WASTE CONNECTIONS, INC.
Form 10-Q
October 23, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **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 x 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 x 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):

x 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 x

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

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)

	September 30, 2012	December 31, 2011
ASSETS		
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
Total current assets	362,761	249,258
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
	$ 3,673,827	$ 3,328,005
LIABILITIES AND EQUITY		
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
Total current liabilities	333,028	283,802
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
Total liabilities	1,822,001	1,928,318
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

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
Total Waste Connections equity	1,846,673	1,394,910
Noncontrolling interest in subsidiaries	5,153	4,777
Total equity	1,851,826	1,399,687
	$ 3,673,827	$ 3,328,005

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 September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 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.

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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 September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 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.

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WASTE CONNECTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

NINE MONTHS ENDED SEPTEMBER 30, 2012

(Unaudited)

(In thousands, except share amounts)

	Waste Connections Equity						
	Common Stock		Additional Paid-In	Accumulated Other Comprehensive Income	Retained	Noncontrolling	
	Shares	Amount	Capital	(Loss)	Earnings	Interests	Total
Balances at December 31, 2011	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
Balances at September 30, 2012	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.

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WASTE CONNECTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

NINE MONTHS ENDED SEPTEMBER 30, 2011

(Unaudited)

(In thousands, except share amounts)

	Waste Connections Equity						
	Common Stock		Additional Paid-In	Accumulated Other Comprehensive Income	Retained	Noncontrolling	
	Shares	Amount	Capital	(Loss)	Earnings	Interests	Total
Balances at December 31, 2010	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
Balances at September 30, 2011	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.

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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

Cash and equivalents at end of period	$ 103,532	$ 36,560
Non-cash financing activity:		
Liabilities assumed and notes payable issued to sellers of businesses acquired	$ 51,004	$ 144,386

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

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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.

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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.

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.

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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
Final capping, closure and post-closure liability at September 30, 2012	$ 40,037

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.

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 (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.

WASTE CONNECTIONS, INC.

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(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.

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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:

	2012 Acquisitions	2011 Acquisitions
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.

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.

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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
Amortizable intangible assets:			
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
Nonamortized intangible assets:			
Indefinite-lived intangible assets	226,547		226,547
Intangible assets, exclusive of goodwill	$ 583,849	$ (87,508)	$ 496,341

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.

WASTE CONNECTIONS, INC.

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(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
Amortizable intangible assets:			
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
Nonamortized intangible assets:			
Indefinite-lived intangible assets	191,202		191,202
Intangible assets, exclusive of goodwill	$ 519,212	$ (69,631)	$ 449,581

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 Dako