

REPUBLIC SERVICES, INC.

Form 10-Q

November 02, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012
OR

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: 1-14267

REPUBLIC SERVICES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	65-0716904 (IRS Employer Identification No.)
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18500 NORTH ALLIED WAY PHOENIX, ARIZONA (Address of principal executive offices)	85054 (Zip code)
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Registrant's telephone number, including area code: (480) 627-2700

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

On October 18, 2012, the registrant had outstanding 364,702,791 shares of Common Stock, par value \$.01 per share (excluding treasury shares of 39,793,579).

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

REPUBLIC SERVICES, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$74.0	\$66.3
Accounts receivable, less allowance for doubtful accounts of \$44.8 and \$48.1, respectively	854.2	825.8
Prepaid expenses and other current assets	217.9	215.9
Deferred tax assets	123.9	157.7
Total current assets	1,270.0	1,265.7
Restricted cash and marketable securities	132.9	189.6
Property and equipment, net	6,903.2	6,792.3
Goodwill	10,678.2	10,647.0
Other intangible assets, net	371.9	409.6
Other assets	278.1	247.3
Total assets	\$19,634.3	\$19,551.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$490.6	\$563.6
Notes payable and current maturities of long-term debt	44.4	34.8
Deferred revenue	311.1	290.2
Accrued landfill and environmental costs, current portion	185.4	184.2
Accrued interest	71.6	72.2
Other accrued liabilities	596.1	752.5
Total current liabilities	1,699.2	1,897.5
Long-term debt, net of current maturities	7,060.0	6,887.0
Accrued landfill and environmental costs, net of current portion	1,419.6	1,396.5
Deferred income taxes and other long-term tax liabilities	1,165.3	1,161.1
Self-insurance reserves, net of current portion	288.1	303.9
Other long-term liabilities	260.5	222.1
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share; 50 shares authorized; none issued	—	—
Common stock, par value \$0.01 per share; 750 shares authorized; 404.4 and 402.1 issued	4.0	4.0
including shares held in treasury, respectively		
Additional paid-in capital	6,563.3	6,495.6
Retained earnings	2,361.3	2,164.7
Treasury stock, at cost (39.8 and 32.2 shares, respectively)	(1,169.6	) (961.5
Accumulated other comprehensive loss, net of tax	(19.8) (21.5
Total Republic Services, Inc. stockholders' equity	7,739.2	7,681.3

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Noncontrolling interests	2.4	2.1
Total stockholders' equity	7,741.6	7,683.4
Total liabilities and stockholders' equity	\$19,634.3	\$19,551.5

The accompanying notes are an integral part of these statements.

REPUBLIC SERVICES, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Revenue	\$2,046.9	\$2,116.2	\$6,089.9	\$6,167.7
Expenses:				
Cost of operations	1,280.5	1,260.0	3,722.2	3,657.5
Depreciation, amortization and depletion	203.5	215.0	632.1	629.4
Accretion	19.7	19.4	59.1	58.6
Selling, general and administrative	193.8	207.5	613.5	611.5
Negotiation and withdrawal costs - Central States	31.3	—	34.6	—
Loss (gain) on disposition of assets and impairments, net	0.2	5.8	(3.4)	) 24.8
Operating income	317.9	408.5	1,031.8	1,185.9
Interest expense	(93.2)	) (108.3)	) (296.3)	) (335.4)
Loss on extinguishment of debt	(2.3)	) (6.0)	) (112.6)	) (207.3)
Interest income	0.3	—	0.8	0.3
Other income, net	0.4	1.8	1.1	3.8
Income before income taxes	223.1	296.0	624.8	647.3
Provision for income taxes	70.3	102.4	179.7	249.4
Net income	152.8	193.6	445.1	397.9
Net (income) loss attributable to noncontrolling interests	(0.1)	) (0.1)	) (0.3)	) 0.3
Net income attributable to Republic Services, Inc.	\$152.7	\$193.5	\$444.8	\$398.2
Basic earnings per share attributable to Republic Services, Inc. stockholders:				
Basic earnings per share	\$0.42	\$0.52	\$1.21	\$1.05
Weighted average common shares outstanding	365.4	373.2	368.1	377.9
Diluted earnings per share attributable to Republic Services, Inc. stockholders:				
Diluted earnings per share	\$0.42	\$0.52	\$1.20	\$1.05
Weighted average common and common equivalent shares outstanding	366.4	374.7	369.3	379.6
Cash dividends per common share	\$0.235	\$0.220	\$0.675	\$0.620

The accompanying notes are an integral part of these statements.

REPUBLIC SERVICES, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	Three Months Ended	Nine Months Ended
	September 30,	September 30,

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	2012	2011	2012	2011
Net income	\$152.8	\$193.6	\$445.1	\$397.9
Other comprehensive income (loss), net of tax				
Hedging related activity	9.0	(5.2)	2.2	(25.0)
Pension related activity	3.0	(0.8)	(0.5)	0.9
Other comprehensive income (loss), net of tax	12.0	(6.0)	1.7	(24.1)
Comprehensive income	164.8	187.6	446.8	373.8
Comprehensive (income) loss attributable to noncontrolling interests	(0.1)	(0.1)	(0.3)	0.3
Comprehensive income attributable to Republic Services, Inc.	\$164.7	\$187.5	\$446.5	\$374.1

The accompanying notes are an integral part of these statements.

REPUBLIC SERVICES, INC.

UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in millions)

	Republic Services, Inc. Stockholders' Equity						Accumulated Other Comprehensive (Loss) Income Net of Tax	Noncontrolling Interests
	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock			
	Shares	Amount			Shares	Amount		
Balance as of December 31, 2011	402.1	\$4.0	\$6,495.6	\$2,164.7	(32.2)	\$(961.5)	\$ (21.5)	\$ 2.1
Net income	—	—	—	444.8	—	—	—	0.3
Other comprehensive income	—	—	—	—	—	—	1.7	—
Cash dividends declared	—	—	—	(247.6)	—	—	—	—
Issuances of common stock	2.3	—	50.9	—	—	—	—	—
Stock-based compensation	—	—	16.8	(0.6)	—	—	—	—
Purchase of common stock for treasury	—	—	—	—	(7.6)	(208.1)	—	—
Balance as of September 30, 2012	404.4	\$4.0	\$6,563.3	\$2,361.3	(39.8)	\$(1,169.6)	\$ (19.8)	\$ 2.4

The accompanying notes are an integral part of these statements.

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REPUBLIC SERVICES, INC.
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in millions)

	Nine Months Ended September	
	30,	2011
	2012	2011
Cash provided by operating activities:		
Net income	\$445.1	\$397.9
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization of property and equipment	387.9	384.3
Landfill depletion and amortization	191.3	188.0
Amortization of intangible and other assets	52.9	57.1
Accretion	59.1	58.6
Non-cash interest expense - debt	10.5	20.9
Non-cash interest expense - other	35.7	37.2
Stock-based compensation	17.2	16.4
Deferred tax benefit	(36.0)	(18.9)
Provision for doubtful accounts, net of adjustments	20.8	10.9
Excess income tax benefit from stock option exercises	(1.6)	(2.4)
Asset impairments	0.3	45.9
Loss on extinguishment of debt	112.6	207.3
Gain on disposition of assets, net	(13.6)	(34.8)
Withdrawal liability - Central States	30.7	—
Other non-cash items	—	(6.7)
Change in assets and liabilities, net of effects from business acquisitions and divestitures:		
Accounts receivable	(47.3)	(80.7)
Prepaid expenses and other assets	(19.2)	24.5
Accounts payable	(37.2)	6.3
Restructuring and synergy related expenditures	(68.1)	(2.9)
Capping, closure and post-closure expenditures	(54.0)	(73.3)
Remediation expenditures	(49.5)	(26.7)
Other liabilities	19.1	77.9
Cash provided by operating activities	1,056.7	1,286.8
Cash used in investing activities:		
Purchases of property and equipment	(707.4)	(696.1)
Proceeds from sales of property and equipment	24.5	23.4
Cash used in business acquisitions and development projects, net of cash acquired	(73.1)	(40.8)
Cash proceeds from divestitures, net of cash divested	9.6	14.2
Change in restricted cash and marketable securities	54.5	12.3
Other	(0.3)	(2.2)
Cash used in investing activities	(692.2)	(689.2)
Cash used in financing activities:		
Proceeds from notes payable and long-term debt	2,038.2	1,137.5
Proceeds from issuance of senior notes, net of discount	847.6	1,844.9
Payments of notes payable and long-term debt	(2,799.3)	(2,827.6)
Premiums paid on extinguishment of debt	(25.8)	(89.6)
Fees paid to issue and retire senior notes and certain hedging relationships	(16.9)	(58.8)

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Issuances of common stock	49.3	35.6	
Excess income tax benefit from stock option exercises	1.6	2.4	
Purchases of common stock for treasury	(208.1	) (429.9)
Cash dividends paid	(243.4	) (227.8)
Cash used in financing activities	(356.8	) (613.3)
Increase (decrease) in cash and cash equivalents	7.7	(15.7)
Cash and cash equivalents at beginning of period	66.3	88.3	
Cash and cash equivalents at end of period	\$74.0	\$72.6	

The accompanying notes are an integral part of these statements.

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REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Republic Services, Inc. (a Delaware corporation) and its subsidiaries (also referred to collectively as Republic, we, us, our, or the company) is the second largest provider of non-hazardous solid waste collection, transfer, recycling and disposal services in the United States, as measured by revenue. We manage and evaluate our operations through four geographic regions — Eastern, Midwestern, Southern, and Western, which we have identified as our reportable segments.

The accompanying unaudited consolidated financial statements include the accounts of Republic and its wholly owned and majority owned subsidiaries in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). We account for investments in entities in which we do not have a controlling financial interest under either the equity method or cost method of accounting, as appropriate. All material intercompany accounts and transactions have been eliminated in consolidation.

We have prepared these unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information related to our organization, significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP has been condensed or omitted. In the opinion of management, these financial statements include all adjustments that, unless otherwise disclosed, are of a normal recurring nature and necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of the results that can be expected for a full year. You should read these interim financial statements in conjunction with our audited consolidated financial statements and notes thereto appearing in our Annual Report on Form 10-K for the year ended December 31, 2011.

For comparative purposes, certain prior year amounts have been reclassified to conform to the current year presentation. All dollar amounts in the tabular presentations are in millions, except per share amounts and unless otherwise noted.

Management's Estimates and Assumptions

In preparing our financial statements, we make numerous estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with a high degree of precision from data available or simply cannot be readily calculated based on generally accepted methodologies. In preparing our financial statements, the more critical and subjective areas that deal with the greatest amount of uncertainty relate to our accounting for our long-lived assets, including recoverability, landfill development costs, and final capping, closure and post-closure costs; our valuation allowances for accounts receivable and deferred tax assets; our liabilities for potential litigation, claims and assessments; our liabilities for environmental remediation, employee benefit plans, deferred taxes and uncertain tax positions; our self-insurance reserves; and our estimates of the fair values of assets acquired and liabilities assumed in any acquisition. Each of these items is discussed in more detail in our description of our significant accounting policies in Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011. Our actual results may differ significantly from our estimates.

2. BUSINESS ACQUISITIONS

We acquired various solid waste businesses during the nine months ended September 30, 2012 and 2011. The purchase price paid for these acquisitions during those periods and the preliminary allocation of the purchase price as of September 30 are as follows:

	2012	2011
Purchase price:		

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Cash used in acquisitions, net of cash acquired	\$73.1	\$40.8
Fair value of operations surrendered	—	47.8
Holdbacks	0.2	0.8
Total	73.3	89.4
Allocated as follows:		
Working capital	2.4	7.0
Property and equipment	22.9	43.9
Other liabilities, net	(2.9	) (8.5
Value of assets acquired and liabilities assumed	22.4	42.4
Excess purchase price to be allocated	\$50.9	\$47.0
Excess purchase price allocated as follows:		
Other intangible assets	\$13.7	\$32.0
Goodwill	37.2	15.0
Total allocated	\$50.9	\$47.0

Substantially all of the goodwill and intangible assets recorded for these acquisitions are deductible for tax purposes.

3. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

A summary of the activity and balances in goodwill accounts by reporting segment is as follows:

	Balance at December 31, 2011	Acquisitions	Divestitures	Adjustments to Acquisitions	Balance at September 30, 2012
Eastern	\$2,798.0	\$15.0	\$(3.9	) \$(0.5	) \$2,808.6
Midwestern	2,135.5	0.7	—	(0.8	) 2,135.4
Southern	2,705.0	—	—	(0.4	) 2,704.6
Western	3,008.5	21.5	—	(0.4	) 3,029.6
Total	\$10,647.0	\$37.2	\$(3.9	) \$(2.1	) \$10,678.2
	Balance at December 31, 2010	Acquisitions	Divestitures	Adjustments to Acquisitions	Balance at September 30, 2011
Eastern	\$2,791.9	\$7.0	\$(0.7	) \$(0.2	) \$2,798.0
Midwestern	2,129.6	4.8	—	0.7	2,135.1
Southern	2,721.8	2.8	(19.5	) (0.1	) 2,705.0
Western	3,012.0	0.4	(3.6	) (0.2	) 3,008.6
Total	\$10,655.3	\$15.0	\$(23.8	) \$0.2	\$10,646.7

Other Intangible Assets, Net

Other intangible assets, net, include values assigned to customer relationships, franchise agreements, other municipal agreements, non-compete agreements and trade names, and are amortized over periods ranging from 1 to 24 years. A summary of the activity and balances by intangible asset type is as follows:

	Gross Intangible Assets				Balance at September 30, 2012	Accumulated Amortization		Net Intangibles at September 30, 2012	
	Balance at December 31, 2011	Acquisitions	Adjustments so Acquisitions	Divestitures		Balance at September 30, 2012	Additions Charged Expense		
Customer relationships,	\$566.2	\$10.5	\$—	\$(0.1) \$576.6	\$(194.4)	\$(43.8) \$(238.2) \$338.4

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franchise and other municipal agreements									
Trade names	30.0	—	—	—	30.0	(18.5)	(4.5)	(23.0)	7.0
Non-compete agreements	16.9	2.5	—	—	19.4	(9.3)	(2.1)	(11.4)	8.0
Other intangible assets	62.9	0.7	(0.1)	—	63.5	(44.2)	(0.8)	(45.0)	18.5
Total	\$676.0	\$ 13.7	\$ (0.1)	\$ (0.1)	\$ 689.5	\$ (266.4)	\$ (51.2)	\$ (317.6)	\$ 371.9

	Gross Intangible Assets				Accumulated Amortization			Net	
	Balance at December 31, 2010	Acquisitions	Adjustments so Acquisitions	Divestitures	Balance at September 30, 2011	Balance at December 31, 2010	Additions Charged to Expense	Balance at September 30, 2011	Intangibles at September 30, 2011
Customer relationships, franchise and other municipal agreements									
Trade names	\$537.1	\$ 28.3	\$ —	\$ —	\$ 565.4	\$(130.7)	\$(47.4)	\$(178.1)	\$ 387.3
Non-compete agreements	30.0	—	—	—	30.0	(12.5)	(4.5)	(17.0)	13.0
Other intangibles assets	12.9	3.7	—	—	16.6	(7.2)	(1.5)	(8.7)	7.9
Total	62.9	—	—	—	62.9	(41.2)	(2.3)	(43.5)	19.4
Total	\$642.9	\$ 32.0	\$ —	\$ —	\$ 674.9	\$(191.6)	\$(55.7)	\$(247.3)	\$ 427.6

4. OTHER ASSETS

Prepaid Expenses and Other Current Assets

A summary of prepaid expenses and other current assets as of September 30, 2012 and December 31, 2011 is as follows:

	2012	2011
Inventories	\$35.5	\$35.2
Prepaid expenses	63.3	53.4
Other non-trade receivables	39.8	54.5
Income tax receivable	65.5	68.4
Commodity and fuel hedge asset	6.4	3.0
Other current assets	7.4	1.4
Total	\$217.9	\$215.9

Other Assets

A summary of other assets as of September 30, 2012 and December 31, 2011 is as follows:

	2012	2011
Deferred financing costs	\$60.1	\$54.6
Deferred compensation plan	49.6	34.5
Notes and other receivables	35.5	31.6
Reinsurance receivable	63.2	58.0

Other	69.7	68.6
Total	\$278.1	\$247.3

5. OTHER LIABILITIES

Other Accrued Liabilities

A summary of other accrued liabilities as of September 30, 2012 and December 31, 2011 is as follows:

	2012	2011
Accrued payroll and benefits	\$136.8	\$168.9
Accrued fees and taxes	122.4	115.3
Self-insurance reserves, current portion	137.6	114.4
Accrued dividends	85.7	81.4
Synergy incentive plan	—	68.1
Current tax liabilities	0.8	29.4
Accrued professional fees and legal settlement reserves	30.8	80.3
Other	82.0	94.7
Total	\$596.1	\$752.5

Other accrued liabilities include the fair value of fuel and commodity hedges of \$1.9 million and \$5.4 million as of September 30, 2012 and December 31, 2011, respectively.

Other Long-Term Liabilities

A summary of other long-term liabilities as of September 30, 2012 and December 31, 2011 is as follows:

	2012	2011
Deferred compensation liability	\$49.8	\$31.4
Pension and other postretirement liabilities	40.4	46.8
Legal settlement reserves	42.9	59.3
Ceded insurance reserves	63.2	58.0
Withdrawal liability - Central States	30.7	—
Other	33.5	26.6
Total	\$260.5	\$222.1

Self-Insurance Reserves

In general, our self-insurance reserves are recorded on an undiscounted basis. However, the self-insurance liabilities we acquired in the acquisition of Allied Waste Industries, Inc. (Allied) have been recorded at our estimate of fair value, and, therefore, have been discounted to present value using a rate of 9.75%. Discounted reserves are accreted to non-cash interest expense through the period they are paid.

Our liabilities for unpaid and incurred but not reported claims at September 30, 2012 (which includes claims for workers' compensation, general liability, vehicle liability and employee health care benefits) were \$425.7 million under our current risk management program and are included in other accrued liabilities and self-insurance reserves in our consolidated balance sheets. While the ultimate amount of claims incurred depends on future developments, we believe recorded reserves are adequate to cover the future payment of claims. However, it is possible that recorded reserves may not be adequate to cover the future payment of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments are recorded currently in earnings in the periods in which such adjustments are known.

6. LANDFILL AND ENVIRONMENTAL COSTS

As of September 30, 2012, we owned or operated 191 active solid waste landfills with total available disposal capacity of approximately 4.9 billion in-place cubic yards. Additionally, we currently have post-closure responsibility for 130 closed landfills.

Accrued Landfill and Environmental Costs

A summary of landfill and environmental liabilities as of September 30, 2012 and December 31, 2011 is as follows:

	2012	2011
Final capping, closure and post-closure liabilities	\$1,058.7	\$1,037.0
Remediation	546.3	543.7
	1,605.0	1,580.7
Less: Current portion	(185.4	) (184.2
Long-term portion	\$1,419.6	\$1,396.5

Final Capping, Closure and Post-Closure Costs

The following table summarizes the activity in our asset retirement obligation liabilities, which include liabilities for final capping, closure and post-closure, for the nine months ended September 30:

	2012	2011
Asset retirement obligation liabilities, beginning of year	\$1,037.0	\$1,046.5
Non-cash additions	25.8	25.5
Acquisitions/divestitures and other adjustments	(1.4	) 15.1
Asset retirement obligation adjustments	(7.8	) (23.6
Payments	(54.0	) (73.3
Accretion expense	59.1	58.6
Asset retirement obligation liabilities, end of period	1,058.7	1,048.8
Less: Current portion	(98.3	) (104.1
Long-term portion	\$960.4	\$944.7

Annually, in the fourth quarter, we review and update as necessary, our estimates of asset retirement obligations. However, if there are significant changes in the facts and circumstances related to a site during the year, we will update our assumptions prospectively in the period that all the relevant facts and circumstances are known.

The fair value of assets that are legally restricted for purposes of collateralizing certain of our final capping, closure and post-closure obligations was \$54.2 million and \$54.9 million as of September 30, 2012 and December 31, 2011, respectively. Such assets are included in restricted cash and marketable securities in our consolidated balance sheets.

Landfill Operating Expenses

In the normal course of business, we incur various operating costs associated with environmental compliance. These costs include, among other things, leachate treatment and disposal, methane gas and groundwater monitoring and systems maintenance, interim cap maintenance, costs associated with the application of daily cover materials, and the legal and administrative costs of ongoing environmental compliance. These costs are expensed as costs of operations in the periods in which they are incurred.

Environmental Remediation Liabilities

We accrue for remediation costs when they become probable and can be reasonably estimated. We believe that the amounts accrued for remediation costs are adequate. When there is a range of reasonable estimates of the costs associated with remediation of a site, we use the amount within the range that constitutes our best estimate. If no amount within the range appears to be a better estimate than any other, we use the amount that is at the low end of the range. It is reasonably possible that we will need to adjust the liabilities recorded for remediation to reflect the effects of new or additional information, to the extent such information impacts the costs, timing or duration of the required actions. If we used the reasonably possible high ends of our ranges, our aggregate potential remediation liability at September 30, 2012 would be approximately \$198 million higher than the amounts recorded. Future changes in our estimates of the cost, timing or duration of the required actions could have a material adverse effect on our consolidated financial position, results of operations and cash flows.

The following table summarizes the activity in our environmental remediation liabilities for the nine months ended September 30:

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	2012	2011
Remediation liabilities, beginning of year	\$543.7	\$552.1
Remediation adjustments	28.1	4.7
Payments	(49.5	) (26.7
Accretion expense (non-cash interest expense)	24.0	24.8
Remediation liabilities, end of period	546.3	554.9
Less: Current portion	(87.1	) (86.1
Long-term portion	\$459.2	\$468.8

The following is a discussion of certain of our significant remediation matters:

Countywide Landfill. In September 2009, Republic Services of Ohio II, LLC entered into Final Findings and Orders with the Ohio Environmental Protection Agency that require us to implement a comprehensive operation and maintenance program to manage the remediation area at the Countywide Recycling and Disposal Facility (Countywide). The remediation liability for Countywide recorded as of September 30, 2012 is \$53.3 million, of which \$6.0 million is expected to be paid during the next twelve months. We believe the reasonably possible range of loss for remediation costs is \$51 million to \$72 million.

Congress Landfill. In August 2010, Congress Development Company agreed with the State of Illinois to have a Final Consent Order (Final Order) entered by the Circuit Court of Illinois, Cook County. Pursuant to the Final Order, we have agreed to continue to implement certain remedial activities at the Congress Landfill. The remediation liability for the Congress Landfill recorded as of September 30, 2012 is \$83.6 million, of which \$7.8 million is expected to be paid during the next twelve months. We believe the reasonably possible range of loss for remediation costs is \$53 million to \$153 million.

7. DEBT

Our notes payable, capital leases and long-term debt as of September 30, 2012 and December 31, 2011 are listed in the following table in millions, and are presented net of unamortized discounts and the unamortized portion of adjustments to fair value recorded in purchase accounting. Original issue discounts and adjustments to fair value recorded in purchase accounting are amortized to interest expense over the term of the applicable instrument using the effective interest method.

Maturity	Interest Rate	September 30, 2012			December 31, 2011		
		Principal	Discount	Carry Value	Principal	Discount	Carry Value
Credit facilities:							
Uncommitted revolver	Variable	\$72.2	\$—	\$72.2	\$—	\$—	\$—
September 2013	Variable	—	—	—	17.2	—	17.2
April 2016	Variable	—	—	—	17.2	—	17.2
May 2017	Variable	—	—	—	—	—	—
Senior notes:							
June 2017	6.875	—	—	—	750.0	(75.8	) 674.2
May 2018	3.800	700.0	(0.2	) 699.8	700.0	(0.2	) 699.8
September 2019	5.500	650.0	(3.5	) 646.5	650.0	(3.8	) 646.2
March 2020	5.000	850.0	(0.1	) 849.9	850.0	(0.1	) 849.9
November 2021	5.250	600.0	—	600.0	600.0	—	600.0
June 2022	3.550	850.0	(2.3	) 847.7	—	—	—
May 2023	4.750	550.0	(1.3	) 548.7	550.0	(1.4	) 548.6
March 2035	6.086	275.7	(25.1	) 250.6	275.7	(25.5	) 250.2
March 2040	6.200	650.0	(0.5) 649.5	650.0	(0.5) 649.5
May 2041	5.700	600.0	(3.4) 596.6	600.0	(3.4) 596.6
Debentures:							

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May 2021	9.250	35.3	(1.9)	33.4	35.3	(2.0)	33.3
September 2035	7.400	165.2	(41.6)	123.6	165.2	(41.9)	123.3
Tax-exempt:							
2012 - 2035	0.190 - 5.625	1,097.9	(0.5)	1,097.4	1,142.2	(15.8)	1,126.4
Other:							
2012 - 2042	5.000 - 11.900	88.5	—	88.5	89.4	—	89.4
Total Debt		\$7,184.8	\$(80.4)	7,104.4	\$7,092.2	\$(170.4)	6,921.8
Less: Current portion				(44.4)			(34.8)
Long-term portion				\$7,060.0			\$6,887.0

Loss on Extinguishment of Debt

The following table summarizes the refinancing transactions that resulted in cash paid for premiums and professional fees to repurchase outstanding debt as well as the non-cash write-off of unamortized debt discounts and deferred issuance costs during the three and nine months ended September 30, 2012 and 2011:

	Quarter	Principal Repaid	Cash Paid in Loss on Extinguishment of Debt	Non-cash Loss on Extinguishment of Debt	Total Loss on Extinguishment of Debt
2012:					
Amendments to Credit Facilities	Second	\$—	\$—	\$ 1.5	\$ 1.5
\$750.0 million 6.875% senior notes due June 2017	Second	750.0	25.8	71.0	96.8
Tax-exempt financings	Second	71.9	—	11.9	11.9
Ineffective portion of interest rate lock settlements	Second	—	0.1	—	0.1
Tax-exempt financings	Third	22.1	—	2.3	2.3
Loss on extinguishment of debt for the nine months ended September 30, 2012			\$ 25.9	\$ 86.7	\$ 112.6
2011:					
\$99.5 million 9.250% debentures due May 2021	First	\$5.0	\$ 1.5	\$ 0.3	\$ 1.8
Amendments to Credit Facilities	Second	—	—	1.7	1.7
\$600.0 million 7.125% senior notes due May 2016	Second	600.0	21.4	61.3	82.7
\$99.5 million 9.250% debentures due May 2021	Second	59.2	22.7	3.5	26.2
\$360.0 million 7.400% debentures due September 2035	Second	182.7	41.9	46.7	88.6
Ineffective portion of interest rate lock settlements	Second	—	0.3	—	0.3
\$360.0 million 7.400% debentures due September 2035	Third	12.0	2.8	3.2	6.0
Loss on extinguishment of debt for the nine months ended September 30, 2011			\$ 90.6	\$ 116.7	\$ 207.3

Credit Facilities

In May 2012, we amended and restated our \$1.25 billion unsecured revolving credit facility due September 2013 (the Amended and Restated Credit Facility) to extend the maturity to May 2017. The Amended and Restated Credit Facility includes a feature that allows us to increase availability, at our option, by an aggregate amount up to \$500 million through increased commitments from existing lenders or the addition of new lenders. At our option, borrowings under the Amended and Restated Credit Facility bear interest at a Base Rate, or a Eurodollar Rate, plus an applicable margin based on our Debt Ratings (all as defined in the agreements).

Contemporaneous with the execution of the Amended and Restated Credit Facility, we entered into Amendment No. 1 to our existing \$1.25 billion unsecured credit facility (the Existing Credit Facility and, together with the Amended and Restated Credit Facility, the Credit Facilities) to reduce the commitments under the Existing Credit Facility to \$1.0 billion and conform certain terms of the Existing Credit Facility to those of the Amended and Restated Credit Facility. Amendment No. 1 does not extend the maturity date under the Existing Credit Facility, which matures in April 2016.

In connection with entering into the Amended and Restated Credit Facility and Amendment No. 1 to the Existing Facility, the guarantees by our subsidiary guarantors with respect to the Amended and Restated Credit Facility and the Existing Credit Facility were released. As a result, the guarantees by our subsidiary guarantors with respect to all of Republic's outstanding senior notes were automatically released. In addition, the guarantees by all of our subsidiary guarantors (other than Allied Waste Industries, Inc. and Allied Waste North America, Inc.) with respect to the 9.250% debentures and the 7.400% debentures issued by our subsidiary Browning-Ferris Industries, LLC (successor to Browning-Ferris Industries, Inc.) also were automatically released.

A covenant in our Credit Facilities makes it a technical event of default if an ERISA Event (as defined in the agreements) occurs that has resulted or is reasonably expected to result in a liability to us greater than \$25 million (the ERISA Event Limit). During the three months ended September 30, 2012, we recorded a liability of approximately \$31 million in connection with our partial withdrawal from the Central States, Southeast and Southwest Areas Pension Fund, creating a temporary event of default. We promptly reported this to the lenders, and they waived the default on October 15, 2012. On October 29, 2012, we amended our Credit Facilities to (1) except from the ERISA Event of default provision our future incurrence of withdrawal liabilities under listed plans in an amount not to exceed \$250 million and (2) exclude such liabilities from the calculation of EBITDA (as defined in the agreements) used in our covenant calculations. Refer to Note 13, Commitments and Contingencies, for our discussion of multiemployer pension plans. With the exception of the ERISA Event issue that has been waived, we were in compliance with all other covenants under our Credit Facilities at September 30, 2012.

As of December 31, 2011, the interest rate for our borrowings under our Credit Facilities was 3.25%. Our Credit Facilities also are subject to facility fees based on applicable rates defined in the agreements and the aggregate commitments, regardless of usage. Availability under our Credit Facilities can be used for working capital, capital expenditures, letters of credit and other general corporate purposes. The agreements governing our Credit Facilities require us to comply with certain financial and other covenants. We may pay dividends and repurchase common stock if we are in compliance with these covenants. As of December 31, 2011, we had \$34.4 million of Eurodollar Rate borrowings. As of September 30, 2012, we had no borrowings under our Credit Facilities. We had \$918.9 million and \$950.2 million of letters of credit using availability under our Credit Facilities, leaving \$1,331.1 million and \$1,515.4 million of availability under our Credit Facilities, at September 30, 2012 and December 31, 2011, respectively.

In March 2012, we entered into a new \$75.0 million uncommitted, unsecured credit facility agreement (the Uncommitted Credit Facility) bearing interest at LIBOR, plus an applicable margin. In July 2012, we amended the Uncommitted Credit Facility to increase the size to \$125.0 million, with all other terms remaining unchanged. As of September 30, 2012, the interest rate for our borrowings under our Uncommitted Credit Facility was 1.20%. Our Uncommitted Credit Facility also is subject to facility fees defined in the agreement, regardless of usage. We can use borrowings under the Uncommitted Credit Facility for working capital and other general corporate purposes. The

agreements governing our Uncommitted Credit Facility require us to comply with certain covenants. The Uncommitted Credit Facility may be terminated by either party at any time.

As of September 30, 2012, we had \$72.2 million of LIBOR borrowings.

Senior Notes and Debentures

During the three months ended June 30, 2012, we issued \$850.0 million of 3.550% senior notes due 2022 (the 3.550% Notes). The 3.550% Notes are our unsubordinated and unsecured obligations. We used the net proceeds from the 3.550% Notes to fund the redemption of our subsidiary's, Allied Waste North America, Inc., \$750.0 million 6.875% senior notes maturing in 2017 and for general corporate purposes.

Tax-Exempt Financings

As of September 30, 2012, approximately 80% of our tax-exempt financings are remarketed quarterly, weekly or daily by remarketing agents to effectively maintain a variable yield. Certain of these variable rate tax-exempt financings are credit enhanced with letters of credit having terms in excess of one year issued by banks with investment grade credit ratings. The holders of the bonds can put them back to the remarketing agents at the end of each interest period. To date, the remarketing agents have been able to remarket our variable rate unsecured tax-exempt bonds. These bonds have been classified as long term because of our ability and intent to refinance them using availability under our revolving Credit Facilities, if necessary.

Other Debt

Other debt includes capital lease liabilities of \$88.0 million and \$88.3 million as of September 30, 2012 and December 31, 2011, respectively, with maturities ranging from 2012 to 2042.

Fair Value of Debt

The fair value of our fixed rate senior notes was \$6.8 billion and \$6.3 billion at September 30, 2012 and December 31, 2011, respectively. The carrying value of our fixed rate senior notes was \$5.8 billion and \$5.7 billion at September 30, 2012 and December 31, 2011, respectively. The carrying amounts of our remaining notes payable and tax-exempt financings approximate fair value because interest rates are variable and, accordingly, approximate current market rates for instruments with similar risk and maturities. The fair value of our debt, using significant observable market inputs (Level 2), is determined as of the balance sheet date and is subject to change.

Guarantees

We have guaranteed some of the tax-exempt financings of our subsidiaries. If a subsidiary fails to meet its obligations associated with tax-exempt bonds as they come due, we will be required to perform under the related guarantee agreement. No additional liability has been recorded for these guarantees because the underlying obligations are reflected in our consolidated balance sheets.

Interest Rate Swap and Lock Agreements

Our ability to obtain financing through the capital markets is a key component of our financial strategy. Historically, we have managed risk associated with executing this strategy, particularly as it relates to fluctuations in interest rates, by using a combination of fixed and floating rate debt. We also entered into interest rate swap agreements to manage risk associated with fluctuations in interest rates. The swap agreements, with a total notional value of \$210.0 million, matured in August 2011. This maturity was identical to our unsecured notes that also matured in August 2011. Under the swap agreements, we paid interest at floating rates based on changes in LIBOR and received interest at a fixed rate of 6.75%. We reduced interest expense by \$1.0 million and \$5.4 million due to periodic settlements of active swap agreements during the three and nine months ended September 30, 2011.

From time to time, we enter into treasury and interest rate locks to manage exposure to fluctuations in interest rates in anticipation of future debt issuances. During the three months ended June 30, 2012, we entered into a number of interest rate lock agreements having an aggregate notional amount of \$200.0 million with fixed interest rates approximating 2.20% to manage exposure to fluctuations in interest rates in anticipation of the planned issuance of the 3.550% Notes. Upon issuance of the 3.550% Notes in the second quarter of 2012, we terminated the interest rate locks and paid \$4.8 million to the counterparties. The effective portion of the interest rate locks, recorded as a component of accumulated other comprehensive income, was \$4.7 million, or \$2.7 million net of tax. The effective portion of the interest rate locks will be amortized as an increase to interest expense over the life of the issued debt. This transaction was accounted for as a cash flow hedge. As of September 30, 2012, no interest rate lock cash flow hedges were

outstanding.

As of September 30, 2012 and December 31, 2011, the effective portion of the interest rate locks, recorded as a component of accumulated other comprehensive income, was \$24.9 million and \$23.2 million, respectively. The effective portion of the interest rate locks will be amortized as an adjustment to interest expense over the life of the issued debt using the effective interest rate method. We expect to amortize \$2.5 million over the next twelve months as a yield adjustment of our senior notes.

The effective portion of the interest rate locks amortized as a net increase to interest expense during the three months ended September 30, 2012 and 2011 was \$0.6 million and \$0.5 million, respectively, and for the nine months ended September 30, 2012 and 2011 was \$1.6 million and \$0.9 million, respectively.

8. INCOME TAXES

Our effective tax rate, exclusive of noncontrolling interests, for the three and nine months ended September 30, 2012 was 31.5% and 28.8%, respectively. The effective tax rate for the three months ended September 30, 2012 was favorably affected by the realization of additional federal and state credits on the Company's 2011 tax returns, lower state rates due to changes in estimates and adjustments to deferred taxes related to disposition of assets. For the nine months ended September 30, 2012, our effective tax rate was, in addition to the matters already discussed, favorably impacted by the second quarter resolution of Allied's 2004 - 2008 tax years at the IRS appeals division, legal entity restructuring completed during the second quarter and a change in estimated non-deductible penalties relating to certain legal settlements. We record interim income tax expense based upon our anticipated full year effective income tax rate.

Income taxes paid, net of refunds received, were \$169.0 million and \$131.8 million for the nine months ended September 30, 2012 and 2011, respectively.

We are subject to income tax in the United States and Puerto Rico, as well as income tax in multiple state jurisdictions. We also have acquired Allied's open tax periods as a result of the 2008 merger. Consequently, we are currently under examination or administrative review by state and local taxing authorities for various tax years. In addition, we are under federal income tax examination for calendar years 2009 and 2010.

We recognize interest and penalties as incurred within the provision for income taxes in the consolidated statements of income. As of September 30, 2012, we have accrued a liability for penalties of \$0.7 million and a liability for interest (including interest on penalties) of \$20.2 million related to our uncertain tax positions.

We believe that the liabilities for uncertain tax positions recorded are adequate. However, a significant assessment against us in excess of the liabilities recorded could have a material adverse effect on our consolidated financial position, results of operations or cash flows.

During the next twelve months, it is reasonably possible that the amount of unrecognized tax benefits will increase or decrease. Gross unrecognized benefits that we expect to settle in the next twelve months are in the range of \$5 million - \$15 million.

Exchange of Partnership Interests

In 2002, Allied exchanged minority partnership interests in four waste-to-energy facilities for majority partnership interests in equipment purchasing businesses, which are now wholly owned subsidiaries. In 2008, the IRS issued a formal disallowance to Allied contending that the exchange was instead a sale on which a corresponding gain should have been recognized.

In December 2011, we reached an agreement with the IRS appeals division to settle this issue and all other matters related to Allied's 2000 - 2003 tax years. This issue also impacted Allied's 2004 - 2008 tax years, which were settled with the IRS appeals division during the three months ended June 30, 2012.

Methane Gas

As part of its examination of Allied's 2000 - 2008 federal income tax returns, the IRS reviewed Allied's treatment of costs associated with its landfill operations. As a result of this review, the IRS had proposed that certain landfill costs be allocated to the collection and control of methane gas that is naturally produced within the landfill. The IRS' position was that methane gas produced by a landfill is a joint product resulting from operation of the landfill and, therefore, these costs should not be expensed until the methane gas was sold or otherwise disposed.

In December 2011, we resolved all tax matters related to Allied's 2000 - 2003 tax years. Our treatment of costs was sustained and, therefore, no adjustment was made to those tax years. During the three months ended June 30, 2012,

Allied's 2004 - 2008 tax years were resolved and, again, our position was sustained. This matter is now settled for all past and present tax years.

9. STOCK BASED COMPENSATION

Available Shares

In March 2011, our board of directors approved the Amended and Restated Republic Services, Inc. 2007 Stock Incentive Plan (the Amended and Restated Plan). The Amended and Restated Plan was ratified by the company's stockholders in May 2011. We currently have 19.4 million shares of common stock reserved for future grants under our Amended and Restated Plan.

Stock Options

The following table summarizes the stock option activity for the nine months ended September 30, 2012:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2011	14.3	\$26.13		
Granted	3.0	29.67		
Exercised	(2.1	) 22.39		\$14.9
Forfeited or expired	(0.4	) 29.06		
Outstanding at September 30, 2012	14.8	\$27.31	4.2	\$21.4
Exercisable at September 30, 2012	7.9	\$26.15	3.2	\$17.8

During the nine months ended September 30, 2012 and 2011, compensation expense for stock options was \$10.9 million and \$10.2 million, respectively.

As of September 30, 2012, total unrecognized compensation expense related to outstanding stock options was \$12.2 million, which will be recognized over a weighted average period of 1.8 years.

Other Stock Awards

The following table summarizes the restricted stock unit and restricted stock activity for the nine months ended September 30, 2012:

	Number of Restricted Stock Units and Shares of Restricted Stock (in thousands)	Weighted Average Grant Date Fair Value per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Other stock awards at December 31, 2011	770.0	\$27.17		
Granted	291.6	27.78		
Vested and issued	(142.7	) 26.84		
Forfeited	(1.3	) 29.79		
Other stock awards at September 30, 2012	917.6	\$27.41	0.6	\$25.2
Vested and unissued at September 30, 2012	527.4	\$26.94		

During the nine months ended September 30, 2012, we awarded our non-employee directors 75,000 restricted stock units, which vested immediately. During the nine months ended September 30, 2012, we awarded 173,914 restricted stock units to executives that vest in four equal annual installments beginning on the anniversary date of the original grant. In addition, 19,866 restricted stock units were earned as dividend equivalents. The restricted stock units do not carry any voting or dividend rights, except the right to receive additional restricted stock units in lieu of dividends. Also, we granted 22,805 shares of restricted stock to an executive that will vest in February 2013.

The fair value of restricted stock units and restricted stock is based on the closing market price on the date of the grant. The compensation expense related to restricted stock units and restricted stock is amortized ratably over the vesting period.

During the nine months ended September 30, 2012 and 2011, compensation expense related to restricted stock units and restricted stock totaled \$6.3 million and \$6.2 million, respectively.

10. STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

In August 2011, our board of directors approved a share repurchase program pursuant to which we may repurchase up to \$750.0 million of our outstanding shares of common stock through December 31, 2013. This authorization is in addition to the \$400.0 million repurchase program authorized in November 2010. From November 2010 to September 30, 2012, we repurchased 24.7 million shares of our stock for \$708.3 million at a weighted average cost per share of \$28.65. During the three months ended September 30, 2012, we repurchased 1.3 million shares of our stock for \$35.7 million at a weighted average cost per share of \$28.32.

We initiated a quarterly cash dividend in July 2003 and have increased it from time to time thereafter. In July 2012, the board of directors approved an increase in the quarterly dividend to \$0.235 per share. Cash dividends declared were \$247.6 million and \$232.7 million for the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012, we recorded a quarterly dividend payable of \$85.7 million to stockholders of record as of October 1, 2012.

Basic earnings per share is computed by dividing net income attributable to Republic Services, Inc. by the weighted average number of common shares (including restricted stock and vested but unissued restricted stock units) outstanding during the period. Diluted earnings per share is based on the combined weighted average number of common shares and common share equivalents outstanding, which include, where appropriate, the assumed exercise of employee stock options, unvested restricted stock and unvested restricted stock units. In computing diluted earnings per share, we use the treasury stock method.

Earnings per share for the three and nine months ended September 30, 2012 and 2011 are calculated as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Basic earnings per share:				
Net income attributable to Republic Services, Inc.	\$ 152,700	\$ 193,500	\$ 444,800	\$ 398,200
Weighted average common shares outstanding	365,404	373,182	368,096	377,850
Basic earnings per share	\$0.42	\$0.52	\$1.21	\$1.05
Diluted earnings per share:				
Net income attributable to Republic Services, Inc.	\$ 152,700	\$ 193,500	\$ 444,800	\$ 398,200
Weighted average common shares outstanding	365,404	373,182	368,096	377,850
Effect of dilutive securities:				
Options to purchase common stock	880	1,351	1,061	1,628
Unvested restricted stock awards	147	162	108	136
Weighted average common and common equivalent shares outstanding	366,431	374,695	369,265	379,614
Diluted earnings per share	\$0.42	\$0.52	\$1.20	\$1.05
Antidilutive securities not included in the diluted earnings per share calculations:				
Options to purchase common stock	8,170	5,215	7,967	3,462

11. FINANCIAL INSTRUMENTS

Fuel Hedges

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We have entered into multiple swap agreements designated as cash flow hedges to mitigate some of our exposure related to changes in diesel fuel prices. The swaps qualified for, and were designated as, effective hedges of changes in the prices of forecasted diesel fuel purchases (fuel hedges).

The following table summarizes our outstanding fuel hedges as of September 30, 2012:

Inception Date	Commencement Date	Termination Date	Notional Amount (in Gallons per Month)	Contract Price per Gallon
November 5, 2007	January 5, 2009	December 30, 2013	60,000	\$3.28
March 17, 2008	January 5, 2009	December 31, 2012	50,000	3.72
March 17, 2008	January 5, 2009	December 31, 2012	50,000	3.74
July 10, 2009	January 1, 2012	December 31, 2012	100,000	3.20
August 8, 2011	July 1, 2012	December 31, 2012	500,000	3.84
August 8, 2011	January 1, 2013	December 31, 2013	500,000	3.83
August 8, 2011	January 1, 2014	December 31, 2014	500,000	3.82
August 8, 2011	July 2, 2012	December 31, 2012	500,000	3.84
August 8, 2011	January 7, 2013	December 30, 2013	500,000	3.82
August 9, 2011	July 1, 2012	December 31, 2012	250,000	3.80
August 9, 2011	January 1, 2013	December 31, 2013	250,000	3.83
August 9, 2011	January 1, 2014	December 31, 2014	250,000	3.82
August 9, 2011	January 6, 2014	December 29, 2014	500,000	3.83
September 30, 2011	January 6, 2014	December 29, 2014	250,000	3.69
September 30, 2011	January 7, 2013	December 30, 2013	250,000	3.70
October 3, 2011	January 5, 2015	December 28, 2015	250,000	3.68

If the national U.S. on-highway average price for a gallon of diesel fuel (average price) as published by the Department of Energy exceeds the contract price per gallon, we receive the difference between the average price and the contract price (multiplied by the notional gallons) from the counter-party. If the national U.S. on-highway average price for a gallon of diesel fuel is less than the contract price per gallon, we pay the difference to the counter-party. The fair values of our fuel hedges are determined using standard option valuation models with assumptions about commodity prices being based on those observed in underlying markets (Level 2 in the fair value hierarchy). The aggregated fair values of our outstanding fuel hedges at September 30, 2012 and December 31, 2011 were current assets of \$4.3 million and \$1.6 million, respectively, and current liabilities of \$4.7 million at December 31, 2011, and have been recorded in other current assets and other accrued liabilities in our consolidated balance sheets, respectively. The ineffective portions of the changes in fair values resulted in (losses) gains of less than \$0.1 million for the three and nine months ended September 30, 2012 and 2011, respectively, and have been recorded in other income (expense), net in our consolidated statements of income.

The following table summarizes the impact of our fuel hedges on our results of operations and comprehensive income for the three and nine months ended September 30, 2012 and 2011:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		Statement of Income Classification	Amount of Realized Gain	
	Three Months Ended September 30,			Three Months Ended September 30,	
	2012	2011		2012	2011
Fuel hedges	\$8.5	\$(6.1)) Cost of operations	\$0.8	\$0.3
	Nine Months Ended September 30,			Nine Months Ended September 30,	

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	2012	2011		2012	2011
Fuel hedges	\$4.3	\$(4.5) Cost of operations	\$1.6	\$0.7

Recycling Commodity Hedges

Our revenue from sales of recycling commodities is primarily from sales of old corrugated cardboard (OCC) and old newspaper (ONP). We use derivative instruments such as swaps and costless collars designated as cash flow hedges to manage our exposure to changes in prices of these commodities. We have entered into multiple agreements related to forecasted OCC and ONP sales. The agreements qualified for, and were designated as, effective hedges of changes in the prices of certain forecasted recycling commodity sales (commodity hedges).

As of September 30, 2012, we had one OCC swap outstanding for 1,500 short tons per month at a contract price of \$115.00. We entered into this swap on October 11, 2010, having a commencement date of January 1, 2011 and a termination date of December 31, 2012.

If the price per short ton of the hedging instrument (average price) as reported on the Official Board Market is less than the contract price per short ton, we receive the difference between the average price and the contract price (multiplied by the notional short tons) from the counter-party. If the price of the commodity exceeds the contract price per short ton, we pay the difference to the counter-party.

The fair values of our commodity swaps are determined using standard option valuation models with assumptions about commodity prices being based on those observed in underlying markets (Level 2 in the fair value hierarchy). We entered into costless collar agreements on forecasted sales of OCC and ONP. The agreements involve combining a purchased put option giving us the right to sell OCC and ONP at an established floor strike price with a written call option obligating us to deliver OCC and ONP at an established cap strike price. The puts and calls have the same settlement dates, are net settled in cash on such dates and have the same terms to expiration. The contemporaneous combination of options resulted in no net premium for us and represent costless collars. Under the agreements, no payments will be made or received by us, as long as the settlement price is between the floor price and cap price. However, if the settlement price is above the cap, we will be required to pay the counterparty an amount equal to the excess of the settlement price over the cap times the monthly volumes hedged. Also, if the settlement price is below the floor, the counterparty will be required to pay us the deficit of the settlement price below the floor times the monthly volumes hedged. The objective of these agreements is to reduce the variability of the cash flows of the forecasted sales of OCC and ONP between two designated strike prices.

The following costless collar hedges were outstanding as of September 30, 2012:

Inception Date	Commencement Date	Termination Date	Transaction Hedged	Notional Amount (in Short Tons per Month)	Floor Strike Price Per Short Ton	Cap Strike Price Per Short Ton
December 8, 2010	January 1, 2011	December 31, 2012	OCC	2,000	\$80.00	\$180.00
December 8, 2010	January 1, 2011	December 31, 2012	OCC	2,000	86.00	210.00
December 8, 2010	January 1, 2011	December 31, 2012	OCC	2,000	81.00	190.00
December 8, 2010	January 1, 2011	December 31, 2012	OCC	2,000	85.00	195.00
December 8, 2010	January 1, 2011	December 31, 2012	OCC	2,000	87.00	195.00
January 19, 2011	February 1, 2011	December 31, 2012	OCC	2,500	90.00	155.00

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January 19, 2011	February 1, 2011	December 31, 2012	OCC	2,500	90.00	155.00
April 15, 2011	July 1, 2011	December 31, 2012	OCC	2,000	90.00	155.00
April 15, 2011	July 1, 2011	December 31, 2012	OCC	2,000	90.00	155.00
January 11, 2012	February 1, 2012	December 31, 2012	OCC	1,000	85.00	135.00
January 11, 2012	February 1, 2012	December 31, 2012	OCC	1,000	85.00	135.00
January 11, 2012	February 1, 2012	December 31, 2012	OCC	1,000	80.00	125.00
January 31, 2012	April 1, 2012	March 31, 2013	OCC	2,000	85.00	136.00
January 31, 2012	April 1, 2012	March 31, 2013	OCC	2,000	85.00	165.00
January 31, 2012	April 1, 2012	March 31, 2013	OCC	2,000	85.00	156.00
April 26, 2011	July 1, 2011	December 31, 2012	ONP	1,000	90.00	165.00
April 26, 2011	July 1, 2011	December 31, 2012	ONP	1,000	90.00	165.00
August 1, 2011	January 1, 2012	December 31, 2012	ONP	2,000	85.00	135.00
August 1, 2011	January 1, 2012	December 31, 2012	ONP	2,000	85.00	135.00
January 31, 2012	April 1, 2012	March 31, 2013	ONP	2,000	80.00	106.00
January 31, 2012	April 1, 2012	March 31, 2013	ONP	2,000	80.00	110.00
January 31, 2012	April 1, 2012	March 31, 2013	ONP	2,000	80.00	110.00
June 7, 2012	January 1, 2013	December 31, 2013	OCC	2,000	90.00	138.00
June 7, 2012	January 1, 2013	December 31, 2013	OCC	2,000	95.00	140.00
June 7, 2012	January 1, 2013	December 31, 2013	OCC	2,000	95.00	148.00
August 21, 2012	January 1, 2013	December 31, 2013	OCC	2,500	80.00	128.00
August 21, 2012	January 1, 2013	December 31, 2013	OCC	2,500	80.00	128.00
August 21, 2012	January 1, 2013	December 31, 2013	OCC	2,500	75.00	123.00

The costless collar hedges are recorded on the balance sheet at fair value. The fair values of the costless collars are determined using standard option valuation models with assumptions about commodity prices based upon forward commodity price curves in underlying markets (Level 2 in the fair value hierarchy).

The aggregated fair values of the outstanding recycling commodity hedges at September 30, 2012 and December 31, 2011 were current assets of \$2.1 million and 1.4 million, respectively, and current liabilities of \$1.9 million and \$0.7 million, respectively, and have been recorded in other current assets and other accrued liabilities in our consolidated

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balance sheets, respectively. The ineffective portions of the changes in fair values resulted in (losses) gains of less than \$0.1 million for the three and nine months ended September 30, 2012 and 2011, respectively, and have been recorded in other income (expense), net in our consolidated statements of income.

The following table summarizes the impact of our recycling commodity hedges on our results of operations and comprehensive income for the three and nine months ended September 30, 2012 and 2011:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		Statement of Income Classification	Amount of Realized Gain (Loss)	
	Three Months Ended September 30,			Three Months Ended September 30,	
	2012	2011		2012	2011
Recycling commodity hedges	\$0.1	\$0.6	Revenue	\$1.4	\$(2.8)
	Nine Months Ended September 30,			Nine Months Ended September 30,	
	2012	2011		2012	2011
Recycling commodity hedges	\$(0.4)	\$0.2	Revenue	\$1.6	\$(6.8)

Fair Value Measurements

In measuring fair values of assets and liabilities, we use valuation techniques that maximize the use of observable inputs (Level 1) and minimize the use of unobservable inputs (Level 3). We also use market data or assumptions that we believe market participants would use in pricing an asset or liability, including assumptions about risk when appropriate.

As of September 30, 2012 and December 31, 2011, our assets and liabilities that are measured at fair value on a recurring basis include the following:

	Fair Value Measurements Using			
	Total as of September 30, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market mutual funds	\$37.7	\$37.7	\$—	\$—
Bonds	45.3	—	45.3	—
Fuel hedges - other current assets	4.3	—	4.3	—
Commodity hedges - other current assets	2.1	—	2.1	—
Total assets	\$89.4	\$37.7	\$51.7	\$—
Liabilities:				
Commodity hedges - other accrued liabilities	1.9	—	1.9	—
	Fair Value Measurements Using			
	Total as of December 31, 2011	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs (Level 3)

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		(Level 1)	(Level 2)	
Assets:				
Money market mutual funds	\$100.8	\$100.8	\$—	\$—
Bonds	34.6	—	34.6	—
Fuel hedges - other current assets	1.6	—	1.6	—
Commodity hedges - other current assets	1.4	—	1.4	—
Total assets	\$138.4	\$100.8	\$37.6	\$—
Liabilities:				
Fuel hedges - other accrued liabilities	\$4.7	\$—	\$4.7	\$—
Commodity hedges - other accrued liabilities	0.7	—		