

WASTE CONNECTIONS, INC.  
Form 10-Q  
May 08, 2009

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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 March 31, 2009

or

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

For the transition period from            to

Commission file number 1-31507

WASTE CONNECTIONS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

94-3283464  
(I.R.S. Employer Identification No.)

2295 Iron Point Road, Suite 200, Folsom, CA 95630  
(Address of principal executive offices)            (Zip code)

(916) 608-8200  
(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 and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

As of April 30, 2009: 80,066,646 shares of common stock

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

WASTE CONNECTIONS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share amounts)

	December 31, 2008	March 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 265,264	\$ 335,758
Accounts receivable, net of allowance for doubtful accounts of \$3,846 and \$3,309 at December 31, 2008 and March 31, 2009, respectively	118,456	116,543
Deferred income taxes	22,347	21,066
Prepaid expenses and other current assets	23,144	17,097
Total current assets	429,211	490,464
Property and equipment, net	984,124	991,098
Goodwill	836,930	839,203
Intangible assets, net	306,444	303,822
Restricted assets	23,009	24,647
Other assets, net	20,639	19,930
	\$ 2,600,357	\$ 2,669,164
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 65,537	\$ 60,634
Book overdraft	4,315	8,430
Accrued liabilities	95,220	99,984
Deferred revenue	45,694	44,296
Current portion of long-term debt and notes payable	4,698	3,901
Total current liabilities	215,464	217,245
Long-term debt and notes payable	819,828	855,205
Other long-term liabilities	47,509	54,893
Deferred income taxes	255,559	259,885
Total liabilities	1,338,360	1,387,228
Commitments and contingencies (Note 13)		
Equity:		
Preferred stock: \$0.01 par value per share; 7,500,000 shares authorized; none issued and outstanding	—	—
Common stock: \$0.01 par value per share; 150,000,000 shares authorized; 79,842,239 and 80,049,077 shares issued and outstanding at December 31, 2008 and March 31, 2009, respectively	798	800

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Additional paid-in capital	661,555	662,512
Accumulated other comprehensive loss	(23,937)	(27,269)
Retained earnings	622,913	644,891
Total Waste Connections' equity	1,261,329	1,280,934
Noncontrolling interests	668	1,002
Total equity	1,261,997	1,281,936
	\$ 2,600,357	\$ 2,669,164

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

## WASTE CONNECTIONS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except share and per share amounts)

	Three months ended March	
	31,	
	2008	2009
Revenues	\$ 250,300	\$ 262,675
Operating expenses:		
Cost of operations	149,132	154,703
Selling, general and administrative	27,090	32,515
Depreciation	21,827	24,840
Amortization of intangibles	1,396	2,476
Loss on disposal of assets	57	507
Operating income	50,798	47,634
Interest expense	(10,612)	(12,249)
Interest income	224	1,024
Other income (expense), net	(12)	6
Income before income taxes	40,398	36,415
Income tax provision	(14,570)	(14,103)
Net income	25,828	22,312
Less: Net income attributable to noncontrolling interests	(3,373)	(334)
Net income attributable to Waste Connections	\$ 22,455	\$ 21,978
Earnings per common share attributable to Waste Connections' common stockholders:		
Basic	\$ 0.34	\$ 0.27
Diluted	\$ 0.33	\$ 0.27
Shares used in the per share calculations:		
Basic	66,789,398	79,963,438
Diluted	68,121,953	80,758,941

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

## WASTE CONNECTIONS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except share amounts)

	Waste Connections' Equity							Total
	Comprehensive Income	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interests	
Balances at December 31, 2007		67,052,135	\$ 670	\$ 254,284	\$ (4,290)	\$ 524,481	\$ 30,220	\$ 805,365
Cumulative change from adoption of accounting policy - FSP No. APB 14-1		—	—	13,726	—	(4,471)	—	9,255
Vesting of restricted stock		222,863	2	(2)	—	—	—	—
Cancellation of restricted stock and warrants		(72,082)	(1)	(2,192)	—	—	—	(2,193)
Stock-based compensation		—	—	7,854	—	—	—	7,854
Exercise of stock options and warrants		1,030,594	10	19,079	—	—	—	19,089
Issuance of common stock, net of issuance costs of \$17,195		12,650,000	127	393,803	—	—	—	393,930
Excess tax benefit associated with equity-based compensation		—	—	6,441	—	—	—	6,441
Repurchase of common stock		(1,041,271)	(10)	(31,517)	—	—	—	(31,527)
Issuance of common stock warrants to consultants		—	—	79	—	—	—	79
Amounts reclassified into earnings, net of taxes		—	—	—	4,010	—	—	4,010

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Changes in fair value of swaps, net of taxes		—	—	—	(23,657)	—	—	(23,657)
Distributions to noncontrolling interests		—	—	—	—	—	(8,232)	(8,232)
Changes in ownership interest in noncontrolling interests		—	—	—	—	—	(33,560)	(33,560)
Net income	\$	115,143	—	—	—	—102,903	12,240	115,143
Other comprehensive loss		(31,609)	—	—	—	—	—	—
Income tax effect of other comprehensive loss		11,962	—	—	—	—	—	—
Comprehensive income		95,496	—	—	—	—	—	—
Comprehensive income attributable to noncontrolling interests		(12,240)	—	—	—	—	—	—
Comprehensive income attributable to Waste Connections	\$	83,256	—	—	—	—	—	—
Balances at December 31, 2008		79,842,239	798	661,555	(23,937)	622,913	668	1,261,997
Vesting of restricted stock		248,162	2	(2)	—	—	—	—
Cancellation of restricted stock and warrants		(84,263)	(1)	(2,341)	—	—	—	(2,342)
Stock-based compensation		—	—	2,162	—	—	—	2,162
Exercise of stock options and warrants		42,939	1	1,017	—	—	—	1,018
Excess tax benefit associated with equity-based compensation		—	—	115	—	—	—	115
Issuance of common stock warrants to consultants		—	—	6	—	—	—	6



Amounts reclassified into earnings, net of taxes		—	—	—	4,110	—	—	4,110						
Changes in fair value of interest rate swaps, net of taxes		—	—	—	(7,442)	—	—	(7,442)						
Net income	\$	22,312	—	—	—	21,978	334	22,312						
Other comprehensive loss		(5,374)	—	—	—	—	—	—						
Income tax effect of other comprehensive loss		2,042	—	—	—	—	—	—						
Comprehensive income		18,980	—	—	—	—	—	—						
Comprehensive income attributable to noncontrolling interests		(334)	—	—	—	—	—	—						
Comprehensive income attributable to Waste Connections	\$	18,646	—	—	—	—	—	—						
Balances at March 31, 2009		80,049,077	\$	800	\$	662,512	\$	(27,269)	\$	644,891	\$	1,002	\$	1,281,936

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

WASTE CONNECTIONS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(In thousands)

	Three months ended March 31,	
	2008	2009
Cash flows from operating activities:		
Net income	\$ 25,828	\$ 22,312
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of assets	57	507
Depreciation	21,827	24,840
Amortization of intangibles	1,396	2,476
Deferred income taxes, net of acquisitions	7,583	7,649
Amortization of debt issuance costs	454	484
Amortization of debt discount	1,101	1,171
Stock-based compensation	2,065	2,162
Interest income on restricted assets	(170)	(132)
Closure and post-closure accretion	333	352
Excess tax benefit associated with equity-based compensation	(1,101)	(115)
Net change in operating assets and liabilities, net of acquisitions	5,220	8,843
Net cash provided by operating activities	64,593	70,549
Cash flows from investing activities:		
Payments for acquisitions, net of cash acquired	(32,327)	(5,298)
Capital expenditures for property and equipment	(24,108)	(29,412)
Proceeds from disposal of assets	301	161
Increase in restricted assets, net of interest income	(621)	(1,506)
Decrease in other assets	96	166
Net cash used in investing activities	(56,659)	(35,889)
Cash flows from financing activities:		
Proceeds from long-term debt	80,500	75,000
Principal payments on notes payable and long-term debt	(57,487)	(44,372)
Change in book overdraft	(3,596)	4,115
Proceeds from option and warrant exercises	5,124	1,018
Excess tax benefit associated with equity-based compensation	1,101	115
Distributions to noncontrolling interests	(2,842)	—
Payments for repurchase of common stock	(31,527)	—
Debt issuance costs	—	(42)
Net cash (used in) provided by financing activities	(8,727)	35,834
Net (decrease) increase in cash and equivalents	(793)	70,494
Cash and equivalents at beginning of period	10,298	265,264
Cash and equivalents at end of period	\$ 9,505	\$ 335,758
Non-cash financing activity:		
Liabilities assumed and notes payable issued to sellers of businesses acquired	\$ 4,978	\$ 2,810

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

WASTE CONNECTIONS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon and per ton amounts)

1. BASIS OF PRESENTATION AND SUMMARY

The accompanying condensed consolidated financial statements relate to Waste Connections, Inc. and its subsidiaries ("WCI" or the "Company") for the three month periods ended March 31, 2008 and 2009. In the opinion of management, the accompanying balance sheets and related interim statements of income, cash flows and equity include all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with U.S. generally accepted accounting principles ("GAAP"). Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Examples include accounting for landfills, self-insurance, income taxes, allocation of acquisition purchase price and asset impairments. An additional area that involves estimation is when the Company estimates the amount of potential exposure it may have with respect to litigation, claims and assessments in accordance with Financial Accounting Standards Board ("FASB") Statement No. 5, Accounting for Contingencies. Actual results for all estimates could differ materially from the estimates and assumptions that the Company uses in the preparation of its condensed consolidated financial statements.

Interim results are not necessarily indicative of results for a full year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included in the Company's 2008 Annual Report on Form 10-K.

Certain amounts reported in the Company's prior year's financial statements have been reclassified to conform with the 2009 presentation.

2. NEW ACCOUNTING STANDARDS

SFAS 141(R) and FSP FAS 141(R)-1. In December 2007, the FASB issued SFAS No. 141(R), Business Combinations ("SFAS 141(R)"). SFAS 141(R) establishes principles and requirements for how the Company: (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) also requires acquisition-related transaction and restructuring costs to be expensed rather than treated as part of the cost of the acquisition. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted SFAS 141(R) on January 1, 2009.

In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies ("FSP FAS 141(R)-1"). This pronouncement amends SFAS 141(R) to clarify the initial and subsequent recognition, subsequent accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, as determined in accordance with SFAS No. 157, Fair Value Measurements ("SFAS 157"), if the acquisition-date fair value can be reasonably estimated. If the acquisition-date fair value of an asset or liability cannot be reasonably estimated, the asset or liability would be measured at the amount that would be recognized in accordance with FASB Statement

No. 5, Accounting for Contingencies, and FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss – an Interpretation of FASB Statement No. 5. FSP FAS 141(R)-1 became effective for the Company as of January 1, 2009, and the provisions of FSP FAS 141(R)-1 are applied prospectively to business combinations with an acquisition date on or after the date the guidance became effective. The adoption of FSP FAS 141(R)-1 did not have a material impact on the Company's financial position or results of operations.

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WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in thousands, except share, per share, per gallon and per ton amounts)

FSP 157-2 and FSP FAS 157-4. In February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2"), which delayed the effective date of SFAS 157 for nonrecurring fair value measurements of assets and liabilities until January 1, 2009. The Company's assets and liabilities measured at fair value on a nonrecurring basis include assets and liabilities acquired in connection with a business combination, goodwill, intangible assets and asset retirement obligations recognized in connection with final capping, closure and post-closure landfill obligations. The Company adopted SFAS 157 as it relates to these assets and liabilities on January 1, 2009. See Note 11 for further information on the Company's adoption of SFAS 157 for nonrecurring fair value measurements in periods subsequent to initial measurement.