	(1,429)	-	-	(1,429)
Distributions to noncontrolling interests	-	-	-	-	-	(371)	(371)
Net income	-	-	-	-	111,679	443	112,122
Balances at June 30, 2014	124,116,793	$ 1,241	$ 808,849	$ (2,480)	$ 1,330,813	$ 5,197	$ 2,143,620

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

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WASTE CONNECTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six months ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$ 109,723	$ 112,122
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal of assets and impairments	(582)	(1,465)
Depreciation	116,945	112,922
Amortization of intangibles	14,263	13,456
Deferred income taxes, net of acquisitions	14,725	7,114
Amortization of debt issuance costs	1,777	1,594
Equity-based compensation	9,580	9,444
Interest income on restricted assets	(215)	(235)
Interest accretion	3,704	2,427
Excess tax benefit associated with equity-based compensation	(1,850)	(7,096)
Adjustments to contingent consideration not settled in cash	928	916
Net change in operating assets and liabilities, net of acquisitions	50,219	28,482
Net cash provided by operating activities	319,217	279,681
Cash flows from investing activities:		
Payments for acquisitions, net of cash acquired	(91,724)	(29,596)
Proceeds from adjustment to acquisition consideration	-	843
Capital expenditures for property and equipment	(102,170)	(83,679)
Proceeds from disposal of assets	1,290	5,863
Change in restricted assets, net of interest income	296	(2,015)
Other	568	589
Net cash used in investing activities	(191,740)	(107,995)
Cash flows from financing activities:		
Proceeds from long-term debt	336,000	122,000
Principal payments on notes payable and long-term debt	(381,226)	(259,682)
Payment of contingent consideration recorded at acquisition date	(190)	(542)
Change in book overdraft	(21)	18
Proceeds from option and warrant exercises	417	2,958
Excess tax benefit associated with equity-based compensation	1,850	7,096
Payments for repurchase of common stock	(41,311)	-
Payments for cash dividends	(32,203)	(28,496)
Tax withholdings related to net share settlements of restricted stock units	(6,359)	(6,729)
Distributions to noncontrolling interests	(43)	(371)
Debt issuance costs	(3,120)	(125)
Net cash used in financing activities	(126,206)	(163,873)

Net increase in cash and equivalents	1,271	7,813
Cash and equivalents at beginning of period	14,353	13,591
Cash and equivalents at end of period	$ 15,624	$ 21,404
Non-cash financing activity:		
Liabilities assumed and notes payable issued to sellers of businesses acquired	$ 8,622	$ 3,257

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

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE, PER TON AND PER GALLON 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 six month periods ended June 30, 2015 and 2014. 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, contingent consideration accruals 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 for all estimates 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, 2014.

2. NEW ACCOUNTING STANDARDS

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. In April 2014, the Financial Accounting Standards Board (the "FASB") issued guidance that changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and "represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results." For disposals of individually significant components that do not qualify as discontinued operations, an entity must disclose pre-tax earnings of the disposed component. For public business entities, this guidance is effective prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company adopted this guidance as of January 1, 2015. The adoption of this guidance did not have a material impact on the Company's financial position or results of operations.

Revenue From Contracts With Customers. In May 2014, the FASB issued guidance to provide a single, comprehensive revenue recognition model for all contracts with customers. The revenue guidance contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 for public entities, with early adoption permitted (but not earlier than the original effective date of the pronouncement). The Company does not expect the adoption of this guidance to have a material impact on the Company's financial position or results of operations.

Accounting for Share-Based Payment When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period. In June 2014, the FASB issued guidance that applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. It requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition and follows existing accounting guidance for the treatment of performance conditions. The standard will be effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on the Company's financial position or results of operations.

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE, PER TON AND PER GALLON AMOUNTS)

Presentation of Debt Issuance Costs. In April 2015, the FASB issued guidance which requires debt issuance costs (other than those paid to a lender) to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The standard does not affect the recognition and measurement of debt issuance costs. Therefore, the amortization of such costs should continue to be calculated using the interest method and be reported as interest expense. Fees paid to lenders to secure revolving lines of credit are not in the scope of the new guidance and will continue to be recorded as an asset on the balance sheet. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The new guidance has been applied on a retrospective basis. The Company early adopted this guidance effective January 1, 2015.

3. RECLASSIFICATION

Certain amounts reported in the Company's prior year financial statements have been reclassified to conform with the 2015 presentation.

4. LANDFILL ACCOUNTING

At June 30, 2015, the Company owned or operated 42 municipal solid waste ("MSW") landfills, nine exploration and production ("E&P") waste landfills, which only accept E&P waste, and eight non-MSW landfills, which only accept construction and demolition, industrial and other non-putrescible waste. At June 30, 2015, the Company's landfills consisted of 49 owned landfills, five landfills operated under life-of-site operating agreements and five landfills operated under limited-term operating agreements. The Company's landfills had site costs with a net book value of $1,711,562 at June 30, 2015. 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 the landfills it operates under life-of-site operating agreements.

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 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 June 30, 2015, 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 34 years. As of June 30, 2015, 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 approximately 41 years, with lives ranging from approximately 2 to 184 years.

During the six months ended June 30, 2015 and 2014, the Company expensed $39,545 and $40,036, respectively, or an average of $3.96 and $4.13 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 landfills it operates under life-of-site operating agreements. The Company calculates the net present value of its final capping, closure and post-closure liabilities 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 2015 and 2014 "layers" for final capping, closure and post-closure obligations was 4.75% and 5.75%, respectively, which reflects the Company's long-term cost of borrowing as of the end of 2014 and 2013. The Company's inflation rate assumption is 2.5% for the years ending December 31, 2015 and 2014. The resulting final capping, closure and post-closure obligations are recorded on the condensed consolidated 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 six months ended June 30, 2015 and 2014, the Company expensed $1,833 and $1,630, respectively, or an average of $0.18 and $0.17 per ton consumed, respectively, related to final capping, closure and post-closure accretion expense.

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WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE, PER TON AND PER GALLON AMOUNTS)

The following is a reconciliation of the Company's final capping, closure and post-closure liability balance from December 31, 2014 to June 30, 2015:

Final capping, closure and post-closure liability at December 31, 2014	$61,500
Adjustments to final capping, closure and post-closure liabilities	(163)
Liabilities incurred	2,206
Accretion expense associated with landfill obligations	1,833
Closure payments	(62)
Final capping, closure and post-closure liability at June 30, 2015	$65,314

The Company performs its annual review of its cost and capacity estimates in the first quarter of each year.

At June 30, 2015, $38,822 of the Company's restricted assets balance was for purposes of securing its performance of future final capping, closure and post-closure obligations.

5. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30, 2015	**December 31, 2014**
Revolver under new credit agreement, bearing interest ranging from 1.37% to 3.45%*	$496,000	$ -
Term loan under new credit agreement, bearing interest ranging from 1.37% to 1.38%*	800,000	-
Revolver under prior credit agreement	-	680,000
Prior term loan agreement	-	660,000
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 0.06% to 0.19%*	31,430	31,430
Notes payable to sellers and other third parties, bearing interest at 2.5% to 10.9%*	11,997	8,135
	1,939,427	1,979,565
Less – current portion	(3,942)	(3,649)
Less – debt issuance costs	(5,002)	(4,764)
	$1,930,483	$ 1,971,152

*Interest rates in the table above represent the range of interest rates incurred during the six month period ended June 30, 2015.

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WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE, PER TON AND PER GALLON AMOUNTS)

New Revolving Credit and Term Loan Agreement

On January 26, 2015, the Company entered into a new revolving credit and term loan agreement (the “credit agreement”) with Bank of America, N.A., as Administrative Agent, and the other lenders from time to time party thereto (the “Lenders”), which refinanced and replaced the Company’s prior credit agreement and its prior term loan agreement. The credit agreement has a scheduled maturity date of January 24, 2020.

Pursuant to the credit agreement, the Lenders have committed to provide revolving advances up to an aggregate principal amount of $1,200,000 at any one time outstanding. The Lenders have also provided a term loan in an aggregate principal amount of $800,000. The Company has the option to request increases in the aggregate commitments for revolving advances and one or more additional term loans, provided that the aggregate principal amount of commitments and term loans never exceeds $2,300,000. For any such increase, the Company may ask one or more Lenders to increase their existing commitments or provide additional term loans and/or invite additional eligible lenders to become Lenders under the credit agreement. As part of the aggregate commitments under the facility, the credit agreement provides for letters of credit to be issued at the request of the Company in an aggregate amount not to exceed $250,000 and for swing line loans to be issued at the request of the Company in an aggregate amount not to exceed the lesser of $35,000 and the aggregate commitments.

Interest accrues on advances, at the Company’s option, at a LIBOR rate or a base rate plus an applicable margin for each interest period. The issuing fees for all letters of credit are also based on an applicable margin. The applicable margin used in connection with interest rates and fees is based on the Company’s consolidated leverage ratio. The applicable margin for LIBOR rate loans and letter of credit fees ranges from 1.00% to 1.500% and the applicable margin for base rate loans and swing line loans ranges from 0.00% to 0.500%. The Company will also pay a fee based on its consolidated leverage ratio on the actual daily unused amount of the aggregate revolving commitments. The borrowings under the credit agreement are not collateralized. Proceeds of the borrowings under the credit agreement were used to refinance the prior credit agreement, which had a maturity of May 4, 2018, and the prior term loan agreement, which had a maturity of October 25, 2017, and will be used for general corporate purposes, including working capital, capital expenditures and permitted acquisitions.

The credit agreement contains representations, warranties, covenants and events of default, including a change of control event of default and limitations on incurrence of indebtedness and liens, limitations on new lines of business, mergers, transactions with affiliates and restrictive agreements. The credit agreement also includes covenants limiting, as of the last day of each fiscal quarter, (a) the ratio of the consolidated funded debt as of such date to the Consolidated EBITDA (as defined in the credit agreement), measured for the preceding 12 months, to not more than 3.50x (or 3.75x during material acquisition periods, subject to certain limitations) and (b) the ratio of Consolidated EBIT (as defined in the credit agreement) to consolidated interest expense, in each case, measured for the preceding 12 months, to not less than 2.75x. During the continuance of an event of default, the Lenders may take a number of actions, including declaring the entire amount then outstanding under the credit agreement due and payable.

Amendment No. 5 to Master Note Purchase Agreement

The Company and certain accredited institutional investors are parties to a Master Note Purchase Agreement, dated July 15, 2008, as amended (the “Master Note Agreement”). On February 20, 2015, the Company entered into Amendment No. 5 to Master Note Purchase Agreement, which (i) increases the aggregate amount of permitted investments in other lines of business under the Master Note Agreement from $50,000 to $100,000 and (ii) increases the limit on certain restricted payments under the Master Note Agreement, including dividends and share repurchases, in any fiscal year from $200,000 to $300,000 (which limit applies whenever the leverage ratio exceeds 3.0 to 1.0). The Company’s 2015 Notes, 2016 Notes, 2018 Notes, 2019 Notes and 2021 Notes were issued under the Master Note Agreement.

Third Supplement to Master Note Purchase Agreement

On June 11, 2015, the Company and certain accredited institutional investors entered into a Third Supplement to Master Note Purchase Agreement (the “Third Supplement”), pursuant to which, on August 20, 2015, the Company intends to issue and sell to the investors $500,000 of senior unsecured notes at fixed interest rates with interest payable in arrears semi-annually on February 20 and August 20 beginning on February 20, 2016 (the “2015A Notes”) in a private placement.

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The Third Supplement was entered into pursuant to the terms and conditions of the Master Note Agreement. The 2015A Notes are one of a series of additional notes that may be issued pursuant to the Master Note Agreement.

The Company intends to issue and sell two tranches of the 2015A Notes: $125,000 of the 2015A Notes will mature on August 20, 2022 with an annual interest rate of 3.09%; and $375,000 of the 2015A Notes will mature on August 20, 2025 with an annual interest rate of 3.41%. The principal of each tranche of the 2015A Notes is payable at the maturity of that tranche.

The 2015A Notes are unsecured obligations and rank pari passu with the $600,000 of existing notes outstanding under the Master Note Agreement and the obligations under the credit agreement. The Company intends to use the proceeds from the sale of the 2015A Notes to reduce borrowings under its credit facility and for general corporate purposes, including acquisitions.

The 2015A Notes are subject to representations, warranties, covenants and events of default. Upon the occurrence of an event of default, payment of the 2015A Notes may be accelerated by the holders of the 2015A Notes. The 2015A Notes may also be prepaid by the Company at any time at par plus a make whole amount determined in respect of the remaining scheduled interest payments on the 2015A Notes, using a discount rate of the then current market standard for United States treasury bills plus 0.50%. In addition, the Company will be required to offer to prepay the 2015A Notes upon certain changes in control.

The Company may issue additional series of senior unsecured notes pursuant to the terms and conditions of the Master Note Agreement, provided that the purchasers of the outstanding notes, including the 2015A Notes, shall not have any obligation to purchase any additional notes issued pursuant to the Master Note Agreement and the aggregate principal amount of the outstanding notes and any additional notes issued pursuant to the Master Note Agreement shall not exceed $1,250,000. Following the issuance of the 2015A Notes, the Company will have $1,100,000 of Notes outstanding under the Master Note Agreement.

6. ACQUISITIONS

In January 2015, the Company acquired Shale Gas Services, LLC ("Shale Gas"), which owns two E&P waste stream treatment and recycling operations in Arkansas and Texas, for cash consideration of $41,000 and potential future contingent consideration. The contingent consideration would be paid to the former owners of Shale Gas based on the achievement of certain operating targets for the acquired operations, as specified in the membership purchase agreement, over a two-year period following the close of the acquisition. The Company used probability assessments of the expected future cash flows and determined that no liability for payment of future contingent consideration existed as of the acquisition close date. As of June 30, 2015, the assessment that no liability existed for payment of future contingent consideration has not changed.

In March 2015, the Company acquired DNCS Properties, LLC ("DNCS"), which owns land and permits to construct and operate an E&P waste facility in the Permian Basin, for cash consideration of $30,000 and a long-term note issued to the former owners of DNCS with a fair value of $5,088. The long-term note requires ten annual principal payments of $500, followed by an additional ten annual principal payments of $250, for total future cash payments of $7,500. The fair value of the long-term note was determined by applying a discount rate of 4.75% to the payments over the 20-year payment period.

The Company also acquired five individually immaterial non-hazardous solid waste collection businesses during the six months ended June 30, 2015.

In March 2014, the Company acquired Screwbean Landfill, LLC ("Screwbean"), which owns land and permits to construct and operate an E&P waste facility, and S.A. Dunn & Company, LLC ("Dunn"), which owns land and permits to construct and operate a construction and demolition landfill, for aggregate total cash consideration of $27,020 and contingent consideration of $2,923. Contingent consideration represents the fair value of up to $3,000 of amounts payable to the former Dunn owners based on the successful modification of site construction permits that would enable increased capacity at the landfill. The fair value of the contingent consideration was determined using probability assessments of the expected future cash flows over the two-year period in which the obligations are expected to be settled, and applying discount rates ranging from 2.4% to 2.7%. As of June 30, 2015, 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.

The Company also acquired one individually immaterial non-hazardous solid waste collection business during the six months ended June 30, 2014.

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During the six months ended June 30, 2015 and 2014, the Company incurred $594 and $648, 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.

7. INTANGIBLE ASSETS, NET

Intangible assets, exclusive of goodwill, consisted of the following at June 30, 2015:

	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**
Finite-lived intangible assets:			
Long-term franchise agreements and contracts	$ 197,173	$ (56,410)	$ 140,763
Customer lists	163,498	(87,376)	76,122
Permits and non-competition agreements	78,440	(12,567)	65,873
	439,111	(156,353)	282,758
Indefinite-lived intangible assets:			
Solid waste collection and transportation permits	152,761	-	152,761
Material recycling facility permits	42,283	-	42,283
E&P facility permits	59,855	-	59,855
	254,899	-	254,899
Intangible assets, exclusive of goodwill	$ 694,010	$ (156,353)	$ 537,657

The weighted-average amortization period of long-term franchise agreements and contracts acquired during the six months ended June 30, 2015 was 10.0 years. The weighted-average amortization period of customer lists acquired during the six months ended June 30, 2015 was 5.7 years. The weighted-average amortization period of finite-lived permits acquired during the six months ended June 30, 2015 was 38.1 years.

Intangible assets, exclusive of goodwill, consisted of the following at December 31, 2014:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:			
Long-term franchise agreements and contracts	$ 195,676	$ (52,448)	$ 143,228
Customer lists	161,463	(77,931)	83,532
Permits and non-competition agreements	41,369	(11,777)	29,592
	398,508	(142,156)	256,352
Indefinite-lived intangible assets:			
Solid waste collection and transportation permits	151,505	-	151,505
Material recycling facility permits	42,283	-	42,283
E&P facility permits	59,855	-	59,855
	253,643	-	253,643
Intangible assets, exclusive of goodwill	$ 652,151	$ (142,156)	$ 509,995

Estimated future amortization expense for the next five years relating to finite-lived intangible assets is as follows:

For the year ending December 31, 2015	$28,508
For the year ending December 31, 2016	$24,635
For the year ending December 31, 2017	$22,582
For the year ending December 31, 2018	$21,662
For the year ending December 31, 2019	$17,075

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8. SEGMENT REPORTING

The Company’s revenues are generated from the collection, transfer, recycling and disposal of non-hazardous solid waste and the treatment, recovery and disposal of non-hazardous E&P 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 (Western, Central and Eastern) and its E&P segment, which includes the majority of the Company’s E&P waste treatment and disposal operations. The Company’s three geographic operating segments and its E&P segment comprise the Company’s reportable segments. Each operating segment is responsible for managing several vertically integrated operations, which are comprised of districts. The Company’s Western segment is comprised of operating locations in Alaska, California, Idaho, Montana, Nevada, Oregon, Washington and western Wyoming; the Company’s Central segment is 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 segment is comprised of operating locations in Alabama, Illinois, Iowa, Kentucky, Massachusetts, Michigan, Mississippi, New York, North Carolina, South Carolina and Tennessee. The E&P segment is comprised of the Company’s E&P operations in Arkansas, Louisiana, New Mexico, North Dakota, Oklahoma, Texas, Wyoming and along the Gulf of Mexico.

The Company’s Chief Operating Decision Maker (“CODM”) evaluates operating segment profitability and determines resource allocations based on several factors, of which the primary financial measure is segment EBITDA. The Company defines segment EBITDA as earnings before interest, taxes, depreciation, amortization, impairments and other operating charges (gains) and other income (expense). Segment EBITDA 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 segment EBITDA 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 segment EBITDA to Income before income tax provision is included at the end of this Note 8.

Summarized financial information concerning the Company’s reportable segments for the three and six months ended June 30, 2015 and 2014, is shown in the following tables:

Three Months Ended June 30, 2015	Revenue	**Intercompany Revenue[b]**	**Reported Revenue**	**Segment EBITDA[c]**
Western	$248,183	$ (25,795)	$222,388	$ 73,015
Central	168,315	(18,503)	149,812	51,722
Eastern	129,258	(22,043)	107,215	32,832
E&P	55,015	(3,118)	51,897	16,203
Corporate[a]	-	-	-	2,839
	$600,771	$ (69,459)	$531,312	$ 176,611

Three Months Ended June 30, 2014	Revenue	**Intercompany Revenue[b]**	**Reported Revenue**	**Segment EBITDA[c]**
Western	$230,904	$ (24,635)	$206,269	$ 63,262
Central	159,918	(18,002)	141,916	48,819
Eastern	120,550	(20,492)	100,058	30,768
E&P	79,756	(3,306)	76,450	40,716
Corporate[a]	-	-	-	(2,348)
	$591,128	$ (66,435)	$524,693	$ 181,217

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Six Months Ended June 30, 2015	Revenue	**Intercompany Revenue[b]**	**Reported Revenue**	**Segment EBITDA[c]**
Western	$477,248	$ (49,234)	$428,014	$ 141,907
Central	318,861	(34,114)	284,747	99,072
Eastern	246,357	(41,118)	205,239	62,904
E&P	125,869	(6,457)	119,412	37,179
Corporate[a]	-	-	-	2,381
	$1,168,335	$ (130,923)	$1,037,412	$ 343,443

Six Months Ended June 30, 2014	Revenue	**Intercompany Revenue[b]**	**Reported Revenue**	**Segment EBITDA[c]**
Western	$448,506	$ (46,882)	$401,624	$ 125,754
Central	303,302	(32,320)	270,982	94,662
Eastern	229,917	(38,533)	191,384	57,904
E&P	150,062	(7,650)	142,412	72,196
Corporate[a]	-	-	-	(6,297)
	$1,131,787	$ (125,385)	$1,006,402	$ 344,219

(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 four 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 segment EBITDA, the accounting policies of the segments are the same as those described in the Company's most recent Annual Report on Form 10-K.

The following tables show changes in goodwill during the six months ended June 30, 2015 and 2014, by reportable segment:

	Western	Central	Eastern	E&P	Total
Balance as of December 31, 2014	$372,915	$460,381	$392,423	$468,070	$1,693,789
Goodwill acquired	75	615	6,517	21,328	28,535
Balance as of June 30, 2015	$372,990	$460,996	$398,940	$489,398	$1,722,324

	Western	Central	Eastern	E&P	Total
Balance as of December 31, 2013	$372,915	$459,054	$380,570	$462,615	$1,675,154
Goodwill acquired	-	1,559	-	-	1,559
Goodwill divested	-	(143)	-	-	(143)
Goodwill adjustments	-	(843)	(1)	-	(844)
Balance as of June 30, 2014	$372,915	$459,627	$380,569	$462,615	$1,675,726

The Company has no accumulated impairment losses associated with goodwill.

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A reconciliation of the Company's primary measure of segment profitability (segment EBITDA) to Income before income tax provision in the Condensed Consolidated Statements of Net Income is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Western segment EBITDA	$73,015	$63,262	$141,907	$125,754
Central segment EBITDA	51,722	48,819	99,072	94,662
Eastern segment EBITDA	32,832	30,768	62,904	57,904
E&P segment EBITDA	16,203	40,716	37,179	72,196
Subtotal reportable segments	173,772	183,565	341,062	350,516
Unallocated corporate overhead	2,839	(2,348)	2,381	(6,297)
Depreciation	(59,639)	(57,105)	(116,945)	(112,922)
Amortization of intangibles	(7,264)	(6,720)	(14,263)	(13,456)
Impairments and other operating (charges) gains	316	1,074	(346)	549
Interest expense	(15,322)	(15,940)	(31,018)	(32,851)
Other income (expense), net	92	911	(128)	1,053
Income before income tax provision	$94,794	$103,437	$180,743	$186,592

The following tables reflect a breakdown of the Company's revenue and inter-company eliminations for the periods indicated:

	Three months ended June 30, 2015			
	Revenue	**Intercompany Revenue**	**Reported Revenue**	**% of Reported Revenue**
Solid waste collection	$342,583	$ (981)	$341,602	64.3 %
Solid waste disposal and transfer	171,932	(64,838)	107,094	20.1
Solid waste recycling	12,332	(278)	12,054	2.3
E&P waste treatment, recovery and disposal	55,851	(3,362)	52,489	9.9
Intermodal and other	18,073	-	18,073	3.4
Total	$600,771	$ (69,459)	$531,312	100.0 %

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	Three months ended June 30, 2014			
	Revenue	**Intercompany Revenue**	**Reported Revenue**	**% of Reported Revenue**
Solid waste collection	$322,763	$ (903)	$321,860	61.3 %
Solid waste disposal and transfer	158,913	(61,091)	97,822	18.7
Solid waste recycling	14,836	(485)	14,351	2.7
E&P waste treatment, recovery and disposal	82,646	(3,717)	78,929	15.1
Intermodal and other	11,970	(239)	11,731	2.2
Total	$591,128	$ (66,435)	$524,693	100.0 %

	Six months ended June 30, 2015			
	Revenue	**Intercompany Revenue**	**Reported Revenue**	**% of Reported Revenue**
Solid waste collection	$669,588	$ (1,900)	$667,688	64.4 %
Solid waste disposal and transfer	314,362	(121,164)	193,198	18.6
Solid waste recycling	23,401	(499)	22,902	2.2
E&P waste treatment, recovery and disposal	128,408	(7,360)	121,048	11.7
Intermodal and other	32,576	-	32,576	3.1
Total	$1,168,335	$ (130,923)	$1,037,412	100.0 %

	Six months ended June 30, 2014			
	Revenue	**Intercompany Revenue**	**Reported Revenue**	**% of Reported Revenue**
Solid waste collection	$628,766	$ (1,750)	$627,016	62.3 %
Solid waste disposal and transfer	294,476	(113,599)	180,877	18.0
Solid waste recycling	29,739	(1,104)	28,635	2.8
E&P waste treatment, recovery and disposal	155,964	(8,482)	147,482	14.7
Intermodal and other	22,842	(450)	22,392	2.2
Total	$1,131,787	$ (125,385)	$1,006,402	100.0 %

9. DERIVATIVE FINANCIAL INSTRUMENTS

The Company recognizes all derivatives on the Condensed Consolidated 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 prior credit agreement and credit agreement. The Company's strategy to achieve that objective involves entering into interest rate swaps. The interest rate swaps outstanding at June 30, 2015 were specifically designated to the Company's credit agreement and accounted for as cash flow hedges.

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At June 30, 2015, the Company's derivative instruments included six interest rate swap agreements as follows:

Date Entered	**Notional Amount**	**Fixed Interest Rate Paid***		**Variable Interest Rate Received**	Effective Date	Expiration Date
December 2011	$175,000	1.600	%	1-month LIBOR	February 2014	February 2017
April 2014	$100,000	1.800	%	1-month LIBOR	July 2014	July 2019
May 2014	$50,000	2.344	%	1-month LIBOR	October 2015	October 2020
May 2014	$25,000	2.326	%	1-month LIBOR	October 2015	October 2020
May 2014	$50,000	2.350	%	1-month LIBOR	October 2015	October 2020
May 2014	$50,000	2.350	%	1-month LIBOR	October 2015	October 2020

* 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 periodically entering into fuel hedges that are specifically designated to certain forecasted diesel fuel purchases and accounted for as cash flow hedges.

At June 30, 2015, the Company's derivative instruments included three fuel hedge agreements as follows:

Date Entered	**Notional Amount**	**Diesel Rate**	**Diesel Rate Received Variable**	Effective Date	Expiration Date

	(in gallons per month)	Paid Fixed (per gallon)			
June 2012	300,000	$ 3.600	DOE Diesel Fuel Index*	January 2014	December 2015
May 2015	300,000	$ 3.280	DOE Diesel Fuel Index*	January 2016	December 2017
May 2015	200,000	$ 3.275	DOE Diesel Fuel Index*	January 2016	December 2017

* 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 June 30, 2015, were as follows:

Derivatives Designated as Cash Flow Hedges	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
Interest rate swaps		$ -	Accrued liabilities[(a)]	$ (5,498)
			Other long-term liabilities	(3,960)
Fuel hedges		-	Accrued liabilities[(b)]	(1,849)
			Other long-term liabilities	(1,016)
Total derivatives designated as cash flow hedges		$ -		$ (12,323)

(a) Represents the estimated amount of the existing unrealized losses on interest rate swaps as of June 30, 2015 (based on the interest rate yield curve at that date), included in AOCL 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 losses on fuel hedges as of June 30, 2015 (based on the forward DOE diesel fuel index curve at that date), included in AOCL 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.

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The fair values of derivative instruments designated as cash flow hedges as of December 31, 2014, were as follows:

Derivatives Designated as Cash Flow Hedges	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
Interest rate swaps	Other assets, net	$ 250	Accrued liabilities	$ (4,044)
			Other long-term liabilities	(3,300)
Fuel hedges		-	Accrued liabilities	(1,979)
Total derivatives designated as cash flow hedges		$ 250		$ (9,323)

The following table summarizes the impact of the Company’s cash flow hedges on the results of operations, comprehensive income and AOCL for the three and six months ended June 30, 2015 and 2014:

Derivatives Designated as Cash Flow Hedges	**Amount of Gain or (Loss) Recognized as AOCL on Derivatives, Net of Tax (Effective Portion)[a]** Three Months Ended June 30, 2015	2014	**Statement of Net Income Classification**	**Amount of (Gain) or Loss Reclassified from AOCL into Earnings, Net of Tax (Effective Portion) [b],[c]** Three Months Ended June 30, 2015