

WASTE MANAGEMENT INC  
Form 10-Q  
July 23, 2015

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Quarterly Period Ended June 30, 2015

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-12154

**Waste Management, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**73-1309529**  
*(I.R.S. Employer  
Identification No.)*

**1001 Fannin**

**Suite 4000**

**Houston, Texas 77002**

*(Address of principal executive offices)*

**(713) 512-6200**

*(Registrant's telephone number, including area code)*

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

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

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  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  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of Common Stock, \$0.01 par value, of the registrant outstanding at July 16, 2015 was 452,250,411 (excluding treasury shares of 178,032,050).

## PART I.

Item 1. *Financial Statements.*

**WASTE MANAGEMENT, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In Millions, Except Share and Par Value Amounts)

	June 30, 2015 (Unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 273	\$ 1,307
Accounts receivable, net of allowance for doubtful accounts of \$27 and \$30, respectively	1,578	1,587
Other receivables	375	350
Parts and supplies	102	106
Deferred income taxes	82	115
Other assets	143	176
<b>Total current assets</b>	<b>2,553</b>	<b>3,641</b>
Property and equipment, net of accumulated depreciation and amortization of \$16,203 and \$15,968, respectively	10,665	10,657
Goodwill	5,880	5,740
Other intangible assets, net	512	440
Investments in unconsolidated entities	390	408
Other assets	578	526
<b>Total assets</b>	<b>\$ 20,578</b>	<b>\$ 21,412</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 707	\$ 740
Accrued liabilities	1,095	1,180
Deferred revenues	479	475
Current portion of long-term debt	196	1,090
<b>Total current liabilities</b>	<b>2,477</b>	<b>3,485</b>
Long-term debt, less current portion	8,910	8,345
Deferred income taxes	1,409	1,453
Landfill and environmental remediation liabilities	1,592	1,531
Other liabilities	783	709
<b>Total liabilities</b>	<b>15,171</b>	<b>15,523</b>
Commitments and contingencies		
Equity:		
Waste Management, Inc. stockholders' equity:		
Common stock, \$0.01 par value; 1,500,000,000 shares authorized; 630,282,461 shares issued	6	6
Additional paid-in capital	4,778	4,585
Retained earnings	6,680	6,888

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

Accumulated other comprehensive income (loss)	(34)	23
Treasury stock at cost, 178,439,138 and 171,745,077 shares, respectively	(6,044)	(5,636)
Total Waste Management, Inc. stockholders' equity	5,386	5,866
Noncontrolling interests	21	23
Total equity	5,407	5,889
Total liabilities and equity	\$ 20,578	\$ 21,412

See notes to Condensed Consolidated Financial Statements.

## WASTE MANAGEMENT, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Millions, Except per Share Amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Operating revenues	\$ 3,315	\$ 3,561	\$ 6,355	\$ 6,957
Costs and expenses:				
Operating	2,163	2,301	4,109	4,533
Selling, general and administrative	322	353	670	728
Depreciation and amortization	322	339	614	656
Restructuring	4	1	5	2
(Income) expense from divestitures, asset impairments and unusual items	2	35	15	37
	2,813	3,029	5,413	5,956
Income from operations	502	532	942	1,001
Other income (expense):				
Interest expense, net	(95)	(115)	(199)	(236)
Loss on early extinguishment of debt	(2)		(552)	
Equity in net losses of unconsolidated entities	(15)	(13)	(23)	(22)
Other, net	(1)	(2)	(1)	(5)
	(113)	(130)	(775)	(263)
Income before income taxes	389	402	167	738
Provision for income taxes	116	180	25	279
Consolidated net income	273	222	142	459
Less: Net income (loss) attributable to noncontrolling interests	(1)	12	(3)	21
Net income attributable to Waste Management, Inc.	\$ 274	\$ 210	\$ 145	\$ 438
Basic earnings per common share	\$ 0.60	\$ 0.45	\$ 0.32	\$ 0.94
Diluted earnings per common share	\$ 0.60	\$ 0.45	\$ 0.32	\$ 0.94
Cash dividends declared per common share	\$ 0.385	\$ 0.375	\$ 0.77	\$ 0.75

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Millions)

(Unaudited)

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Consolidated net income	\$ 273	\$ 222	\$ 142	\$ 459
Other comprehensive income (loss), net of taxes:				
Derivative instruments, net	2	4	5	(2)
Available-for-sale securities, net	1	2	1	2
Foreign currency translation adjustments	13	40	(63)	(19)
Other comprehensive income (loss), net of taxes	16	46	(57)	(19)
Comprehensive income	289	268	85	440
Less: Comprehensive income (loss) attributable to noncontrolling interests	(1)	12	(3)	21
Comprehensive income attributable to Waste Management, Inc.	\$ 290	\$ 256	\$ 88	\$ 419

See notes to Condensed Consolidated Financial Statements.

## WASTE MANAGEMENT, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Consolidated net income	\$ 142	\$ 459
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	614	656
Deferred income tax benefit	(42)	(48)
Interest accretion on landfill liabilities	43	43
Interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets	1	2
Provision for bad debts	18	19
Equity-based compensation expense	30	29
Excess tax benefits associated with equity-based transactions	(9)	(1)
Net gain from disposal of assets	(6)	(25)
Effect of (income) expense from divestitures, asset impairments and unusual items and other	15	37
Equity in net losses of unconsolidated entities, net of dividends	23	22
Loss on early extinguishment of debt	552	
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Receivables	(18)	(8)
Other current assets	11	11
Other assets	(21)	13
Accounts payable and accrued liabilities	(53)	(16)
Deferred revenues and other liabilities	15	(54)
<b>Net cash provided by operating activities</b>	<b>1,315</b>	<b>1,139</b>
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(454)	(26)
Capital expenditures	(529)	(474)
Proceeds from divestitures of businesses and other assets (net of cash divested)	78	266
Net receipts from restricted trust and escrow accounts	35	11
Investments in unconsolidated entities	(11)	(11)
Other	2	(60)
<b>Net cash used in investing activities</b>	<b>(879)</b>	<b>(294)</b>
Cash flows from financing activities:		
New borrowings	1,866	1,500
Debt repayments	(2,181)	(1,925)
Premiums paid on early extinguishment of debt	(555)	
Common stock repurchases	(300)	
Cash dividends	(351)	(349)
Exercise of common stock options	47	31
Excess tax benefits associated with equity-based transactions	9	1
Distributions paid to noncontrolling interests		(22)
Other	(4)	(2)
<b>Net cash used in financing activities</b>	<b>(1,469)</b>	<b>(766)</b>

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

Effect of exchange rate changes on cash and cash equivalents	(1)	
Increase (decrease) in cash and cash equivalents	(1,034)	79
Cash and cash equivalents at beginning of period	1,307	58
Cash and cash equivalents at end of period	\$ 273	\$ 137

See notes to Condensed Consolidated Financial Statements.



## WASTE MANAGEMENT, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In Millions, Except Shares in Thousands)

(Unaudited)

	Waste Management, Inc. Stockholders Equity									
	Total	Common Stock			Accumulated			Treasury Stock		Noncontrolling Interests
		Shares	Amounts	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Income (Loss)	Shares	Amounts		
Balance, December 31, 2014	\$ 5,889	630,282	\$ 6	\$ 4,585	\$ 6,888	\$ 23	(171,745)	\$ (5,636)	\$ 23	
Consolidated net income	142				145				(3)	
Other comprehensive income (loss), net of taxes	(57)					(57)				
Cash dividends declared	(351)				(351)					
Equity-based compensation transactions, including dividend equivalents, net of taxes	83			13	(2)		2,185	72		
Common stock repurchases	(300)			180			(8,882)	(480)		
Other	1						3		1	
Balance, June 30, 2015	\$ 5,407	630,282	\$ 6	\$ 4,778	\$ 6,680	\$ (34)	(178,439)	\$ (6,044)	\$ 21	

See notes to Condensed Consolidated Financial Statements.

---

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**1. Basis of Presentation**

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

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

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

In December 2014, we completed the sale of our Wheelabrator business, which provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. Refer to Note 9 for additional information related to our divestitures.

The Condensed Consolidated Financial Statements as of June 30, 2015 and for the three and six months ended June 30, 2015 and 2014 are unaudited. In the opinion of management, these financial statements include all adjustments, which, unless otherwise disclosed, are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, comprehensive income, cash flows, and changes in equity for the periods presented. The results for interim periods are not necessarily indicative of results for the entire year. The financial statements presented herein should be read in connection with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

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

***Reclassifications***

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

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**2. Landfill and Environmental Remediation Liabilities**

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

	June 30, 2015			December 31, 2014		
	Landfill	Environmental Remediation	Total	Landfill	Environmental Remediation	Total
Current (in accrued liabilities)	\$ 102	\$ 42	\$ 144	\$ 104	\$ 43	\$ 147
Long-term	1,403	189	1,592	1,339	192	1,531
	\$ 1,505	\$ 231	\$ 1,736	\$ 1,443	\$ 235	\$ 1,678

The changes to landfill and environmental remediation liabilities for the year ended December 31, 2014 and the six months ended June 30, 2015 are reflected in the table below (in millions):

	Landfill	Environmental Remediation
December 31, 2013	\$ 1,421	\$ 227
Obligations incurred and capitalized	54	
Obligations settled	(69)	(21)
Interest accretion	88	5
Revisions in estimates and interest rate assumptions	(9)	25
Acquisitions, divestitures and other adjustments(a)	(42)	(1)
December 31, 2014	1,443	235
Obligations incurred and capitalized	29	
Obligations settled	(24)	(10)
Interest accretion	43	2
Revisions in estimates and interest rate assumptions	1	4
Acquisitions, divestitures and other adjustments(b)	13	
June 30, 2015	\$ 1,505	\$ 231

(a) The amounts reported for our 2014 landfill liabilities include reductions of \$25 million for divestitures, including the divestiture of our Wheelabrator business. See Note 9 for discussion of our divestitures.

(b) The amounts reported for our 2015 landfill liabilities include an increase of \$18 million associated with the acquisition of Deffenbaugh Disposal, Inc. ( Deffenbaugh ). See Note 9 for discussion of our acquisition.

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

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**3. Debt**

The following table summarizes the major components of debt at each balance sheet date (in millions) and provides the maturities and interest rate ranges of each major category as of June 30, 2015:

	June 30, 2015	December 31, 2014
U.S. revolving credit facility, maturing July 2018	\$	\$
Letter of credit facilities, maturing through December 2018		
Canadian credit facility and term loan, maturing November 2017 (weighted average effective interest rate of 2.3% at June 30, 2015 and 2.6% at December 31, 2014)	162	232
Senior notes maturing through 2045, interest rates ranging from 2.60% to 7.75% (weighted average interest rate of 4.7% at June 30, 2015 and 5.7% at December 31, 2014)	6,085	6,273
Tax-exempt bonds, maturing through 2045, fixed and variable interest rates ranging from 0.08% to 5.7% (weighted average interest rate of 2.1% at June 30, 2015 and 2.2% at December 31, 2014)	2,491	2,541
Capital leases and other, maturing through 2055, interest rates up to 12%	368	389
	9,106	9,435
Current portion of long-term debt	196	1,090
	\$ 8,910	\$ 8,345

**Debt Classification**

As of June 30, 2015, our current debt balances include \$196 million of debt with scheduled maturities within the next 12 months, including \$112 million of tax-exempt bonds.

As of June 30, 2015, we also have \$506 million of tax-exempt bonds with term interest rate periods that expire within 12 months and an additional \$491 million of variable-rate tax-exempt bonds that are supported by letters of credit. The interest rates on these bonds are reset on either a daily or weekly basis through a remarketing process. All recent remarketings have successfully placed Company bonds with investors at reasonable, market-driven rates and we currently expect future remarketings to be successful. However, if the remarketing agent is unable to remarket our bonds, the remarketing agent can put the bonds to us. In the event of a failed remarketing, we have the intent and ability to use availability under our long-term U.S. revolving credit facility ( \$2.25 billion revolving credit facility ) to fund the debt obligations until they can be remarketed successfully. Accordingly, we classified these borrowings as long-term in our Condensed Consolidated Balance Sheet at June 30, 2015.

**Revolving Credit and Letter of Credit Facilities**

In July 2015, we amended and restated our \$2.25 billion revolving credit facility, extending the term through July 2020.

As of June 30, 2015, we had an aggregate committed capacity of \$2.4 billion for letters of credit under various U.S. credit facilities. Our \$2.25 billion revolving credit facility is our primary source of letter of credit capacity. Our remaining committed letter of credit capacity is provided under facilities with terms ending through December 2018. As of June 30, 2015, we had an aggregate of \$1.0 billion of letters of credit outstanding under various credit facilities. As of June 30, 2015, we had no outstanding borrowings under our \$2.25 billion revolving credit facility and \$830 million of letters of credit issued and supported by the facility, leaving \$1,420 million of unused and available capacity.

---

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We also have a Canadian credit agreement that matures in November 2017 and provides for C\$150 million of revolving credit capacity. We have the ability to issue up to C\$50 million of letters of credit under the Canadian revolving credit facility, which if utilized, reduces the amount of credit capacity available for borrowings. As of June 30, 2015, we had no letters of credit or borrowings outstanding under the credit facility.

***Debt Borrowings and Repayments***

***Canadian Term Loan*** We repaid C\$68 million, or \$54 million, of net advances under our Canadian term loan during the six months ended June 30, 2015 with available cash. The remaining decline in the carrying value of borrowings outstanding under our Canadian term loan is due to foreign currency translation.

***Senior Notes*** During the first half of 2015, we refinanced a significant portion of our high-coupon senior notes. Details related to each component of the refinancing follow:

***Make-Whole Redemption*** In January 2015, we repaid \$947 million of WM senior notes, which comprised all of the outstanding senior notes maturing in 2015, 2017 and 2019. The repayment of these debt balances was achieved by exercising the optional redemption provisions of the notes, which required that we pay the outstanding principal plus a make-whole premium. Loss on early extinguishment of debt in our Condensed Consolidated Statement of Operations includes charges of \$122 million related to these redemptions for the six months ended June 30, 2015.

***Tender Offers*** During the six months ended June 30, 2015, WM and WM Holdings made cash tender offers to purchase any and all of certain outstanding senior notes. The series of notes targeted in the tenders and the amounts tendered of each series are summarized below:

\$449 million of WM Holdings 7.10% senior notes due 2026, of which \$145 million were tendered;

\$577 million of WM 7.00% senior notes due 2028, of which \$182 million were tendered;

\$223 million of WM 7.375% senior notes due 2029, of which \$84 million were tendered;

\$496 million of WM 7.75% senior notes due 2032, of which \$286 million were tendered; and

\$600 million of WM 6.125% senior notes due 2039, of which \$326 million were tendered.

Loss on early extinguishment of debt in our Condensed Consolidated Statement of Operations includes charges of \$430 million related to these tender offers for the six months ended June 30, 2015.

***New Issuance*** In February 2015, WM issued \$1.8 billion of new senior notes consisting of:

\$600 million of 3.125% senior notes due March 1, 2025;

\$450 million of 3.90% senior notes due March 1, 2035; and

## Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

\$750 million of 4.10% senior notes due March 1, 2045.

The net proceeds from these debt issuances were \$1.78 billion. The Company used the proceeds from the 2025 notes for general corporate purposes. The proceeds from the 2035 notes and the 2045 notes were used to pay the purchase price and accrued interest for the notes redeemed through the tender offer discussed above and for general corporate purposes.

*Tax-Exempt Bonds* During the six months ended June 30, 2015, we repaid \$50 million of tax-exempt bonds with available cash.