REPUBLIC SERVICES, INC.
Form 10-Q
November 01, 2013
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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, 2013
OR

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

For the transition period from to
Commission File Number: 1-14267

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

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

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 24, 2013, the registrant had outstanding 360,094,443 shares of Common Stock, par value $.01 per share (excluding treasury shares of 50,576,837).

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$97.3	$67.6
Accounts receivable, less allowance for doubtful accounts of $38.2 and $45.3, respectively	906.8	836.6
Prepaid expenses and other current assets	189.8	209.3
Deferred tax assets	96.5	117.8
Total current assets	1,290.4	1,231.3
Restricted cash and marketable securities	175.5	164.2
Property and equipment, net	7,046.9	6,910.3
Goodwill	10,712.6	10,690.0
Other intangible assets, net	327.2	358.7
Other assets	273.4	262.4
Total assets	$19,826.0	$19,616.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$505.5	$474.5
Notes payable and current maturities of long-term debt	15.5	19.4
Deferred revenue	308.8	313.2
Accrued landfill and environmental costs, current portion	214.9	195.5
Accrued interest	70.1	68.8
Other accrued liabilities	654.4	623.6
Total current liabilities	1,769.2	1,695.0
Long-term debt, net of current maturities	7,023.6	7,051.1
Accrued landfill and environmental costs, net of current portion	1,462.4	1,420.6
Deferred income taxes and other long-term tax liabilities	1,156.3	1,232.7
Self-insurance reserves, net of current portion	307.6	290.9
Other long-term liabilities	367.5	220.9
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; 410.6 and 405.2 issued including shares held in treasury, respectively	4.1	4.1
Additional paid-in capital	6,744.6	6,588.9
Retained earnings	2,490.2	2,403.2
Treasury stock, at cost (50.6 and 44.1 shares, respectively)	(1,501.2)	(1,287.1)
Accumulated other comprehensive loss, net of tax	(0.8)	(5.8)
Total Republic Services, Inc. stockholders' equity	7,736.9	7,703.3

Noncontrolling interests	2.5	2.4
Total stockholders’ equity	7,739.4	7,705.7
Total liabilities and stockholders’ equity	$19,826.0	$19,616.9

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,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	$2,165.4	$2,046.9	$6,275.7	$6,089.9
Expenses:				
Cost of operations	1,317.6	1,280.5	3,950.7	3,722.2
Depreciation, amortization and depletion	224.4	203.5	651.0	632.1
Accretion	19.2	19.7	57.6	59.1
Selling, general and administrative	209.6	193.8	644.3	613.5
Negotiation and withdrawal costs - Central States Pension and Other Funds	41.6	31.3	157.7	34.6
Loss (gain) on disposition of assets and impairments, net	—	0.2	(1.9)	(3.4)
Restructuring charges	0.7	—	8.6	—
Operating income	352.3	317.9	807.7	1,031.8
Interest expense	(90.0)	(93.2)	(269.8)	(296.3)
Loss on extinguishment of debt	—	(2.3)	(2.1)	(112.6)
Interest income	0.1	0.3	0.5	0.8
Other income, net	1.0	0.4	1.5	1.1
Income before income taxes	263.4	223.1	537.8	624.8
Provision for income taxes	92.3	70.3	185.4	179.7
Net income	171.1	152.8	352.4	445.1
Net loss (income) attributable to noncontrolling interests	0.3	(0.1)	(0.1)	(0.3)
Net income attributable to Republic Services, Inc.	$171.4	$152.7	$352.3	$444.8
Basic earnings per share attributable to Republic Services, Inc. stockholders:				
Basic earnings per share	$0.47	$0.42	$0.97	$1.21
Weighted average common shares outstanding	361.7	365.4	362.4	368.1
Diluted earnings per share attributable to Republic Services, Inc. stockholders:				
Diluted earnings per share	$0.47	$0.42	$0.97	$1.20
Weighted average common and common equivalent shares outstanding	363.0	366.4	363.8	369.3
Cash dividends declared per common share	$0.260	$0.235	$0.730	$0.675

The accompanying notes are an integral part of these statements.

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REPUBLIC SERVICES, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$171.1	$152.8	$352.4	$445.1
Other comprehensive income, net of tax				
Hedging activity:				
Settlements	0.3	1.4	1.5	(0.7)
Realized gains reclassified into earnings	—	(1.0)	(0.4)	(1.0)
Unrealized gains (losses)	2.1	8.6	(0.3)	3.9
Pension activity:				
Change in funded status of pension plan obligations	5.8	3.2	5.8	(0.3)
Gains related to pension settlement reclassified into earnings	(1.6)	(0.2)	(1.6)	(0.2)
Other comprehensive income, net of tax	6.6	12.0	5.0	1.7
Total comprehensive income	177.7	164.8	357.4	446.8
Total comprehensive loss (income) attributable to noncontrolling interests	0.3	(0.1)	(0.1)	(0.3)
Total comprehensive income attributable to Republic Services, Inc.	$178.0	$164.7	$357.3	$446.5

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 Loss,	Noncontrolling
	Shares	Amount	Capital	Earnings	Shares	Amount	Net of Tax	Interests
Balance as of December 31, 2012	405.2	$4.1	$6,588.9	$2,403.2	(44.1)	$(1,287.1)	$ (5.8)	$ 2.4
Net income	—	—	—	352.3	—	—	—	0.1
Total other comprehensive income	—	—	—	—	—	—	5.0	—
Cash dividends declared	—	—	—	(263.5)	—	—	—	—
Issuances of common stock	5.4	—	142.1	—	—	—	—	—
Stock-based compensation	—	—	13.6	(1.8)	—	—	—	—
Purchase of common stock for treasury	—	—	—	—	(6.5)	(214.1)	—	—
Balance as of September 30, 2013	410.6	$4.1	$6,744.6	$2,490.2	(50.6)	$(1,501.2)	$ (0.8)	$ 2.5

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,	
	2013	2012
Cash provided by operating activities:		
Net income	$352.4	$445.1
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, amortization, depletion and accretion	708.6	691.2
Non-cash interest expense	35.6	46.2
Restructuring related charges	8.6	—
Stock-based compensation	15.8	17.2
Deferred tax benefit	(53.9)	(36.0)
Provision for doubtful accounts, net of adjustments	8.1	20.8
Loss on extinguishment of debt	2.1	112.6
Gain on disposition of assets, net and asset impairments	(7.4)	(13.3)
Withdrawal liability - Central States Pension and Other Funds	140.7	30.7
Remediation adjustments	101.8	26.0
Excess income tax benefit from stock option exercises and other non-cash items	(5.7)	(1.6)
Change in assets and liabilities, net of effects from business acquisitions and divestitures:		
Accounts receivable	(70.8)	(47.3)
Prepaid expenses and other assets	(26.1)	(22.1)
Accounts payable	18.4	(37.2)
Restructuring and synergy related expenditures	(14.8)	(68.1)
Capping, closure and post-closure expenditures	(59.0)	(54.0)
Remediation expenditures	(84.3)	(47.4)
Other liabilities	67.1	(6.1)
Cash provided by operating activities	1,137.2	1,056.7
Cash used in investing activities:		
Purchases of property and equipment	(688.7)	(707.4)
Proceeds from sales of property and equipment	12.0	24.5
Cash used in business acquisitions and development projects, net of cash acquired	(49.0)	(73.1)
Cash proceeds from divestitures, net of cash divested	2.7	9.6
Change in restricted cash and marketable securities	(11.3)	54.5
Other	(2.3)	(0.3)
Cash used in investing activities	(736.6)	(692.2)
Cash used in financing activities:		
Proceeds from notes payable and long-term debt	1,098.2	2,038.2
Proceeds from issuance of senior notes, net of discount	—	847.6
Payments of notes payable and long-term debt	(1,140.6)	(2,799.3)
Premiums paid on extinguishment of debt	—	(25.8)
Fees paid to issue and retire notes and certain hedging relationships	(1.6)	(16.9)
Issuances of common stock	138.8	49.3
Excess income tax benefit from stock option exercises	3.3	1.6
Purchases of common stock for treasury	(214.1)	(208.1)
Cash dividends paid	(254.9)	(243.4)

Cash used in financing activities	(370.9)	(356.8)
Increase in cash and cash equivalents	29.7	7.7
Cash and cash equivalents at beginning of period	67.6	66.3
Cash and cash equivalents at end of period	$97.3	$74.0

The accompanying notes are an integral part of these statements.

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REPUBLIC SERVICES, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Republic Services, Inc., a Delaware corporation, and its subsidiaries (referred to collectively as Republic, we, us, or our) 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 three geographic regions — East, Central and West — which we have identified as our reportable segments.

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

We have prepared these unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information related to our organization, significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP has been condensed or omitted. In the opinion of management, these financial statements include all adjustments that, unless otherwise disclosed, are of a normal recurring nature and necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of the results you can expect for a full year. You should read these 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, 2012.

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

Management’s Estimates and Assumptions

In preparing our financial statements, we make numerous estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with a high degree of precision from data available or simply cannot be readily calculated based on generally accepted methodologies. In preparing our financial statements, the more critical and subjective areas that deal with the greatest amount of uncertainty relate to our accounting for our long-lived assets, including recoverability, landfill development costs, and final capping, closure and post-closure costs; our valuation allowances for accounts receivable and deferred tax assets; our liabilities for potential litigation, claims and assessments; our liabilities for environmental remediation, employee benefit plans, deferred taxes and uncertain tax positions; our self-insurance reserves; and our estimates of the fair values of assets acquired and liabilities assumed in any acquisition. Each of these 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, 2012. Our actual results may differ significantly from our estimates.

New Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued an Accounting Standards Update to the Comprehensive Income Topic in the Accounting Standards Codifications. This update requires separate presentation of the components that are reclassified out of accumulated other comprehensive income either on the face of the financial statements or in the notes to the financial statements. This update also requires disclosure of the income statement line items impacted by any significant reclassifications, such as the gains and losses on cash flow hedges and defined benefit pension adjustments. These items are required for both interim and annual reporting for public companies, and became effective for Republic beginning with the first quarter 2013 Form 10-Q filing.

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REPUBLIC SERVICES, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

2. BUSINESS ACQUISITIONS AND RESTRUCTURING CHARGES

Acquisitions

We acquired various solid waste businesses during the nine months ended September 30, 2013 and 2012. The purchase price paid for these acquisitions during those periods and the allocations of the purchase price are as follows:

	2013	2012
Purchase price:		
Cash used in acquisitions, net of cash acquired	$49.0	$73.1
Holdbacks	6.1	0.2
Total	$55.1	$73.3
Allocated as follows:		
Working capital	0.6	2.4
Property and equipment	11.6	22.9
Other liabilities, net	(2.2)	(2.9)
Fair value of assets acquired and liabilities assumed	10.0	22.4
Excess purchase price to be allocated	$45.1	$50.9
Excess purchase price allocated as follows:		
Other intangible assets	$18.0	$13.7
Goodwill	27.1	37.2
Total allocated	$45.1	$50.9

Substantially all of the goodwill and intangible assets recorded for these acquisitions are deductible for tax purposes. The pro forma effect of these acquisitions, individually and collectively, was not material.

Restructuring Charges

During 2012, we restructured our field and corporate operations to create a more efficient and competitive company. These changes included consolidating our field regions from four to three and our areas from 28 to 20, relocating office space, and reducing administrative staffing levels. During the nine months ended September 30, 2013, we incurred $8.6 million of restructuring charges, which consisted of severance and other employee termination benefits, relocation benefits, and the closure of offices with non-cancellable lease agreements. During the nine months ended September 30, 2013, we paid $14.8 million related to these restructuring charges. As of September 30, 2013, $2.7 million remains accrued for severance and other employee termination benefits and lease exit costs. We expect to incur approximately $1.2 million of additional expense during the remainder of 2013 to complete such activities. Substantially all of these charges were or will be recorded in our corporate segment, and we expect the charges will be paid primarily during the remainder of 2013.

3. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

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

	Balance as of December 31, 2012	Acquisitions	Divestitures	Adjustments to Acquisitions	Balance as of September 30, 2013
East	$3,014.9	$1.2	$—	$(1.5)	$3,014.6
Central	3,242.7	18.3	—	(1.0)	3,260.0
West	4,432.4	7.6	(0.7)	(1.3)	4,438.0
Total	$10,690.0	$27.1	$(0.7)	$(3.8)	$10,712.6

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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, trade names and non-compete agreements, and are amortized over periods ranging from 1 to 23 years. A summary of the activity and balances by intangible asset type follows:

	Gross Intangible Assets			Accumulated Amortization			
	Balance as of December 31, 2012	Acquisitions and Other Additions	Balance as of September 30, 2013	Balance as of December 31, 2012	Additions Charged to Expense	Balance as of September 30, 2013	Net Intangibles as of September 30, 2013
Customer relationships, franchise and other municipal agreements	$579.0	$15.6	$594.6	$(252.4)	$(42.8)	$(295.2)	$299.4
Trade names	30.0	—	30.0	(24.5)	(4.5)	(29.0)	1.0
Non-compete agreements	20.4	2.4	22.8	(12.0)	(2.1)	(14.1)	8.7
Other intangible assets	63.5	0.5	64.0	(45.3)	(0.6)	(45.9)	18.1
Total	$692.9	$18.5	$711.4	$(334.2)	$(50.0)	$(384.2)	$327.2

4. OTHER ASSETS

Prepaid Expenses and Other Current Assets
A summary of prepaid expenses and other current assets as of September 30, 2013 and December 31, 2012 follows:

	2013	2012
Inventories	$36.9	$34.5
Prepaid expenses	67.9	54.4
Other non-trade receivables	32.6	39.6
Income tax receivable	44.5	69.0
Commodity and fuel hedge asset	3.5	4.1
Other current assets	4.4	7.7
Total	$189.8	$209.3

Other Assets
A summary of other assets as of September 30, 2013 and December 31, 2012 follows:

	2013	2012
Deferred financing costs	$53.1	$58.8
Deferred compensation plan	60.7	49.9
Notes and other receivables	21.5	17.9
Reinsurance receivable	45.1	59.7
Other	93.0	76.1
Total	$273.4	$262.4

Notes and other receivables include the fair value of interest rate swaps of $2.4 million at September 30, 2013.

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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, 2013 and December 31, 2012 follows:

	2013	2012
Accrued payroll and benefits	$157.2	$157.1
Accrued fees and taxes	124.3	124.2
Self-insurance reserves, current portion	135.3	135.5
Accrued dividends	93.6	84.9
Current tax liabilities	12.4	2.1
Accrued professional fees and legal settlement reserves	39.9	34.6
Restructuring liabilities	2.7	9.0
Other	89.0	76.2
Total	$654.4	$623.6

Other accrued liabilities include the fair value of fuel and commodity hedges of $1.7 million and $1.6 million as of September 30, 2013 and December 31, 2012, respectively.

Other Long-Term Liabilities

A summary of other long-term liabilities as of September 30, 2013 and December 31, 2012 follows:

	2013	2012
Deferred compensation liability	$63.4	$50.0
Pension and other post-retirement liabilities	6.3	12.7
Legal settlement reserves	27.1	36.4
Ceded insurance reserves	45.1	59.7
Withdrawal liability - Central States Pension and Other Funds	171.4	30.7
Other	54.2	31.4
Total	$367.5	$220.9

Self-Insurance Reserves

Our liabilities for unpaid and incurred but not reported claims at September 30, 2013 (which include claims for workers' compensation, general liability, vehicle liability and employee health care benefits) were $442.9 million and are included in other accrued liabilities and self-insurance reserves in our consolidated balance sheets. While the ultimate amount of claims incurred depends on future developments, we believe recorded reserves are adequate to cover the future payment of claims. However, it is possible that recorded reserves may not be adequate to cover the future payment of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments are recorded currently in earnings in the periods in which such adjustments are known.

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REPUBLIC SERVICES, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

6. LANDFILL AND ENVIRONMENTAL COSTS
As of September 30, 2013, we owned or operated 190 active solid waste landfills with total available disposal capacity of approximately 4.9 billion in-place cubic yards. Additionally, we have post-closure responsibility for 124 closed landfills.
Accrued Landfill and Environmental Costs
A summary of accrued landfill and environmental costs as of September 30, 2013 and December 31, 2012 follows:

	2013	2012
Final capping, closure and post-closure liabilities	$1,076.1	$1,052.4
Remediation	601.2	563.7
Total accrued landfill and environmental costs	1,677.3	1,616.1
Less: Current portion	(214.9)	(195.5)
Long-term portion	$1,462.4	$1,420.6

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

	2013	2012
Asset retirement obligation liabilities, beginning of year	$1,052.4	$1,037.0
Non-cash additions	27.2	25.8
Acquisitions/divestitures and other adjustments	(0.6)	(1.4)
Asset retirement obligation adjustments	(1.5)	(7.8)
Payments	(59.0)	(54.0)
Accretion expense	57.6	59.1
Asset retirement obligation liabilities, end of period	1,076.1	1,058.7
Less: Current portion	(104.5)	(98.3)
Long-term portion	$971.6	$960.4

Annually, in the fourth quarter, we review, and update as necessary, our estimates of asset retirement obligations. However, if there are significant changes in the facts and circumstances related to a site during the year, we will update our assumptions prospectively in the period that we know all the relevant facts and circumstances. There were no significant changes during the quarter ended September 30, 2013.
The fair value of assets that are legally restricted for purposes of collateralizing certain of our final capping, closure and post-closure obligations was $55.7 million and $54.8 million as of September 30, 2013 and December 31, 2012, respectively. Such assets are included in restricted cash and marketable securities in our consolidated balance sheets.
Landfill Operating Expenses
In the normal course of business, we incur various operating costs associated with environmental compliance. These costs include, among other things, leachate treatment and disposal, methane gas and groundwater monitoring, 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 cost of operations in the periods in which they are incurred.
Environmental Remediation Liabilities
We accrue for remediation costs when they become probable and can be reasonably estimated. When there is a range of reasonable estimates of the costs associated with remediation of a site, we use the amount within the range that constitutes our best estimate. If no amount within the range appears to be a better estimate than any other, we use the amount that is at the low end of the range. It is reasonably possible that we will need to adjust the liabilities recorded for remediation to reflect the effects of new or additional information, to the extent such information impacts the

costs, timing or duration of the required actions. If we used the reasonably possible high ends of our ranges, our aggregate potential remediation liability at September 30, 2013 would be approximately $561 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:

	2013	2012
Remediation liabilities, beginning of year	$563.7	$543.7
Remediation adjustments	101.8	26.0
Payments	(84.3)	(47.4)
Accretion expense (non-cash interest expense)	20.0	24.0
Remediation liabilities, end of period	601.2	546.3
Less: Current portion	(110.4)	(87.1)
Long-term portion	$490.8	$459.2

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

Bridgeton Landfill. We recorded environmental remediation charges at our closed Bridgeton Landfill in Missouri of $108.7 million in June 2013 and $37.1 million in September 2012 to manage the remediation area and monitor the site. As of September 30, 2013, the remediation liability recorded for this site is $119.4 million, of which $44.1 million is expected to be paid during the next twelve months. We believe the remaining reasonably possible range of loss for remediation costs is $88 million to $368 million.

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. The remediation liability for this site recorded as of September 30, 2013 is $50.0 million, of which $4.9 million is expected to be paid during the next twelve months. We believe the remaining reasonably possible range of loss for remediation costs is $48 million to $69 million.

Congress Landfill. In August 2010, Congress Development Company agreed with the State of Illinois to have a Final Consent Order entered by the Circuit Court of Illinois, Cook County. Pursuant to the this order, we have agreed to continue to implement certain remedial activities at this site. The remediation liability for this site recorded as of September 30, 2013 is $84.1 million, of which $9.2 million is expected to be paid during the next twelve months. We believe the remaining reasonably possible range of loss for remediation costs is $54 million to $154 million.

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7. DEBT
The carry value of our notes payable, capital leases and long-term debt as of September 30, 2013 and December 31, 2012 are listed in the following table in millions, and are adjusted for the fair value of interest rate swaps, unamortized discounts and the unamortized portion of adjustments to fair value recorded in purchase accounting. Original issue discounts and adjustments to fair value recorded in purchase accounting are amortized to interest expense over the term of the applicable instrument using the effective interest method.

		September 30, 2013			December 31, 2012		
Maturity	Interest Rate	Principal	Adjustments	Carry Value	Principal	Adjustments	Carry Value
Credit facilities:							
Uncommitted facility	Variable	$14.0	$—	$14.0	$13.9	$—	$13.9
April 2016	Variable	—	—	—	25.0	—	25.0
May 2017	Variable	—	—	—	—	—	—
Senior notes:							
May 2018	3.800	700.0	(0.1)	699.9	700.0	(0.2)	699.8
September 2019	5.500	650.0	(3.1)	646.9	650.0	(3.4)	646.6
March 2020	5.000	850.0	(0.1)	849.9	850.0	(0.1)	849.9
November 2021	5.250	600.0	—	600.0	600.0	—	600.0
June 2022	3.550	850.0	(2.1)	847.9	850.0	(2.2)	847.8
May 2023	4.750	550.0	0.9	550.9	550.0	(1.3)	548.7
March 2035	6.086	275.7	(24.6)	251.1	275.7	(24.9)	250.8
March 2040	6.200	650.0	(0.5)	649.5	650.0	(0.5)	649.5
May 2041	5.700	600.0	(3.3)	596.7	600.0	(3.4)	596.6
Debentures:							
May 2021	9.250	35.3	(1.8)	33.5	35.3	(1.9)	33.4
September 2035	7.400	165.3	(41.1)	124.2	165.2	(41.4)	123.8
Tax-exempt:							
2014 - 2038	0.450 - 5.625	1,087.6	(0.1)	1,087.5	1,097.9	(0.4)	1,097.5
Other:							
2013 - 2046	5.000 - 11.900	87.1	—	87.1	87.2	—	87.2
Total Debt		$7,115.0	$(75.9)	7,039.1	$7,150.2	$(79.7)	7,070.5
Less: Current portion				(15.5)			(19.4)
Long-term portion				$7,023.6			$7,051.1

The 4.750% senior notes due in May 2023 in the above table include the fair value of interest rate swaps of $2.1 million, which are described further in this note.

Loss on Extinguishment of Debt

During the nine months ended September 30, 2013, we refinanced certain of our tax-exempt financings, resulting in a $2.1 million non-cash charge for deferred issuance costs.

Credit Facilities

In May 2012, we amended and restated our $1.25 billion unsecured revolving credit facility due September 2013 (the Amended and Restated Credit Facility) to extend the maturity to May 2017. The Amended and Restated Credit Facility includes a feature that allows us to increase availability, at our option, by an aggregate amount up to $500 million through increased commitments

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from existing lenders or the addition of new lenders. At our option, borrowings under the Amended and Restated Credit Facility bear interest at a Base Rate, or a Eurodollar Rate, plus an applicable margin based on our Debt Ratings (all as defined in the agreements).

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

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

Our Credit Facilities 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, 2013, we had no borrowings under our Credit Facilities. As of December 31, 2012, we had $25.0 million of Eurodollar Rate borrowings at an interest rate of 1.32%. We had $706.7 million and $909.4 million of letters of credit using availability under our Credit Facilities, leaving $1,543.3 million and $1,315.6 million of availability under our Credit Facilities at September 30, 2013 and December 31, 2012, respectively.

In March 2012, we entered into a $75.0 million uncommitted, unsecured credit facility agreement (the Uncommitted Credit Facility) bearing interest at LIBOR, plus an applicable margin. In July 2012, we amended the Uncommitted Credit Facility to increase the size to $125.0 million, with all other terms remaining unchanged. Our Uncommitted Credit Facility is also subject to facility fees defined in the agreement, regardless of usage. We can use borrowings under the Uncommitted Credit Facility for working capital and other general corporate purposes. The agreements governing our Uncommitted Credit Facility require us to comply with certain covenants. The Uncommitted Credit Facility may be terminated by either party at any time. As of September 30, 2013 and December 31, 2012, we had $14.0 million and $13.9 million of borrowings under our Uncommitted Credit Facility, respectively.

Tax-Exempt Financings

As of September 30, 2013, approximately 85% of our tax-exempt financings are remarketed quarterly by remarketing agents to effectively maintain a variable yield. Certain of these variable rate tax-exempt financings are credit enhanced with letters of credit having terms in excess of one year issued by banks with investment grade credit ratings. The holders of the bonds can put them back to the remarketing agents at the end of each interest period. To date, the remarketing agents have been able to remarket our variable rate unsecured tax-exempt bonds. These bonds have been classified as long term because of our ability and intent to refinance them using availability under our revolving Credit Facilities, if necessary.

Other Debt

Other debt includes capital lease liabilities of $86.9 million and $87.0 million as of September 30, 2013 and December 31, 2012, respectively, with maturities ranging from 2013 to 2046.

Guarantees

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

Interest Rate Swap and Lock Agreements

Our ability to obtain financing through the capital markets is a key component of our financial strategy. Historically, we have managed risk associated with executing this strategy, particularly as it relates to fluctuations in interest rates, by using a combination of fixed and floating rate debt. From time to time, we have also entered into interest rate swap and lock agreements to manage risk associated with interest rates, either to effectively convert specific fixed rate debt to a floating rate (fair value hedges), or to lock interest rates in anticipation of future debt issuances (cash flow hedges).

Fair Value Hedges

During August 2013, we entered into various interest rate swap agreements relative to our 4.750% fixed rate senior notes due in May 2023. These transactions were entered into with the goal of reducing overall borrowing costs and increasing our floating interest rate exposure. These swap agreements have a total notional value of $200.0 million and mature in May 2023, which is identical to the maturity of the hedged senior notes. Under these swap agreements, we pay interest at floating rates based on changes in LIBOR and receive interest at a fixed rate of 4.750%. These transactions were designated as fair value hedges because the swaps hedge against the changes in fair value of the fixed rate senior notes resulting from changes in interest rates. The majority of these interest rate swaps do not contain credit-risk-related contingent features and we believe our exposure to such features, where applicable, is minimal.

As of September 30, 2013, interest rate swap agreements are reflected at their fair value of $2.4 million and are included in other assets and, to the extent they are effective, as an adjustment to long-term debt in our unaudited consolidated balance sheet. We recognized net interest income of $0.6 million during the three and nine months ended September 30, 2013 related to net swap settlements for these interest rate swap agreements, which is included as an offset to interest expense in our unaudited consolidated statements of income.

For the three and nine months ended September 30, 2013, we recognized a loss on the change in fair value of the hedged senior notes attributable to changes in the benchmark interest rate totaling $2.1 million, with an offsetting gain on the related interest rate swaps totaling $2.4 million. The difference of these fair value changes represents hedge ineffectiveness, which is recorded directly in earnings as other income, net.

Cash Flow Hedges

As of September 30, 2013 and 2012, no interest rate lock cash flow hedges were outstanding. As of September 30, 2013 and December 31, 2012, the effective portion of the interest rate locks, recorded as a component of accumulated other comprehensive income, was $23.5 million and $24.6 million, respectively. The effective portion of the interest rate locks is amortized as an adjustment to interest expense over the life of the issued debt using the effective interest rate method. We expect to amortize $2.6 million over the next twelve months as a yield adjustment of our senior notes.

The effective portion of the interest rate locks amortized as a net increase to interest expense during the three months ended September 30, 2013 and 2012 was $0.7 million and $0.6 million, respectively, and for the nine months ended September 30, 2013 and 2012 was $1.9 million and $1.6 million, respectively.

Fair Value of Debt and Interest Rate Swap Agreements

The fair value of our fixed rate senior notes was $6.4 billion and $6.9 billion at September 30, 2013 and December 31, 2012, respectively. The carrying value of our fixed rate senior notes and debentures was $5.9 billion and $5.8 billion at September 30, 2013 and December 31, 2012, respectively. The carrying amounts of our remaining notes payable and tax-exempt financings approximate fair value because interest rates are variable and, accordingly, approximate current market rates for instruments with similar risk and maturities. The fair value of our debt, using significant observable market inputs (Level 2 in the fair value hierarchy), is determined as of the balance sheet date and is subject to change.

The fair value of our interest rate swap agreements is determined using standard valuation models with assumptions about prices and other relevant information based on those observed in the underlying markets (Level 2 in the fair value hierarchy). The fair values of our interest rate swap agreements, all of which were entered into during August 2013, was an other asset of $2.4 million at September 30, 2013. The estimated fair values of derivatives used to hedge risks fluctuate over time and should be viewed in relation to the underlying hedged transactions.

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8. INCOME TAXES

Our effective tax rate, exclusive of noncontrolling interests, for the three and nine months ended September 30, 2013 was 35.0% and 34.5%, respectively. The effective tax rate for the three months ended September 30, 2013 was favorably affected by the realization of additional federal and state benefits on our 2012 tax returns, lower state rates due to changes in estimates and adjustments to deferred taxes. For the nine months ended September 30, 2013, our effective tax rate was, in addition to the matters already discussed, favorably impacted by the first quarter resolution of Allied's 2009 - 2010 tax years at the IRS appeals division and the Congressional Joint Committee on Taxation.

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

Income taxes paid, net of refunds received, were $196.1 million and $169.0 million for the nine months ended September 30, 2013 and 2012, respectively.

We are subject to income tax in the United States and Puerto Rico, as well as income tax in multiple state jurisdictions. We are currently under examination or administrative review by state and local taxing authorities for various tax years. We recognize interest and penalties as incurred within the provision for income taxes in the consolidated statements of income. As of September 30, 2013, we have accrued a liability for penalties of $0.5 million and a liability for interest (including interest on penalties) of $16.5 million related to our uncertain tax positions.

We believe the liabilities for uncertain tax positions recorded are adequate. However, a significant assessment against us in excess of the liabilities recorded could have a material adverse effect on our consolidated financial position, results of operations or cash flows. During the next twelve months, it is reasonably possible the amount of unrecognized tax benefits will increase or decrease. Gross unrecognized benefits we expect to settle in the next twelve months are in the range of zero to $10 million.

We have deferred tax assets related to state net operating loss carryforwards. Most of these loss carryforwards are attributable to a specific subsidiary for which we provide a valuation allowance due to uncertainty surrounding the future utilization of these carryforwards in the taxing jurisdictions where the loss carryforwards exist. From this subsidiary's inception in 1996 through 2008, significant annual losses were reported. In 2009 the annual losses continued, although at a reduced rate, and in 2011 this subsidiary reported a small profit for the first time in its history. The primary factors for this gradual migration towards profitability were the continued refinancing of outside indebtedness, reductions in this subsidiary's intercompany indebtedness and ongoing operational restructurings. As of September 30, 2013, this subsidiary remains in a cumulative pre-tax loss position; however, this cumulative loss has been steadily decreasing over the past several quarters. If current trends continue, we project this entity will no longer be in a cumulative loss position by the end of 2013. As of September 30, 2013, the deferred tax asset for state loss carryforwards attributable to this subsidiary was $108.9 million offset by a valuation allowance of $95.9 million. Overall, as of September 30, 2013, we had a total deferred tax asset for state loss carryforwards of $129.1 million offset by a valuation allowance of $112.9 million.

When determining the need for a valuation allowance, we consider all positive and negative evidence including recent financial results, scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies. The weight given to the positive and negative evidence is commensurate with the extent such evidence can be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income, exclusive of reversing taxable temporary differences, to outweigh objective negative evidence of recent financial reporting losses.

The realization of our deferred tax asset for state loss carryforwards ultimately depends upon the existence of sufficient taxable income in the appropriate state taxing jurisdictions in future periods. We continue to analyze the positive and negative evidence in determining the need for a valuation allowance. The valuation allowance could be reduced in a subsequent period if there is sufficient evidence to support a conclusion that it is more likely than not that certain of the state net operating loss carryforwards will be realized. Future changes in our valuation allowance for certain state net operating loss carryforwards could have a material effect on our results of operations in the period recorded.

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9. STOCK-BASED COMPENSATION

Available Shares

In March 2013, our board of directors approved the Amended and Restated Republic Services, Inc. 2007 Stock Incentive Plan. The plan was ratified by our stockholders in May 2013. We currently have 17.0 million shares of common stock reserved for future grants under the plan.

Stock Options

The following table summarizes the stock option activity for the nine months ended September 30, 2013:

	Number of Shares (in millions)	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2012	13.7	$27.51		
Granted	3.0	31.19		
Exercised	(5.1)	26.39		$33.1
Forfeited or expired	(0.5)	29.85		
Outstanding as of September 30, 2013	11.1	$28.88	4.5	$49.4
Exercisable as of September 30, 2013	4.7	$27.14	3.2	$29.2

During the nine months ended September 30, 2013 and 2012, compensation expense for stock options was $10.5 million and $10.9 million, respectively.

As of September 30, 2013, total unrecognized compensation expense related to outstanding stock options was $12.9 million, which will be recognized over a weighted average period of 1.9 years.

Other Stock Awards

The following table summarizes restricted stock unit and restricted stock activity for the nine months ended September 30, 2013:

	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 (in millions)
Other stock awards as of December 31, 2012	905.3	$27.51		
Granted	343.9	30.68		
Vested and issued	(241.6)	28.19		
Forfeited	(13.4)	30.72		
Other stock awards as of September 30, 2013	994.2	$28.41	0.7	$33.7
Vested and unissued as of September 30, 2013	603.1	$27.37		

During the nine months ended September 30, 2013, we awarded our non-employee directors 72,842 restricted stock units, which vested immediately. During the nine months ended September 30, 2013, we awarded 237,721 and 11,022 restricted stock units to executives and employees, respectively. In addition, 22,306 restricted stock units were earned as dividend equivalents. 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. Compensation expense related to restricted stock units and restricted stock is amortized ratably over the vesting period.

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During the nine months ended September 30, 2013 and 2012, compensation expense related to restricted stock units and restricted stock totaled $5.3 million and $6.3 million, respectively.

10. STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

We have had a share repurchase program since November 2010. From November 2010 to September 30, 2013, we repurchased 35.5 million shares of our stock for $1,039.2 million at a weighted average cost per share of $29.30. During the three months ended September 30, 2013, we repurchased 2.3 million shares of our stock for $78.5 million at a weighted average cost per share of $33.51. During the nine months ended September 30, 2013, we repurchased 6.5 million shares of our stock for $213.6 million at a weighted average cost per share of $32.92.

We initiated a quarterly cash dividend in July 2003 and have increased it from time to time thereafter. In July 2013, the board of directors approved a quarterly dividend of $0.26 per share. Cash dividends declared were $263.5 million and $247.6 million for the nine months ended September 30, 2013 and 2012, respectively. As of September 30, 2013, we recorded a quarterly dividend payable of $93.6 million to stockholders of record as of October 1, 2013.

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

Earnings per share for the three and nine months ended September 30, 2013 and 2012 are calculated as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Basic earnings per share:				
Net income attributable to Republic Services, Inc.	$171,400	$152,700	$352,300	$444,800
Weighted average common shares outstanding	361,672	365,404	362,418	368,096
Basic earnings per share	$0.47	$0.42	$0.97	$1.21
Diluted earnings per share:				
Net income attributable to Republic Services, Inc.	$171,400	$152,700	$352,300	$444,800
Weighted average common shares outstanding	361,672	365,404	362,418	368,096
Effect of dilutive securities:				
Options to purchase common stock	1,288	880	1,354	1,061
Unvested restricted stock awards	42	147	32	108
Weighted average common and common equivalent shares outstanding	363,002	366,431	363,804	369,265
Diluted earnings per share	$0.47	$0.42	$0.97	$1.20
Antidilutive securities not included in the diluted earnings per share calculations:				
Options to purchase common stock	1,793	8,170	2,157	7,967

11. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME BY COMPONENT

A summary of changes in accumulated other comprehensive loss (income) by component for the nine months ended September 30, 2013 follows:

	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Items	Total
Balance as of December 31, 2012	$23.1	$(17.3)	$5.8
Other comprehensive income before reclassifications	(1.2)	(5.8)	(7.0)
Amounts reclassified from accumulated other comprehensive income	0.4	1.6	2.0
Net current-period other comprehensive income	(0.8)	(4.2)	(5.0)
Balance as of September 30, 2013	$22.3	$(21.5)	$0.8

A summary of reclassifications out of accumulated other comprehensive income for the three and nine months ended September 30, 2013 and 2012 follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2013	2012	2013	2012	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income is Presented
Gains (losses) on cash flow hedges:					
Recycling commodity hedges	$—	$1.4	$0.1	$1.6	Revenue
Fuel hedges	0.7	0.8	2.5	1.6	Cost of operations
Interest rate contracts	(0.7)	(0.6)	(1.9)	(1.6)	Interest expense
	—	1.6	0.7	1.6	Total before tax
	—	(0.6)	(0.3)	(0.6)	Tax expense
	—	1.0	0.4	1.0	Net of tax
Pension gains:					
Pension settlement	$2.6	0.3	$2.6	$0.3	Selling, general and administrative
	(1.0)	(0.1)	(1.0)	(0.1)	Tax expense
	1.6	0.2	1.6	0.2	Net of tax
Total gains reclassified into earnings	$1.6	$1.2	$2.0	$1.2	

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12. FINANCIAL INSTRUMENTS

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. These swaps qualified for, and were designated as, effective hedges of changes in the prices of forecasted diesel fuel purchases (fuel hedges).

The following table summarizes our outstanding fuel hedges as of September 30, 2013:

Year	Remaining Gallons Hedged	Weighted Average Contract Price per Gallon
2013	7,530,000	$3.81
2014	27,000,000	3.81
2015	15,000,000	3.73
2016	9,000,000	3.69

If the national U.S. on-highway average price for a gallon of diesel fuel 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 counterparty. If the average price is less than the contract price per gallon, we pay the difference to the counter-party.

The fair values of our fuel hedges are determined using standard option valuation models with assumptions about commodity prices 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, 2013 and December 31, 2012 were current assets of $3.2 million and $3.1 million and current liabilities of $0.6 million and $0.4 million, respectively, and have been recorded in prepaid expenses and other current assets and other accrued liabilities in our consolidated balance sheets, respectively. The ineffective portions of the changes in fair values resulted in gains of less than $0.1 million for the three and nine months ended September 30, 2013 and 2012, and have been recorded in other income (expense), net in our consolidated statements of income.

The following table summarizes the impact of our fuel hedges on comprehensive income for the three and nine months ended September 30, 2013 and 2012:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivatives (Effective Portion)	
	Three Months Ended September 30,	
	2013	2012
Fuel hedges	$2.2	$8.5
	Nine Months Ended September 30,	
	2013	2012
Fuel hedges	$—	$4.3

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).

We entered into costless collar agreements on forecasted sales of OCC and ONP. The agreements involve combining a purchased put option giving us the right to sell OCC and ONP at an established floor strike price with a written call option

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obligating us to deliver OCC and ONP at an established cap strike price. The puts and calls have the same settlement dates, are net settled in cash on such dates and have the same terms to expiration. The contemporaneous combination of these options resulted in no net premium for us and represent costless collars. Under these agreements, we will make or receive no payments 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 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 pay us the deficit of the settlement price below the floor times the monthly volumes hedged. The objective of these agreements is to reduce the variability of the cash flows of the forecasted sales of OCC and ONP between two designated strike prices.
The following costless collar hedges were outstanding as of September 30, 2013:

Year	Transaction Hedged	Remaining Tons Hedged	Weighted Average Floor Strike Price Per Ton	Weighted Average Cap Strike Price Per Ton
2013	OCC	73,500	$86	$132
2013	ONP	6,000	65	90
2014	OCC	54,000	90	139

The costless collar hedges are recorded on the balance sheet at fair value. The fair values of the costless collars are determined using standard option valuation models with assumptions about commodity prices based upon forward commodity price curves in underlying markets (Level 2 in the fair value hierarchy).
The aggregated fair values of the outstanding recycling commodity hedges at September 30, 2013 and December 31, 2012 were current assets of $0.3 million and $1.0 million, respectively, and current liabilities of $1.1 million and $1.2 million, respectively, and have been recorded in prepaid expenses and other current assets and other accrued liabilities in our consolidated balance sheets, respectively. The ineffective portions of the changes in fair values resulted in (losses) gains of less than $0.1 million for the three and nine months ended September 30, 2013 and 2012, respectively, and have been recorded in other income (expense), net in our consolidated statements of income.
The following table summarizes the impact of our recycling commodity hedges on comprehensive income for the three and nine months ended September 30, 2013 and 2012:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	
	Three Months Ended September 30,	
	2013	2012
Recycling commodity hedges	$(0.1)	$0.1
	Nine Months Ended September 30,	
	2013	2012
Recycling commodity hedges	$(0.3)	$(0.4)

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

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As of September 30, 2013 and December 31, 2012, our assets and liabilities that are measured at fair value on a recurring basis include the following:

	Fair Value Measurements Using			
	Total as of September 30, 2013	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market mutual funds	$71.5	$71.5		