Waste Connections, Inc.
Form 10-Q
April 28, 2016

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 March 31, 2016
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.)

3 Waterway Square Place, Suite 110
The Woodlands, TX 77380
(Address of principal executive offices) *(Zip code)*

(832) 442-2200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.

Yes 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):

þ 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 þ

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

As of April 14, 2016: 122,717,727 shares of common stock

WASTE CONNECTIONS, INC.

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

WASTE CONNECTIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share amounts)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and equivalents	$9,263	$ 10,974
Accounts receivable, net of allowance for doubtful accounts of $7,243 and $7,738 at March 31, 2016 and December 31, 2015, respectively	236,746	255,192
Deferred income taxes	35,811	49,727
Prepaid expenses and other current assets	39,333	46,534
Total current assets	321,153	362,427
Property and equipment, net	2,718,194	2,738,288
Goodwill	1,424,591	1,422,825
Intangible assets, net	505,075	511,294
Restricted assets	46,101	46,232
Other assets, net	40,257	40,732
	$5,055,371	$ 5,121,798
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$111,259	$ 115,206
Book overdraft	12,206	12,357
Accrued liabilities	131,580	136,018
Deferred revenue	90,487	90,349
Current portion of contingent consideration	20,407	22,217
Current portion of long-term debt and notes payable	1,590	2,127
Total current liabilities	367,529	378,274
Long-term debt and notes payable	2,066,051	2,147,127
Long-term portion of contingent consideration	27,231	27,177
Other long-term liabilities	123,885	124,943
Deferred income taxes	454,344	452,493

Total liabilities	3,039,040	3,130,014
Commitments and contingencies (Note 15)		
Equity:		
Preferred stock: $0.01 par value per share; 7,500,000 shares authorized; none issued and outstanding	-	-
Common stock: $0.01 par value per share; 250,000,000 shares authorized; 122,717,727 and 122,375,955 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	1,227	1,224
Additional paid-in capital	736,750	736,652
Accumulated other comprehensive loss	(14,947)	(12,171)
Retained earnings	1,286,546	1,259,495
Total Waste Connections' equity	2,009,576	1,985,200
Noncontrolling interest in subsidiaries	6,755	6,584
Total equity	2,016,331	1,991,784
	$ 5,055,371	$ 5,121,798

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

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WASTE CONNECTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME

(Unaudited)

(In thousands, except share and per share amounts)

	Three months ended March 31,	
	2016	2015
Revenues	$514,680	$506,100
Operating expenses:		
Cost of operations	287,192	281,123
Selling, general and administrative	67,682	58,144
Depreciation	60,897	57,307
Amortization of intangibles	7,694	6,999
Other operating items	236	662
Operating income	90,979	101,865
Interest expense	(17,184)	(15,697)
Other income (expense), net	222	(220)
Income before income tax provision	74,017	85,948
Income tax provision	(29,000)	(33,867)
Net income	45,017	52,081
Less: Net income attributable to noncontrolling interests	(175)	(257)
Net income attributable to Waste Connections	$44,842	$51,824
Earnings per common share attributable to Waste Connections' common stockholders:		
Basic	$0.37	$0.42
Diluted	$0.36	$0.42
Shares used in the per share calculations:		
Basic	122,778,290	124,008,687
Diluted	123,450,584	124,367,668
Cash dividends per common share	$0.145	$0.13

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

WASTE CONNECTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except share and per share amounts)

	Three months ended March 31,	
	2016	2015
Net income	$ 45,017	$ 52,081
Other comprehensive income (loss), before tax:		
Interest rate swap amounts reclassified into interest expense	1,711	1,036
Fuel hedge amounts reclassified into cost of operations	1,801	614
Changes in fair value of interest rate swaps	(6,689)	(5,473)
Changes in fair value of fuel hedges	(1,305)	(516)
Other comprehensive loss, before tax	(4,482)	(4,339)
Income tax benefit related to items of other comprehensive loss	1,706	1,664
Other comprehensive loss, net of tax	(2,776)	(2,675)
Comprehensive income	42,241	49,406
Less: Comprehensive income attributable to noncontrolling interests	(175)	(257)
Comprehensive income attributable to Waste Connections	$ 42,066	$ 49,149

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

WASTE CONNECTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

THREE MONTHS ENDED MARCH 31, 2016

(Unaudited)

(In thousands, except share amounts)

	Waste Connections' Equity						
	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Retained	Noncontrolling	
	Shares	Amount	Capital	Income (Loss)	Earnings	Interests	Total
Balances at December 31, 2015	122,375,955	$ 1,224	$ 736,652	$ (12,171)	$ 1,259,495	$ 6,584	$ 1,991,784
Vesting of restricted stock units	395,856	4	(4)	-	-	-	-
Vesting of performance-based restricted stock units	45,701	-	-	-	-	-	-
Restricted stock units released from deferred compensation plan	39,328	-	-	-	-	-	-
Tax withholdings related to net share settlements of restricted stock units	(158,898)	(1)	(9,631)	-	-	-	(9,632)
Equity-based compensation	-	-	5,299	-	-	-	5,299
Exercise of warrants	19,785	-	-	-	-	-	-
Excess tax benefit associated with equity-based compensation	-	-	4,434	-	-	-	4,434
Cash dividends on common stock	-	-	-	-	(17,791)	-	(17,791)
Amounts reclassified into earnings, net of taxes	-	-	-	2,176	-	-	2,176
Changes in fair value of cash flow hedges, net of taxes	-	-	-	(4,952)	-	-	(4,952)
Distributions to noncontrolling interests	-	-	-	-	-	(4)	(4)

Net income	-	-	-	-	44,842	175	45,017
Balances at March 31, 2016	122,717,727	$1,227	$736,750	$(14,947)	$1,286,546	$6,755	$2,016,331

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

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WASTE CONNECTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

THREE MONTHS ENDED MARCH 31, 2015

(Unaudited)

(In thousands, except share amounts)

	Waste Connections' Equity						
	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Retained	Noncontrolling	
	Shares	Amount	Capital	Income (Loss)	Earnings	Interests	Total
Balances at December 31, 2014	123,984,527	$ 1,240	$ 811,289	$ (5,593)	$ 1,421,249	$ 5,556	$ 2,233,741
Vesting of restricted stock units	422,902	4	(4)	-	-	-	-
Restricted stock units released from deferred compensation plan	13,652	-	-	-	-	-	-
Tax withholdings related to net share settlements of restricted stock units	(135,531)	(1)	(6,298)	-	-	-	(6,299)
Equity-based compensation	-	-	4,821	-	-	-	4,821
Exercise of warrants	6,901	-	-	-	-	-	-
Excess tax benefit associated with equity-based compensation	-	-	1,479	-	-	-	1,479
Repurchase of common stock	(428,669)	(4)	(18,362)	-	-	-	(18,366)
Cash dividends on common stock	-	-	-	-	(16,156)	-	(16,156)
Amounts reclassified into earnings, net of taxes	-	-	-	1,017	-	-	1,017
Changes in fair value of cash flow hedges, net of taxes	-	-	-	(3,692)	-	-	(3,692)
Distributions to noncontrolling interests	-	-	-	-	-	(43)	(43)
Net income	-	-	-	-	51,824	257	52,081
Balances at March 31, 2015	123,863,782	$ 1,239	$ 792,925	$ (8,268)	$ 1,456,917	$ 5,770	$ 2,248,583

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,	
	2016	2015
Cash flows from operating activities:		
Net income	$ 45,017	$ 52,081
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on disposal of assets	231	(241)
Depreciation	60,897	57,307
Amortization of intangibles	7,694	6,999
Deferred income taxes, net of acquisitions	17,473	17,753
Amortization of debt issuance costs	670	1,169
Equity-based compensation	5,299	4,821
Interest income on restricted assets	(129)	(117)
Interest accretion	1,465	1,914
Excess tax benefit associated with equity-based compensation	(4,434)	(1,479)
Adjustments to contingent consideration	(75)	808
Payment of contingent consideration recorded in earnings	(33)	-
Net change in operating assets and liabilities, net of acquisitions	30,641	21,556
Net cash provided by operating activities	164,716	162,571
Cash flows from investing activities:		
Payments for acquisitions, net of cash acquired	(3,555)	(90,849)
Capital expenditures for property and equipment	(56,575)	(41,706)
Proceeds from disposal of assets	681	598
Change in restricted assets, net of interest income	260	(1,202)
Other	147	985
Net cash used in investing activities	(59,042)	(132,174)
Cash flows from financing activities:		
Proceeds from long-term debt	115,000	263,000
Principal payments on notes payable and long-term debt	(197,024)	(249,624)
Payment of contingent consideration recorded at acquisition date	(2,217)	-
Change in book overdraft	(151)	25
Excess tax benefit associated with equity-based compensation	4,434	1,479
Payments for repurchase of common stock	-	(18,366)
Payments for cash dividends	(17,791)	(16,156)
Tax withholdings related to net share settlements of restricted stock units	(9,632)	(6,299)
Distributions to noncontrolling interests	(4)	(43)
Debt issuance costs	-	(3,032)
Net cash used in financing activities	(107,385)	(29,016)

Net increase (decrease) in cash and equivalents	(1,711)	1,381
Cash and equivalents at beginning of period	10,974	14,353
Cash and equivalents at end of period	$ 9,263	$ 15,734
Non-cash financing activity:		
Liabilities assumed and notes payable issued to sellers of businesses acquired	$ 766	$ 7,919

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 PER SHARE, PER TON AND PER GALLON 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, 2016 and 2015. In the opinion of management, the accompanying balance sheets and related interim statements of net income, comprehensive income, cash flows and equity include all adjustments, consisting only of normal recurring items, necessary for their fair statement in conformity with U.S. generally accepted accounting principles ("GAAP"). Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Examples include accounting for landfills, self-insurance accruals, income taxes, allocation of acquisition purchase price, contingent consideration accruals and asset impairments. An additional area that involves estimation is when the Company estimates the amount of potential exposure it may have with respect to litigation, claims and assessments in accordance with the accounting guidance on contingencies. Actual results 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. These interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

As further discussed in Note 7 - "Acquisitions," on January 18, 2016, Waste Connections, Inc. entered into an Agreement and Plan of Merger (the "Merger Agreement"), with Progressive Waste Solutions Ltd. ("Progressive"), a corporation organized under the laws of Ontario, Canada, and Water Merger Sub LLC, a Delaware limited liability company and wholly-owned subsidiary of Progressive ("Merger Sub"). Pursuant to the Merger Agreement, Progressive will combine with the Company in an all-stock merger. Merger Sub will merge with and into Waste Connections, Inc. (referred to as the ''Merger''), with Waste Connections, Inc. continuing as the surviving corporation. Following the Merger, Waste Connections, Inc. will be a subsidiary of Progressive and the Company's common stock will be delisted from the New York Stock Exchange ("NYSE") and deregistered under the Exchange Act. Pursuant to the Merger, the Company's stockholders will receive Progressive common shares in exchange for their shares of the Company's common stock and will become Progressive shareholders. Immediately following the Merger, Progressive intends to change its legal name to "Waste Connections, Inc." and its common shares are expected to trade on the NYSE and the Toronto Stock Exchange ("TSX") under the symbol "WCN". The accompanying consolidated financial statements, of which these notes are an integral part, do not reflect any effects that would result if the transaction contemplated by the Merger Agreement is consummated.

2. NEW ACCOUNTING STANDARDS

Revenue From Contracts With Customers. In May 2014, the Financial Accounting Standards Board (the “FASB”) issued guidance to provide a single, comprehensive revenue recognition model for all contracts with customers. The revenue guidance contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 for public entities, with early adoption permitted (but not earlier than the original effective date of the pronouncement). The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

Accounting for Share-Based Payment When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period. In June 2014, the FASB issued guidance that applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. It requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition and follows existing accounting guidance for the treatment of performance conditions. The standard will be effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The Company adopted this guidance as of January 1, 2016. The adoption of this guidance did not have a material impact on the Company’s financial position or results of operations.

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE, PER TON AND PER GALLON AMOUNTS)

Balance Sheet Classification of Deferred Taxes. In November 2015, the FASB issued guidance that requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. As a result, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. The guidance does not change the existing requirement that only permits offsetting within a jurisdiction. The new standard is effective in fiscal years beginning after December 15, 2016, including interim periods within those years, with early adoption permitted. The adoption of this guidance will result in the Company’s current deferred tax assets being recorded as noncurrent. The Company’s current deferred tax assets were $35,811 and $49,727 at March 31, 2016 and December 31, 2015, respectively.

Lease Accounting. In February 2016, the FASB issued guidance that requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. The new standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company has not determined the effect the adoption of this lease accounting guidance will have on its financial position or results of operations.

Improvements to Employee Share-Based Payment Accounting. In March 2016, the FASB issued guidance that identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. The new standard is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption will be permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

Principal versus Agent Considerations (Reporting Revenue Gross versus Net). In March 2016, the FASB issued guidance that clarifies the implementation of the new revenue standard on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The amendments have the same effective date and transition requirements as the new revenue standard, which is described above. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

3. RECLASSIFICATION

Certain amounts reported in the Company’s prior year financial statements have been reclassified to conform with the 2016 presentation.

4. LANDFILL ACCOUNTING

At March 31, 2016, the Company owned or operated 44 municipal solid waste (“MSW”) landfills, 11 exploration and production (“E&P”) waste landfills, which only accept E&P waste, and nine non-MSW landfills, which only accept construction and demolition, industrial and other non-putrescible waste. At March 31, 2016, the Company’s landfills consisted of 54 owned landfills, five landfills operated under life-of-site operating agreements and five landfills operated under limited-term operating agreements. The Company’s landfills had site costs with a net book value of $1,808,313 at March 31, 2016. For the Company’s landfills operated under limited-term operating agreements and life-of-site operating agreements, the owner of the property (generally a municipality) usually owns the permit and the Company operates the landfill for a contracted term. Where the contracted term is not the life of the landfill, the property owner is generally responsible for final capping, closure and post-closure obligations. The Company is responsible for all final capping, closure and post-closure liabilities at the landfills it operates under life-of-site operating agreements.

The Company’s internal and third-party engineers perform surveys at least annually to estimate the remaining disposal capacity at its landfills. Many of the Company’s existing landfills have the potential for expanded disposal capacity beyond the amount currently permitted. The Company’s landfill depletion rates are based on the remaining disposal capacity, considering both permitted and probable expansion airspace, at the landfills it owns and landfills it operates, but does not own, under life-of-site agreements. The Company’s landfill depletion rate is based on the term of the operating agreement at its operated landfill that has capitalized expenditures. Expansion airspace consists of additional disposal capacity being pursued through means of an expansion that has not yet been permitted. Expansion airspace that meets certain criteria is included in the estimate of total landfill airspace.

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE, PER TON AND PER GALLON AMOUNTS)

Based on remaining permitted capacity as of March 31, 2016, and projected annual disposal volumes, the average remaining landfill life for the Company's owned landfills and landfills operated under life-of-site operating agreements is estimated to be approximately 31 years. As of March 31, 2016, the Company is seeking to expand permitted capacity at eleven of its owned landfills and two landfills that it operates under life-of-site operating agreements, and considers the achievement of these expansions to be probable. Although the Company cannot be certain that all future expansions will be permitted as designed, the average remaining life, when considering remaining permitted capacity, probable expansion capacity and projected annual disposal volume, of the Company's owned landfills and landfills operated under life-of-site operating agreements is approximately 38 years, with lives ranging from approximately 1 to 185 years.

During the three months ended March 31, 2016 and 2015, the Company expensed $18,926 and $18,849, respectively, or an average of $3.65 and $4.13 per ton consumed, respectively, related to landfill depletion at owned landfills and landfills operated under life-of-site agreements.

The Company reserves for estimated final capping, closure and post-closure maintenance obligations at the landfills it owns and landfills it operates under life-of-site operating agreements. The Company calculates the net present value of its final capping, closure and post-closure liabilities by estimating the total obligation in current dollars, inflating the obligation based upon the expected date of the expenditure and discounting the inflated total to its present value using a credit-adjusted risk-free rate. Any changes in expectations that result in an upward revision to the estimated undiscounted cash flows are treated as a new liability and are inflated and discounted at rates reflecting current market conditions. Any changes in expectations that result in a downward revision (or no revision) to the estimated undiscounted cash flows result in a liability that is inflated and discounted at rates reflecting the market conditions at the time the cash flows were originally estimated. This policy results in the Company's final capping, closure and post-closure liabilities being recorded in "layers." The Company's discount rate assumption for purposes of computing 2016 and 2015 "layers" for final capping, closure and post-closure obligations was 4.75% for both years, which reflects the Company's long-term credit adjusted risk free rate as of the end of both 2015 and 2014. The Company's inflation rate assumption is 2.5% for the years ending December 31, 2016 and 2015. The resulting final capping, closure and post-closure obligations are recorded on the condensed consolidated balance sheet along with an offsetting addition to site costs which is amortized to depletion expense as the remaining landfill airspace is consumed. Interest is accreted on the recorded liability using the corresponding discount rate. During the three months ended March 31, 2016 and 2015, the Company expensed $1,061 and $901, respectively, or an average of $0.20 and $0.20 per ton consumed, respectively, related to final capping, closure and post-closure accretion expense.

The following is a reconciliation of the Company's final capping, closure and post-closure liability balance from December 31, 2015 to March 31, 2016:

Final capping, closure and post-closure liability at December 31, 2015	$78,613
Adjustments to final capping, closure and post-closure liabilities	(7,148)
Liabilities incurred	1,406
Accretion expense associated with landfill obligations	1,061
Closure payments	(4)
Final capping, closure and post-closure liability at March 31, 2016	$73,928

The Adjustments to final capping, closure and post-closure liabilities primarily consisted of increases in estimated airspace at some of the Company's landfills at which expansions are being pursued, decreases in estimated annual tonnage consumptions at various landfills, decreases in estimated closure costs at some of the Company's landfills and changes in engineering estimates of total site capacity. The Company performs its annual review of its cost and capacity estimates in the first quarter of each year.

At March 31, 2016, $43,413 of the Company's restricted assets balance was for purposes of securing its performance of future final capping, closure and post-closure obligations.

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE, PER TON AND PER GALLON AMOUNTS)

5. INTANGIBLE ASSETS, NET

Intangible assets, exclusive of goodwill, consisted of the following at March 31, 2016:

	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Loss	Net Carrying Amount
Finite-lived intangible assets:				
Long-term franchise agreements and contracts	$ 210,384	$ (62,471)	$ -	$ 147,913
Customer lists	175,331	(101,861)	-	73,470
Permits and non-competition agreements	81,240	(14,096)	-	67,144
	466,955	(178,428)	-	288,527
Indefinite-lived intangible assets:				
Solid waste collection and transportation permits	152,761	-	-	152,761
Material recycling facility permits	42,283	-	-	42,283
E&P facility permits	59,855	-	(38,351)	21,504
	254,899	-	(38,351)	216,548
Intangible assets, exclusive of goodwill	$ 721,854	$ (178,428)	$ (38,351)	$ 505,075

Intangible assets, exclusive of goodwill, consisted of the following at December 31, 2015:

	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Loss	Net Carrying Amount
Finite-lived intangible assets:				
Long-term franchise agreements and contracts	$ 210,384	$ (60,205)	$ -	$ 150,179
Customer lists	173,855	(96,941)	-	76,914
Permits and non-competition agreements	81,240	(13,587)	-	67,653
	465,479	(170,733)	-	294,746
Indefinite-lived intangible assets:				
Solid waste collection and transportation permits	152,761	-	-	152,761

Material recycling facility permits	42,283	-	-	42,283
E&P facility permits	59,855	-	(38,351)	21,504
	254,899	-	(38,351)	216,548
Intangible assets, exclusive of goodwill	$ 720,378	$ (170,733)	$ (38,351)	$ 511,294

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

For the year ending December 31, 2016	$27,661
For the year ending December 31, 2017	$25,625
For the year ending December 31, 2018	$24,718
For the year ending December 31, 2019	$20,131
For the year ending December 31, 2020	$18,225

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WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE, PER TON AND PER GALLON AMOUNTS)

6. LONG-TERM DEBT

Long-term debt consists of the following:

	March 31, 2016	December 31, 2015
Revolver under credit agreement, bearing interest ranging from 1.44% to 3.70% *	$309,000	$ 390,000
Term loan under credit agreement, bearing interest ranging from 1.44% to 1.64% *	800,000	800,000
2016 Notes, bearing interest at 3.30%	100,000	100,000
2018 Notes, bearing interest at 4.00%	50,000	50,000
2019 Notes, bearing interest at 5.25%	175,000	175,000
2021 Notes, bearing interest at 4.64%	100,000	100,000
2022 Notes, bearing interest at 3.09%	125,000	125,000
2025 Notes, bearing interest at 3.41%	375,000	375,000
Tax-exempt bonds, bearing interest ranging from 0.05% to 0.46% *	31,430	31,430
Notes payable to sellers and other third parties, bearing interest at 3.0% to 10.9% *	9,830	10,855
	2,075,260	2,157,285
Less – current portion	(1,590)	(2,127)
Less – debt issuance costs	(7,619)	(8,031)
	$2,066,051	$ 2,147,127

*Interest rates in the table above represent the range of interest rates incurred during the three month period ended March 31, 2016.

7. ACQUISITIONS

On January 18, 2016, Waste Connections, Inc. entered into the Merger Agreement with Progressive and Merger Sub. Subject to the terms and conditions of the Merger Agreement, Progressive will combine with the Company in an all-stock merger. Merger Sub will merge with and into Waste Connections, Inc., with Waste Connections, Inc. continuing as the surviving corporation. Following the Merger, Waste Connections, Inc. will be a subsidiary of

Progressive and the Company's common stock will be delisted from the NYSE and deregistered under the Exchange Act. Pursuant to the Merger, the Company's stockholders will receive Progressive common shares in exchange for their shares of the Company's common stock and will become Progressive shareholders. Immediately following the Merger, Progressive intends to change its legal name to "Waste Connections, Inc." and its common shares are expected to trade on the NYSE and the TSX under the symbol "WCN".

The proposed Merger is expected to close in the second quarter of 2016. Upon completion of the proposed Merger, the combined company will be led by the Company's current management team. The Board of Directors for the combined company will include the five current members of the Company's Board and two members from Progressive's current Board.

Under the terms of the Merger Agreement, the Company's stockholders will receive 2.076843 Progressive shares for each Company share they own. Subject to the approval of Progressive's shareholders, Progressive expects to implement immediately following the Merger, a share consolidation whereby every 2.076843 shares will be consolidated into one Progressive share on the basis of 0.4815 (1 divided by the 2.076843 ratio above) of a share on a post-consolidation basis for each one share outstanding on a pre-consolidation basis. If the share consolidation is approved by Progressive's shareholders and effected, the Company's stockholders will receive one share of the combined company for each existing Company share. In the event that the Merger is consummated but the Progressive shareholder approval of the consolidation is not obtained, Waste Connections stockholders will receive 2.076843 Progressive common shares for each share of Waste Connections common stock as a result of the Merger and the number of Progressive common shares held by Progressive shareholders will remain unchanged. Upon the completion of the proposed Merger and regardless of whether or not the share consolidation occurs, the Company's stockholders will own approximately 70% of the combined company, and Progressive shareholders will own approximately 30%.

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE, PER TON AND PER GALLON AMOUNTS)

The acquisition method will be applied in accounting for the Merger, which requires the determination of the acquirer, the acquisition date, the fair value of assets acquired and liabilities assumed and the measurement of goodwill. The FASB standard on Business Combinations provides guidance in identifying the acquiring entity in a business combination effected through an exchange of equity interests, which requires consideration of factors including: (i) the entity issuing its equity in the business combination, (ii) the relative voting rights in the combined entity after the consummation of the business combination, (iii) the composition of the board of directors and senior management of the combined entity, (iv) the relative size of each entity, and (v) the terms of the exchange of equity securities in the business combination, including payment of any premium over the pre-combination fair value of equity interests. Notwithstanding that the equity to be issued in the Merger consists of Progressive common shares, existing Company stockholders will hold approximately 70% of the common shares of the combined company after completion of the Merger, as described above. The board of directors of the combined company will be comprised of five Company representatives and two Progressive representatives and senior management will be comprised of the Company's existing senior management team. The Company is also the larger of the merging entities in terms of market capitalization. None of the other considerations noted above provides a strong indication that Progressive is the acquirer; therefore, the Company is the acquirer of Progressive for accounting purposes. As a result, the Company will allocate the transaction consideration to the fair value of Progressive's assets and liabilities at the acquisition date, with any excess being recognized as goodwill.

The proposed Merger is subject to customary closing conditions, including the approval of both companies' shareholders.

The Company acquired four individually immaterial non-hazardous solid waste collection businesses during the three months ended March 31, 2016.

In January 2015, the Company acquired Shale Gas Services, LLC ("Shale Gas"), which owns two E&P waste stream treatment and recycling operations in Arkansas and Texas, for cash consideration of $41,000 and potential future contingent consideration. The contingent consideration would be paid to the former owners of Shale Gas based on the achievement of certain operating targets for the acquired operations, as specified in the membership purchase agreement, over a two-year period following the close of the acquisition. The Company used probability assessments of the expected future cash flows and determined that no liability for payment of future contingent consideration existed as of the acquisition close date. As of March 31, 2016, the assessment that no liability existed for payment of future contingent consideration has not changed.

In March 2015, the Company acquired DNCS Properties, LLC (“DNCS”), which owns land and permits to construct and operate an E&P waste facility in the Permian Basin, for cash consideration of $30,000 and a long-term note issued to the former owners of DNCS with a fair value of $5,088. The long-term note requires ten annual principal payments of $500, followed by an additional ten annual principal payments of $250, for total future cash payments of $7,500. The fair value of the long-term note was determined by applying a discount rate of 4.75% to the payments over the 20-year payment period.

The Company also acquired four individually immaterial non-hazardous solid waste collection businesses during the three months ended March 31, 2015.

During the three months ended March 31, 2016 and 2015, the Company incurred $8,815 and $512, respectively, of acquisition-related costs. These expenses are included in Selling, general and administrative expenses in the Company’s Condensed Consolidated Statements of Net Income.

8. SEGMENT REPORTING

The Company’s revenues are generated from the collection, transfer, recycling and disposal of non-hazardous solid waste and the treatment, recovery and disposal of non-hazardous E&P waste. No single contract or customer accounted for more than 10% of the Company’s total revenues at the consolidated or reportable segment level during the periods presented.

WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE, PER TON AND PER GALLON AMOUNTS)

The Company manages its operations through three geographic operating segments (Western, Central and Eastern) and its E&P segment, which includes the majority of the Company's E&P waste treatment and disposal operations. The Company's three geographic operating segments and its E&P segment comprise the Company's reportable segments. Each operating segment is responsible for managing several vertically integrated operations, which are comprised of districts. The Company's Western segment is comprised of operating locations in Alaska, California, Idaho, Montana, Nevada, Oregon, Washington and western Wyoming; the Company's Central segment is comprised of operating locations in Arizona, Colorado, Kansas, Louisiana, Minnesota, Nebraska, New Mexico, Oklahoma, South Dakota, Texas, Utah and eastern Wyoming; and the Company's Eastern segment is comprised of operating locations in Alabama, Illinois, Iowa, Kentucky, Massachusetts, Michigan, Mississippi, New York, North Carolina, South Carolina and Tennessee. The E&P segment is comprised of the Company's E&P operations in Arkansas, Louisiana, New Mexico, North Dakota, Oklahoma, Texas, Wyoming and along the Gulf of Mexico.

The Company's Chief Operating Decision Maker ("CODM") evaluates operating segment profitability and determines resource allocations based on several factors, of which the primary financial measure is segment EBITDA. The Company defines segment EBITDA as earnings before interest, taxes, depreciation, amortization, other operating items and other income (expense). Segment EBITDA is not a measure of operating income, operating performance or liquidity under GAAP and may not be comparable to similarly titled measures reported by other companies. The Company's management uses segment EBITDA in the evaluation of segment operating performance as it is a profit measure that is generally within the control of the operating segments. A reconciliation of segment EBITDA to Income before income tax provision is included at the end of this Note 8.

Summarized financial information concerning the Company's reportable segments for the three months ended March 31, 2016 and 2015, is shown in the following tables:

Three Months Ended March 31, 2016	Revenue	**Intercompany Revenue[(b)]**	Reported Revenue	**Segment EBITDA[(c)]**
Western	$246,864	$ (27,630)	$ 219,234	$ 73,789
Central	159,397	(16,921)	142,476	49,837
Eastern	146,011	(23,509)	122,502	38,246
E&P	32,768	(2,300)	30,468	6,422

Corporate[a]	-	-	-	(8,488)
	$585,040	$ (70,360)	$ 514,680	$ 159,806

Three Months Ended March 31, 2015	Revenue	**Intercompany Revenue[b]**	Reported Revenue	**Segment EBITDA[c]**
Western	$229,065	$ (23,439)	$205,626	$ 68,892
Central	150,546	(15,611)	134,935	47,350
Eastern	117,099	(19,075)	98,024	30,072
E&P	70,854	(3,339)	67,515	20,976
Corporate[a]	-	-	-	(457)
	$567,564	$ (61,464)	$506,100	$ 166,833

(a) Corporate functions include accounting, legal, tax, treasury, information technology, risk management, human resources, training and other administrative functions. Amounts reflected are net of allocations to the four operating segments.

(b) Intercompany revenues reflect each segment's total intercompany sales, including intercompany sales within a segment and between segments. Transactions within and between segments are generally made on a basis intended to reflect the market value of the service.

(c) For those items included in the determination of segment EBITDA, the accounting policies of the segments are the same as those described in the Company's most recent Annual Report on Form 10-K.

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WASTE CONNECTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE, PER TON AND PER GALLON AMOUNTS)

The following tables show changes in goodwill during the three months ended March 31, 2016 and 2015, by reportable segment:

	Western	Central	Eastern	E&P	Total
Balance as of December 31, 2015	$373,820	$472,425	$499,237	$77,343	$1,422,825
Goodwill acquired	1,421	338	7	-	1,766
Balance as of March 31, 2016	$375,241	$472,763	$499,244	$77,343	$1,424,591

	Western	Central	Eastern	E&P	Total
Balance as of December 31, 2014	$372,915	$460,381	$392,423	$468,070	$1,693,789
Goodwill acquired	-	590	6,497	20,910	27,997
Goodwill adjustments	(27)	-	-	-	(27)
Balance as of March 31, 2015	$372,888	$460,971	$398,920	$488,980	$1,721,759

A reconciliation of the Company’s primary measure of segment profitability (segment EBITDA) to Income before income tax provision in the Condensed Consolidated Statements of Net Income is as follows:

	Three months ended March 31,	
	2016	2015
Western segment EBITDA	$73,789	$68,892
Central segment EBITDA	49,837	47,350
Eastern segment EBITDA	38,246	30,072
E&P segment EBITDA	6,422	20,976
Subtotal reportable segments	168,294	167,290
Unallocated corporate overhead	(8,488)	(457)
Depreciation	(60,897)	(57,307)
Amortization of intangibles	(7,694)	(6,999)
Other operating items	(236)	(662)
Interest expense	(17,184)	(15,697)
Other income (expense), net	222	