WASTE MANAGEMENT INC
Form 10-Q
October 25, 2018

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, 2018

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 1-12154

Waste Management, Inc.

(Exact name of registrant as specified in its charter)

Delaware	73-1309529
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1001 Fannin Street

Houston, Texas 77002

(Address of principal executive offices)

(713) 512-6200

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of Common Stock, $0.01 par value, of the registrant outstanding at October 22, 2018 was 426,347,027 (excluding treasury shares of 203,935,434).

PART I.

Item 1. Financial Statements.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Millions, Except Share and Par Value Amounts)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 83	$ 22
Accounts receivable, net of allowance for doubtful accounts of $25 and $21, respectively	1,943	1,805
Other receivables	399	569
Parts and supplies	103	96
Other assets	147	132
Total current assets	2,675	2,624
Property and equipment, net of accumulated depreciation and amortization of $18,174 and $17,704, respectively	11,815	11,559
Goodwill	6,390	6,247
Other intangible assets, net	554	547
Restricted trust and escrow accounts	394	319
Investments in unconsolidated entities	419	269
Other assets	344	264
Total assets	$ 22,591	$ 21,829
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 940	$ 1,040
Accrued liabilities	1,171	980
Deferred revenues	512	503
Current portion of long-term debt	447	739
Total current liabilities	3,070	3,262
Long-term debt, less current portion	9,569	8,752
Deferred income taxes	1,245	1,248
Landfill and environmental remediation liabilities	1,832	1,770
Other liabilities	634	755
Total liabilities	16,350	15,787
Commitments and contingencies		
Equity:		
Waste Management, Inc. stockholders' equity:		
Common stock, $0.01 par value; 1,500,000,000 shares authorized; 630,282,461 shares issued	6	6
Additional paid-in capital	4,927	4,933

Retained earnings		9,464		8,588
Accumulated other comprehensive income (loss)		(16)		8
Treasury stock at cost, 203,157,357 and 196,963,558 shares, respectively		(8,142)		(7,516)
Total Waste Management, Inc. stockholders' equity		6,239		6,019
Noncontrolling interests		2		23
Total equity		6,241		6,042
Total liabilities and equity	$	22,591	$	21,829

See Notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Millions, Except per Share Amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating revenues	$ 3,822	$ 3,716	$ 11,072	$ 10,833
Costs and expenses:				
Operating	2,373	2,302	6,870	6,758
Selling, general and administrative	345	356	1,083	1,099
Depreciation and amortization	376	350	1,107	1,034
Restructuring	1	(2)	4	—
(Gain) loss from divestitures, asset impairments and unusual items, net	28	9	(14)	10
	3,123	3,015	9,050	8,901
Income from operations	699	701	2,022	1,932
Other income (expense):				
Interest expense, net	(93)	(90)	(277)	(272)
Equity in net losses of unconsolidated entities	(9)	(8)	(29)	(53)
Other, net	—	—	1	—
	(102)	(98)	(305)	(325)
Income before income taxes	597	603	1,717	1,607
Income tax expense	99	215	325	561
Consolidated net income	498	388	1,392	1,046
Less: Net income (loss) attributable to noncontrolling interests	(1)	2	(2)	—
Net income attributable to Waste Management, Inc.	$ 499	$ 386	$ 1,394	$ 1,046
Basic earnings per common share	$ 1.16	$ 0.88	$ 3.24	$ 2.37
Diluted earnings per common share	$ 1.16	$ 0.87	$ 3.22	$ 2.36
Cash dividends declared per common share	$ 0.465	$ 0.425	$ 1.395	$ 1.275

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Millions)

(Unaudited)

Nine Months Ended

	Three Months Ended September 30,		September 30,	
	2018	2017	2018	2017
Consolidated net income	$ 498	$ 388	$ 1,392	$ 1,046
Other comprehensive income (loss), net of tax:				
Derivative instruments, net	2	2	6	6
Available-for-sale securities, net	9	—	8	2
Foreign currency translation adjustments	22	46	(33)	86
Post-retirement benefit obligation, net	—	(1)	—	—
Other comprehensive income (loss), net of tax	33	47	(19)	94
Comprehensive income	531	435	1,373	1,140
Less: Comprehensive income (loss) attributable to noncontrolling interests	(1)	2	(2)	—
Comprehensive income attributable to Waste Management, Inc.	$ 532	$ 433	$ 1,375	$ 1,140

See Notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Consolidated net income	$ 1,392	$ 1,046
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	1,107	1,034
Deferred income tax benefit	(32)	(46)
Interest accretion on landfill liabilities	71	68
Provision for bad debts	35	31
Equity-based compensation expense	63	74
Net gain on disposal of assets	(21)	(7)
(Gain) loss from divestitures, asset impairments and other, net	(14)	38
Equity in net losses of unconsolidated entities, net of dividends	29	25
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Receivables	43	112
Other current assets	(22)	(25)
Other assets	(3)	(2)
Accounts payable and accrued liabilities	177	105
Deferred revenues and other liabilities	(167)	(65)
Net cash provided by operating activities	2,658	2,388
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(342)	(78)
Capital expenditures	(1,240)	(981)
Proceeds from divestitures of businesses and other assets (net of cash divested)	106	19
Other, net	(30)	(10)
Net cash used in investing activities	(1,506)	(1,050)
Cash flows from financing activities:		
New borrowings	174	197
Debt repayments	(338)	(749)
Net commercial paper borrowings	523	501
Common stock repurchase program	(750)	(750)
Cash dividends	(605)	(566)
Exercise of common stock options	45	92
Tax payments associated with equity-based compensation transactions	(28)	(47)
Other, net	(36)	(9)
Net cash used in financing activities	(1,015)	(1,331)

Effect of exchange rate changes on cash, cash equivalents and restricted cash and cash equivalents	—	1
Increase in cash, cash equivalents and restricted cash and cash equivalents	137	8
Cash, cash equivalents and restricted cash and cash equivalents at beginning of period	293	94
Cash, cash equivalents and restricted cash and cash equivalents at end of period	$ 430	$ 102
Reconciliation of cash, cash equivalents and restricted cash and cash equivalents at end of period:		
Cash and cash equivalents	$ 83	$ 35
Restricted cash and cash equivalents included in restricted trust and escrow accounts	347	67
Cash, cash equivalents and restricted cash and cash equivalents at end of period	$ 430	$ 102

See Notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In Millions, Except Shares in Thousands)

(Unaudited)

		Waste Management, Inc. Stockholders' Equity							
		Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Treasury Stock		Noncontrolling
	Total	Shares	Amounts	Capital	Earnings	Income (Loss)	Shares	Amounts	Interests
Balance, December 31, 2017	$ 6,042	630,282	$ 6	$ 4,933	$ 8,588	$ 8	(196,964)	$ (7,516)	$ 23
Adoption of new accounting standards	80	—	—	—	85	(5)	—	—	—
Consolidated net income	1,392	—	—	—	1,394	—	—	—	(2)
Other comprehensive income (loss), net of tax	(19)	—	—	—	—	(19)	—	—	—
Cash dividends	(605)	—	—	—	(605)	—	—	—	—
Equity-based compensation transactions, net	120	—	—	34	2	—	2,181	84	—
Common stock repurchase program	(750)	—	—	(40)	—	—	(8,375)	(710)	—
Divestiture of noncontrolling interest	(19)	—	—	—	—	—	—	—	(19)
Other, net	—	—	—	—	—	—	1	—	—
Balance, September 30, 2018	$ 6,241	630,282	$ 6	$ 4,927	$ 9,464	$ (16)	(203,157)	$ (8,142)	$ 2

See Notes to Condensed Consolidated Financial Statements.

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WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The financial statements presented in this report represent the consolidation of Waste Management, Inc., a Delaware corporation; its wholly-owned and majority-owned subsidiaries; and certain variable interest entities for which Waste Management, Inc. or its subsidiaries are the primary beneficiaries as described in Note 14. Waste Management, Inc. is a holding company and all operations are conducted by its subsidiaries. When the terms "the Company," "we," "us" or "our" are used in this document, those terms refer to Waste Management, Inc., its consolidated subsidiaries and consolidated variable interest entities. When we use the term "WM," we are referring only to Waste Management, Inc., the parent holding company.

We are North America's leading provider of comprehensive waste management environmental services. We partner with our residential, commercial, industrial and municipal customers and the communities we serve to manage and reduce waste at each stage from collection to disposal, while recovering valuable resources and creating clean, renewable energy. Our "Solid Waste" business is operated and managed locally by our subsidiaries that focus on distinct geographic areas and provides collection, transfer, disposal, and recycling and resource recovery services. Through our subsidiaries, we are also a leading developer, operator and owner of landfill gas-to-energy facilities in the United States ("U.S.").

We evaluate, oversee and manage the financial performance of our Solid Waste business subsidiaries through our 17 Areas. We also provide additional services that are not managed through our Solid Waste business, which are presented in this report as "Other." Additional information related to our segments is included in Note 8.

The Condensed Consolidated Financial Statements as of September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017 are unaudited. In the opinion of management, these financial statements include all adjustments, which, unless otherwise disclosed, are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, comprehensive income, cash flows, and changes in equity for the periods presented. The results for interim periods are not necessarily indicative of results for the entire year. The financial statements presented herein should be read in conjunction with the financial statements included in our Annual Report on Form 10 K for the year ended December 31, 2017.

In preparing our financial statements, we make numerous estimates and assumptions that affect the accounting for and recognition and disclosure of assets, liabilities, equity, revenues and expenses. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with precision from available data or simply cannot be calculated. In some cases, these estimates are difficult to determine, and we must exercise significant judgment. In preparing our financial statements, the most difficult, subjective and complex estimates and the assumptions that present the greatest amount of uncertainty relate to our accounting for landfills, environmental remediation liabilities, long-lived asset impairments and reserves associated with our insured and self-insured claims. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

Adoption of New Accounting Standards

Revenue Recognition — In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 associated with revenue recognition. On January 1, 2018, we adopted ASU 2014-09 using the modified retrospective approach for all ongoing customer contracts. Our results of operations for the reported periods after January 1, 2018 are presented under this amended guidance, while prior period amounts are not adjusted and continue to be reported in accordance with historical accounting guidance.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The impact of adopting the amended guidance primarily relates to (i) the deferral of certain sales incentives, which previously were expensed as incurred, but under the new guidance are capitalized as other assets and amortized to selling, general and administrative expenses over the expected life of the customer relationship and (ii) the recognition of certain consideration payable to our customers as a reduction in operating revenues, which under historical guidance was recorded as operating expenses. We recognized a net $80 million increase to our retained earnings as of January 1, 2018 for the cumulative impact of adopting the amended guidance associated with the capitalization of sales incentives as contract acquisition costs consisting of a $108 million asset and a related $28 million deferred tax liability. There were no material impacts on our consolidated financial statements, which include these changes, as a result of our adoption of this amended guidance.

For contracts with an effective term greater than one year, we applied the standard's practical expedient that permits the exclusion of unsatisfied performance obligations as our right to consideration corresponds directly to the value provided to the customer for services completed to date and all future variable consideration is allocated to wholly unsatisfied performance obligations. We also applied the standard's optional exemption for performance obligations related to contracts that have an original expected duration of one year or less. See Note 4 for additional information and disclosures related to this amended guidance.

Financial Instruments — In January 2016, the FASB issued ASU 2016 01 associated with the recognition and measurement of financial assets and liabilities with further clarifications made in February 2018 with the issuance of ASU 2018-03. The amended guidance requires certain equity investments that are not consolidated and not accounted for under the equity method to be measured at fair value with changes in fair value recognized in net income rather than as a component of accumulated other comprehensive income (loss). It further states that an entity may choose to measure equity investments that do not have readily determinable fair values using a quantitative approach, or measurement alternative, which is equal to its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company adopted this amended guidance on January 1, 2018 using a prospective transition approach, which did not have an impact on our consolidated financial statements.

We concluded that all equity investments within the scope of ASU 2016-01, which primarily relate to equity securities previously accounted for under the cost method, do not have readily determinable fair values. Accordingly, the value of these investments beginning January 1, 2018 has been measured using a quantitative approach, or the measurement alternative, as noted above. As of September 30, 2018, the carrying amount of our investments without readily determinable fair values was $85 million. During the three and nine months ended September 30, 2018, we did not recognize any impairments or other adjustments related to these investments.

Statement of Cash Flows — In August 2016, the FASB issued ASU 2016 15 associated with the classification of certain cash receipts and cash payments in the statement of cash flows. In November 2016, the FASB issued ASU 2016 18 associated with the presentation of restricted cash and cash equivalents in the statement of cash flows. The objective of the amended guidance was to reduce existing diversity in practice. This amended guidance was retrospectively adopted on January 1, 2018 and required the following disclosures and changes to the presentation of our financial statements:

· Cash, cash equivalents and restricted cash and cash equivalents reported on the Condensed Consolidated Statements of Cash Flows now includes restricted cash and cash equivalents of $62 million, $67 million and $271 million as of December 31, 2016, September 30, 2017 and December 31, 2017, respectively, in restricted trust and escrow accounts in our Condensed Consolidated Balance Sheets as well as previously reported cash and cash equivalents.

- Cash payments made within 120 days of the acquisition date of a business combination to settle a contingent consideration liability are classified as cash outflows from investing activities. Thereafter, cash payments up to the amount of the contingent consideration liability recognized at the acquisition date (including measurement-period adjustments) are classified as cash outflows from financing activities and any excess is classified as cash

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

outflows from operating activities. The adoption of this amended guidance did not have a material impact on our Condensed Consolidated Statements of Cash Flows.
Our restricted cash and cash equivalents generally consist of funds deposited into specific accounts for purposes of funding insurance claims and demonstrating our ability to meet our landfill final capping, closure, post-closure and environmental remediation obligations.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income — In February 2018, the FASB issued ASU 2018-02 associated with the reclassification of certain tax effects from accumulated other comprehensive income (loss). This amended guidance allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the “Act”) which was signed into law on December 22, 2017. We early adopted this amended guidance on January 1, 2018, and as a result, elected to reclassify $5 million of stranded tax effects from accumulated other comprehensive income (loss) to retained earnings using a specific identification approach. See Note 11 for additional disclosures related to this amended guidance.

Income Taxes — In March 2018, the FASB issued ASU 2018-05 associated with the accounting and disclosures around the enactment of the Act and the Securities and Exchange Commission’s Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”), which the Company has adopted. See Note 5 for the disclosures related to this amended guidance.

New Accounting Standards Pending Adoption

Financial Instrument Credit Losses — In June 2016, the FASB issued ASU 2016 13 associated with the measurement of credit losses on financial instruments. The amended guidance replaces the current incurred loss impairment methodology of recognizing credit losses when a loss is probable, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to assess credit loss estimates. The amended guidance is effective for the Company on January 1, 2020, with early adoption permitted beginning January 1, 2019. We are assessing the provisions of this amended guidance and evaluating the impact on our consolidated financial statements.

Leases — In February 2016, the FASB issued ASU 2016 02 associated with lease accounting. There have been further amendments, including practical expedients, with the issuance of ASU 2018-01 and ASU 2018-11 in January 2018 and July 2018, respectively. The amended guidance requires the recognition of lease assets and lease liabilities on the balance sheet for those leases with terms in excess of 12 months and currently classified as operating leases. Disclosure of key information about leasing arrangements will also be required. The amended guidance is effective for the Company on January 1, 2019. To date, we have performed the following activities related to the adoption of the standard: (i) formed an implementation work team; (ii) performed training for the various organizations that will be most affected by the new standard; (iii) elected our practical expedients, including our transition method; (iv) acquired a software solution to manage and account for leases under the new standard and (v) identified our initial lease population that will be impacted by the new standard. We continue to evaluate the impact of this amended guidance on our consolidated financial statements.

Reclassifications

When necessary, reclassifications have been made to our prior period financial information to conform to the current year presentation.

2. Landfill and Environmental Remediation Liabilities

Liabilities for landfill and environmental remediation costs are presented in the table below (in millions):

	September 30, 2018			December 31, 2017		
	Landfill	Environmental Remediation	Total	Landfill	Environmental Remediation	Total
Current (in accrued liabilities)	$ 131	$ 27	$ 158	$ 128	$ 28	$ 156
Long-term	1,622	210	1,832	1,547	223	1,770
	$ 1,753	$ 237	$ 1,990	$ 1,675	$ 251	$ 1,926

The changes to landfill and environmental remediation liabilities for the nine months ended September 30, 2018 are reflected in the table below (in millions):

	Landfill	Environmental Remediation
December 31, 2017	$ 1,675	$ 251
Obligations incurred and capitalized	62	—
Obligations settled	(71)	(18)
Interest accretion	71	4
Revisions in estimates and interest rate assumptions (a) (b)	7	2
Acquisitions, divestitures and other adjustments	9	(2)
September 30, 2018	$ 1,753	$ 237

(a) The amount reported for our landfill liabilities includes an increase of $11 million due to the acceleration of the expected timing of capping activities for a landfill. See Note 10 for discussion of the impairment charge related to this landfill.

(b) The amount reported for our environmental remediation liabilities includes the impact of an increase in the risk-free discount rate used to measure our liabilities from 2.5% at December 31, 2017 to 3.0% at September 30, 2018, resulting in a decrease of $5 million to our environmental remediation liabilities.

At several of our landfills, we provide financial assurance by depositing cash into restricted trust funds or escrow accounts for purposes of demonstrating our ability to meet our final capping, closure, post-closure and environmental remediation obligations. Generally, these trust funds are established to comply with statutory requirements and operating agreements. See Note 14 for additional information related to these trusts.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. Debt

The following table summarizes the major components of debt as of each balance sheet date (in millions) and provides the maturities and interest rate ranges of each major category as of September 30, 2018:

	September 30, 2018	December 31, 2017
Revolving credit facility (weighted average interest rate of 2.7% as of September 30, 2018)	$ 44	$ —
Commercial paper program (weighted average interest rate of 2.4% as of September 30, 2018 and 1.9% as of December 31, 2017)	1,053	515
Canadian term loan and revolving credit facility (weighted average effective interest rate of 2.5% as of December 31, 2017)	—	113
Senior notes, maturing through 2045, interest rates ranging from 2.4% to 7.75% (weighted average interest rate of 4.3% as of September 30, 2018 and December 31, 2017)	6,222	6,222
Tax-exempt bonds, maturing through 2045, fixed and variable interest rates ranging from 1.35% to 4.3% (weighted average interest rate of 2.2% as of September 30, 2018 and 2.0% as of December 31, 2017)	2,318	2,370
Capital leases and other, maturing through 2040, interest rates up to 12%	431	327
Debt issuance costs, discounts and other	(52)	(56)
	10,016	9,491
Current portion of long-term debt	447	739
	$ 9,569	$ 8,752

Debt Classification

As of September 30, 2018, we had $2.2 billion of debt maturing within the next 12 months, including (i) $1.1 billion of short-term borrowings under our commercial paper program; (ii) $806 million of tax-exempt bonds with term interest rate periods that expire within the next 12 months, which is prior to their scheduled maturities; (iii) $260 million of other debt with scheduled maturities within the next 12 months, including $209 million of tax-exempt bonds and (iv) C$57 million, or $44 million, of Canadian borrowings under our long-term U.S. and Canadian revolving credit facility ("$2.75 billion revolving credit facility"). Of the $1.1 billion of short-term borrowings outstanding under our commercial paper program as of September 30, 2018 that are supported by our $2.75 billion revolving credit facility, we have the intent and ability to refinance or maintain $955 million of these borrowings on a long-term basis, and we have classified these amounts as long-term debt. As of September 30, 2018, we have classified an additional $761 million of debt as long-term because we have the intent and ability to refinance these borrowings on a long-term basis as supported by the forecasted available capacity under our $2.75 billion revolving credit facility, as discussed below. The remaining $447 million is classified as current obligations.

As of September 30, 2018, we also have $268 million of variable-rate tax-exempt bonds that are supported by letters of credit under our $2.75 billion revolving credit facility. The interest rates on our variable-rate tax-exempt bonds are generally reset on either a daily or weekly basis through a remarketing process. All recent tax-exempt bond remarketings have successfully placed Company bonds with investors at market-driven rates and we currently expect future remarketings to be successful. However, if the remarketing agent is unable to remarket our bonds, the remarketing agent can put the bonds to us. In the event of a failed remarketing, we have the availability under our $2.75 billion revolving credit facility to fund these bonds until they are remarketed successfully. Accordingly, we have also classified these borrowings as long-term in our Condensed Consolidated Balance Sheet as of September 30, 2018.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Access to and Utilization of Credit Facilities and Commercial Paper Program

$2.75 Billion Revolving Credit Facility — In June 2018, we entered into the $2.75 billion revolving credit facility, which amended and restated our prior long-term U.S. revolving credit facility. Amendments to the credit agreement included (i) increasing total capacity under the facility from $2.25 billion to $2.75 billion; (ii) establishment of a $750 million accordion feature that may be used to increase total capacity in future periods; (iii) extending the term through June 2023 and (iv) inclusion of two one-year extension options. Waste Management of Canada Corporation and WM Quebec Inc., each an indirect wholly-owned subsidiary of WM, were added as additional borrowers under the $2.75 billion revolving credit facility, and the agreement permits borrowing in Canadian dollars up to the U.S. dollar equivalent of $375 million, with such borrowings to be repaid in Canadian dollars. Waste Management Holdings, Inc., a wholly-owned subsidiary of WM, guarantees all of the obligations under the $2.75 billion revolving credit facility.

The $2.75 billion revolving credit facility provides us with credit capacity to be used for either cash borrowings or to support letters of credit or commercial paper. The rates we pay for outstanding U.S. or Canadian loans are generally based on LIBOR or CDOR, respectively, plus a spread depending on the Company's debt rating assigned by Moody's Investors Service and Standard and Poor's. As of September 30, 2018, we had C$57 million, or $44 million, of outstanding borrowings under this facility. We had $606 million of letters of credit issued and $1.1 billion of outstanding borrowings under our commercial paper program, both supported by this facility, leaving unused and available credit capacity of $1.0 billion as of September 30, 2018.

Commercial Paper Program — We have a commercial paper program that enables us to borrow funds for up to 397 days at competitive interest rates. The commercial paper program is fully supported by our $2.75 billion revolving credit facility. In June 2018, we amended our commercial paper program, increasing our ability to borrow funds from $1.5 billion to $2.75 billion, provided that the aggregate outstanding amount of commercial paper borrowings, together with borrowings and issued letters of credit under the $2.75 billion revolving credit facility, shall not at any time exceed the aggregate authorized borrowing capacity of such facility. As of September 30, 2018, we had $1.1 billion of outstanding borrowings under our commercial paper program.

Canadian Term Loan and Revolving Credit Facility — In August 2018, we terminated our Canadian credit agreement, as discussed further below. Prior to its termination, the Canadian credit agreement provided the Company with (i) C$50 million of revolving credit capacity to be used for borrowings or letters of credit and (ii) C$460 million of non-revolving term credit that was prepayable without penalty.

Other Letter of Credit Facilities — As of September 30, 2018, we utilized $541 million of other letter of credit facilities, which are both committed and uncommitted, with terms maturing through September 2019.

Debt Borrowings and Repayments

Revolving Credit Facility — During the first half of 2018, we borrowed and repaid $28 million under our revolving credit facility, which we amended and restated in June 2018, as discussed above. During the third quarter of 2018, we had net cash Canadian borrowings of C$57 million, or $44 million, under our $2.75 billion revolving credit facility, all of which was used to repay the remaining balance under our Canadian term loan, as discussed below.

Commercial Paper Program — During the nine months ended September 30, 2018, we had net cash borrowings of $523 million to support new business opportunities and for general corporate purposes.

Canadian Term Loan and Revolving Credit Facility — Through August 2018, we repaid the remaining balance of C$142 million, or $109 million, owed under our Canadian term loan and revolving credit facility and subsequently terminated our Canadian credit agreement. The remaining change in the carrying value of outstanding borrowings under our Canadian term loan and revolving credit facility is due to foreign currency translation.

Tax-Exempt Bonds — During the nine months ended September 30, 2018, we repaid $52 million of our tax-exempt bonds with available cash.

Capital Leases and Other — The increase in our capital leases and other debt obligations during the nine months ended September 30, 2018 is primarily related to our new federal low-income housing investment discussed in Note 5, which increased our debt obligations by $139 million. This increase was offset by a net decrease of $35 million, primarily due to divestitures and net cash repayments of debt at maturity.

4. Operating Revenues

Our Solid Waste operating revenues are primarily generated from fees charged for our collection, transfer, disposal, and recycling and resource recovery services, and from sales of commodities by our recycling and landfill gas-to-energy operations. Revenues from our collection operations are influenced by factors such as collection frequency, type of collection equipment furnished, type and volume or weight of the waste collected, distance to the disposal facility or material recovery facility and our disposal costs. Revenues from our landfill operations consist of tipping fees, which are generally based on the type and weight or volume of waste being disposed of at our disposal facilities. Fees charged at transfer stations are generally based on the weight or volume of waste deposited, taking into account our cost of loading, transporting and disposing of the solid waste at a disposal site. Recycling revenues generally consist of tipping fees and the sale of recycling commodities to third parties. The fees we charge for our services generally include our environmental fee, fuel surcharge and regulatory recovery fee, which are intended to pass through to customers direct and indirect costs incurred. We also provide additional services that are not managed through our Solid Waste business, including operations managed by both our Strategic Business Solutions (“WMSBS”) and Energy and Environmental Services (“EES”) organizations, recycling brokerage services, landfill gas-to-energy services and certain other expanded service offerings and solutions.

Our revenue from sources other than customer contracts primarily relates to lease revenue associated with compactors and balers. Revenue from these leasing arrangements was not material and represented approximately 1% of total revenue for each of the reported periods.

See Note 8 for additional information related to revenue by reportable segment and major lines of business.

Revenue Recognition

We generally recognize revenue as services are performed or products are delivered. For example, revenue typically is recognized as waste is collected, tons are received at our landfills or transfer stations, or recycling commodities are collected or delivered as product. We bill for certain services prior to performance. Such services include, among others, certain commercial and residential contracts and equipment rentals. These advance billings are included in deferred revenues and recognized as revenue in the period service is provided.

Accounts Receivable

Accounts receivable, which are recorded when billed, when services are performed or when cash is advanced, are claims against third parties that will generally be settled in cash. The carrying value of our receivables, net of the allowance for doubtful accounts, represents the estimated net realizable value. We estimate our allowance for doubtful accounts based on historical collection trends; type of customer, such as municipal or commercial; the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past-due receivable balances are written off when our internal collection efforts have been unsuccessful.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred Revenues

We record deferred revenues when cash payments are received or due in advance of our performance and classify them as current since they are earned within a year and there are no significant financing components. Substantially all our deferred revenues during the reported periods are realized as revenues within one to three months, when the related services are performed.

Contract Acquisition Costs

Our incremental direct costs of obtaining a contract, which consist primarily of sales incentives, are generally deferred and amortized to selling, general and administrative expense over the estimated life of the relevant customer relationship, ranging from 5 to 13 years. Contract acquisition costs that are paid to the customer are deferred and amortized as a reduction in revenue over the contract life. Our contract acquisition costs are classified as current or noncurrent based on the timing of when we expect to recognize amortization and are included in other assets in our Condensed Consolidated Balance Sheet.

As of September 30, 2018, we had $141 million of deferred contract costs, of which $109 million was related to deferred sales incentives. During the three and nine months ended September 30, 2018, we amortized $6 million and $17 million of sales incentives to selling, general and administrative expense, and $8 million and $27 million of other contract acquisition costs as a reduction in revenue, respectively.

Long-Term Contracts

Approximately 30% of our total revenue is derived from contracts with an effective term greater than one year. The consideration for these contracts is variable in nature. The variable elements of these contracts primarily include the number of homes and businesses served and annual rate changes based on consumer price index, fuel prices or other operating costs. Such contracts are generally within our collection, recycling and other lines of business and have a weighted average remaining contract life of approximately four years. We do not disclose the value of unsatisfied performance obligations for these contracts as our right to consideration corresponds directly to the value provided to the customer for services completed to date and all future variable consideration is allocated to wholly unsatisfied performance obligations.

5. Income Taxes

Our effective income tax rate for the three and nine months ended September 30, 2018 was 16.6% and 18.9%, respectively, compared with 35.7% and 34.9%, respectively, for the comparable prior year periods. We evaluate our effective income tax rate at each interim period and adjust it as facts and circumstances warrant. The decrease in the effective income tax rate for the three and nine months ended September 30, 2018, compared with the prior year periods, was primarily due to the enactment of tax reform, as discussed below.

The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the three and nine months ended September 30, 2018 was primarily due to a reduction in income tax expense related to (i) adjustments to our accruals and related deferred taxes due to the filing of our 2017 income tax returns and changes in state laws; (ii) federal tax credits and (iii) impacts of enactment of tax reform offset, in part, by the unfavorable impact of state and local income taxes. The nine-month period was also favorably impacted by tax audit settlements.

The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the three months ended September 30, 2017 was primarily due to the unfavorable impact of state and local income taxes offset, in part, by the favorable impact of federal tax credits and adjustments to our accruals and related deferred taxes due to the filing of our 2016 income tax returns. The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the nine months ended September 30, 2017 was primarily due to the favorable impact of federal tax credits, excess tax benefits related to equity-based compensation and adjustments to our accruals and related deferred taxes due to the filing of our 2016 income tax returns offset, in part, by the unfavorable impact of state and local income taxes and nondeductible impairments.

Enactment of Tax Reform — The Act was signed into law on December 22, 2017. The most significant impacts of the Act to the Company include a reduction in the federal corporate income tax rate from 35% to 21%, effective January 1, 2018, and a one-time, mandatory transition tax on deemed repatriation of previously tax-deferred and unremitted foreign earnings.

In accordance with ASU 2018-05 and SAB 118, the Company recognized the provisional tax impacts related to the remeasurement of our deferred income tax assets and liabilities and the one-time, mandatory transition tax on deemed repatriation during the year ended December 31, 2017. In September 2018, measurement period adjustments to the provisional tax impacts due to the filing of our 2017 income tax returns resulted in a reduction in our income tax expense of $12 million. The reduction consisted of a net income tax benefit of $7 million for the remeasurement of our deferred income tax assets and liabilities due to the decrease in the federal corporate income tax rate and an income tax benefit of $5 million for the one-time, mandatory transition tax. Additional adjustments may be necessary in future periods due to, among other things, the significant complexity of the Act and anticipated additional regulatory guidance that may be issued by the Internal Revenue Service (“IRS”), changes in analysis, interpretations and assumptions the Company has made and actions the Company may take as a result of the Act. We are continuing to gather information to assess the application of the Act and expect to complete our analysis during 2018.

Adjustments to Accruals and Related Deferred Taxes — During the three and nine months ended September 30, 2018, adjustments to our accruals and related deferred taxes due to the filing of our 2017 income tax returns and changes in state laws resulted in a reduction in our income tax expense of $27 million and $35 million, respectively, compared with $15 million for both of the prior year periods.

Investments Qualifying for Federal Tax Credits — We have significant financial interests in entities established to invest in and manage low-income housing properties and a refined coal facility. On September 28, 2018 we acquired an additional noncontrolling interest in a limited liability company established to invest in and manage low-income housing properties. Our consideration for this investment totaled $157 million, which was comprised of a $139 million note payable and an initial cash payment of $18 million. We support the operations of these entities in exchange for a pro-rata share of the tax credits they generate. The low-income housing investments and the coal facility’s refinement processes qualify for federal tax credits that we expect to realize through 2030 under Sections 42 and 45D, and through 2019 under Section 45, respectively, of the Internal Revenue Code.

We account for our investments in these entities using the equity method of accounting, recognizing our share of each entity’s results of operations and other reductions in the value of our investments in equity in net losses of unconsolidated entities, in our Condensed Consolidated Statements of Operations. During the three and nine months ended September 30, 2018, we recognized $5 million and $17 million of net losses and a reduction in our income tax expense of $18 million and $40 million, respectively, primarily because of tax credits realized from these investments. During the three and nine months ended September 30, 2017, we recognized $6 million and $21 million of net losses and a reduction in our income tax expense of $14 million and $39 million, respectively, primarily because of tax credits realized from these investments. Interest expense associated with our investments in low-income housing properties was not material for the periods presented. See Note 14 for additional information related to these unconsolidated variable interest entities.

Tax Audit Settlements — We are currently under audit by the IRS, the Canada Revenue Agency and various state and local taxing authorities and our audits are in various stages of completion. During the three and nine months ended September 30, 2018, we settled various tax audits, which resulted in a reduction in our income tax expense of $2 million and $35 million, respectively.

6. Earnings Per Share

Basic and diluted earnings per share were computed using the following common share data (shares in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Number of common shares outstanding at end of period	427.1	434.2	427.1	434.2
Effect of using weighted average common shares outstanding	0.8	3.6	3.2	6.1
Weighted average basic common shares outstanding	427.9	437.8	430.3	440.3
Dilutive effect of equity-based compensation awards and other contingently issuable shares	2.9	3.0	2.9	3.0
Weighted average diluted common shares outstanding	430.8	440.8	433.2	443.3
Potentially issuable shares	7.6	8.2	7.6	8.2
Number of anti-dilutive potentially issuable shares excluded from diluted common shares outstanding	1.5	1.9	1.5	2.3

7. Commitments and Contingencies

Financial Instruments — We have obtained letters of credit, surety bonds and insurance policies and have established trust funds and issued financial guarantees to support tax-exempt bonds, contracts, performance of landfill final capping, closure and post-closure requirements, environmental remediation and other obligations. Letters of credit generally are supported by our $2.75 billion revolving credit facility and other credit facilities established for that purpose. These facilities are discussed further in Note 3. Surety bonds and insurance policies are supported by (i) a diverse group of third-party surety and insurance companies; (ii) an entity in which we have a noncontrolling financial interest or (iii) a wholly-owned insurance captive, the sole business of which is to issue surety bonds and/or insurance policies on our behalf.

Management does not expect that any claims against or draws on these instruments would have a material adverse effect on our financial condition, results of operations or cash flows. We have not experienced any unmanageable difficulty in obtaining the required financial assurance instruments for our current operations. In an ongoing effort to mitigate risks of future cost increases and reductions in available capacity, we continue to evaluate various options to access cost-effective sources of financial assurance.

Insurance — We carry insurance coverage for protection of our assets and operations from certain risks including general liability, automobile liability, workers' compensation, real and personal property, directors' and officers' liability, pollution legal liability and other coverages we believe are customary to the industry. Our exposure to loss for insurance claims is generally limited to the per incident deductible under the related insurance policy. Our exposure could increase if our insurers are unable to meet their commitments on a timely basis.

We have retained a significant portion of the risks related to our general liability, automobile liability and workers' compensation claims programs. "General liability" refers to the self-insured portion of specific third-party claims made against us that may be covered under our commercial General Liability Insurance Policy. For our self-insured portions, the exposure for unpaid claims and associated expenses, including incurred but not reported losses, is based on an actuarial valuation or internal estimates. The accruals for these liabilities could be revised if future occurrences or loss development significantly differ from such valuations and estimates. In December 2017, we elected to use a wholly-owned insurance captive to insure the deductibles for our general liability, automobile liability and workers' compensation claims programs.

We do not expect the impact of any known casualty, property, environmental or other contingency to have a material impact on our financial condition, results of operations or cash flows.

Guarantees — In the ordinary course of our business, WM and WM Holdings enter into guarantee agreements associated with their subsidiaries' operations. Additionally, WM and WM Holdings have each guaranteed all of the senior debt of the other entity. No additional liabilities have been recorded for these intercompany guarantees because all of the underlying obligations are reflected in our Condensed Consolidated Balance Sheets. See Note 15 for further discussion.

As of September 30, 2018, we have guaranteed the obligations and certain performance requirements of third parties in connection with both consolidated and unconsolidated entities, including (i) guarantees to cover certain market value losses for approximately 775 homeowners' properties adjacent to or near 18 of our landfills and (ii) guarantees totaling $85 million for performance obligations of our Wheelabrator business, divested in 2014. We have also agreed to indemnify certain third-party purchasers against liabilities associated with divested operations prior to such sale. Additionally, under certain of our acquisition agreements, we have provided for additional consideration to be paid to the sellers if established financial targets or other market conditions are achieved post-closing, and we have recognized liabilities for these contingent obligations based on an estimate of the fair value of these contingencies at the time of acquisition. We do not believe that these contingent obligations will have a material adverse effect on the Company's financial condition, results of operations or cash flows, and we do not expect the financial impact of operational and financial performance guarantees to materially exceed the recorded fair value.

Environmental Matters — A significant portion of our operating costs and capital expenditures could be characterized as costs of environmental protection. The nature of our operations, particularly with respect to the construction, operation and maintenance of our landfills, subjects us to an array of laws and regulations relating to the protection of the environment. Under current laws and regulations, we may have liabilities for environmental damage caused by our operations, or for damage caused by conditions that existed before we acquired a site. In addition to remediation activity required by state or local authorities, such liabilities include potentially responsible party ("PRP") investigations. The costs associated with these liabilities can include settlements, certain legal and consultant fees, as well as incremental internal and external costs directly associated with site investigation and clean-up.

Estimating our degree of responsibility for remediation is inherently difficult. We recognize and accrue for an estimated remediation liability when we determine that such liability is both probable and reasonably estimable. Determining the method and ultimate cost of remediation requires that a number of assumptions be made. There can sometimes be a range of reasonable estimates of the costs associated with the likely site remediation alternatives identified in the environmental impact investigation. In these cases, we use the amount within the range that is our best estimate. If no amount within a range appears to be a better estimate than any other, we use the amount that is the low end of such range. If we used the high ends of such ranges, our aggregate potential liability would be approximately $140 million higher than the $237 million recorded in the Condensed Consolidated Balance Sheet as of September 30, 2018. Our ultimate responsibility may differ materially from current estimates. It is possible that technological, regulatory or enforcement developments, the results of environmental studies, the inability to identify other PRPs, the inability of other PRPs to contribute to the settlements of such liabilities, or other factors could require us to record additional liabilities. Our ongoing review of our remediation liabilities, in light of relevant internal and external facts and circumstances, could result in revisions to our accruals that could cause upward or downward adjustments to our balance sheet and income from operations. These adjustments could be material in any given period.

As of September 30, 2018, we have been notified by the government that we are a PRP in connection with 75 locations listed on the Environmental Protection Agency's ("EPA's") Superfund National Priorities List ("NPL"). Of the 75 sites at which claims have been made against us, 15 are sites we own. Each of the NPL sites we own was initially developed by others as a landfill disposal facility. At each of these facilities, we are working in conjunction with the government to evaluate or remediate identified site problems, and we have either agreed with other legally liable parties on an arrangement for sharing the costs of remediation or are working toward a cost-sharing agreement. We generally expect to receive any amounts due from other participating parties at or near the time that we make the remedial expenditures. The other 60 NPL sites, which we do not own, are at various procedural stages under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, known as CERCLA or Superfund.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The majority of proceedings involving NPL sites that we do not own are based on allegations that certain of our subsidiaries (or their predecessors) transported hazardous substances to the sites, often prior to our acquisition of these subsidiaries. CERCLA generally provides for liability for those parties owning, operating, transporting to or disposing at the sites. Proceedings arising under Superfund typically involve numerous waste generators and other waste transportation and disposal companies and seek to allocate or recover costs associated with site investigation and remediation, which costs could be substantial and could have a material adverse effect on our consolidated financial statements. At some of the sites at which we have been identified as a PRP, our liability is well defined as a consequence of a governmental decision and an agreement among liable parties as to the share each will pay for implementing that remedy. At other sites, where no remedy has been selected or the liable parties have been unable to agree on an appropriate allocation, our future costs are uncertain.

On October 11, 2017, the EPA issued its Record of Decision (“ROD”) with respect to the previously proposed remediation plan for the San Jacinto waste pits in Harris County, Texas. McGinnes Industrial Maintenance Corporation (“MIMC”), an indirect wholly-owned subsidiary of WM, operated some of the waste pits from 1965 to 1966 and has been named as a site PRP. In 1998, WM acquired the stock of the parent entity of MIMC. MIMC has been working with the EPA and other named PRPs as the process of addressing the site proceeds. On April 9, 2018, MIMC and International Paper Company entered into an Administrative Order on Consent agreement with the EPA to develop a remedial design for the EPA’s selected remedy for the site. Allocation of responsibility among the PRPs for the selected remedy has not been established. As of September 30, 2018 and December 31, 2017, the recorded liability for MIMC’s estimated potential share of the EPA’s selected remedy and related costs was $55 million. MIMC’s ultimate liability could be materially different from current estimates.

Item 103 of the SEC’s Regulation S-K requires disclosure of certain environmental matters when a governmental authority is a party to the proceedings, or such proceedings are known to be contemplated, unless we reasonably believe that the matter will result in no monetary sanctions, or in monetary sanctions, exclusive of interest and costs, of less than $100,000. The following matters are disclosed in accordance with that requirement. We do not currently believe that the eventual outcome of any such matters, individually or in the aggregate, could have a material adverse effect on the Company’s business, financial condition, results of operations or cash flows.

On July 10, 2013, the EPA issued a Notice of Violation ("NOV") to Waste Management of Wisconsin, Inc., an indirect wholly-owned subsidiary of WM, alleging violations of the Resource Conservation Recovery Act concerning acceptance of certain waste that was not permitted to be disposed of at the Metro Recycling & Disposal Facility in Franklin, Wisconsin. The parties are exchanging information and working to resolve the NOV.

The Hawaii Department of Health and the EPA have asserted civil penalty claims against Waste Management of Hawaii, Inc. (“WMHI”), an indirect wholly-owned subsidiary of WM, based on stormwater discharges at the Waimanalo Gulch Sanitary Landfill following two major rainstorms in December 2010 and January 2011 and alleged violations of stormwater permit requirements prior to and after the storms. WMHI operates the landfill for the City and County of Honolulu.

From time to time, we are also named as defendants in personal injury and property damage lawsuits, including purported class actions, on the basis of having owned, operated or transported waste to a disposal facility that is alleged to have contaminated the environment or, in certain cases, on the basis of having conducted environmental remediation activities at sites. Some of the lawsuits may seek to have us pay the costs of monitoring of allegedly affected sites and health care examinations of allegedly affected persons for a substantial period of time even where no actual damage is proven. While we believe we have meritorious defenses to these lawsuits, the ultimate resolution is often substantially uncertain due to the difficulty of determining the cause, extent and impact of alleged contamination (which may have occurred over a long period of time), the potential for successive groups of complainants to emerge, the diversity of the individual plaintiffs' circumstances, and the potential contribution or indemnification obligations of co-defendants or other third parties, among other factors. Additionally, we often enter into agreements with landowners imposing obligations on us to meet certain regulatory or contractual conditions upon site closure or upon termination of the agreements. Compliance with these agreements inherently involves subjective determinations and may result in disputes, including litigation.

Litigation — As a large company with operations across the U.S. and Canada, we are subject to various proceedings, lawsuits, disputes and claims arising in the ordinary course of our business. Many of these actions raise complex factual and legal issues and are subject to uncertainties. Actions that have been filed against us, and that may be filed against us in the future, include personal injury, property damage, commercial, customer, and employment-related claims, including purported state and national class action lawsuits related to: alleged environmental contamination, including releases of hazardous material and odors; sales and marketing practices, customer service agreements and prices and fees; and federal and state wage and hour and other laws. The plaintiffs in some actions seek unspecified damages or injunctive relief, or both. These actions are in various procedural stages, and some are covered, in part, by insurance. We currently do not believe that the eventual outcome of any such actions will have a material adverse effect on the Company’s business, financial condition, results of operations or cash flows.

WM’s charter and bylaws provide that WM shall indemnify against all liabilities and expenses, and upon request shall advance expenses to any person, who is subject to a pending or threatened proceeding because such person is or was a director or officer of the Company. Such indemnification is required to the maximum extent permitted under Delaware law. Accordingly, the director or officer must execute an undertaking to reimburse the Company for any fees advanced if it is later determined that the director or officer was not permitted to have such fees advanced under Delaware law. Additionally, the Company has direct contractual obligations to provide indemnification to each of the members of WM’s Board of Directors and each of WM’s executive officers. The Company may incur substantial expenses in connection with the fulfillment of its advancement of costs and indemnification obligations in connection with actions or proceedings that may be brought against its former or current officers, directors and employees.

Multiemployer Defined Benefit Pension Plans — About 20% of our workforce is covered by collective bargaining agreements with various local unions across the U.S. and Canada. As a result of some of these agreements, certain of our subsidiaries are participating employers in a number of trustee-managed multiemployer defined benefit pension plans (“Multiemployer Pension Plans”) for the covered employees. In connection with our ongoing renegotiation of various collective bargaining agreements, we may discuss and negotiate for the complete or partial withdrawal from one or more of these Multiemployer Pension Plans. A complete or partial withdrawal from a Multiemployer Pension Plan may also occur if employees covered by a collective bargaining agreement vote to decertify a union from continuing to represent them. Any other circumstance resulting in a decline in Company contributions to a Multiemployer Pension Plan through a reduction in the labor force, whether through attrition over time or through a business event (such as the discontinuation or nonrenewal of a customer contract, the decertification of a union, or relocation, reduction or discontinuance of certain operations) may also trigger a complete or partial withdrawal from one or more of these pension plans.

We do not believe that any future liability relating to our past or current participation in, or withdrawals from, the Multiemployer Pension Plans to which we contribute will have a material adverse effect on our business, financial condition or liquidity. However, liability for future withdrawals could have a material adverse effect on our results of operations or cash flows for a particular reporting period, depending on the number of employees withdrawn and the financial condition of the Multiemployer Pension Plan(s) at the time of such withdrawal(s).

Tax Matters — We participate in the IRS's Compliance Assurance Process, which means we work with the IRS throughout the year towards resolving any material issues prior to the filing of our annual tax return. Any unresolved issues as of the tax return filing date are subject to routine examination procedures. We are currently in the examination phase of IRS audits for the 2017 and 2018 tax years and expect these audits to be completed within the next 18 months. We are also currently undergoing audits by various state and local jurisdictions for tax years that date back to 2011. Additionally, we are under audit by the Canada Revenue Agency for the 2014 tax year. We maintain a liability for uncertain tax positions, the balance of which management believes is adequate. Results of audit assessments by taxing authorities are not currently expected to have a material adverse effect on our financial condition, results of operations or cash flows.

8. Segment and Related Information

We evaluate, oversee and manage the financial performance of our Solid Waste business subsidiaries through our 17 Areas. The 17 Areas constitute our operating segments and we have evaluated the aggregation criteria and concluded that, based on the similarities between our Areas, including the fact that our Solid Waste business is homogenous across geographies with the same services offered across the Areas, aggregation of our Areas is appropriate for purposes of presenting our reportable segments. Accordingly, we have aggregated our 17 Areas into three tiers that we believe have similar economic characteristics and future prospects based in large part on a review of the Areas' income from operations margins. The economic variations experienced by our Areas are attributable to a variety of factors, including regulatory environment of the Area; economic environment of the Area, including level of commercial and industrial activity; population density; service offering mix and disposal logistics, with no one factor being singularly determinative of an Area's current or future economic performance.

Annually, we analyze the Areas' income from operations margins for purposes of segment reporting and in the fourth quarter of 2017, we realigned our Solid Waste tiers to reflect changes in their relative economic characteristics and prospects. These changes are the results of various factors including acquisitions, divestments, business mix and the economic climate of various geographies. Reclassifications have been made to our prior period consolidated financial information to conform to the most current presentation.

Tier 1 is comprised of our operations across the Southern U.S., with the exception of Southern California and the Florida peninsula, and also includes the New England states, the tri-state area of Michigan, Indiana and Ohio, and Western Canada. Tier 2 now includes Southern California, Eastern Canada, Wisconsin and Minnesota. Tier 3 now encompasses all the remaining operations including the Pacific Northwest and Northern California, the Mid-Atlantic region of the U.S., the Florida peninsula, Illinois and Missouri.

The operating segments not evaluated and overseen through the 17 Areas are presented herein as "Other" as these operating segments do not meet the criteria to be aggregated with other operating segments and do not meet the quantitative criteria to be separately reported.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Summarized financial information concerning our reportable segments is shown in the following table (in millions):

	Gross Operating Revenues	Intercompany Operating Revenues	Net Operating Revenues	Income from Operations
Three Months Ended September 30:				
2018				
Solid Waste:				
Tier 1	$ 1,506	$ (277)	$ 1,229	$ 416
Tier 2	671	(127)	544	142
Tier 3	1,818	(353)	1,465	291
Solid Waste	3,995	(757)	3,238	849
Other	629	(45)	584	(15)
	4,624	(802)	3,822	834
Corporate and Other	—	—	—	(135)
Total	$ 4,624	$ (802)	$ 3,822	$ 699
2017				
Solid Waste:				
Tier 1	$ 1,432	$ (258)	$ 1,174	$ 398
Tier 2	660	(114)	546	142
Tier 3	1,711	(313)	1,398	313
Solid Waste	3,803	(685)	3,118	853
Other	662	(64)	598	(16)
	4,465	(749)	3,716	837
Corporate and Other	—	—	—	(136)
Total	$ 4,465	$ (749)	$ 3,716	$ 701

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Gross Operating Revenues	Intercompany Operating Revenues	Net Operating Revenues	Income from Operations
Nine Months Ended September 30:				
2018				
Solid Waste:				
Tier 1	$ 4,364	$ (787)	$ 3,577	$ 1,176
Tier 2	1,947	(361)	1,586	405
Tier 3	5,227	(1,012)	4,215	877
Solid Waste	11,538	(2,160)	9,378	2,458
Other	1,849	(155)	1,694	(25)
	13,387	(2,315)	11,072	2,433
Corporate and Other	—	—	—	(411)
Total	$ 13,387	$ (2,315)	$ 11,072	$ 2,022
2017				
Solid Waste:				
Tier 1	$ 4,189	$ (754)	$ 3,435	$ 1,159
Tier 2	1,903	(329)	1,574	400
Tier 3	4,979	(909)	4,070	877
Solid Waste	11,071	(1,992)	9,079	2,436
Other	1,922	(168)	1,754	(66)
	12,993	(2,160)	10,833	2,370
Corporate and Other	—	—	—	(438)
Total	$ 12,993	$ (2,160)	$ 10,833	$ 1,932

The mix of operating revenues from our major lines of business are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Commercial	$ 1,007	$ 936	$ 2,948	$ 2,764
Residential	639	635	1,885	1,888
Industrial	723	673	2,068	1,930
Other	117	107	333	330
Total collection	2,486	2,351	7,234	6,912
Landfill	926	884	2,646	2,487
Transfer	445	412	1,257	1,192
Recycling	337	375	954	1,122
Other (a)	430	443	1,296	1,280
Intercompany (b)	(802)	(749)	(2,315)	(2,160)

Total	$ 3,822	$ 3,716	$ 11,072	$ 10,833

(a) The “Other” line of business includes (i) our WMSBS organization; (ii) our landfill gas-to-energy operations; (iii) certain services within our EES organization, including our construction and remediation services and our services associated with the disposal of fly ash and (iv) certain other expanded service offerings and solutions. In addition, our “Other” line of business reflects the results of non-operating entities that provide financial assurance and self-insurance support, net of intercompany activity.

(b) Intercompany revenues between lines of business are eliminated in the Condensed Consolidated Financial Statements included within this report.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fluctuations in our operating results may be caused by many factors, including period-to-period changes in the relative contribution of revenue by each line of business, changes in commodity prices and general economic conditions. In addition, our revenues and income from operations typically reflect seasonal patterns. Our operating revenues tend to be somewhat higher in summer months, primarily due to the higher construction and demolition waste volumes. The volumes of industrial and residential waste in certain regions where we operate also tend to increase during the summer months. Our second and third quarter revenues and results of operations typically reflect these seasonal trends.

Service disruptions caused by severe storms, extended periods of inclement weather or climate extremes resulting from climate change can significantly affect the operating results of the Areas affected. On the other hand, certain destructive weather conditions that tend to occur during the second half of the year, such as the hurricanes that most often impact our operations in the Southern and Eastern U.S., can increase our revenues in the Areas affected. While weather-related and other event driven special projects can boost revenues through additional work for a limited time, as a result of significant start-up costs and other factors, such revenue can generate earnings at comparatively lower margins.

9. Acquisitions and Divestitures

Acquisitions

During the nine months ended September 30, 2018, we acquired 21 solid waste businesses. Total consideration, net of cash acquired, for these acquisitions was $350 million, which included $329 million in cash paid and $21 million of other consideration, primarily purchase price holdbacks. During the nine months ended September 30, 2018, we also paid $13 million of purchase price holdbacks, of which $7 million related to current year acquisitions. The businesses acquired provide collection, transfer and disposal services. As of September 30, 2018, the allocation of the purchase price for these acquisitions is preliminary; fair value estimates of identifiable assets acquired and liabilities assumed are based on management's estimates, judgments and assumptions and are subject to change until finalized.

Divestitures

During the nine months ended September 30, 2018, we sold certain ancillary operations and received cash proceeds from these divestitures of $86 million and recognized net gains of $43 million, which are included in (gain) loss from divestitures, asset impairments and unusual items, net in the Condensed Consolidated Statement of Operations.

10. Asset Impairments and Unusual Items

(Gain) loss from divestitures, asset impairments and unusual items, net

During the nine months ended September 30, 2018, we recognized a net gain of $14 million, primarily related to net gains from divestitures of $43 million due to the sale of certain ancillary operations, which were partially offset by a $29 million charge to impair a landfill in our Tier 3 segment based on an internally developed discounted projected cash flow analysis, taking into account continued volume decreases and revised capping cost estimates.

Equity in net losses of unconsolidated entities

During the nine months ended September 30, 2017, we recognized $28 million of impairment charges to write down equity method investments in waste diversion technology companies to their estimated fair values.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

11. Accumulated Other Comprehensive Income (Loss)

The changes in the balances of each component of accumulated other comprehensive income (loss), net of tax, which is included as a component of Waste Management, Inc. stockholders' equity, are as follows (in millions, with amounts in parentheses representing decreases to accumulated other comprehensive income):

	Derivative Instruments	Available-for-Sale Securities	Foreign Currency Translation Adjustments	Post-Retirement Benefit Obligations	Total
Balance, December 31, 2017	$ (33)	$ 15	$ 29	$ (3)	$ 8
Other comprehensive income (loss) before reclassifications, net of tax expense (benefit) of $0, $3, $0 and $0, respectively	—				