WASTE CONNECTIONS, INC.
Form 10-Q
April 25, 2013
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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 March 31, 2013

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	**94-3283464**
(State or other jurisdiction of incorporation or organization)	**(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):

Large accelerated filer	x	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 April 15, 2013: 123,418,612 shares of common stock

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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)

	March 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and equivalents	$ 14,280	$ 23,212
Accounts receivable, net of allowance for doubtful accounts of $6,491 and $6,548 at March 31, 2013 and December 31, 2012, respectively	219,915	235,762
Deferred income taxes	36,096	45,798
Prepaid expenses and other current assets	32,799	57,714
Total current assets	303,090	362,486
Property and equipment, net	2,436,035	2,457,606
Goodwill	1,637,339	1,636,557
Intangible assets, net	535,462	541,908
Restricted assets	35,002	34,889
Other assets, net	42,875	42,580
	$ 4,989,803	$ 5,076,026
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 118,237	$ 130,260
Book overdraft	12,549	12,567
Accrued liabilities	118,193	121,829
Deferred revenue	68,850	69,930
Current portion of contingent consideration	49,136	49,018
Current portion of long-term debt and notes payable	35,182	33,968
Total current liabilities	402,147	417,572
Long-term debt and notes payable	2,096,171	2,204,967
Long-term portion of contingent consideration	30,660	30,346
Other long-term liabilities	73,716	75,129
Deferred income taxes	472,436	464,882
Total liabilities	3,075,130	3,192,896
Commitments and contingencies (Note 16)		
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; 123,418,612 and 123,019,494 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	1,234	1,230
Additional paid-in capital	781,073	779,904

Accumulated other comprehensive loss	(4,967)	(6,165)
Retained earnings	1,132,434	1,103,188
Total Waste Connections equity	1,909,774	1,878,157
Noncontrolling interest in subsidiaries	4,899	4,973
Total equity	1,914,673	1,883,130
	$ 4,989,803	$ 5,076,026

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 March 31, 2013	2012
Revenues	$ 449,892	$ 376,430
Operating expenses:		
Cost of operations	251,963	216,681
Selling, general and administrative	53,251	51,174
Depreciation	51,649	37,173
Amortization of intangibles	6,438	5,631
Loss (gain) on disposal of assets	(322)	715
Operating income	86,913	65,056
Interest expense	(19,012)	(12,285)
Other income, net	742	819
Income before income tax provision	68,643	53,590
Income tax provision	(26,963)	(22,151)
Net income	41,680	31,439
Less: Net income attributable to noncontrolling interests	(124)	(136)
Net income attributable to Waste Connections	$ 41,556	$ 31,303
Earnings per common share attributable to Waste Connections common stockholders:		
Basic	$ 0.34	$ 0.27
Diluted	$ 0.34	$ 0.27
Shares used in the per share calculations:		
Basic	123,380,799	115,188,134
Diluted	123,904,929	115,876,461
Cash dividends per common share	$ 0.10	$ 0.09

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 March 31, 2013	2012
Net income	$ 41,680	$ 31,439
Other comprehensive income (loss), before tax:		
Interest rate swap amounts reclassified into interest expense	1,379	1,142
Fuel hedge amounts reclassified into cost of operations		(1,129)
Changes in fair value of interest rate swaps	(39)	(1,005)
Changes in fair value of the fuel hedge	591	1,473
Other comprehensive income before tax	1,931	481
Income tax expense related to items of other comprehensive income	(733)	(183)
Other comprehensive income, net of tax	1,198	298
Comprehensive income	42,878	31,737
Less: Comprehensive income attributable to noncontrolling interests	(124)	(136)
Comprehensive income attributable to Waste Connections	$ 42,754	$ 31,601

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

THREE MONTHS ENDED MARCH 31, 2013

(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, 2012	123,019,494	$ 1,230	$ 779,904	$ (6,165)	$ 1,103,188	$ 4,973	$ 1,883,130
Vesting of restricted stock units	470,559	4	(4)				
Tax withholdings related to net share settlements of restricted stock units	(148,219)	(1)	(5,279)				(5,280)
Equity-based compensation			3,594				3,594
Exercise of stock options and warrants	76,778	1	760				761
Excess tax benefit associated with equity-based compensation			2,098				2,098
Cash dividends on common stock					(12,310)		(12,310)
Amounts reclassified into earnings, net of taxes				852			852
Changes in fair value of cash flow hedges, net of taxes				346			346
Distributions to noncontrolling interests						(198)	(198)
Net income					41,556	124	41,680
Balances at March 31, 2013	123,418,612	$ 1,234	$ 781,073	$ (4,967)	$ 1,132,434	$ 4,899	$ 1,914,673

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

THREE MONTHS ENDED MARCH 31, 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	574,949	6	(6)				
Tax withholdings related to net share settlements of restricted stock units	(184,881)	(2)	(5,902)				(5,904)
Equity-based compensation			7,596				7,596
Exercise of stock options and warrants	57,565	1	529				530
Issuance of common stock, net of issuance costs of $500	12,000,000	120	369,340				369,460
Excess tax benefit associated with equity-based compensation			3,005				3,005
Cash dividends on common stock					(10,010)		(10,010)
Amounts reclassified into earnings, net of taxes				8			8
Changes in fair value of cash flow hedges, net of taxes				290			290
Distributions to noncontrolling interests						(95)	(95)
Net income					31,303	136	31,439
Balances at March 31, 2012	123,355,415	$ 1,234	$ 783,283	$ (3,182)	$ 1,009,853	$ 4,818	$ 1,796,006

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)

	Three months ended March 31, 2013	2012
Cash flows from operating activities:		
Net income	$ 41,680	$ 31,439
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on disposal of assets	(322)	715
Depreciation	51,649	37,173
Amortization of intangibles	6,438	5,631
Deferred income taxes, net of acquisitions	16,524	12,101
Amortization of debt issuance costs	858	415
Equity-based compensation	3,594	7,596
Interest income on restricted assets	(113)	(112)
Interest accretion	1,293	836
Excess tax benefit associated with equity-based compensation	(2,098)	(3,005)
Net change in operating assets and liabilities, net of acquisitions	13,455	7,792
Net cash provided by operating activities	132,958	100,581
Cash flows from investing activities:		
Payments for acquisitions, net of cash acquired		(138,908)
Proceeds from adjustment to acquisition consideration	18,000	
Capital expenditures for property and equipment	(36,905)	(27,953)
Proceeds from disposal of assets	723	753
Other	(926)	(1,861)
Net cash used in investing activities	(19,108)	(167,969)
Cash flows from financing activities:		
Proceeds from long-term debt	26,500	184,000
Principal payments on notes payable and long-term debt	(134,083)	(474,865)
Payment of contingent consideration	(229)	(3,528)
Change in book overdraft	(17)	321
Proceeds from option and warrant exercises	761	530
Excess tax benefit associated with equity-based compensation	2,098	3,005
Payments for cash dividends	(12,310)	(10,010)
Tax withholdings related to net share settlements of restricted stock units	(5,280)	(5,904)
Distributions to noncontrolling interests	(198)	(95)
Debt issuance costs	(24)	
Proceeds from common stock offering, net		369,460
Net cash provided by (used in) financing activities	(122,782)	62,914
Net decrease in cash and equivalents	(8,932)	(4,474)
Cash and equivalents at beginning of period	23,212	12,643
Cash and equivalents at end of period	$ 14,280	$ 8,169

Non-cash financing activity:		
Liabilities assumed and notes payable issued to sellers of businesses acquired	$	$ 9,974

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 month periods ended March 31, 2013 and 2012. 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, 2012.

2. NEW ACCOUNTING STANDARDS

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. In February 2013, the FASB issued guidance requiring entities to provide information about the amounts reclassified out of accumulated other comprehensive income (AOCI) by component. In addition, it requires entities to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. This guidance is effective prospectively for annual and interim reporting periods beginning after December 15, 2012, with early adoption permitted. The amounts required to be disclosed under this guidance are disclosed in Notes 10 and 13.

3. RECLASSIFICATION

Certain amounts reported in the Company s prior year financial statements have been reclassified to conform with the 2013 presentation.

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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)

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, contingent consideration obligations, interest rate swaps and a fuel hedge. As of March 31, 2013 and December 31, 2012, the carrying values of cash and equivalents, trade receivables, restricted assets, trade payables and contingent consideration 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 March 31, 2013 and December 31, 2012, based on current borrowing rates, current remaining average life to maturity and borrower credit quality for similar types of borrowing arrangements, and are 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 March 31, 2013 and December 31, 2012, are as follows:

	Carrying Value at		Fair Value* at	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
6.22% Senior Notes due 2015	$ 175,000	$ 175,000	$ 192,645	$ 193,949
3.30% Senior Notes due 2016	$ 100,000	$ 100,000	$ 103,132	$ 103,068
4.00% Senior Notes due 2018	$ 50,000	$ 50,000	$ 52,601	$ 52,476
5.25% Senior Notes due 2019	$ 175,000	$ 175,000	$ 195,630	$ 195,584
4.64% Senior Notes due 2021	$ 100,000	$ 100,000	$ 107,494	$ 107,418

* 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 hedge and restricted assets, refer to Note 12.

5. LANDFILL ACCOUNTING

At March 31, 2013, the Company owned or operated 42 municipal solid waste (MSW) landfills, five exploration and production (E&P) waste landfills, which only accept E&P waste, and seven non-MSW landfills, which only accept construction and demolition, industrial and other non-putrescible waste. At March 31, 2013, the Company owned 43 landfills, and operated, but did not own, six landfills under life-of-site operating agreements and five landfills under limited-term operating agreements. The Company s landfills had site costs with a net book value of $1,645,251 at March 31, 2013. 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.

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.

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)

Based on remaining permitted capacity as of March 31, 2013, 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 37 years. As of March 31, 2013, the Company is seeking to expand permitted capacity at eight 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 46 years, with lives ranging from approximately 6 to 240 years.

During the three months ended March 31, 2013 and 2012, the Company expensed $18,399 and $9,540, respectively, or an average of $4.22 and $2.91 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 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 2013 and 2012 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 2012 and 2011. The Company s inflation rate assumption is 2.5% for the years ending December 31, 2013 and 2012. 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 three months ended March 31, 2013 and 2012, the Company expensed $707 and $612, respectively, or an average of $0.16 and $0.19 per ton consumed, respectively, related to final capping, closure and post-closure accretion expense.

The following is a reconciliation of the Company s final capping, closure and post-closure liability balance from December 31, 2012 to March 31, 2013:

Final capping, closure and post-closure liability at December 31, 2012	$ 46,473
Adjustments to final capping, closure and post-closure liabilities	(3,081)
Liabilities incurred	852
Accretion expense associated with landfill obligations	707
Final capping, closure and post-closure liability at March 31, 2013	$ 44,951

The Adjustments to final capping, closure and post-closure liabilities primarily consisted of increases in estimated airspace at three of the Company s landfills at which expansions are being pursued or have been granted and a decrease in estimated closure costs at one of the Company s landfills, partially offset by revisions in engineering estimates and an increase in estimates of annual tonnage consumption at two of the Company s landfills. The Company performs its annual review of its cost and capacity estimates in the first quarter of each year.

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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)

At March 31, 2013, $32,564 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:

	March 31, 2013	December 31, 2012
Revolver under credit facility, bearing interest ranging from 1.47% to 4.25%*	$ 690,000	$ 787,000
Term loan facility, bearing interest ranging from 2.20% to 2.70%*	790,000	800,000
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 0.24%*	35,655	35,655
Notes payable to sellers and other third parties, bearing interest at 2.5% to 10.9%*	15,698	16,280
	2,131,353	2,238,935
Less current portion	(35,182)	(33,968)
	$ 2,096,171	$ 2,204,967

* Interest rates in the table above represent the range of interest rates incurred during the three month period ended March 31, 2013.

7. ACQUISITIONS

During the three months ended March 31, 2013, the Company did not acquire any businesses.

Cash consideration for the 2012 acquisition of the business of R360 Environmental Solutions, Inc. (R360) included payment for the estimated net working capital of $18,906, as defined in the acquisition agreement, which was subject to final adjustment subsequent to the close of the acquisition. In March 2013, Waste Connections received $18,000 from the former owners of R360 due to the final adjustment to the net working capital that was estimated at the closing date.

During the three months ended March 31, 2013 and 2012, the Company incurred $473 and $1,777, 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.

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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)

8. INTANGIBLE ASSETS, NET

Intangible assets, exclusive of goodwill, consisted of the following at March 31, 2013:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:			
Long-term franchise agreements and contracts	$ 198,768	$ (40,400)	$ 158,368
Customer lists	139,354	(47,630)	91,724
Non-competition agreements	9,374	(6,917)	2,457
Other	32,098	(2,828)	29,270
	379,594	(97,775)	281,819
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	$ 633,237	$ (97,775)	$ 535,462

Intangible assets, exclusive of goodwill, consisted of the following at December 31, 2012:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:			
Long-term franchise agreements and contracts	$ 198,779	$ (38,447)	$ 160,332
Customer lists	139,354	(43,457)	95,897
Non-competition agreements	9,374	(6,815)	2,559
Other	32,098	(2,621)	29,477
	379,605	(91,340)	288,265
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	$ 633,248	$ (91,340)	$ 541,908

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

For the year ending December 31, 2013	$ 25,061
For the year ending December 31, 2014	$ 24,372
For the year ending December 31, 2015	$ 23,758
For the year ending December 31, 2016	$ 19,803
For the year ending December 31, 2017	$ 17,831

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)

9. SEGMENT REPORTING

The Company s revenues include 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.

Prior to October 2012, the Company managed its operations through three geographic operating segments which were also its reportable segments. In October 2012, as a result of the R360 acquisition, the Company realigned its reporting structure and created a fourth operating segment, the E&P group, which includes the majority of the Company s E&P waste treatment and disposal operations. As a result, the Company s three geographic operating segments and its E&P group comprise the Company s reportable segments. Additionally, in January 2013, the Company transferred an E&P operation in Louisiana, owned by the Company prior to the R360 acquisition, from its Central region to its E&P group. Each operating segment is responsible for managing several vertically integrated operations, which are comprised of districts. The segment information presented herein reflects the addition of the new E&P group and the transfer of the Company s E&P operation in Louisiana to the E&P group. Under the current structure, the Company s Western Region is comprised of operating locations in Alaska, California, Idaho, Montana, Nevada, Oregon, Washington and western Wyoming; the Company s Central Region 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 Region is comprised of operating locations in Alabama, Illinois, Iowa, Kentucky, Massachusetts, Michigan, Mississippi, New York, North Carolina, South Carolina and Tennessee. The E&P group is comprised of the Company s E&P operations in 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 EBITDA. The Company defines EBITDA as earnings before interest, taxes, depreciation, amortization, gain (loss) on disposal of assets and other income (expense). 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 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 EBITDA to Income before income tax provision is included at the end of this Note 9.

Summarized financial information concerning the Company s reportable segments for the three months ended March 31, 2013 and 2012, is shown in the following tables:

Three Months Ended March 31, 2013	**Gross Revenues**	**Intercompany Revenues[b]**	**Net Revenues**	**EBITDA[c]**
Western	$ 216,345	$ (23,194)	$ 193,151	$ 58,576
Central	127,963	(13,370)	114,593	40,238
Eastern	105,430	(17,660)	87,770	25,881
E&P	57,021	(2,643)	54,378	22,587
Corporate[a]				(2,604)
	$ 506,759	$ (56,867)	$ 449,892	$ 144,678

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Three Months Ended March 31, 2012	Gross Revenues	Intercompany Revenues[b]	Net Revenues	EBITDA[c]
Western	$ 204,681	$ (24,021)	$ 180,660	$ 53,802
Central	116,913	(13,084)	103,829	35,450
Eastern	107,158	(18,121)	89,037	24,534
E&P	2,904		2,904	1,932
Corporate[a]				(7,143)
	$ 431,656	$ (55,226)	$ 376,430	$ 108,575

(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 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 three months ended March 31, 2013 and 2012, by reportable segment:

	Western	Central	Eastern	E&P	Total
Balance as of December 31, 2012	$ 373,143	$ 430,412	$ 380,561	$ 452,441	$ 1,636,557
Goodwill transferred		(9,196)		9,196	
Goodwill acquired		1	24	757	782
Balance as of March 31, 2013	$ 373,143	$ 421,217	$ 380,585	$ 462,394	$ 1,637,339

	Western	Central	Eastern	E&P	Total
Balance as of December 31, 2011	$ 313,038	$ 424,223	$ 379,627	$	$ 1,116,888
Goodwill acquired	56,747	2,867	23		59,637
Goodwill divested		(496)			(496)
Balance as of March 31, 2012	$ 369,785	$ 426,594	$ 379,650	$	$ 1,176,029

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 (EBITDA) to Income before income tax provision in the Condensed Consolidated Statements of Net Income is as follows:

	Three months ended March 31,	
	2013	**2012**
Western segment EBITDA	$ 58,576	$ 53,802
Central segment EBITDA	40,238	35,450
Eastern segment EBITDA	25,881	24,534
E&P segment EBITDA	22,587	1,932
Subtotal reportable segments	147,282	115,718
Unallocated corporate overhead	(2,604)	(7,143)
Depreciation	(51,649)	(37,173)
Amortization of intangibles	(6,438)	(5,631)
Gain (loss) on disposal of assets	322	(715)
Interest expense	(19,012)	(12,285)
Other income, net	742	819
Income before income tax provision	$ 68,643	$ 53,590

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

	Three months ended March 31,	
	2013	**2012**
Solid waste collection	$ 293,144	$ 277,088
Solid waste disposal and transfer	122,772	117,739
E&P waste treatment, disposal and recovery	59,931	4,256
Solid waste recycling	18,794	21,215
Intermodal and other	12,118	11,358
	506,759	431,656
Less: intercompany elimination	(56,867)	(55,226)
Total revenues	$ 449,892	$ 376,430

10. DERIVATIVE FINANCIAL INSTRUMENTS

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

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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 revolving credit facility. The Company s strategy to achieve that objective involves entering into interest rate swaps that are specifically designated to the Company s revolving credit facility and accounted for as cash flow hedges.

At March 31, 2013, the Company s derivative instruments included three interest rate swap agreements as follows:

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

* plus applicable margin.

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

At March 31, 2013, the Company s derivative instruments included one fuel hedge agreement as follows:

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

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

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The fair values of derivative instruments designated as cash flow hedges as of March 31, 2013, 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]	$ (5,048)
			Other long-term liabilities	(4,775)
Fuel hedge	Prepaid expenses and other current assets[b]	$ 282		
	Other assets, net	1,496		
Total derivatives designated as cash flow hedges		$ 1,778		$ (9,823)

(a) Represents the estimated amount of the existing unrealized losses on interest rate swaps as of March 31, 2013 (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 gains on the fuel hedge as of March 31, 2013 (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.

The fair values of derivative instruments designated as cash flow hedges as of December 31, 2012, 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	$ (5,374)
			Other long-term liabilities	(5,789)
Fuel hedge	Other assets, net	$ 1,187		
Total derivatives designated as cash flow hedges		$ 1,187		$ (11,163)

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 months ended March 31, 2013 and 2012:

Derivatives Designated as Cash	**Amount of Gain or (Loss) Recognized as AOCL on Derivatives, Net of Tax (Effective Portion)[a]** Three Months Ended March 31,	**Statement of Income Classification**	**Amount of (Gain) or Loss Reclassified from AOCL into Earnings, Net of Tax (Effective Portion)[b],[c]** Three Months Ended March 31,

Flow Hedges	2013	2012		2013	2012
Interest rate swaps	$ (18)	$ (623)	Interest expense	$ 852	$ 708
Fuel hedge	364	913	Cost of operations		(700)
Total	$ 346	$ (290)		$ 852	$ 8

(a) In accordance with the derivatives and hedging guidance, the effective portions of the changes in fair values of interest rate swaps and the fuel hedge have been recorded in equity as a component of AOCL. As the critical terms of the interest rate swaps match the underlying debt being hedged, no ineffectiveness is recognized on these swaps and, therefore, all unrealized changes in fair value are recorded in AOCL. Because changes in the actual price of diesel fuel and changes in the DOE index price do not offset exactly each reporting period, the Company assesses whether the fuel hedge is highly effective using the cumulative dollar offset approach.

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(b) Amounts reclassified from AOCL into earnings related to realized gains and losses on interest rate swaps are recognized when interest payments or receipts occur related to the swap contracts, which correspond to when interest payments are made on the Company s hedged debt.

(c) Amounts reclassified from AOCL into earnings related to realized gains and losses on the fuel hedge are recognized when settlement payments or receipts occur related to the hedge contract, which correspond to when the underlying fuel is consumed.

The Company measures and records ineffectiveness on the fuel hedge in Cost of operations in the Condensed Consolidated Statements of Net Income on a monthly basis based on the difference between the DOE index price and the actual price of diesel fuel purchased, multiplied by the notional number of gallons on the contract. There was no significant ineffectiveness recognized on the fuel hedge during the three months ended March 31, 2012.

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

11. NET INCOME PER SHARE INFORMATION

The following table sets forth the calculation of the numerator and denominator used in the computation of basic and diluted net income per common share attributable to the Company s common stockholders for the three months ended March 31, 2013 and 2012:

	Three months ended March 31,	
	2013	**2012**
Numerator:		
Net income attributable to Waste Connections for basic and diluted earnings per share	$ 41,556	$ 31,303
Denominator:		
Basic shares outstanding	123,380,799	115,188,134
Dilutive effect of stock options and warrants	202,115	339,747
Dilutive effect of restricted stock units	322,015	348,580
Diluted shares outstanding	123,904,929	115,876,461

For the three months ended March 31, 2013, all outstanding stock options and warrants were dilutive and included in the computation of diluted earnings per share. For the three months ended March 31, 2012, stock options and warrants to purchase 8,641 shares of common stock were excluded from the computation of diluted earnings per share as they were anti-dilutive.

12. FAIR VALUE MEASUREMENTS

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

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The Company s financial assets and liabilities recorded at fair value on a recurring basis include derivative instruments and restricted assets. The Company s derivative instruments are pay-fixed, receive-variable interest rate swaps and a pay-fixed, receive-variable diesel fuel hedge. The Company s interest rate swaps are recorded at their estimated fair values based on quotes received from financial institutions that trade these contracts. The Company verifies the reasonableness of these quotes using similar quotes from another financial institution as of each date for which financial statements are prepared. The Company uses a discounted cash flow (DCF) model to determine the estimated fair value of the diesel fuel hedge. The assumptions used in preparing the DCF model include: (i) estimates for the forward DOE index curve; and (ii) the discount rate based on risk-free interest rates over the term of the hedge contract. The DOE index curve used in the DCF model was obtained from financial institutions that trade these contracts and ranged from $3.75 to $3.93 at March 31, 2013. The weighted average DOE index curve used in the DCF model was $3.85 at March 31, 2013. Significant increases (decreases) in the forward DOE index curve would result in a significantly higher (lower) fair value measurement. For the Company s interest rate swaps and fuel hedge, the Company also considers the Company s creditworthiness in its determination of the fair value measurement of these instruments in a net liability position and the banks creditworthiness in its determination of the fair value measurement of these instruments in a net asset position. The Company s restricted assets are valued at quoted market prices in active markets for identical assets, which the Company receives from the financial institutions that hold such investments on its behalf. The Company s restricted assets measured at fair value are invested primarily in U.S. government and agency securities.

The Company s assets and liabilities measured at fair value on a recurring basis at March 31, 2013 and December 31, 2012, were as follows:

		Fair Value Measurement at March 31, 2013 Using		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Interest rate swap derivative instruments net liability position	$ (9,823)	$	$ (9,823)	$
Fuel hedge derivative instrument net asset position	$ 1,778	$	$	$ 1,778
Restricted assets	$ 33,739	$ 33,739	$	$

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	Fair Value Measurement at December 31, 2012 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap derivative instruments net liability position	$ (11,163)	$	$ (11,163)	$
Fuel hedge derivative instrument net asset position	$ 1,187	$	$	$ 1,187
Restricted assets	$ 33,425	$ 33,425	$	$

The following table summarizes the change in the fair value for Level 3 derivatives for the three months ended March 31, 2013:

	Level 3 Derivatives
Balance as of December 31, 2012	$ 1,187
Unrealized gains included in AOCL	591
Balance as of March 31, 2013	$ 1,778

The following table summarizes the change in the fair value for Level 3 derivatives for the three months ended March 31, 2012:

	Level 3 Derivatives
Balance as of December 31, 2011	$ 3,506
Realized gains included in earnings	(1,129)
Unrealized gains included in AOCL	1,473
Balance as of March 31, 2012	$ 3,850

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13. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes changes in the fair value of interest rate swaps and the fuel hedge that qualify for hedge accounting. The components of other comprehensive income (loss) and related tax effects for the three month periods ended March 31, 2013 and 2012, are as follows:

	Three months ended March 31, 2013		
	Gross	Tax effect	Net of tax
Interest rate swap amounts reclassified into interest expense	$ 1,379	$ (527)	$ 852
Changes in fair value of interest rate swaps	(39)	21	(18)
Changes in fair value of fuel hedge	591	(227)	364
	$ 1,931	$ (733)	$ 1,198

	Three months ended March 31, 2012		
	Gross	Tax effect	Net of tax
Interest rate swap amounts reclassified into interest expense	$ 1,142	$ (434)	$ 708
Fuel hedge amounts reclassified into cost of operations	(1,129)	429	(700)
Changes in fair value of interest rate swaps	(1,005)	382	(623)
Changes in fair value of fuel hedge	1,473	(560)	913
	$ 481	$ (183)	$ 298

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

	Fuel Hedge	Interest Rate Swaps	Accumulated Other Comprehensive Loss
Balance at December 31, 2012	$ 732	$ (6,897)	$ (6,165)
Amounts reclassified into earnings		852	852
Changes in fair value	364	(18)	346
Balance at March 31, 2013	$ 1,096	$ (6,063)	$ (4,967)

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

14. STOCKHOLDERS EQUITY

Sale of Common Stock

On February 27, 2012, the Company entered into an underwriting agreement with Morgan Stanley & Co. LLC, in connection with the offer and sale by the Company of 12,000,000 shares of its common stock, par value $0.01 per share. The shares of common stock were sold to Morgan Stanley & Co. LLC at a price of $30.83 per share. The offering closed on March 2, 2012. The Company received net proceeds from this offering of $369,460 after deducting underwriting discounts and estimated transaction expenses payable by the Company of approximately $500.

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Stock-Based Compensation

A summary of activity related to restricted stock units under the Third Amended and Restated 2004 Equity Incentive Plan during the three month period ended March 31, 2013, is presented below:

	Unvested Shares
Outstanding at December 31, 2012	1,317,798
Granted	571,267
Forfeited	(19,948)
Vested and Issued	(470,559)
Vested and Unissued	(61,518)
Outstanding at March 31, 2013	1,337,040

The weighted average grant-date fair value per share for the shares of common stock underlying the restricted stock units granted during the three month period ended March 31, 2013 was $34.02.

Share Repurchase Program

The Company s Board of Directors has authorized a common stock repurchase program for the repurchase of up to $1,200,000 of common stock through December 31, 2014. Under the program, stock repurchases may be made in the open market or in privately negotiated transactions from time to time at management s discretion. The timing and amounts of any repurchases will depend on many factors, including the Company s capital structure, the market price of the common stock and overall market conditions. During the three months ended March 31, 2013 and 2012, the Company did not repurchase any shares of its common stock. As of March 31, 2013, the remaining maximum dollar value of shares available for repurchase under the program was approximately $415,960. The Company s policy related to repurchases of its common stock is to charge any excess of cost over par value entirely to additional paid-in capital.

Cash Dividend

In October 2012, the Company announced that its Board of Directors increased its regular quarterly cash dividend by $0.01, from $0.09 to $0.10 per share. Cash dividends of $12,310 and $10,010 were paid during the three months ended March 31, 2013 and 2012, respectively.

15. CORPORATE OFFICE RELOCATION

In December 2011, the Company commenced a relocation of its corporate headquarters from Folsom, California to The Woodlands, Texas. The relocation will be completed in 2013 and the Company expects to incur an estimated $500 to $1,500 of costs related to personnel and office relocation expenses during 2013. These costs are recorded in Selling, general and administrative expenses in the Condensed Consolidated Statements of Net Income. In addition, the Company may incur a loss on lease in the second or third quarter of 2013, the timing of which is dependent on the cessation of use of its former corporate headquarters in Folsom, California. The Company estimates the loss on lease could range between $8,000 and $10,000.