REPUBLIC SERVICES, INC.
Form 10-Q
October 28, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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	**65-0716904**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification No.)**
18500 NORTH ALLIED WAY	
PHOENIX, ARIZONA	**85054**
(Address of principal executive offices)	**(Zip code)**

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 þ 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 þ 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 þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 þ

On October 17, 2011, the registrant had outstanding 370,363,917 shares of Common Stock, par value $.01 per share (excluding treasury shares of 31,604,909).

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

REPUBLIC SERVICES, INC.

CONSOLIDATED BALANCE SHEETS

(in millions, except per share amounts)

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 72.6	$ 88.3
Accounts receivable, less allowance for doubtful accounts of $46.1 and $50.9, respectively	901.3	828.9
Prepaid expenses and other current assets	175.9	207.4
Deferred tax assets	104.6	121.5
Total current assets	1,254.4	1,246.1
Restricted cash and marketable securities	160.5	172.8
Property and equipment, net	6,708.9	6,698.5
Goodwill	10,646.7	10,655.3
Other intangible assets, net	427.6	451.3
Other assets	258.1	237.9
Total assets	$ 19,456.2	$ 19,461.9
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 515.2	$ 606.5
Notes payable and current maturities of long-term debt	9.7	878.5
Deferred revenue	306.8	295.1
Accrued landfill and environmental costs, current portion	190.2	182.0
Accrued interest	82.8	93.1
Other accrued liabilities	752.8	621.3
Total current liabilities	1,857.5	2,676.5
Long-term debt, net of current maturities	7,021.6	5,865.1
Accrued landfill and environmental costs, net of current portion	1,413.5	1,416.6
Deferred income taxes and other long-term tax liabilities	1,069.7	1,044.8
Self-insurance reserves, net of current portion	301.1	304.5
Other long-term liabilities	178.3	305.5
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; 401.9 and 400.2 issued including shares held in treasury, respectively	4.0	4.0
Additional paid-in capital	6,486.0	6,431.1
Retained earnings	2,055.3	1,890.3
Treasury stock, at cost (31.1 and 16.5 shares, respectively)	(930.7)	(500.8)
Accumulated other comprehensive (loss) income, net of tax	(2.2)	21.9

Total Republic Services, Inc. stockholders equity	7,612.4	7,846.5
Noncontrolling interests	2.1	2.4
Total stockholders equity	7,614.5	7,848.9
Total liabilities and stockholders equity	$ 19,456.2	$ 19,461.9

The accompanying notes are an integral part of these statements.

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REPUBLIC SERVICES, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share data)

	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Revenue	$ 2,116.2	$ 2,061.7	$ 6,167.7	$ 6,085.8
Expenses:				
Cost of operations	1,260.0	1,224.9	3,657.5	3,580.0
Depreciation, amortization and depletion	215.0	211.6	629.4	628.4
Accretion	19.4	20.1	58.6	60.5
Selling, general and administrative	207.5	209.4	611.5	630.5
Loss on disposition of assets and impairments, net	5.8	25.5	24.8	27.1
Restructuring charges		2.6		9.6
Operating income	408.5	367.6	1,185.9	1,149.7
Interest expense	(108.3)	(122.0)	(335.4)	(387.0)
Loss on extinguishment of debt	(6.0)	(19.4)	(207.3)	(151.7)
Interest income		0.4	0.3	0.5
Other income, net	1.8	3.1	3.8	4.7
Income before income taxes	296.0	229.7	647.3	616.2
Provision for income taxes	102.4	95.2	249.4	256.6
Net income	193.6	134.5	397.9	359.6
Net (income) loss attributable to noncontrolling interests	(0.1)	(0.3)	0.3	(0.7)
Net income attributable to Republic Services, Inc.	$ 193.5	$ 134.2	$ 398.2	$ 358.9
Basic earnings per share attributable to Republic Services, Inc. stockholders:				
Basic earnings per share	$ 0.52	$ 0.35	$ 1.05	$ 0.94
Weighted average common shares outstanding	373.2	384.0	377.9	382.6
Diluted earnings per share attributable to Republic Services, Inc. stockholders:				
Diluted earnings per share	$ 0.52	$ 0.35	$ 1.05	$ 0.93
Weighted average common and common equivalent shares outstanding	374.7	386.1	379.6	384.7
Cash dividends per common share	$ 0.22	$ 0.20	$ 0.62	$ 0.58

The accompanying notes are an integral part of these statements.

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REPUBLIC SERVICES, INC.

UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(in millions)

		Republic Services, Inc. Stockholders Equity							
		Common Stock		Additional Paid-In	Retained	Treasury Stock		Accumulated Other Comprehensive Income (Loss),	Noncontrolling
	Total	Shares	Amount	Capital	Earnings	Shares	Amount	Net of Tax	Interests
Balance as of December 31, 2010	$ 7,848.9	400.2	$ 4.0	$ 6,431.1	$ 1,890.3	(16.5)	$ (500.8)	$ 21.9	$ 2.4
Net income (loss)	397.9				398.2				(0.3)
Other comprehensive loss	(24.1)							(24.1)	
Cash dividends declared	(232.7)				(232.7)				
Issuances of common stock	38.0	1.7		38.0					
Stock-based compensation	16.4			16.9	(0.5)				
Purchase of common stock for treasury	(429.9)					(14.6)	(429.9)		
Balance as of September 30, 2011	$ 7,614.5	401.9	$ 4.0	$ 6,486.0	$ 2,055.3	(31.1)	$ (930.7)	$ (2.2)	$ 2.1

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	2010
Cash provided by operating activities:		
Net income	$ 397.9	$ 359.6
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization of property and equipment	384.3	384.0
Landfill depletion and amortization	188.0	191.5
Amortization of intangible and other assets	57.1	52.9
Accretion	58.6	60.5
Non-cash interest expense - debt	20.9	40.9
Non-cash interest expense - other	37.2	36.2
Stock-based compensation	16.4	18.3
Deferred tax benefit	(18.9)	(1.7)
Provision for doubtful accounts, net of adjustments	10.9	14.4
Excess income tax benefit from stock option exercises	(2.4)	(2.9)
Asset impairments	45.9	11.5
Loss on extinguishment of debt	207.3	151.7
(Gain) loss on disposition of assets, net	(34.8)	5.8
Other non-cash items	(6.7)	0.9
Change in assets and liabilities, net of effects from business acquisitions and divestitures:		
Accounts receivable	(80.7)	(48.6)
Prepaid expenses and other assets	24.5	(36.9)
Accounts payable	6.3	(81.1)
Restructuring and synergy related expenditures	(2.9)	(15.8)
Capping, closure and post-closure expenditures	(73.3)	(62.2)
Remediation expenditures	(26.7)	(32.2)
Other liabilities	77.9	(83.1)
Cash provided by operating activities	1,286.8	963.7
Cash used in investing activities:		
Purchases of property and equipment	(696.1)	(571.4)
Proceeds from sales of property and equipment	23.4	17.4
Cash used in business acquisitions and development projects, net of cash acquired	(40.8)	(21.4)
Cash proceeds from divestitures, net of cash divested	14.2	50.6
Change in restricted cash and marketable securities	12.3	33.0
Other	(2.2)	(0.6)
Cash used in investing activities	(689.2)	(492.4)
Cash used in financing activities:		
Proceeds from notes payable and long-term debt	1,137.5	1,069.5
Proceeds from issuance of senior notes, net of discount	1,844.9	1,499.4
Payments of notes payable and long-term debt	(2,827.6)	(2,763.3)
Premiums paid on extinguishment of debt	(89.6)	(30.4)
Fees paid to issue and retire senior notes and certain hedging relationships	(58.8)	(23.7)
Issuances of common stock	35.6	67.1
Excess income tax benefit from stock option exercises	2.4	2.9

Purchases of common stock for treasury	(429.9)	(1.4)
Cash dividends paid	(227.8)	(217.7)
Distributions paid to noncontrolling interests		(1.2)
Cash used in financing activities	(613.3)	(398.8)
(Decrease) increase in cash and cash equivalents	(15.7)	72.5
Cash and cash equivalents at beginning of period	88.3	48.0
Cash and cash equivalents at end of period	$ 72.6	$ 120.5

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 AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Republic Services, Inc. (a Delaware corporation) and its subsidiaries (also referred to collectively as Republic, we, us, our, or the company in this report) 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. Our investments in variable interest entities are not material to our consolidated financial statements.

We have prepared these unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). All significant intercompany accounts and transactions have been eliminated. 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, 2010.

For comparative purposes, certain prior year amounts have been reclassified to conform to the current year presentation.

Management s Estimates and Assumptions

In preparing our financial statements, we include numerous estimates and assumptions that affect the accounting, recognition and disclosure of assets, liabilities, stockholders equity, revenue and expenses. 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 some cases, these estimates are particularly difficult to determine and we must exercise significant judgment. In preparing our financial statements, the most difficult, subjective and complex estimates and assumptions that deal with the greatest amount of uncertainty relate to our accounting for our long-lived assets, landfill development costs, final capping, closure and post-closure costs, and the recoverability of goodwill; our valuation allowances for accounts receivable and deferred tax assets; our liabilities for potential litigation, claims and assessments; and our liabilities for environmental remediation, employee benefit plans, stock-based compensation, deferred taxes, uncertain tax positions and self-insurance. 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, 2010. Our actual results may differ significantly from our estimates.

New Accounting Pronouncements

Goodwill Impairment Test

In December 2010, the Financial Accounting Standards Board (FASB) issued authoritative guidance that modifies the requirements of the Step 1 goodwill impairment test for reporting units with zero or negative carrying amounts. We adopted this guidance effective January 1, 2011, and it did not have a material impact on our consolidated financial position or results of operations.

In September 2011, the FASB issued a new accounting standard update to allow the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before applying the two-step goodwill impairment test. The adoption of this standard will not impact our consolidated financial position or results of operations.

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REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Other Comprehensive Income

In June 2011, the FASB issued a new accounting standard update on the presentation of comprehensive income. The updated standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The updated standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. We will adopt this presentation standard as of the beginning of 2012, or when applicable. It will only impact the presentation of our financial statements and will not impact our consolidated financial position or results of operations.

Multi-employer Pension Plans

In September 2011, the FASB issued a new accounting standard update requiring companies participating in multi-employer pension plans to disclose more information about their involvement in those plans. Retrospective application of the disclosures is required. This guidance is effective for fiscal years ending after December 15, 2011. The Company is currently evaluating the impact of this guidance on its multi-employer pension plan disclosures.

2. BUSINESS ACQUISITIONS, DISPOSITION OF ASSETS AND ASSET IMPAIRMENTS

Acquisitions

We acquired various solid waste businesses during the nine months ended September 30, 2011 and 2010. The aggregate cash used in these acquisitions, net of cash acquired, was $40.8 million and $21.4 million, respectively. The purchase price paid for these acquisitions during the nine months ended September 30 and the preliminary allocation of the purchase price as of September 30 are as follows (in millions):

	2011	2010
Purchase price:		
Cash used in acquisitions, net of cash acquired	$ 40.8	$ 21.4
Fair value of operations surrendered	47.8	
Holdbacks	0.8	0.6
Total	89.4	22.0
Allocated as follows:		
Working capital	7.0	0.5
Property and equipment	43.9	9.3
Other liabilities, net	(8.5)	(0.9)
Value of assets acquired and liabilities assumed	42.4	8.9
Excess purchase price to be allocated	$ 47.0	$ 13.1
Excess purchase price to be allocated as follows:		
Other intangible assets	32.0	3.0
Goodwill	15.0	10.1

Total allocated	$ 47.0	$ 13.1

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

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REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Disposition of Assets and Asset Impairments

The components of the loss on disposition of assets and impairments, net during the three and nine months ended September 30, 2011 are as follows (in millions):

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Eastern Region asset impairment	$ 5.9	$ 5.9
Gain on the disposition of businesses		(17.1)
Southern Region landfill asset impairment	0.3	28.8
Western Region asset impairment		7.2
All other, net	(0.4)	
Loss on disposition of assets and impairments, net	$ 5.8	$ 24.8

During the nine months ended September 30, 2011, we disposed of businesses in three markets in our Southern Region, resulting in a gain of $17.1 million. In connection with these dispositions, we closed a landfill site, resulting in an asset impairment charge of $28.8 million for the remaining landfill assets and the acceleration of capping, closure and post-closure obligations. Additionally, we recorded asset impairments of $7.2 million for expected losses on the divestiture of certain businesses and related goodwill in our Western Region. These assets were subsequently sold in the third quarter of 2011 resulting in no further loss. Proceeds from dispositions of solid waste assets were $14.2 million for the nine months ended September 30, 2011.

During the three and nine months ended September 30, 2010, we recorded a net loss on the disposition of assets and impairments of $25.5 million and $27.1 million, respectively. In August 2010, we divested hauling operations and two transfer stations in our Eastern Region for aggregate proceeds of approximately $50 million and recognized a loss on disposition of $14.7 million. Additionally, we recorded an impairment loss of $11.5 million related to certain long lived assets that are held and used.

3. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

A summary of the activity and balances in goodwill accounts by operating segment is as follows (in millions):

	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

	Acquisitions	Divestitures

	Balance at December 31, 2009			Adjustments to Acquisitions	Balance at September 30, 2010
Eastern	$ 2,818.5	$	$ (20.5)	$ (2.5)	$ 2,795.5
Midwestern	2,118.2	0.9		(1.9)	2,117.2
Southern	2,724.7			(2.6)	2,722.1
Western	3,005.7	9.2		(2.9)	3,012.0
Total	$ 10,667.1	$ 10.1	$ (20.5)	$ (9.9)	$ 10,646.8

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REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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 2 to 23 years. A summary of the activity and balances by intangible asset type is as follows (in millions):

	Gross Intangible Assets			Accumulated Amortization			Net
	Balance at December 31, 2010	Acquisitions	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	$ 537.1	$ 28.3	$ 565.4	$ (130.7)	$ (47.4)	$ (178.1)	$ 387.3
Trade names	30.0		30.0	(12.5)	(4.5)	(17.0)	13.0
Non-compete agreements	12.9	3.7	16.6	(7.2)	(1.5)	(8.7)	7.9
Other intangible assets	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

	Gross Intangible Assets			Accumulated Amortization			Net
	Balance at December 31, 2009	Acquisitions	Balance at September 30, 2010	Balance at December 31, 2009	Additions Charged to Expense	Balance at September 30, 2010	Intangibles at September 30, 2010
Customer relationships, franchise and other municipal agreements	$ 521.1	$ 0.9	$ 522.0	$ (70.5)	$ (44.8)	$ (115.3)	$ 406.7
Trade names	30.0		30.0	(6.5)	(4.5)	(11.0)	19.0
Non-compete agreements	7.4	2.1	9.5	(6.5)	(0.5)	(7.0)	2.5
Other intangibles assets	62.9		62.9	(37.9)	(2.5)	(40.4)	22.5
Total	$ 621.4	$ 3.0	$ 624.4	$ (121.4)	$ (52.3)	$ (173.7)	$ 450.7

4. OTHER ASSETS

Prepaid Expenses and Other Current Assets

A summary of prepaid expenses and other current assets as of September 30, 2011 and December 31, 2010 is as follows (in millions):

	2011	2010
Inventories	$ 37.8	$ 31.3
Prepaid expenses	62.6	55.9
Other non-trade receivables	38.6	45.4
Income tax receivable	32.8	69.8
Other current assets	4.1	5.0

Total	$ 175.9	$ 207.4

The fair value of our interest rate swaps, which matured in August 2011, of $5.2 million is included in other non-trade receivables as of December 31, 2010. Other current assets include the fair value of fuel and commodity hedges of $2.2 million and $3.5 million as of September 30, 2011 and December 31, 2010, respectively.

Other Assets

A summary of other assets as of September 30, 2011 and December 31, 2010 is as follows (in millions):

	2011	2010
Deferred financing costs	$ 56.3	$ 41.1
Deferred compensation plan	33.9	27.4
Notes and other receivables	34.5	34.0
Reinsurance receivable	53.8	54.5
Other	79.6	80.9
Total	$ 258.1	$ 237.9

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REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

5. OTHER LIABILITIES

Other Accrued Liabilities

A summary of other accrued liabilities as of September 30, 2011 and December 31, 2010 is as follows (in millions):

	2011	2010
Accrued payroll and benefits	$ 147.3	$ 158.4
Accrued fees and taxes	127.5	111.8
Self-insurance reserves, current portion	119.1	112.7
Accrued dividends	81.6	76.7
Synergy incentive plan	68.1	
Current tax liabilities	18.6	
Restructuring liabilities	0.4	3.9
Accrued professional fees and legal settlement reserves	81.8	53.1
Other	108.4	104.7
Total	$ 752.8	$ 621.3

Other accrued liabilities include the fair value of fuel and commodity hedges of $14.2 million and $8.4 million as of September 30, 2011 and December 31, 2010, respectively.

We expect to pay amounts earned under the synergy incentive plan during the first quarter of 2012. The synergy incentive plan was fully accrued and was included in other long-term liabilities as of December 31, 2010.

Other Long-Term Liabilities

A summary of other long-term liabilities as of September 30, 2011 and December 31, 2010 is as follows (in millions):

	2011	2010
Deferred compensation liability	$ 31.4	$ 27.7
Pension and other postretirement liabilities	5.2	14.4
Contingent legal liabilities	61.6	105.8
Ceded insurance reserves	53.8	54.5
Synergy incentive plan		68.1
Other	26.3	35.0
Total	$ 178.3	$ 305.5

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, 2011 (which includes claims for workers compensation, general liability, vehicle liability and employee health care benefits) were $420.2 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 will be reflected in our consolidated statements of income in the periods in which such adjustments are known.

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REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Accrued Liabilities Associated with the Allied Acquisition

We evaluated our operating contracts and leases acquired from Allied and recorded liabilities for unfavorable contract and lease exit costs. The underlying lease agreements and contracts have remaining non-cancellable terms ranging from 1 to 21 years. The following tables reflect activity during the nine months ended September 30, 2011 and 2010 associated with unfavorable contracts and lease exit liabilities included in other accrued and other long-term liabilities (in millions):

	Balance at December 31, 2010	Payments / Amortization	Adjustments	Balance at September 30, 2011
Unfavorable contracts	$ 37.6	$ (7.2)	$ (5.3)	$ 25.1
Lease exit costs	5.0	(1.3)	(0.6)	3.1
Total	$ 42.6	$ (8.5)	$ (5.9)	$ 28.2

	Balance at December 31, 2009	Payments / Amortization	Adjustments	Balance at September 30, 2010
Unfavorable contracts	$ 49.0	$ (7.7)	$ (1.3)	$ 40.0
Lease exit costs	6.4	(1.2)		5.2
Total	$ 55.4	$ (8.9)	$ (1.3)	$ 45.2

6. LANDFILL AND ENVIRONMENTAL COSTS

As of September 30, 2011, we owned or operated 192 active solid waste landfills with total available disposal capacity of approximately 4.8 billion in-place cubic yards. Additionally, we currently have post-closure responsibility for 129 closed landfills.

Accrued Landfill and Environmental Costs

A summary of landfill and environmental liabilities as of September 30, 2011 and December 31, 2010 is as follows (in millions):

	2011	2010
Landfill final capping, closure and post-closure liabilities	$ 1,048.8	$ 1,046.5
Remediation	554.9	552.1
	1,603.7	1,598.6
Less: Current portion	(190.2)	(182.0)
Long-term portion	$ 1,413.5	$ 1,416.6

Final Capping, Closure and Post-Closure Costs

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

	2011	2010
Asset retirement obligation liabilities, beginning of year	$ 1,046.5	$ 1,074.5
Non-cash additions	25.5	23.8
Acquisitions and other adjustments	15.1	1.7
Asset retirement obligation adjustments	(23.6)	(10.6)
Payments	(73.3)	(62.2)
Accretion expense	58.6	60.5
Asset retirement obligation liabilities, end of period	1,048.8	1,087.7
Less: Current portion	(104.1)	(113.3)
Long-term portion	$ 944.7	$ 974.4

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REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Annually, in the fourth quarter, we review our calculations for 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 $54.5 million and $61.8 million as of September 30, 2011 and December 31, 2010, respectively. Such assets are included in restricted cash and marketable securities in our consolidated balance sheets.

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 such 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, 2011 would be approximately $131 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 (in millions):

	2011	2010
Remediation liabilities, beginning of year	$ 552.1	$ 554.1
Acquisitions and other adjustments		1.5
Additions charged to expense	4.7	4.6
Payments	(26.7)	(32.2)
Accretion expense (non-cash interest expense)	24.8	21.8
Remediation liabilities, end of period	554.9	549.8
Less: Current portion	(86.1)	(100.4)
Long-term portion	$ 468.8	$ 449.4

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, 2011 is $63.0 million, of which $5.1 million is expected to be paid during the next twelve months. We believe the reasonably possible range of loss for remediation costs is $54 million to $75 million.

West Contra Costa County Landfill. In 2006, we were issued an Enforcement Order by the California Department of Toxic Substance Control (DTSC) for the Class 1 Hazardous waste cell at the West Contra Costa County Landfill (West County). Subsequently, we entered into a Consent Agreement with DTSC in 2007 in which we agreed to undertake certain remedial actions. The remediation liability for West County recorded as of September 30, 2011 is $45.1 million, of which $1.2 million is expected to be paid during the next twelve months. We believe the reasonably possible range of loss for remediation costs is $35 million to $62 million.

Sunrise Landfill. In August 2008, Republic Services of Southern Nevada (RSSN), signed a Consent Decree with the EPA, the Bureau of Land Management and Clark County, Nevada related to the Sunrise Landfill. Under the Consent Decree, RSSN has agreed to perform certain remedial actions at the Sunrise Landfill for which RSSN and Clark County were otherwise jointly and severally liable. The remediation liability for Sunrise recorded as of September 30, 2011 is $37.0 million, of which $25.5 million is expected to be paid during the next twelve months. We believe the reasonably possible range of loss for remediation costs is $27 million to $42 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 Congress recorded as of September 30, 2011 is $84.0 million, of which $7.6 million is expected to be paid during the next twelve months. We believe the reasonably possible range of loss for remediation costs is $43 million to $143 million.

REPUBLIC SERVICES, INC.

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Environmental Operating Costs

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 period in which they are incurred.

7. DEBT

Our notes payable, capital leases and long-term debt as of September 30, 2011 and December 31, 2010 are listed in the following table in millions, and are presented net of unamortized discounts, adjustments to fair value related to hedging transactions and the unamortized portion of adjustments to fair value recorded in purchase accounting.

	September 30, 2011	December 31, 2010
$1.75 billion revolver due 2013, amended to $1.25 billion due 2013	$ 35.0	$ 25.0
$1.0 billion revolver due 2012, amended to $1.25 billion due 2016	85.0	50.0
Senior notes, fixed interest rate of 5.750%, due February 2011		261.7
Senior notes, fixed interest rate of 6.375%, due April 2011		215.1
Senior notes, fixed interest rate of 6.750%, due August 2011		392.0
Senior notes, fixed interest rate of 7.125%, due May 2016		535.5
Senior notes, fixed interest rate of 6.875%, due June 2017	671.7	663.9
Senior notes, fixed interest rate of 3.800%, due May 2018	699.8	
Senior notes, fixed interest rate of 5.500%, due September 2019	646.1	645.8
Senior notes, fixed interest rate of 5.000%, due March 2020	849.9	849.9
Senior notes, fixed interest rate of 5.250%, due November 2021	600.0	600.0
Debentures, fixed interest rate of 9.250%, due May 2021	33.3	93.4
Senior notes, fixed interest rate of 4.750%, due May 2023	548.6	
Senior notes, fixed interest rate of 6.086%, due March 2035	250.2	249.8
Debentures, fixed interest rate of 7.400%, due September 2035	123.2	267.6
Senior notes, fixed interest rate of 6.200%, due March 2040	649.5	649.5
Senior notes, fixed interest rate of 5.700%, due May 2041	596.6	
Tax-exempt bonds and other tax-exempt financings; fixed and floating interest rates ranging from 0.13% to 8.25%; maturities ranging from 2012 to 2035	1,152.3	1,151.8
Other debt unsecured and secured by real property, equipment and other assets; interest rates ranging from 5.00% to 11.90%; maturing through 2042	90.1	92.6
Total debt	7,031.3	6,743.6
Less: Current portion	(9.7)	(878.5)
Long-term portion	$ 7,021.6	$ 5,865.1

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REPUBLIC SERVICES, INC.

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Loss on Extinguishment of Debt

During the three and nine months ended September 30, 2011 and 2010, we completed financing 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:

	Quarter	Principal Repaid	Cash Paid in Loss on Extinguishment of Debt	Non-cash Loss on Extinguishment of Debt	Total Loss on Extinguishment of Debt
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
2010:					
Accounts receivable securitization program	First	$ 300.0	$	$ 0.2	$ 0.2
$425.0 million 6.125% senior notes due February 2014	First	425.0	8.7	44.1	52.8
$600.0 million 7.250% senior notes due March 2015	First	600.0	21.8	57.5	79.3
Refinancing and retirement of various industrial revenue bonds	Third	20.8		19.4	19.4
Loss on extinguishment of debt for the nine months ended September 30, 2010			$ 30.5	$ 121.2	$ 151.7

Credit Facilities

In April 2011, we amended and restated our $1.0 billion revolving credit facility due April 2012 (the Amended and Restated Credit Facility) to increase the borrowing capacity to $1.25 billion and to extend the maturity to April 2016. The Amended and Restated Credit Facility includes a feature that will allow 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). Substantially all of our subsidiaries guarantee all obligations under the Amended and Restated Credit Facility.

Contemporaneous with the execution of the Amended and Restated Credit Facility, we entered into Amendment No. 2 to our existing $1.75 billion 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 $1.25 billion and conform certain terms of the Existing Credit Facility to those of the Amended and Restated Credit Facility. Amendment No. 2 does not extend the maturity date under the Existing Credit Facility, which matures in September 2013. Substantially all of our subsidiaries continue to guarantee all obligations under the Existing Credit Facility.

As of September 30, 2011 and December 31, 2010, the interest rate for our borrowings under our Credit Facilities was 1.51% and 1.56%, respectively. 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 September 30, 2011 and December 31, 2010, we had $120.0 million and $75.0 million of Eurodollar Rate borrowings, respectively. We had $919.6 million and $1,037.5 million of letters of credit utilizing availability under our Credit Facilities, leaving $1,460.4 million and $1,637.5 million of availability under our Credit Facilities, at September 30, 2011 and December 31, 2010, respectively. We were in compliance with the covenants under our Credit Facilities at September 30, 2011.

Senior Notes and Debentures

During the three months ended September 30, 2011, our 6.750% senior notes matured. We used cash on hand and incremental borrowings under our Credit Facilities to repay $387.0 million of principal due on these notes.

During the three months ended June 30, 2011, we issued $700.0 million of 3.800% senior notes due 2018 (the 3.800% Notes), $550.0 million of 4.750% senior notes due 2023 (the 4.750% Notes) and $600.0 million of 5.700% senior notes due 2041 (the 5.700% Notes, and together with the 3.800% Notes and the 4.750% Notes, the Notes). The Notes are unsecured and unsubordinated obligations and are guaranteed by each of our subsidiaries that also guarantees the Credit Facilities. These guarantees are general senior unsecured obligations of our subsidiary guarantors. We used the net proceeds from the Notes as follows (i) $621.4 million to fund the redemption of our $600.0 million 7.125%

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

senior notes maturing in 2016; (ii) $81.6 million to purchase $59.2 million of our subsidiary Browning-Ferris Industries, LLC s 9.250% debentures maturing in 2021; (iii) $221.8 million to purchase $180.7 million of our subsidiary Browning-Ferris Industries, LLC s 7.400% debentures maturing in 2035; (iv) $619.0 million to repay borrowings under our revolving credit facilities; and (v) the remainder for general corporate purposes.

During the three months ended June 30, 2011, our 6.375% senior notes matured. We used cash on hand and incremental borrowings under our Credit Facilities to repay $216.9 million of principal due on these notes.

During the three months ended March 31, 2011, our 5.750% senior notes matured. We used cash on hand and incremental borrowings under our Credit Facilities to repay $262.9 million of principal due on these notes.

In March 2010, we issued $850.0 million of 5.00% senior notes due 2020 and $650.0 million of 6.20% senior notes due 2040. We used the net proceeds to retire certain outstanding debt and to reduce amounts outstanding under our Credit Facilities and for general corporate purposes.

As of September 30, 2011 and December 31, 2010, our senior notes and debentures totaled $5,668.9 million and $5,424.2 million, respectively, net of unamortized discounts and adjustments to fair value recorded in purchase accounting for the debt assumed from Allied of $157.5 million and $282.9 million, respectively, which is being amortized over the remaining term of the notes, and adjustments to fair value related to our interest rate swap agreements of $5.2 million at December 31, 2010.

Tax-Exempt Financings

As of September 30, 2011 and December 31, 2010, we had $1,152.3 million and $1,151.8 million, respectively, of fixed and variable rate tax-exempt financings outstanding with maturities ranging from 2012 to 2035. As of September 30, 2011 and December 31, 2010, the total of the unamortized adjustment to fair value recorded in purchase accounting for the tax-exempt financings assumed from Allied was $19.9 million and $21.9 million, respectively, which is being amortized to interest expense over the remaining terms of the debt.

Approximately 75% of our tax-exempt financings are remarketed quarterly, weekly or daily by a remarketing agent 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 agent 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 these bonds using availability under our revolving Credit Facilities, if necessary.

As of September 30, 2011, we had $160.5 million of restricted cash and marketable securities, of which $25.4 million represented proceeds from the issuance of tax-exempt bonds and other tax-exempt financings and will be used to fund capital expenditures under the terms of the agreements. Restricted cash also includes amounts held in trust as a financial guarantee of our performance.

Other Debt

Other debt includes capital lease liabilities of $89.2 million and $91.8 million as of September 30, 2011 and December 31, 2010, respectively, with maturities ranging from 2013 to 2042.

Fair Value of Debt

The fair value of our fixed rate senior notes using quoted market rates was $6.4 billion and $6.0 billion at September 30, 2011 and December 31, 2010, respectively. The carrying value of our fixed rate senior notes was $5.7 billion and $5.4 billion at September 30, 2011 and December 31, 2010, 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 is determined as of the balance sheet date and is subject to change.

Guarantees

Substantially all of our subsidiaries have guaranteed our obligations under the Credit Facilities.

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Substantially all of our subsidiaries guarantee each series of senior notes issued by our parent company, Republic Services, Inc. Our parent company and substantially all of our subsidiaries guarantee each series of senior notes issued by our subsidiary Allied Waste North America, Inc. (AWNA Notes) and each series of senior notes issued by our subsidiary Browning-Ferris Industries, LLC (successor to Browning-Ferris Industries, Inc.) (BFI Notes). All of these guarantees would be automatically released upon the release of our subsidiaries from their guarantee obligations under the Credit Facilities, except the guarantee of Allied in the case of the AWNA Notes, and the guarantees of Allied and Allied Waste North America, Inc. in the case of the BFI Notes.

We have guaranteed some of the tax-exempt bonds 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 mentioned above 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%.

The following table summarizes the reduction to interest expense due to periodic settlements of active swap agreements for the three and nine months ended September 30 (in millions):

Consolidated Statement of Income Classification	Reduction to interest expense due to periodic settlements of active swap agreements Three Months Ended September 30, 2011	2010
Interest expense	$ 1.0	$ 2.1
	Nine Months Ended September 30, 2011	2010
Interest expense	$ 5.4	$ 6.4

From time to time, we enter into treasury and interest rate locks for the purpose of managing exposure to fluctuations in interest rates in anticipation of future debt issuances. During the first and second quarters of 2011, we entered into a number of interest rate lock agreements having an aggregate notional amount of $725.0 million with fixed interest rates ranging from 3.10% to 4.61% to manage exposure to fluctuations in interest rates in anticipation of the planned issuance of the Notes. Upon issuance of the Notes in the second quarter of 2011, we terminated the interest rate locks and paid $36.5 million to the counterparties. The effective portion of the interest rate locks, recorded as a component of accumulated other comprehensive income, was $36.2 million, or $21.2 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. We expect to amortize $1.4 million over the next twelve months as a yield adjustment of the Notes. This transaction was accounted for as a cash flow hedge. As of September 30, 2011, no interest rate lock cash flow hedges were outstanding.

During the first quarter of 2010, we entered into interest rate lock agreements having an aggregate notional amount of $500.0 million to hedge interest rates in connection with the issuance of the 2020 and 2040 Notes. Upon issuance of these notes, we terminated the interest rate locks and paid approximately $7.0 million to the counterparties. The effective portion of the interest rate locks, recorded as a component of accumulated other comprehensive income, was $6.4 million or $3.7 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, of which $0.3 million is scheduled to be amortized over the next twelve months as a yield adjustment to the 2020 and 2040 Notes.

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The following table summarizes the gain (loss) on our interest rate locks (settlement and amortization) included in comprehensive income for the three and nine months ended September 30, net of tax (in millions):

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)	
	Three Months Ended September 30,	
	2011	2010
Interest rate locks	$ 0.3	$ 0.1
	Nine Months Ended September 30,	
	2011	2010
Interest rate locks	$ (20.7)	$ (3.5)

8. INCOME TAXES

Our effective tax rate, exclusive of noncontrolling interests, for the three and nine months ended September 30, 2011 was 34.6% and 38.5%, respectively. The effective tax rate for the three months ended September 30, 2011 was lower than anticipated primarily due to the realization of approximately $19 million of tax credits and lower state rates due to changes in estimates, of which approximately $4 million related to our disposition of assets. For the three and nine months ended September 30, 2010 our effective tax rate was 41.5% and 41.7%, respectively. We record income tax expense based upon our anticipated full year effective income tax rate.

Income taxes paid, net of refunds, were $131.8 million and $330.6 million for the nine months ended September 30, 2011 and 2010, respectively.

We are subject to income tax in the United States and Puerto Rico, as well as income tax in multiple state jurisdictions. We have also acquired Allied s open tax periods as a result of the 2008 merger. Consequently, we are currently under examination or administrative review by various state and federal taxing authorities for certain tax years, including federal income tax audits for calendar years 2000 through 2010.

We recognize interest and penalties as incurred within the provision for income taxes in the consolidated statements of income. As of September 30, 2011, we have accrued a liability for penalties of $0.7 million and interest (including interest on penalties) of $110.4 million related to our uncertain tax positions.

We believe that the liabilities for uncertain tax positions recorded are adequate. However, during the next twelve months we believe it is reasonably possible that the amount of unrecognized tax benefits will increase or decrease. We are unable to estimate a range at this time. 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 and cash flows.

Exchange of Partnership Interests

In April 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 November 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. This issue is currently before the Appeals Division of the IRS. We believe our position is supported by relevant technical authorities and strong business purpose. Although we intend to vigorously defend our position on this matter, if the exchange is treated as a sale, we estimate it could have a potential federal and state cash tax impact of $156.2 million plus accrued interest through September 30, 2011 of approximately $80.7 million. In addition, the IRS has asserted a penalty of 20% of the additional income tax due. At September 30, 2011, the amount of the asserted penalty and penalty-related interest was approximately $50.6 million. The potential tax and interest (but not penalty or penalty-related interest) for this matter have been fully reserved in our consolidated balance sheets. The successful assertion by the IRS of penalty and penalty-related interest in connection with this matter could have a material adverse effect on our consolidated financial position, results of operations and cash flows.

Methane Gas

As part of its examination of Allied s 2000 through 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 has 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 is that the 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 is sold or otherwise disposed.

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We are contesting this issue at the Appeals Division of the IRS. We believe we have several meritorious defenses, including the fact that methane gas is not actively produced for sale by us but rather arises naturally in the context of providing disposal services. Therefore, we believe that the resolution of this issue will not have a material adverse impact on our consolidated financial position, results of operations or cash flows.

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 22.1 million shares of common stock reserved for future grants under our Amended and Restated Plan.

Stock Options

We use a binomial option-pricing model to fair value our stock option grants. We recognize compensation expense on a straight-line basis over the requisite service period for each separately vesting portion of the award, or to the employee s retirement eligible date, if earlier. Expected volatility is based on the weighted average of the most recent one-year volatility and a historical rolling average volatility of our stock over the expected life of the option. The risk-free interest rate is based on Federal Reserve rates in effect for bonds with maturity dates equal to the expected term of the option. We use historical data to estimate future option exercises, forfeitures and expected life of the options. When appropriate, separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. During the nine months ended September 30, 2011 and 2010, the weighted-average estimated fair values of stock options granted were $5.35 and $5.27 per option, respectively, which were calculated using the following weighted-average assumptions:

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Expected volatility	27.3%	28.6%
Risk-free interest rate	1.7%	2.4%
Dividend yield	2.7%	2.9%
Expected life (in years)	4.4	4.3
Contractual life (in years)	7	7
Expected forfeiture rate	3.0%	3.0%

The following table summarizes the stock option activity for the nine months ended September 30, 2011:

	Number of Shares (in millions)	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2010	13.6	$ 24.97		
Granted	2.9	$ 29.86		
Exercised	(1.5)	$ 22.43		$ 13.2
Forfeited or expired	(0.4)	$ 28.79		
Outstanding at September 30, 2011	14.6	$ 26.10	4.4	$ 38.6

Exercisable at September 30, 2011	8.2	$	25.02	3.5	$	29.2

During the nine months ended September 30, 2011 and 2010, compensation expense for stock options was $10.2 million and $9.6 million, respectively.

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As of September 30, 2011, total unrecognized compensation expense related to outstanding stock options was $13.2 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, 2011:

	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
Unissued at December 31, 2010	849.3	$ 26.39		
Granted	174.3	$ 30.01		
Vested and Issued	(226.0)	$ 26.95		
Forfeited	(8.1)	$ 24.97		
Unissued at September 30, 2011	789.5	$ 27.04	0.5	$ 22.2
Vested and unissued at September 30, 2011	389.8	$ 26.87		

During the nine months ended September 30, 2011, our non-employee directors were awarded 82,500 restricted stock units, which vested immediately. During the nine months ended September 30, 2011, we awarded 76,699 restricted stock units to executives that vest in four equal annual installments beginning on the anniversary date of the original grant. In addition, 15,119 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.

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, 2011 and 2010, compensation expense related to restricted stock units and restricted stock totaled $6.2 million and $8.7 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 million repurchase program authorized in November 2010. From November 2010 to September 30, 2011, we repurchased 16.0 million shares of our stock for $470.2 million at a weighted average cost per share of $29.30.

We initiated a quarterly cash dividend in July 2003. The dividend has been increased from time to time thereafter. In July 2011, the board of directors approved an increase in the quarterly dividend to $0.22 per share. Cash dividends declared were $232.7 million and $222.1 million for the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, we recorded a quarterly dividend payable of $81.6 million to stockholders of record at the close of business on October 3, 2011.

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 utilize the treasury stock method.

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Basic earnings per share:				
Net income attributable to Republic Services, Inc.	$ 193,500	$ 134,200	$ 398,200	$ 358,900
Weighted average common shares outstanding	373,182	384,007	377,850	382,648
Basic earnings per share	$ 0.52	$ 0.35	$ 1.05	$ 0.94
Diluted earnings per share:				
Net income attributable to Republic Services, Inc.	$ 193,500	$ 134,200	$ 398,200	$ 358,900
Weighted average common shares outstanding	373,182	384,007	377,850	382,648
Effect of dilutive securities:				
Options to purchase common stock	1,351	2,018	1,628	1,951
Unvested restricted stock awards	162	53	136	91
Weighted average common and common equivalent shares outstanding	374,695	386,078	379,614	384,690
Diluted earnings per share	$ 0.52	$ 0.35	$ 1.05	$ 0.93
Antidilutive securities not included in the diluted earnings per share calculations:				
Options to purchase common stock	5,215	2,294	3,462	3,112

11. OTHER COMPREHENSIVE INCOME AND FINANCIAL INSTRUMENTS

A summary of comprehensive income for the three and nine months ended September 30 is as follows (in millions):

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net Income	$ 193.6	$ 134.5	$ 397.9	$ 359.6
Change in value, settlements and amortization of interest rate locks, net of tax	0.3	0.1	(20.7)	(3.5)
Change in value of commodity hedges, net of tax	0.6	(1.0)	0.2	(3.1)
Change in value of fuel hedges, net of tax	(6.1)	1.2	(4.5)	(0.2)
Employee benefit plan liability adjustments, net of tax	(0.8)	2.4	0.9	2.5
Comprehensive income	187.6	137.2	373.8	355.3
Comprehensive (income) loss attributable to noncontrolling interests	(0.1)	(0.3)	0.3	(0.7)
Comprehensive income attributable to Republic Services, Inc.	$ 187.5	$ 136.9	$ 374.1	$ 354.6

The effective tax rates used to calculate the changes in other comprehensive income shown in the table above were 41.3% and 42.0% for 2011 and 2010, respectively.

Fuel Hedges

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).

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REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

The following table summarizes our outstanding fuel hedges at September 30, 2011:

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
September 22, 2008	January 1, 2009	December 31, 2011	150,000	4.16 - 4.17
July 10, 2009	January 1, 2011	December 31, 2011	100,000	3.05
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

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 obtained from counter-parties and 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, 2011 and December 31, 2010 were current assets of $1.2 million and $1.6 million, respectively, and current liabilities of $9.1 million and $1.9 million, respectively, and have been recorded in other current assets and other accrued liabilities in our consolidated balance sheets, respectively.

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 (in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)	Statement of Income Classification	Amount of Realized Gain or (Loss)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)

	Three Months Ended September 30, 2011	2010		Three Months Ended September 30, 2011	2010		Three Months Ended September 30, 2011	2010
Fuel hedges	$ (6.1)	$ 1.2	Cost of operations	$ 0.3	$ (0.6)	Other expense, net	$ (0.1)	$ 0.1

	Nine Months Ended September 30, 2011	2010		Nine Months Ended September 30, 2011	2010		Nine Months Ended September 30, 2011	2010
Fuel hedges	$ (4.5)	$ (0.2)	Cost of operations	$ 0.7	$ (1.9)	Other income, net	$	$

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REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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).

The following table summarizes our outstanding commodity swaps at September 30, 2011:

Inception Date	Commencement Date	Termination Date	Transaction Hedged	Notional Amount (in Short Tons per Month)	Contract Price Per Short Ton
December 8, 2009	January 1, 2010	December 31, 2011	ONP	2,000	$ 76.00
December 10, 2009	January 1, 2010	December 31, 2011	OCC	2,000	82.00
December 11, 2009	January 1, 2010	December 31, 2011	OCC	2,000	82.00
January 5, 2010	January 1, 2010	December 31, 2011	ONP	2,000	84.00
January 6, 2010	January 1, 2010	December 31, 2011	OCC	1,000	90.00
January 27, 2010	February 1, 2010	January 31, 2012	OCC	1,000	90.00
September 23, 2010	January 1, 2011	December 31, 2011	ONP	1,000	95.00
September 28, 2010	January 1, 2011	December 31, 2011	ONP	1,000	95.00
October 11, 2010	January 1, 2011	December 31, 2012	OCC	1,500	115.00

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 obtained from counter-parties and 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 up to 25,000 short tons of OCC and ONP a month. The agreements involve combining a purchased put option giving us the right to sell up to 25,000 short tons of OCC and ONP monthly at an established floor strike price with a written call option obligating us to deliver up to 25,000 short tons of OCC and ONP monthly 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.

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The following costless collar hedges were outstanding at September 30, 2011:

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
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			