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FORM 10-Q

WASTE CONNECTIONS, INC. - WCN

Filed: July 21, 2014 (period: June 30, 2014)

Quarterly report with a continuing view of a company's financial position

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, 2014

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 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

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

As of July 11, 2014: 124,116,793 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)

| | June 30, 2014 | December 31, 2013 |
|---|---------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and equivalents | \$ 21,404 | \$ 13,591 |
| Accounts receivable, net of allowance for doubtful accounts of \$5,678 and \$7,348 at June 30, 2014 and December 31, 2013, respectively | 254,858 | 234,001 |
| Deferred income taxes | 41,964 | 41,275 |
| Prepaid expenses and other current assets | 30,460 | 39,638 |
| Total current assets | <u>348,686</u> | <u>328,505</u> |
| Property and equipment, net | 2,446,043 | 2,450,649 |
| Goodwill | 1,675,726 | 1,675,154 |
| Intangible assets, net | 515,176 | 527,871 |
| Restricted assets | 38,171 | 35,921 |
| Other assets, net | 45,434 | 46,152 |
| | <u>\$ 5,069,236</u> | <u>\$ 5,064,252</u> |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 115,623 | \$ 105,394 |
| Book overdraft | 12,475 | 12,456 |
| Accrued liabilities | 131,216 | 119,026 |
| Deferred revenue | 77,927 | 71,917 |
| Current portion of contingent consideration | 32,406 | 30,840 |
| Current portion of long-term debt and notes payable | 4,031 | 5,385 |
| Total current liabilities | <u>373,678</u> | <u>345,018</u> |
| Long-term debt and notes payable | 1,931,262 | 2,067,590 |
| Long-term portion of contingent consideration | 26,867 | 24,710 |
| Other long-term liabilities | 84,699 | 77,035 |
| Deferred income taxes | 509,110 | 501,692 |
| Total liabilities | <u>2,925,616</u> | <u>3,016,045</u> |
| 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; 124,116,793 and 123,566,487 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively | 1,241 | 1,236 |
| Additional paid-in capital | 808,849 | 796,085 |
| Accumulated other comprehensive loss | (2,480) | (1,869) |
| Retained earnings | 1,330,813 | 1,247,630 |
| Total Waste Connections' equity | <u>2,138,423</u> | <u>2,043,082</u> |
| Noncontrolling interest in subsidiaries | 5,197 | 5,125 |
| Total equity | <u>2,143,620</u> | <u>2,048,207</u> |
| | <u>\$ 5,069,236</u> | <u>\$ 5,064,252</u> |

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

WASTE CONNECTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME
(Unaudited)
(In thousands, except share and per share amounts)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|------------------------------------|--------------------|----------------------------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | \$ 524,693 | \$ 489,381 | \$ 1,006,402 | \$ 939,272 |
| Operating expenses: | | | | |
| Cost of operations | 286,950 | 268,484 | 550,011 | 520,447 |
| Selling, general and administrative | 56,526 | 52,903 | 112,172 | 106,154 |
| Depreciation | 57,105 | 54,766 | 112,922 | 106,414 |
| Amortization of intangibles | 6,720 | 6,211 | 13,456 | 12,650 |
| Loss (gain) on disposal of assets | (1,324) | 3,445 | (1,465) | 3,122 |
| Loss on prior corporate office lease | - | 10,498 | - | 10,498 |
| Operating income | <u>118,716</u> | <u>93,074</u> | <u>219,306</u> | <u>179,987</u> |
| Interest expense | (15,940) | (18,928) | (32,851) | (37,940) |
| Other income (expense), net | 661 | (1,706) | 137 | (965) |
| Income before income tax provision | <u>103,437</u> | <u>72,440</u> | <u>186,592</u> | <u>141,082</u> |
| Income tax provision | (40,537) | (28,445) | (74,470) | (55,408) |
| Net income | <u>62,900</u> | <u>43,995</u> | <u>112,122</u> | <u>85,674</u> |
| Less: Net income attributable to noncontrolling interests | (236) | (28) | (443) | (151) |
| Net income attributable to Waste Connections | <u>\$ 62,664</u> | <u>\$ 43,967</u> | <u>\$ 111,679</u> | <u>\$ 85,523</u> |
| Earnings per common share attributable to Waste Connections' common stockholders: | | | | |
| Basic | <u>\$ 0.50</u> | <u>\$ 0.36</u> | <u>\$ 0.90</u> | <u>\$ 0.69</u> |
| Diluted | <u>\$ 0.50</u> | <u>\$ 0.35</u> | <u>\$ 0.89</u> | <u>\$ 0.69</u> |
| Shares used in the per share calculations: | | | | |
| Basic | <u>124,230,572</u> | <u>123,610,969</u> | <u>124,096,619</u> | <u>123,496,519</u> |
| Diluted | <u>124,848,351</u> | <u>124,080,423</u> | <u>124,781,097</u> | <u>123,993,311</u> |
| Cash dividends per common share | <u>\$ 0.115</u> | <u>\$ 0.10</u> | <u>\$ 0.23</u> | <u>\$ 0.20</u> |

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 June 30, | | Six months ended June 30, | |
|---|-----------------------------|------------------|---------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$ 62,900 | \$ 43,995 | \$ 112,122 | \$ 85,674 |
| Other comprehensive income (loss), before tax: | | | | |
| Interest rate swap amounts reclassified into interest expense | 886 | 1,400 | 1,954 | 2,779 |
| Fuel hedge amounts reclassified into cost of operations | (304) | - | (627) | - |
| Changes in fair value of interest rate swaps | (2,210) | 1,863 | (2,504) | 1,824 |
| Changes in fair value of the fuel hedge | 466 | (543) | 181 | 48 |
| Other comprehensive income (loss), before tax | (1,162) | 2,720 | (996) | 4,651 |
| Income tax (expense) benefit related to items of other comprehensive income | 446 | (1,040) | 385 | (1,774) |
| Other comprehensive income (loss), net of tax | (716) | 1,680 | (611) | 2,877 |
| Comprehensive income | 62,184 | 45,675 | 111,511 | 88,551 |
| Less: Comprehensive income attributable to noncontrolling interests | (236) | (28) | (443) | (151) |
| Comprehensive income attributable to Waste Connections | <u>\$ 61,948</u> | <u>\$ 45,647</u> | <u>\$ 111,068</u> | <u>\$ 88,400</u> |

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

WASTE CONNECTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
SIX MONTHS ENDED JUNE 30, 2014
(Unaudited)
(In thousands, except share amounts)

| | Waste Connections' Equity | | | | | | | Total |
|---|---------------------------|-----------------|----------------------------------|--|----------------------|-----------------------------|---------------------|-------|
| | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Noncontrolling Interests | | |
| | Shares | Amount | | | | | | |
| Balances at December 31, 2013 | 123,566,487 | \$ 1,236 | \$ 796,085 | \$ (1,869) | \$ 1,247,630 | \$ 5,125 | \$ 2,048,207 | |
| Vesting of restricted stock units | 497,586 | 5 | (5) | - | - | - | - | |
| Tax withholdings related to net share settlements of restricted stock units | (158,182) | (2) | (6,727) | - | - | - | (6,729) | |
| Equity-based compensation | - | - | 9,444 | - | - | - | 9,444 | |
| Exercise of stock options and warrants | 210,902 | 2 | 2,956 | - | - | - | 2,958 | |
| Excess tax benefit associated with equity-based compensation | - | - | 7,096 | - | - | - | 7,096 | |
| Cash dividends on common stock | - | - | - | - | (28,496) | - | (28,496) | |
| Amounts reclassified into earnings, net of taxes | - | - | - | 818 | - | - | 818 | |
| Changes in fair value of cash flow hedges, net of taxes | - | - | - | (1,429) | - | - | (1,429) | |
| Distributions to noncontrolling interests | - | - | - | - | - | (371) | (371) | |
| Net income | - | - | - | - | 111,679 | 443 | 112,122 | |
| Balances at June 30, 2014 | <u>124,116,793</u> | <u>\$ 1,241</u> | <u>\$ 808,849</u> | <u>\$ (2,480)</u> | <u>\$ 1,330,813</u> | <u>\$ 5,197</u> | <u>\$ 2,143,620</u> | |

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

WASTE CONNECTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
SIX MONTHS ENDED JUNE 30, 2013
(Unaudited)
(In thousands, except share amounts)

| | Waste Connections' Equity | | | | | | | |
|---|---------------------------|-----------------|----------------------------------|--|----------------------|-----------------------------|---------------------|--|
| | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Noncontrolling Interests | Total | |
| | Shares | Amount | | | | | | |
| Balances at December 31, 2012 | 123,019,494 | \$ 1,230 | \$ 779,904 | \$ (6,165) | \$ 1,103,188 | \$ 4,973 | \$ 1,883,130 | |
| Vesting of restricted stock units | 476,603 | 5 | (5) | - | - | - | - | |
| Tax withholdings related to net share settlements of restricted stock units | (150,396) | (1) | (5,361) | - | - | - | (5,362) | |
| Equity-based compensation | - | - | 7,446 | - | - | - | 7,446 | |
| Exercise of stock options and warrants | 127,059 | 1 | 1,329 | - | - | - | 1,330 | |
| Excess tax benefit associated with equity-based compensation | - | - | 2,667 | - | - | - | 2,667 | |
| Cash dividends on common stock | - | - | - | - | (24,654) | - | (24,654) | |
| Amounts reclassified into earnings, net of taxes | - | - | - | 1,716 | - | - | 1,716 | |
| Changes in fair value of cash flow hedges, net of taxes | - | - | - | 1,161 | - | - | 1,161 | |
| Distributions to noncontrolling interests | - | - | - | - | - | (198) | (198) | |
| Net income | - | - | - | - | 85,523 | 151 | 85,674 | |
| Balances at June 30, 2013 | <u>123,472,760</u> | <u>\$ 1,235</u> | <u>\$ 785,980</u> | <u>\$ (3,288)</u> | <u>\$ 1,164,057</u> | <u>\$ 4,926</u> | <u>\$ 1,952,910</u> | |

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)

| | Six months ended June 30, | |
|--|---------------------------|------------------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | \$ 112,122 | \$ 85,674 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Loss (gain) on disposal of assets | (1,465) | 3,122 |
| Depreciation | 112,922 | 106,414 |
| Amortization of intangibles | 13,456 | 12,650 |
| Deferred income taxes, net of acquisitions | 7,114 | 14,990 |
| Amortization of debt issuance costs | 1,594 | 2,016 |
| Equity-based compensation | 9,444 | 7,446 |
| Interest income on restricted assets | (235) | (196) |
| Interest accretion | 2,427 | 2,533 |
| Excess tax benefit associated with equity-based compensation | (7,096) | (2,667) |
| Loss on prior corporate office lease | - | 10,498 |
| Net change in operating assets and liabilities, net of acquisitions | 29,398 | 13,043 |
| Net cash provided by operating activities | 279,681 | 255,523 |
| Cash flows from investing activities: | | |
| Payments for acquisitions, net of cash acquired | (29,596) | (1,181) |
| Proceeds from adjustment to acquisition consideration | 843 | 18,000 |
| Capital expenditures for property and equipment | (83,679) | (87,541) |
| Proceeds from disposal of assets | 5,863 | 3,622 |
| Increase in restricted assets, net of interest income | (2,015) | (81) |
| Other | 589 | (1,140) |
| Net cash used in investing activities | (107,995) | (68,321) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 122,000 | 93,500 |
| Principal payments on notes payable and long-term debt | (259,682) | (256,732) |
| Payment of contingent consideration recorded at acquisition date | (542) | (2,743) |
| Change in book overdraft | 18 | (90) |
| Proceeds from option and warrant exercises | 2,958 | 1,330 |
| Excess tax benefit associated with equity-based compensation | 7,096 | 2,667 |
| Payments for cash dividends | (28,496) | (24,654) |
| Tax withholdings related to net share settlements of restricted stock units | (6,729) | (5,362) |
| Distributions to noncontrolling interests | (371) | (198) |
| Debt issuance costs | (125) | (1,920) |
| Net cash used in financing activities | (163,873) | (194,202) |
| Net increase (decrease) in cash and equivalents | 7,813 | (7,000) |
| Cash and equivalents at beginning of period | 13,591 | 23,212 |
| Cash and equivalents at end of period | \$ 21,404 | \$ 16,212 |
| Non-cash financing activity: | | |
| Liabilities assumed and notes payable issued to sellers of businesses acquired | \$ 3,257 | \$ 377 |

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

WASTE CONNECTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE 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 and six month periods ended June 30, 2014 and 2013. 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, revenue and expenses. Examples include accounting for landfills, self-insurance accruals, income taxes, allocation of acquisition purchase price and asset impairments. An additional area that involves estimation is when the Company estimates the amount of potential exposure it may have with respect to litigation, claims and assessments in accordance with 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, 2013.

2. NEW ACCOUNTING STANDARDS

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. In April 2014, the Financial Accounting Standards Board (the "FASB") issued guidance that changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and "represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results." For disposals of individually significant components that do not qualify as discontinued operations, an entity must disclose pre-tax earnings of the disposed component. For public business entities, this guidance is effective prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company does not expect the adoption of this guidance to have a material impact on the Company's financial position or results of operations.

Revenue From Contracts With Customers. In May 2014, 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 the first interim period within annual reporting periods beginning after December 15, 2016 for public entities, with no early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on the Company's financial position or results of operations.

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 does not expect the adoption of this guidance to 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 SHARE AND PER SHARE AMOUNTS)

3. LANDFILL ACCOUNTING

At June 30, 2014, the Company owned or operated 42 municipal solid waste (“MSW”) landfills, six exploration and production (“E&P”) waste landfills, which only accept E&P waste, seven non-MSW landfills, which only accept construction and demolition, industrial and other non-putrescible waste, and two development stage landfills. At June 30, 2014, the Company’s developed and operational landfills consisted of 44 owned landfills, six 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 \$1,627,300 at June 30, 2014. 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 certain 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.

Based on remaining permitted capacity as of June 30, 2014, 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 32 years. As of June 30, 2014, the Company is seeking to expand permitted capacity at nine 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 42 years, with lives ranging from approximately 2 to 192 years.

During the six months ended June 30, 2014 and 2013, the Company expensed \$40,036 and \$39,225, respectively, or an average of \$4.13 and \$4.35 per ton consumed, respectively, related to landfill depletion at owned landfills and landfills operated under life-of-site agreements.

The Company reserves for 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 2014 and 2013 “layers” for final capping, closure and post-closure obligations was 5.75% for each year, which reflects the Company’s long-term cost of borrowing as of the end of 2013 and 2012. The Company’s inflation rate assumption is 2.5% for the years ending December 31, 2014 and 2013. 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 six months ended June 30, 2014 and 2013, the Company expensed \$1,630 and \$1,405, respectively, or an average of \$0.17 and \$0.16 per ton consumed, respectively, related to final capping, closure and post-closure accretion expense.

WASTE CONNECTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

The following is a reconciliation of the Company's final capping, closure and post-closure liability balance from December 31, 2013 to June 30, 2014:

| | |
|--|------------------|
| Final capping, closure and post-closure liability at December 31, 2013 | \$ 50,128 |
| Adjustments to final capping, closure and post-closure liabilities | 2,002 |
| Liabilities incurred | 1,877 |
| Accretion expense associated with landfill obligations | 1,630 |
| Closure payments | (12) |
| Final capping, closure and post-closure liability at June 30, 2014 | <u>\$ 55,625</u> |

The Adjustments to final capping, closure and post-closure liabilities primarily consisted of the following changes at some of the Company's landfills: increases in estimated future closure expenditures, changes in engineering estimates of total site capacities and increases in estimated annual tonnage consumption. The Company performs its annual review of its cost and capacity estimates in the first quarter of each year.

At June 30, 2014, \$35,635 of the Company's restricted assets balance was for purposes of securing its performance of future final capping, closure and post-closure obligations.

4. LONG-TERM DEBT

Long-term debt consists of the following:

| | June 30, 2014 | December 31, 2013 |
|--|---------------------|----------------------|
| Revolver under credit facility, bearing interest ranging from 1.52% to 3.75%* | \$ 632,000 | \$ 727,100 |
| Term loan facility, bearing interest ranging from 1.65% to 2.04%* | 660,000 | 700,000 |
| 2015 Notes, bearing interest at 6.22% | 175,000 | 175,000 |
| 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 |
| Tax-exempt bonds, bearing interest ranging from 0.06% to 0.18%* | 32,825 | 33,030 |
| Notes payable to sellers and other third parties, bearing interest at 2.5% to 10.9%* | 10,468 | 12,845 |
| | <u>1,935,293</u> | <u>2,072,975</u> |
| Less – current portion | (4,031) | (5,385) |
| | <u>\$ 1,931,262</u> | <u>\$ 2,067,590</u> |

*Interest rates in the table above represent the range of interest rates incurred during the six month period ended June 30, 2014.

On May 15, 2014, the Company entered into an amendment (the "Term Loan Amendment") to its term loan facility, which changed the range of the additional interest margin applicable to borrowings under the term loan facility from a range of 1.375% to 2.375% to a range of 1.250% to 2.000% with respect to LIBOR borrowings and from a range of 0.375% to 1.375% to a range of 0.250% to 1.000% with respect to base rate borrowings. The Term Loan Amendment also eliminated the Company's obligation to make principal payments on its term loans prior to maturity and made certain adjustments to the definition of LIBOR.

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5. ACQUISITIONS

During the six months ended June 30, 2014, the Company acquired Screwbean Landfill, LLC (“Screwbean”), which owns land and permits to construct and operate an E&P waste facility, and S.A. Dunn & Company, LLC (“Dunn”), which owns land and permits to construct and operate an MSW landfill, for aggregate total cash consideration of \$27,020 and contingent consideration of \$2,923. The Company also acquired one individually immaterial non-hazardous solid waste collection business during the six months ended June 30, 2014. The Company acquired three individually immaterial non-hazardous solid waste collection businesses during the six months ended June 30, 2013.

Contingent consideration represents the fair value of up to \$3,000 of amounts payable to the former Dunn owners based on the successful modification of site construction permits that would enable increased capacity at the landfill. The fair value of the contingent consideration was determined using probability assessments of the expected future cash flows over the two-year period in which the obligations are expected to be settled, and applying discount rates ranging from 2.4% to 2.7%.

Cash consideration for the acquisition of the business of R360 Environmental Solutions, Inc. (“R360”) in October 2012 included payment for the estimated net working capital of \$18,906, as defined in the acquisition agreement, which was subject to final adjustment subsequent to the close of the acquisition. In March 2013, Waste Connections received \$18,000 from the former owners of R360 due to the final adjustment to the net working capital that was estimated at the closing date.

During the six months ended June 30, 2014 and 2013, the Company incurred \$648 and \$806, 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.

6. INTANGIBLE ASSETS, NET

Intangible assets, exclusive of goodwill, consisted of the following at June 30, 2014:

| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|----------------------------------|-------------------------------------|--------------------------------|
| Finite-lived intangible assets: | | | |
| Long-term franchise agreements and contracts | \$ 195,887 | \$ (48,686) | \$ 147,201 |
| Customer lists | 153,122 | (68,981) | 84,141 |
| Permits and non-competition agreements | 41,369 | (11,178) | 30,191 |
| | <u>390,378</u> | <u>(128,845)</u> | <u>261,533</u> |
| Indefinite-lived intangible assets: | | | |
| Solid waste collection and transportation permits | 151,505 | - | 151,505 |
| Material recycling facility permits | 42,283 | - | 42,283 |
| E&P facility permits | 59,855 | - | 59,855 |
| | <u>253,643</u> | <u>-</u> | <u>253,643</u> |
| Intangible assets, exclusive of goodwill | <u>\$ 644,021</u> | <u>\$ (128,845)</u> | <u>\$ 515,176</u> |

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Intangible assets, exclusive of goodwill, consisted of the following at December 31, 2013:

| | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> | <u>Net Carrying Amount</u> |
|---|----------------------------------|-------------------------------------|--------------------------------|
| Finite-lived intangible assets: | | | |
| Long-term franchise agreements and contracts | \$ 196,110 | \$ (45,114) | \$ 150,996 |
| Customer lists | 152,378 | (59,950) | 92,428 |
| Permits and non-competition agreements | 41,369 | (10,565) | 30,804 |
| | <u>389,857</u> | <u>(115,629)</u> | <u>274,228</u> |
| Indefinite-lived intangible assets: | | | |
| Solid waste collection and transportation permits | 151,505 | - | 151,505 |
| Material recycling facility permits | 42,283 | - | 42,283 |
| E&P facility permits | 59,855 | - | 59,855 |
| | <u>253,643</u> | <u>-</u> | <u>253,643</u> |
| Intangible assets, exclusive of goodwill | <u>\$ 643,500</u> | <u>\$ (115,629)</u> | <u>\$ 527,871</u> |

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

| | |
|---------------------------------------|-----------|
| For the year ending December 31, 2014 | \$ 26,774 |
| For the year ending December 31, 2015 | \$ 26,208 |
| For the year ending December 31, 2016 | \$ 22,255 |
| For the year ending December 31, 2017 | \$ 20,174 |
| For the year ending December 31, 2018 | \$ 19,248 |

7. 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.

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 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 EBITDA. The Company defines EBITDA as earnings before interest, taxes, depreciation, amortization, gain (loss) on disposal of assets and other income (expense). 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 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 EBITDA to Income before income tax provision is included at the end of this Note 7.

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Summarized financial information concerning the Company's reportable segments for the three and six months ended June 30, 2014 and 2013, is shown in the following tables:

| Three Months Ended June 30, 2014 | Gross Revenues | Intercompany Revenues ^(b) | Net Revenues | EBITDA ^(c) |
|--|-------------------|---|-------------------|-----------------------|
| Western | \$ 230,904 | \$ (24,635) | \$ 206,269 | \$ 63,262 |
| Central | 159,918 | (18,002) | 141,916 | 48,819 |
| Eastern | 120,550 | (20,492) | 100,058 | 30,768 |
| E&P | 79,756 | (3,306) | 76,450 | 40,716 |
| Corporate ^(a) | - | - | - | (2,348) |
| | <u>\$ 591,128</u> | <u>\$ (66,435)</u> | <u>\$ 524,693</u> | <u>\$ 181,217</u> |

| Three Months Ended June 30, 2013 | Gross Revenues | Intercompany Revenues ^(b) | Net Revenues | EBITDA ^(c) |
|--|-------------------|---|-------------------|-----------------------|
| Western | \$ 229,510 | \$ (26,677) | \$ 202,833 | \$ 62,386 |
| Central | 147,210 | (16,776) | 130,434 | 48,517 |
| Eastern | 115,542 | (19,817) | 95,725 | 29,029 |
| E&P | 63,858 | (3,469) | 60,389 | 28,324 |
| Corporate ^(a) | - | - | - | (262) |
| | <u>\$ 556,120</u> | <u>\$ (66,739)</u> | <u>\$ 489,381</u> | <u>\$ 167,994</u> |

| Six Months Ended June 30, 2014 | Gross Revenues | Intercompany Revenues ^(b) | Net Revenues | EBITDA ^(c) |
|--------------------------------------|---------------------|---|---------------------|-----------------------|
| Western | \$ 448,506 | \$ (46,882) | \$ 401,624 | \$ 125,754 |
| Central | 303,302 | (32,320) | 270,982 | 94,662 |
| Eastern | 229,917 | (38,533) | 191,384 | 57,904 |
| E&P | 150,062 | (7,650) | 142,412 | 72,196 |
| Corporate ^(a) | - | - | - | (6,297) |
| | <u>\$ 1,131,787</u> | <u>\$ (125,385)</u> | <u>\$ 1,006,402</u> | <u>\$ 344,219</u> |

| Six Months Ended June 30, 2013 | Gross Revenues | Intercompany Revenues ^(b) | Net Revenues | EBITDA ^(c) |
|--------------------------------------|---------------------|---|-------------------|-----------------------|
| Western | \$ 445,856 | \$ (49,872) | \$ 395,984 | \$ 120,962 |
| Central | 275,173 | (30,146) | 245,027 | 88,755 |
| Eastern | 220,971 | (37,477) | 183,494 | 54,909 |
| E&P | 120,879 | (6,112) | 114,767 | 50,912 |
| Corporate ^(a) | - | - | - | (2,867) |
| | <u>\$ 1,062,879</u> | <u>\$ (123,607)</u> | <u>\$ 939,272</u> | <u>\$ 312,671</u> |

- (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.

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- (c) For those items included in the determination of 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.

The following tables show changes in goodwill during the six months ended June 30, 2014 and 2013, by reportable segment:

| | Western | Central | Eastern | E&P | Total |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| Balance as of December 31, 2013 | \$ 372,915 | \$ 459,054 | \$ 380,570 | \$ 462,615 | \$ 1,675,154 |
| Goodwill acquired | - | 1,559 | - | - | 1,559 |
| Goodwill divested | - | (143) | - | - | (143) |
| Goodwill adjustments | - | (843) | (1) | - | (844) |
| Balance as of June 30, 2014 | <u>\$ 372,915</u> | <u>\$ 459,627</u> | <u>\$ 380,569</u> | <u>\$ 462,615</u> | <u>\$ 1,675,726</u> |

| | Western | Central | Eastern | E&P | Total |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| Balance as of December 31, 2012 | \$ 373,143 | \$ 430,412 | \$ 380,561 | \$ 452,441 | \$ 1,636,557 |
| Goodwill transferred | - | (9,196) | - | 9,196 | - |
| Goodwill acquired | 521 | 52 | 149 | 881 | 1,603 |
| Balance as of June 30, 2013 | <u>\$ 373,664</u> | <u>\$ 421,268</u> | <u>\$ 380,710</u> | <u>\$ 462,518</u> | <u>\$ 1,638,160</u> |

The Company has no accumulated impairment losses associated with goodwill.

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

| | Three months ended | | Six months ended | |
|--------------------------------------|--------------------|------------------|-------------------|-------------------|
| | June 30, | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Western segment EBITDA | \$ 63,262 | \$ 62,386 | \$ 125,754 | \$ 120,962 |
| Central segment EBITDA | 48,819 | 48,517 | 94,662 | 88,755 |
| Eastern segment EBITDA | 30,768 | 29,029 | 57,904 | 54,909 |
| E&P segment EBITDA | 40,716 | 28,324 | 72,196 | 50,912 |
| Subtotal reportable segments | 183,565 | 168,256 | 350,516 | 315,538 |
| Unallocated corporate overhead | (2,348) | (262) | (6,297) | (2,867) |
| Depreciation | (57,105) | (54,766) | (112,922) | (106,414) |
| Amortization of intangibles | (6,720) | (6,211) | (13,456) | (12,650) |
| Gain (loss) on disposal of assets | 1,324 | (3,445) | 1,465 | (3,122) |
| Loss on prior corporate office lease | - | (10,498) | - | (10,498) |
| Interest expense | (15,940) | (18,928) | (32,851) | (37,940) |
| Other income (expense), net | 661 | (1,706) | 137 | (965) |
| Income before income tax provision | <u>\$ 103,437</u> | <u>\$ 72,440</u> | <u>\$ 186,592</u> | <u>\$ 141,082</u> |

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The following table shows, for the periods indicated, the Company's total reported revenues by service line and with intercompany eliminations:

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|-------------------|------------------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Solid waste collection | \$ 322,763 | \$ 306,472 | \$ 628,766 | \$ 599,616 |
| Solid waste disposal and transfer | 158,913 | 153,600 | 294,476 | 276,371 |
| E&P waste treatment, recovery and disposal | 82,646 | 66,183 | 155,964 | 126,115 |
| Solid waste recycling | 14,836 | 18,610 | 29,739 | 37,404 |
| Intermodal and other | 11,970 | 11,255 | 22,842 | 23,373 |
| | 591,128 | 556,120 | 1,131,787 | 1,062,879 |
| Less: intercompany elimination | (66,435) | (66,739) | (125,385) | (123,607) |
| Total revenues | <u>\$ 524,693</u> | <u>\$ 489,381</u> | <u>\$ 1,006,402</u> | <u>\$ 939,272</u> |

8. DERIVATIVE FINANCIAL INSTRUMENTS

The Company recognizes all derivatives on the condensed consolidated balance sheet at fair value. All of the Company's derivatives have been designated as cash flow hedges; therefore, the effective portion of the changes in the fair value of derivatives will be recognized in accumulated other comprehensive loss ("AOCL") until the hedged item is recognized in earnings. The ineffective portion of the changes in the fair value of derivatives will be immediately recognized in earnings. The Company classifies cash inflows and outflows from derivatives within operating activities in the Condensed Consolidated Statements of Cash Flows.

One of the Company's objectives for utilizing derivative instruments is to reduce its exposure to fluctuations in cash flows due to changes in the variable interest rates of certain borrowings issued under its revolving credit facility. The Company's strategy to achieve that objective involves entering into interest rate swaps that are specifically designated to the Company's revolving credit facility and accounted for as cash flow hedges.

At June 30, 2014, the Company's derivative instruments included seven interest rate swap agreements as follows:

| Date Entered | Notional Amount | Fixed Interest Rate Paid* | Variable Interest Rate Received | Effective Date | Expiration Date |
|---------------|--------------------|---------------------------------|---------------------------------------|----------------|-----------------|
| August 2011 | \$ 150,000 | 0.800% | 1-month LIBOR | April 2012 | January 2015 |
| December 2011 | \$ 175,000 | 1.600% | 1-month LIBOR | February 2014 | February 2017 |
| April 2014 | \$ 100,000 | 1.800% | 1-month LIBOR | July 2014 | July 2019 |
| May 2014 | \$ 50,000 | 2.344% | 1-month LIBOR | October 2015 | October 2020 |
| May 2014 | \$ 25,000 | 2.326% | 1-month LIBOR | October 2015 | October 2020 |
| May 2014 | \$ 50,000 | 2.350% | 1-month LIBOR | October 2015 | October 2020 |
| May 2014 | \$ 50,000 | 2.350% | 1-month LIBOR | October 2015 | October 2020 |

* Plus applicable margin.

Another of the Company's objectives for utilizing derivative instruments is to reduce its exposure to fluctuations in cash flows due to changes in the price of diesel fuel. The Company's strategy to achieve that objective involves periodically entering into fuel hedges that are specifically designated to certain forecasted diesel fuel purchases and accounted for as cash flow hedges.

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At June 30, 2014, the Company's derivative instruments included one fuel hedge agreement as follows:

| Date Entered | Notional Amount (in gallons per month) | Diesel Rate Paid Fixed (per gallon) | Diesel Rate Received Variable | Effective Date | Expiration Date |
|--------------|---|-------------------------------------|-------------------------------|----------------|-----------------|
| June 2012 | 300,000 | \$ 3.60 | DOE Diesel Fuel Index* | January 2014 | December 2015 |

* If the national U.S. on-highway average price for a gallon of diesel fuel ("average price"), as published by the Department of Energy ("DOE"), exceeds the contract price per gallon, the Company receives the difference between the average price and the contract price (multiplied by the notional number of gallons) from the counterparty. If the average price is less than the contract price per gallon, the Company pays the difference to the counterparty.

The fair values of derivative instruments designated as cash flow hedges as of June 30, 2014, were as follows:

| Derivatives Designated as Cash Flow Hedges | Asset Derivatives | | Liability Derivatives | |
|--|--|-----------------|------------------------------------|-------------------|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Interest rate swaps | Other assets, net | \$ 316 | Accrued liabilities ^(a) | \$ (4,340) |
| | | | Other long-term liabilities | (1,752) |
| Fuel hedge | Prepaid expenses and other current assets ^(b) | 1,226 | | |
| | Other assets, net | 527 | | |
| Total derivatives designated as cash flow hedges | | <u>\$ 2,069</u> | | <u>\$ (6,092)</u> |

(a) Represents the estimated amount of the existing unrealized losses on interest rate swaps as of June 30, 2014 (based on the interest rate yield curve at that date), included in AOCL expected to be reclassified into pre-tax earnings within the next 12 months. The actual amounts reclassified into earnings are dependent on future movements in interest rates.

(b) Represents the estimated amount of the existing unrealized gains on the fuel hedge as of June 30, 2014 (based on the forward DOE diesel fuel index curve at that date), included in AOCL expected to be reclassified into pre-tax earnings within the next 12 months. The actual amounts reclassified into earnings are dependent on future movements in diesel fuel prices.

The fair values of derivative instruments designated as cash flow hedges as of December 31, 2013, were as follows:

| Derivatives Designated as Cash Flow Hedges | Asset Derivatives | | Liability Derivatives | |
|--|---|-----------------|-----------------------------|-------------------|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Interest rate swaps | | | Accrued liabilities | \$ (3,373) |
| | | | Other long-term liabilities | (1,853) |
| Fuel hedge | Prepaid expenses and other current assets | \$ 1,304 | | |
| | Other assets, net | 895 | | |
| Total derivatives designated as cash flow hedges | | <u>\$ 2,199</u> | | <u>\$ (5,226)</u> |

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The following table summarizes the impact of the Company's cash flow hedges on the results of operations, comprehensive income and AOCL for the three and six months ended June 30, 2014 and 2013:

| Derivatives Designated as Cash Flow Hedges | Amount of Gain or (Loss) Recognized as AOCL on Derivatives, Net of Tax (Effective Portion) ^(a) | | Statement of Net Income Classification | Amount of (Gain) or Loss Reclassified from AOCL into Earnings, Net of Tax (Effective Portion) ^{(b),(c)} | |
|--|---|---------------|--|--|---------------|
| | Three Months Ended June 30, | | | Three Months Ended June 30, | |
| | 2014 | 2013 | | 2014 | 2013 |
| Interest rate swaps | \$ (1,362) | \$ 1,151 | Interest expense | \$ 546 | \$ 864 |
| Fuel hedge | 287 | (335) | Cost of operations | (187) | - |
| Total | \$ (1,075) | \$ 816 | | \$ 359 | \$ 864 |

| Derivatives Designated as Cash Flow Hedges | Amount of Gain or (Loss) Recognized as AOCL on Derivatives, Net of Tax (Effective Portion) ^(a) | | Statement of Net Income Classification | Amount of (Gain) or Loss Reclassified from AOCL into Earnings, Net of Tax (Effective Portion) ^{(b),(c)} | |
|--|---|-----------------|--|--|-----------------|
| | Six Months Ended June 30, | | | Six Months Ended June 30, | |
| | 2014 | 2013 | | 2014 | 2013 |
| Interest rate swaps | \$ (1,539) | \$ 1,132 | Interest expense | \$ 1,205 | \$ 1,716 |
| Fuel hedge | 110 | 29 | Cost of operations | (387) | - |
| Total | \$ (1,429) | \$ 1,161 | | \$ 818 | \$ 1,716 |

(a) In accordance with the derivatives and hedging guidance, the effective portions of the changes in fair values of interest rate swaps and the fuel hedge have been recorded in equity as a component of AOCL. As the critical terms of the interest rate swaps match the underlying debt being hedged, no ineffectiveness is recognized on these swaps and, therefore, all unrealized changes in fair value are recorded in AOCL. Because changes in the actual price of diesel fuel and changes in the DOE index price do not offset exactly each reporting period, the Company assesses whether the fuel hedge is highly effective using the cumulative dollar offset approach.

(b) Amounts reclassified from AOCL into earnings related to realized gains and losses on interest rate swaps are recognized when interest payments or receipts occur related to the swap contracts, which correspond to when interest payments are made on the Company's hedged debt.

(c) Amounts reclassified from AOCL into earnings related to realized gains and losses on the fuel hedge are recognized when settlement payments or receipts occur related to the hedge contract, which correspond to when the underlying fuel is consumed.

The Company measures and records ineffectiveness on the fuel hedge in Cost of operations in the Condensed Consolidated Statements of Net Income on a monthly basis based on the difference between the DOE index price and the actual price of diesel fuel purchased, multiplied by the notional number of gallons on the contract. There was no significant ineffectiveness recognized on the fuel hedge during the six months ended June 30, 2014 and 2013.

See Note 12 for further discussion on the impact of the Company's hedge accounting to its consolidated comprehensive income and AOCL.

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9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist primarily of cash and equivalents, trade receivables, restricted assets, trade payables, debt instruments, contingent consideration obligations, interest rate swaps and a fuel hedge. As of June 30, 2014 and December 31, 2013, the carrying values of cash and equivalents, trade receivables, restricted assets, trade payables and contingent consideration are considered to be representative of their respective fair values. The carrying values of the Company's debt instruments, excluding certain notes as listed in the table below, approximate their fair values as of June 30, 2014 and December 31, 2013, based on current borrowing rates, current remaining average life to maturity and borrower credit quality for similar types of borrowing arrangements, and are classified as Level 2 within the fair value hierarchy. The carrying values and fair values of the Company's debt instruments where the carrying values do not approximate their fair values as of June 30, 2014 and December 31, 2013, are as follows:

| | Carrying Value at | | Fair Value* at | |
|-----------------------------|-------------------|----------------------|------------------|----------------------|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| 6.22% Senior Notes due 2015 | \$ 175,000 | \$ 175,000 | \$ 185,802 | \$ 187,206 |
| 3.30% Senior Notes due 2016 | \$ 100,000 | \$ 100,000 | \$ 103,177 | \$ 102,066 |
| 4.00% Senior Notes due 2018 | \$ 50,000 | \$ 50,000 | \$ 52,937 | \$ 50,992 |
| 5.25% Senior Notes due 2019 | \$ 175,000 | \$ 175,000 | \$ 194,147 | \$ 185,037 |
| 4.64% Senior Notes due 2021 | \$ 100,000 | \$ 100,000 | \$ 107,694 | \$ 100,341 |

*Senior Notes are classified as Level 2 within the fair value hierarchy. Fair value is based on quotes of bonds with similar ratings in similar industries.

For details on the fair value of the Company's interest rate swaps, fuel hedge and restricted assets, refer to Note 11.

10. NET INCOME PER SHARE INFORMATION

The following table sets forth the calculation of the numerator and denominator used in the computation of basic and diluted net income per common share attributable to the Company's common stockholders for the three and six months ended June 30, 2014 and 2013:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|-------------|------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Numerator: | | | | |
| Net income attributable to Waste Connections for basic and diluted earnings per share | \$ 62,664 | \$ 43,967 | \$ 111,679 | \$ 85,523 |
| Denominator: | | | | |
| Basic shares outstanding | 124,230,572 | 123,610,969 | 124,096,619 | 123,496,519 |
| Dilutive effect of stock options and warrants | 110,406 | 191,872 | 124,000 | 196,993 |
| Dilutive effect of restricted stock units | 507,373 | 277,582 | 560,478 | 299,799 |
| Diluted shares outstanding | 124,848,351 | 124,080,423 | 124,781,097 | 123,993,311 |

For the three months ended June 30, 2014 and 2013, stock options and warrants to purchase 33,112 and 993 shares of common stock, respectively, were excluded from the computation of diluted earnings per share as they were anti-dilutive. For the six months ended June 30, 2014 and 2013, stock options and warrants to purchase 33,112 and 993 shares of common stock, respectively, were excluded from the computation of diluted earnings per share as they were anti-dilutive.

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11. FAIR VALUE MEASUREMENTS

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. These tiers include: Level 1, defined as quoted market prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and Level 3, defined as unobservable inputs that are not corroborated by market data.

The Company's financial assets and liabilities recorded at fair value on a recurring basis include derivative instruments and restricted assets. The Company's derivative instruments are pay-fixed, receive-variable interest rate swaps and a pay-fixed, receive-variable diesel fuel hedge. The Company's interest rate swaps are recorded at their estimated fair values based on quotes received from financial institutions that trade these contracts. The Company verifies the reasonableness of these quotes using similar quotes from another financial institution as of each date for which financial statements are prepared. The Company uses a discounted cash flow ("DCF") model to determine the estimated fair value of the diesel fuel hedge. The assumptions used in preparing the DCF model include: (i) estimates for the forward DOE index curve; and (ii) the discount rate based on risk-free interest rates over the term of the hedge contract. The DOE index curve used in the DCF model was obtained from financial institutions that trade these contracts and ranged from \$3.88 to \$3.96 at June 30, 2014 and from \$3.79 to \$4.00 at December 31, 2013. The weighted average DOE index curve used in the DCF model was \$3.93 and \$3.91 at June 30, 2014 and December 31, 2013, respectively. Significant increases (decreases) in the forward DOE index curve would result in a significantly higher (lower) fair value measurement. For the Company's interest rate swaps and fuel hedge, the Company also considers the Company's creditworthiness in its determination of the fair value measurement of these instruments in a net liability position and the banks' creditworthiness in its determination of the fair value measurement of these instruments in a net asset position. The Company's restricted assets are valued at quoted market prices in active markets for identical assets, which the Company receives from the financial institutions that hold such investments on its behalf. The Company's restricted assets measured at fair value are invested primarily in U.S. government and agency securities.

The Company's assets and liabilities measured at fair value on a recurring basis at June 30, 2014 and December 31, 2013, were as follows:

| | Fair Value Measurement at June 30, 2014 Using | | | |
|--|--|---|--|--|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Interest rate swap derivative instruments – net liability position | \$ (5,776) | \$ - | \$ (5,776) | \$ - |
| Fuel hedge derivative instrument – net asset position | \$ 1,753 | \$ - | \$ - | \$ 1,753 |
| Restricted assets | \$ 36,069 | \$ 36,069 | \$ - | \$ - |

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| | Fair Value Measurement at December 31, 2013 Using | | | |
|--|--|---|--|--|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Interest rate swap derivative instruments – net liability position | \$ (5,226) | \$ - | \$ (5,226) | \$ - |
| Fuel hedge derivative instrument – net asset position | \$ 2,199 | \$ - | \$ - | \$ 2,199 |
| Restricted assets | \$ 32,782 | \$ 32,782 | \$ - | \$ - |

The following table summarizes the change in the fair value for Level 3 derivatives for the six months ended June 30, 2014:

| | Level 3 Derivatives |
|-------------------------------------|--------------------------------|
| Balance as of December 31, 2013 | \$ 2,199 |
| Realized gains included in earnings | (627) |
| Unrealized gains included in AOCL | 181 |
| Balance as of June 30, 2014 | <u>\$ 1,753</u> |

The following table summarizes the change in the fair value for Level 3 derivatives for the six months ended June 30, 2013:

| | Level 3 Derivatives |
|-----------------------------------|--------------------------------|
| Balance as of December 31, 2012 | \$ 1,187 |
| Unrealized gains included in AOCL | 48 |
| Balance as of June 30, 2013 | <u>\$ 1,235</u> |

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12. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes changes in the fair value of interest rate swaps and the fuel hedge that qualify for hedge accounting. The components of other comprehensive income (loss) and related tax effects for the three and six month periods ended June 30, 2014 and 2013, are as follows:

| | Three months ended June 30, 2014 | | |
|---|---|-------------------|-------------------|
| | Gross | Tax effect | Net of tax |
| Interest rate swap amounts reclassified into interest expense | \$ 886 | \$ (340) | \$ 546 |
| Fuel hedge amounts reclassified into cost of operations | (304) | 117 | (187) |
| Changes in fair value of interest rate swaps | (2,210) | 848 | (1,362) |
| Changes in fair value of fuel hedge | 466 | (179) | 287 |
| | <u>\$ (1,162)</u> | <u>\$ 446</u> | <u>\$ (716)</u> |

| | Three months ended June 30, 2013 | | |
|---|---|-------------------|-------------------|
| | Gross | Tax effect | Net of tax |
| Interest rate swap amounts reclassified into interest expense | \$ 1,400 | \$ (536) | \$ 864 |
| Changes in fair value of interest rate swaps | 1,863 | (712) | 1,151 |
| Changes in fair value of fuel hedge | (543) | 208 | (335) |
| | <u>\$ 2,720</u> | <u>\$ (1,040)</u> | <u>\$ 1,680</u> |

| | Six months ended June 30, 2014 | | |
|---|---------------------------------------|-------------------|-------------------|
| | Gross | Tax effect | Net of tax |
| Interest rate swap amounts reclassified into interest expense | \$ 1,954 | \$ (749) | \$ 1,205 |
| Fuel hedge amounts reclassified into cost of operations | (627) | 240 | (387) |
| Changes in fair value of interest rate swaps | (2,504) | 965 | (1,539) |
| Changes in fair value of fuel hedge | 181 | (71) | 110 |
| | <u>\$ (996)</u> | <u>\$ 385</u> | <u>\$ (611)</u> |

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| | Six months ended June 30, 2013 | | |
|---|---------------------------------------|-------------------|-------------------|
| | Gross | Tax effect | Net of tax |
| Interest rate swap amounts reclassified into interest expense | \$ 2,779 | \$ (1,063) | \$ 1,716 |
| Changes in fair value of interest rate swaps | 1,824 | (692) | 1,132 |
| Changes in fair value of fuel hedge | 48 | (19) | 29 |
| | <u>\$ 4,651</u> | <u>\$ (1,774)</u> | <u>\$ 2,877</u> |

A rollforward of the amounts included in AOCL, net of taxes, is as follows:

| | Fuel Hedge | Interest Rate Swaps | Accumulated Other Comprehensive Loss |
|------------------------------------|-------------------|--------------------------------|---|
| | | | |
| Balance at December 31, 2013 | \$ 1,357 | \$ (3,226) | \$ (1,869) |
| Amounts reclassified into earnings | (387) | 1,205 | 818 |
| Changes in fair value | 110 | (1,539) | (1,429) |
| Balance at June 30, 2014 | <u>\$ 1,080</u> | <u>\$ (3,560)</u> | <u>\$ (2,480)</u> |

See Note 8 for further discussion on the Company's derivative instruments.

13. STOCKHOLDERS' EQUITY

Stock-Based Compensation

Adoption of 2014 Incentive Award Plan

On May 16, 2014 at the annual meeting of stockholders, the Company's stockholders approved the Waste Connections, Inc. 2014 Incentive Award Plan (the "2014 Plan"), which had previously been adopted by the Company's board of directors (the "Board"), subject to stockholder approval. Upon such stockholder approval, the 2014 Plan became effective, replacing the Waste Connections, Inc. Third Amended and Restated 2004 Equity Incentive Plan, pursuant to which no more awards may be granted.

The 2014 Plan authorizes the Compensation Committee of the Board (the "Compensation Committee") to grant nonqualified stock options, warrants, restricted stock, restricted stock units, dividend equivalents and stock payment awards. The 2014 Plan also authorizes the Compensation Committee to grant performance awards payable in the form of the Company's common stock or cash, including equity awards and incentive cash bonuses that are intended to qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code of 1986, as amended ("Section 162(m)"). The 2014 Plan authorizes the grant of awards to employees and consultants of the Company and its subsidiaries and non-employee directors.

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Restricted Stock Units

A summary of activity related to restricted stock units under the Third Amended and Restated 2004 Equity Incentive Plan during the six month period ended June 30, 2014, is presented below:

| | Unvested Shares |
|----------------------------------|----------------------------|
| Outstanding at December 31, 2013 | 1,299,466 |
| Granted | 491,405 |
| Forfeited | (20,564) |
| Vested and Issued | (486,921) |
| Vested and Unissued | (70,422) |
| Outstanding at June 30, 2014 | <u>1,212,964</u> |

The weighted average grant-date fair value per share for the shares of common stock underlying the restricted stock units granted during the six month period ended June 30, 2014 was \$42.41.

Performance-Based Restricted Stock Units

The 2014 Plan allows for the issuance of performance-based restricted stock units ("PBRsUs"), among other types of awards. The vesting of the PBRsUs is dependent on the Company's performance against pre-established performance targets. The PBRsUs are payable in shares of common stock after the end of a three-year performance period, when the Company's financial performance for the entire performance period is determined. At the end of the performance period, the number of shares awarded can range from 0% to 150% of the original granted amount, depending on the performance against the pre-established targets.

A summary of activity related to PBRsUs during the six month period ended June 30, 2014, is presented below:

| | Unvested Shares |
|----------------------------------|----------------------------|
| Outstanding at December 31, 2013 | - |
| Granted | 54,723 |
| Forfeited | - |
| Vested | - |
| Outstanding at June 30, 2014 | <u>54,723</u> |

The weighted average grant-date fair value per share for the shares of common stock underlying the PBRsUs granted during the six month period ended June 30, 2014 was \$42.33. The Compensation Committee will determine the achievement of performance results and corresponding vesting of PBRsUs for each three-year performance period. The three-year performance period for the PBRsUs granted during the six month period ended June 30, 2014 ends on December 31, 2016.

PBRsUs have no voting rights. PBRsUs are payable to an employee (or his beneficiary), subject to pro-rata vesting, upon death, disability, involuntary termination other than for cause, and voluntary termination for good reason in cases where an underlying employment agreement provides for such rights, and are subject to forfeiture in the event of other voluntary or for-cause termination. PBRsUs may also become payable to an employee pursuant to certain change in control provisions depending on whether the PBRsUs are assumed by the acquirer immediately following the change in control.

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Compensation expense associated with outstanding PBRsUs is measured using the fair value of the Company's common stock and is based on its estimated achievement of the established performance criteria at the end of each reporting period until the performance period ends, recognized ratably over the performance period. Compensation expense is only recognized for those awards that the Company expects to vest, which it estimates based upon an assessment of the probability that the performance criteria will be achieved. The Company assumed a forfeiture rate of 0%.

Deferred Restricted Stock Units

Certain recipients of the Company's restricted stock unit awards ("RSUs") who participate in the Company's Nonqualified Deferred Compensation Plan may elect to defer some or all of their RSUs as they vest until a specified date or dates they choose. At the end of the deferral periods, the Company issues to recipients who deferred their RSUs shares of the Company's common stock underlying the deferred RSUs. At June 30, 2014 and 2013, the Company had 223,752 and 163,995 vested deferred RSUs outstanding, respectively.

Share Repurchase Program

The Company's Board of Directors has authorized a common stock repurchase program for the repurchase of up to \$1,200,000 of common stock through December 31, 2014. Under the program, stock repurchases may be made in the open market or in privately negotiated transactions from time to time at management's discretion. The timing and amounts of any repurchases will depend on many factors, including the Company's capital structure, the market price of the common stock and overall market conditions. During the six months ended June 30, 2014 and 2013, the Company did not repurchase any shares of its common stock. As of June 30, 2014, the remaining maximum dollar value of shares available for repurchase under the program was approximately \$415,960. The Company's policy related to repurchases of its common stock is to charge any excess of cost over par value entirely to additional paid-in capital.

Cash Dividend

In October 2013, the Company announced that its Board of Directors increased its regular quarterly cash dividend by \$0.015, from \$0.10 to \$0.115 per share. Cash dividends of \$28,496 and \$24,654 were paid during the six months ended June 30, 2014 and 2013, respectively.

14. CORPORATE OFFICE RELOCATION

In December 2011, the Company commenced a relocation of its corporate headquarters from Folsom, California to The Woodlands, Texas, which was substantially completed in 2013. Costs related to personnel and office relocation expenses are recorded in Selling, general and administrative expenses in the Condensed Consolidated Statements of Net Income. In addition, the Company incurred a loss on its prior corporate office lease of \$10,498 in the second quarter of 2013 due to the cessation of use of its former corporate headquarters in Folsom, California. These costs are recorded in Loss on prior corporate office lease in the Condensed Consolidated Statements of Net Income.

15. COMMITMENTS AND CONTINGENCIES

In the normal course of its business and as a result of the extensive governmental regulation of the solid waste and E&P waste industries, the Company is subject to various judicial and administrative proceedings involving federal, state or local agencies. In these proceedings, an agency may seek to impose fines on the Company or to revoke or deny renewal of an operating permit held by the Company. From time to time, the Company may also be subject to actions brought by special interest or other groups, adjacent landowners or residents in connection with the permitting and licensing of landfills, transfer stations, and E&P waste treatment, recovery and disposal operations, or alleging environmental damage or violations of the permits and licenses pursuant to which the Company operates.

In addition, the Company is a party to various claims and suits pending for alleged damages to persons and property, alleged violations of certain laws and alleged liabilities arising out of matters occurring during the normal operation of the waste management business. Except as noted in the matters described below, as of June 30, 2014, there is no current proceeding or litigation involving the Company or its property that the Company believes could have a material adverse impact on its business, financial condition, results of operations or cash flows.

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Chaparral, New Mexico Landfill Permit Litigation

The Company's subsidiary, High Desert Solid Waste Facility, Inc. (formerly known as Rhino Solid Waste, Inc.) ("HDSWF"), owns undeveloped property in Chaparral, New Mexico, for which it sought a permit to operate a municipal solid waste landfill. The New Mexico Environment Department (the "Department") approved the permit for the facility on January 30, 2002. Colonias Development Council ("CDC"), a nonprofit organization, appealed the Department's decision to the courts of New Mexico, alleging primarily that the Department failed to consider the social impact of the landfill on the community of Chaparral, and failed to consider regional planning issues. On July 18, 2005, in Colonias Dev. Council v. Rhino Env'tl. Servs., Inc. (In re Rhino Env'tl. Servs.), 2005 NMSC 24, 117 P.3d 939, the New Mexico Supreme Court remanded the matter back to the Department to conduct a limited public hearing on certain evidence that CDC claimed was wrongfully excluded from consideration by the hearing officer, and to allow the Department to reconsider the evidence already proffered concerning the impact of the landfill on the surrounding community's quality of life. In July 2007, the Department, CDC, the Company and Otero County signed a stipulation requesting a postponement of the limited public hearing to allow the Company time to explore a possible relocation of the landfill to a new site. Since 2007, the Department has issued several orders postponing the limited public hearing, and on October 17, 2012, it granted a request by the parties to hold the limited public hearing in abeyance until further notice.

In July 2009, HDSWF purchased approximately 325 acres of undeveloped land comprising a proposed new site from the State of New Mexico. HDSWF filed a formal landfill permit application for the new site with the Department on September 17, 2010. On September 12, 2011, the Department deemed the permit application complete and a public hearing on the matter had been tentatively scheduled for April 9, 2012, in Chaparral, New Mexico. On November 9, 2011, HDSWF filed a motion with the Department to hold in abeyance indefinitely the notice for public hearing and the permit hearing, and HDSWF agreed to provide the Department with at least 120 days' prior notice of any desired, future permit hearing. The Department granted the motion. HDSWF requested the abeyance to defer capital expenditures related to permitting the new site until late 2014, when HDSWF expects to have a better understanding of several current market conditions and regulatory factors that affect the timing and feasibility of the project. These conditions and factors include: the status of El Paso Disposal, LP's Solid Waste Franchise Agreement for the collection of solid waste generated within the City of El Paso, effective September 1, 2011, which has a 40-month term; the extension, renewal or replacement of El Paso Disposal, LP's Solid Waste Franchise Agreement; and whether certain closed or non-operating disposal facilities in the El Paso market area are reopened and whether those facilities are operated by private or public entities.

At June 30, 2014, the Company had \$11,778 of capitalized expenditures related to this landfill development project. Depending on the outcome of the market conditions and regulatory factors described above, the Company may decide in late 2014 to abandon the project and expense the \$11,778 of capitalized expenditures, less the recoverable value of the undeveloped properties and other amounts recovered, which would likely have a material adverse effect on the Company's results of operations for that period. Alternatively, if the outcome of the market conditions and regulatory factors described above is such that the Company believes the market for disposal of solid waste generated in the City of El Paso will remain competitive, HDSWF may decide in late 2014 to resume its permitting process for the new site. Under those circumstances, if the Department ultimately denies the landfill permit application for the new site, HDSWF intends to actively resume its efforts to enforce the previously issued landfill permit for the original site in Chaparral. If the Company is ultimately issued a permit to operate the landfill at the new site purchased in July 2009, the Company will be required to expense in a future period \$10,324 of capitalized expenditures related to the original Chaparral property, less the recoverable value of that undeveloped property and other amounts recovered, which would likely have a material adverse effect on the Company's results of operations for that period. If the Company instead is ultimately issued a permit to operate the landfill at the original Chaparral property, the Company will be required to expense in a future period \$1,454 of capitalized expenditures related to the new site purchased in July 2009, less the recoverable value of that undeveloped property and other amounts recovered. If the Company is not ultimately issued a permit to operate the landfill at either one of the two sites, the Company will be required to expense in a future period the \$11,778 of capitalized expenditures, less the recoverable value of the undeveloped properties and other amounts recovered, which would likely have a material adverse effect on the Company's results of operations for that period.

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Harper County, Kansas Landfill Permit Litigation

The Company opened a municipal solid waste landfill in Harper County, Kansas in January 2006, following the issuance by the Kansas Department of Health and Environment (“KDHE”) of a permit to operate the landfill. The landfill has operated continuously since that time. In 2005, landfill opponents (the “Plaintiffs”) filed a suit (Board of Comm’rs of Sumner County, Kansas, Tri-County Concerned Citizens and Dalton Holland v. Roderick Bremby, Sec’y of the Kansas Dep’t of Health and Env’t, et al.) in the District Court of Shawnee County, Kansas, seeking a judicial review of KDHE’s decision to issue the permit, alleging that a site analysis prepared for the Company and submitted to KDHE as part of the process leading to the issuance of the permit was deficient in several respects. The action sought to stay the effectiveness of the permit and to nullify it. The Company intervened in this lawsuit shortly after it was filed. In June 2012, the District Court denied the Plaintiffs’ demand for revocation of the permit, and affirmed KDHE’s decision that the issuance of the permit met or exceeded all applicable regulatory requirements. The Plaintiffs filed an appeal to the Kansas Court of Appeals. On September 13, 2013, the Kansas Court of Appeals affirmed KDHE’s issuance of the landfill permit to the Company. On October 15, 2013, the Plaintiffs petitioned the Kansas Supreme Court to review the decision of the Court of Appeals, which review is discretionary. On June 20, 2014, the Kansas Supreme Court denied Plaintiffs’ petition for review, which finally concluded the litigation in the Company’s favor.

Solano County, California Landfill Expansion Litigation

On December 17, 2010, Sustainability, Parks, Recycling and Wildlife Legal Defense Fund (“SPRAWLDEF”) and one its members filed a petition for writ of mandate in San Francisco Superior Court seeking to overturn the October 2010 approval of the marsh development permit issued by the San Francisco Bay Conservation and Development Commission (“BCDC”) for the expansion of the Potrero Hills Landfill, alleging that the approval is contrary to the Suisun Marsh Protection Act. The petition, captioned SPRAWLDEF v. San Francisco Bay Conservation and Development Commission, names BCDC as a respondent and the Company as the real party in interest. The Company’s subsidiary, Potrero Hills Landfill, Inc. (“PHLF”), owns and operates the Potrero Hills Landfill. The San Francisco Superior Court stayed the action and, on April 5, 2012, transferred the case to Solano County Superior Court. On November 29, 2012, the Superior Court issued an order finding that the administrative record before BCDC did not contain sufficient evidence regarding net profits for the proposed project or the alternative to support the agency’s finding that the alternative was economically infeasible. The Superior Court therefore issued a writ of mandamus and final judgment on January 14, 2013, setting aside the BCDC permit and remanding it back to the agency for further consideration. Both the Company and BCDC filed notices of appeal, staying execution of the writ and judgment pending the appeal. On April 29, 2014, the Court of Appeal issued an opinion reversing the trial court order. In a unanimous decision, the Court of Appeal rejected SPRAWLDEF’s arguments, finding ample evidence in the record to support BCDC’s determination that alternatives to landfill expansion were economically infeasible and remanded the case back to the Superior Court to deny the petition. On June 9, 2014, SPRAWLDEF filed a petition for review in the California Supreme Court. A decision on the petition for review is expected during the third quarter of 2014. At this point the Company is not able to determine the likelihood of any outcome in this matter.

On June 10, 2011, June Guidotti, a property owner adjacent to PHLF, and SPRAWLDEF and one of its members, each filed administrative petitions for review with the State Water Resources Control Board (“State Board”) seeking to overturn a May 11, 2011 Order No. 2166-(a) approving waste discharge requirements issued by the San Francisco Bay Regional Water Quality Control Board (“Regional Board”) for PHLF’s landfill expansion, alleging that the order is contrary to the State Board’s Title 27 regulations authorizing waste discharge requirements for landfills, and in the case of the SPRAWLDEF petition, further alleging that the Regional Board’s issuance of a Clean Water Act section 401 certification is not supported by an adequate alternatives analysis as required by the federal Clean Water Act. The Regional Board is preparing the administrative record of its decision to issue Order 2166-(a) to be filed with the State Board as well as its response to the petitions for review. It is anticipated that the Regional Board will vigorously defend its actions and seek dismissal of the petitions for review. A hearing date has not yet been set on either petition, and the State Board has held both the Guidotti and SPRAWLDEF petitions in abeyance at the petitioners’ requests. At this point, the Company is not able to determine the likelihood of any outcome in this matter.

If as a result of any of the matters described above, after exhausting all appeals, PHLF’s marsh development permit is permanently rescinded, the Company estimates that it would be required to recognize a pre-tax impairment charge of approximately \$11,000 to reduce the carrying value of PHLF to its estimated fair value.

Madera County, California Materials Recovery Facility Contract Litigation

The Company’s subsidiary, Madera Disposal Systems, Inc. (“MDSI”) was named in a complaint captioned County of Madera vs. Madera Disposal Systems, Inc., et al, filed in Madera County Superior Court (Case No. MCV 059402) on March 5, 2012, and subsequently transferred to Fresno County Superior Court. Madera County alleges in the complaint that from 2007 through 2010, MDSI breached a contract with the County for the operation of a materials recovery facility by withholding profits from facility operations in excess of those authorized by the contract. The County further alleges that the breach gives the County the unilateral right to terminate all of its contracts with MDSI, including contracts for (1) the collection of residential and commercial waste in the unincorporated parts of the County, (2) operation of the materials recovery facility, (3) operation of the North Fork Transfer Station and (4) operation of the Fairmead Landfill. The County seeks monetary damages of \$2,962 from MDSI, plus pre-judgment interest at 10% per annum.

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MDSI had been under contract with the County to collect residential and commercial waste and operate the county-owned Fairmead Landfill continuously since at least 1981. In 1993, MDSI contracted with the County to construct and operate a materials recovery facility for the County on the premises of the Fairmead Landfill. After it entered into the materials recovery facility contract, MDSI entered into new contracts with the County for waste collection and landfill operation to run concurrently with the materials recovery facility contract. In 1998, MDSI and the County agreed to extend the terms of the County contracts until November 10, 2012, with MDSI holding a unilateral option to extend the contracts for an additional five-year term.

In March 2011, the County issued a Notice of Default to MDSI under the materials recovery facility contract and gave MDSI 30 days to cure the default. MDSI provided information that it believed demonstrated that it was not in default under the contract and had not withheld profits that it was obligated to deliver to the County under the terms of the contract.

On February 7, 2012, the County issued a Notice of Termination to MDSI terminating all of its contracts effective November 1, 2012. The lawsuit followed on March 5, 2012. MDSI answered the complaint and asserted a claim against the County for wrongful termination of the contracts. On October 31, 2012, MDSI ceased providing services and vacated the County premises. The case is set for trial in Fresno in December 2014.

At this point, the Company is not able to determine the likelihood of any outcome in this matter. The Company disputes Madera County's right to terminate the MDSI contracts effective November 1, 2012, and seeks damages for the profits lost as a result of the wrongful termination. The Company estimates that the current annual impact to its pre-tax earnings resulting from the termination of MDSI's contracts with Madera County is approximately \$2,300 per year, not including any monetary damages and interest the Court could order MDSI to pay the County.

16. SUBSEQUENT EVENT

On July 17, 2014, the Company announced that its Board of Directors approved a regular quarterly cash dividend of \$0.115 per share on the Company's common stock. The dividend will be paid on August 15, 2014, to stockholders of record on the close of business on August 1, 2014.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q are forward-looking in nature, including statements related to our ability to provide adequate cash to fund our operating activities, our ability to draw on our credit facility or raise additional capital, the impact of global economic conditions on our volume, business and results of operations, the effects of landfill special waste projects on volume results, the effects of seasonality on our business and results of operations, demand for recyclable commodities and recyclable commodity pricing, our expectations with respect to capital expenditures, our expectations with respect to our ability to obtain expansions of permitted landfill capacity, our expectations with respect to our stock repurchase program and future dividend payments, our expectations with respect to the outcomes of our legal proceedings and our expectations with respect to the purchase of fuel and fuel prices. These statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates," or the negative thereof or comparable terminology, or by discussions of strategy.

Our business and operations are subject to a variety of risks and uncertainties and, consequently, actual results may differ materially from those projected by any forward-looking statements. Factors that could cause actual results to differ from those projected include, but are not limited to, the following:

- Our results are vulnerable to economic conditions;
- Our industry is highly competitive and includes larger and better capitalized companies, companies with lower prices, return expectations or other advantages, and governmental service providers, which could adversely affect our ability to compete and our operating results;
- Our E&P waste business depends on the level of drilling and production activity in the basins in which we operate and the willingness of E&P companies to outsource their waste services activities;
- We have limited experience in running an E&P waste treatment, recovery and disposal business;
- Competition for acquisition candidates, consolidation within the waste industry and economic and market conditions may limit our ability to grow through acquisitions;
- Our indebtedness could adversely affect our financial condition and limit our financial flexibility;
- Price increases may not be adequate to offset the impact of increased costs, or may cause us to lose volume;
- Fluctuations in prices for recycled commodities that we sell and rebates we offer to customers may cause our revenues and operating results to decline;
- The seasonal nature of our business and "event-driven" waste projects cause our results to fluctuate;
- We may lose contracts through competitive bidding, early termination or governmental action;
- Increases in labor costs could impact our financial results;
- Increases in the price of diesel or compressed natural gas fuel may adversely affect our collection business and reduce our operating margins;
- Labor union activity could divert management attention and adversely affect our operating results;
- We could face significant withdrawal liability if we withdraw from participation in one or more multiemployer pension plans in which we participate and the accrued pension benefits are not fully funded;
- Our financial results could be adversely affected by impairments of goodwill or indefinite-lived intangibles;
- We may incur charges related to capitalized expenditures of landfill development projects, which would decrease our earnings;

- Pending or future litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements;
- We may be subject in the normal course of business to judicial, administrative or other third-party proceedings that could interrupt or limit our operations, require expensive remediation, result in adverse judgments, settlements or fines and create negative publicity;
- Increases in insurance costs and the amount that we self-insure for various risks could reduce our operating margins and reported earnings;
- A portion of our growth and future financial performance depends on our ability to integrate acquired businesses, and the success of our acquisitions;
- Each business that we acquire or have acquired may have liabilities or risks that we fail or are unable to discover, or that become more adverse to our business than we anticipated at the time of acquisition;
- Our financial results are based upon estimates and assumptions that may differ from actual results;
- Our accruals for our landfill site closure and post-closure costs may be inadequate;
- We depend significantly on the services of the members of our senior and regional management team, and the departure of any of those persons could cause our operating results to suffer;
- Our decentralized decision-making structure could allow local managers to make decisions that adversely affect our operating results;
- Liabilities for environmental damage may adversely affect our financial condition, business and earnings;
- We rely on computer systems to run our business and disruptions or privacy breaches in these systems could impact our ability to service our customers and adversely affect our financial results, damage our reputation, and expose us to litigation risk;
- If we are not able to develop and protect intellectual property, or if a competitor develops or obtains exclusive rights to a breakthrough technology, our financial results may suffer;
- Our financial and operating performance may be affected by the inability to renew landfill operating permits, obtain new landfills and expand existing ones;
- Our E&P waste business could be adversely affected by changes in laws regulating E&P waste;
- Changes in laws or government regulations regarding hydraulic fracturing could increase our customers' costs of doing business and reduce oil and gas production by our customers, which could adversely impact our business;
- Future changes in laws regulating the flow of solid waste in interstate commerce could adversely affect our operating results;
- Extensive and evolving environmental, health and safety laws and regulations may restrict our operations and growth and increase our costs;
- Extensive regulations that govern the design, operation and closure of landfills may restrict our landfill operations or increase our costs of operating landfills; and
- Alternatives to landfill disposal may cause our revenues and operating results to decline.

These risks and uncertainties, as well as others, are discussed in greater detail in this Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission, or SEC, including our most recent Annual Report on Form 10-K. There may be additional risks of which we are not presently aware or that we currently believe are immaterial which could have an adverse impact on our business. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances that may change.

OVERVIEW

We are an integrated municipal solid waste services company that provides solid waste collection, transfer, disposal and recycling services primarily in exclusive and secondary markets in the U.S. and a leading provider of non-hazardous exploration and production, or E&P, waste treatment, recovery and disposal services in several of the most active natural resource producing areas of the U.S. We also provide intermodal services for the rail haul movement of cargo and solid waste containers in the Pacific Northwest through a network of intermodal facilities.

We seek to avoid highly competitive, large urban markets and instead target markets where we can attain high market share either through exclusive contracts, vertical integration or asset positioning. In markets where waste collection services are provided under exclusive arrangements, or where waste disposal is municipally owned or funded or available at multiple municipal sources, we believe that controlling the waste stream by providing collection services under exclusive arrangements is often more important to our growth and profitability than owning or operating landfills. We also target niche markets, like E&P waste treatment and disposal services, with similar characteristics and, we believe, higher comparative growth potential.

As of June 30, 2014, we served residential, commercial, industrial and E&P customers in 31 states: Alabama, Alaska, Arizona, California, Colorado, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Michigan, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Mexico, New York, North Carolina, North Dakota, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Washington and Wyoming. As of June 30, 2014, we owned or operated a network of 147 solid waste collection operations; 66 transfer stations; seven intermodal facilities, 35 recycling operations, 55 active MSW, E&P and/or non-MSW landfills, 21 E&P liquid waste injection wells, 17 E&P waste treatment and recovery facilities, 20 oil recovery facilities and two development stage landfills.

The municipal solid waste industry is a local and highly competitive business, requiring substantial labor and capital resources. The participants compete for collection accounts primarily on the basis of price and, to a lesser extent, the quality of service, and compete for landfill business on the basis of tipping fees, geographic location and quality of operations. The municipal solid waste industry has been consolidating and continues to consolidate as a result of a number of factors, including the increasing costs and complexity associated with waste management operations and regulatory compliance. Many small independent operators and municipalities lack the capital resources, management, operating skills and technical expertise necessary to operate effectively in such an environment. The consolidation trend has caused municipal solid waste companies to operate larger landfills that have complementary collection routes that can use company-owned disposal capacity. Controlling the point of transfer from haulers to landfills has become increasingly important as landfills continue to close and disposal capacity moves further from collection markets.

Generally, the most profitable operators within the municipal solid waste industry are those companies that are vertically integrated or enter into long-term collection contracts. A vertically integrated operator will benefit from: (1) the internalization of waste, which is bringing waste to a company-owned landfill; (2) the ability to charge third-party haulers tipping fees either at landfills or at transfer stations; and (3) the efficiencies gained by being able to aggregate and process waste at a transfer station prior to landfilling.

The E&P waste services industry is regional in nature and is also highly fragmented, with acquisition opportunities available in several active natural resource basins. Competition for E&P waste comes primarily from smaller regional companies that utilize a variety of disposal methods and generally serve specific geographic markets. In addition, customers in many markets have the option of using internal disposal methods or outsourcing to another third party disposal company. The principal competitive factors in this business include: gaining customer approval of treatment and disposal facilities; location of facilities in relation to customer activity; reputation; reliability of services; track record of environmental compliance; ability to accept multiple waste types at a single facility; and price.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities in the condensed consolidated financial statements. As described by the SEC, critical accounting estimates and assumptions are those that may be material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and that have a material impact on the financial condition or operating performance of a company. Such critical accounting estimates and assumptions are applicable to our reportable segments. Refer to our most recent Annual Report on Form 10-K for a complete description of our critical accounting estimates and assumptions.

NEW ACCOUNTING PRONOUNCEMENTS

For a description of the new accounting standards that affect us, see Note 2 to our Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013

The following table sets forth items in our condensed consolidated statements of net income in thousands and as a percentage of revenues for the periods indicated.

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|-----------------------------|--------|------------|--------|---------------------------|--------|------------|--------|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| Revenues | \$ 524,693 | 100.0% | \$ 489,381 | 100.0% | \$ 1,006,402 | 100.0% | \$ 939,272 | 100.0% |
| Cost of operations | 286,950 | 54.7 | 268,484 | 54.9 | 550,011 | 54.7 | 520,447 | 55.4 |
| Selling, general and administrative | 56,526 | 10.8 | 52,903 | 10.8 | 112,172 | 11.1 | 106,154 | 11.3 |
| Depreciation | 57,105 | 10.9 | 54,766 | 11.2 | 112,922 | 11.2 | 106,414 | 11.3 |
| Amortization of intangibles | 6,720 | 1.3 | 6,211 | 1.3 | 13,456 | 1.3 | 12,650 | 1.3 |
| Loss (gain) on disposal of assets | (1,324) | (0.3) | 3,445 | 0.7 | (1,465) | (0.1) | 3,122 | 0.4 |
| Loss on prior corporate office lease | - | - | 10,498 | 2.1 | - | - | 10,498 | 1.1 |
| Operating income | 118,716 | 22.6 | 93,074 | 19.0 | 219,306 | 21.8 | 179,987 | 19.2 |
| Interest expense | (15,940) | (3.0) | (18,928) | (3.9) | (32,851) | (3.2) | (37,940) | (4.1) |
| Other income (expense), net | 661 | 0.1 | (1,706) | (0.3) | 137 | 0.0 | (965) | (0.1) |
| Income tax provision | (40,537) | (7.7) | (28,445) | (5.8) | (74,470) | (7.4) | (55,408) | (5.9) |
| Net income attributable to noncontrolling interests | (236) | (0.1) | (28) | (0.0) | (443) | (0.1) | (151) | (0.0) |
| Net income attributable to Waste Connections | \$ 62,664 | 11.9% | \$ 43,967 | 9.0% | \$ 111,679 | 11.1% | \$ 85,523 | 9.1% |

Revenues. Total revenues increased \$35.3 million, or 7.2%, to \$524.7 million for the three months ended June 30, 2014, from \$489.4 million for the three months ended June 30, 2013.

During the three months ended June 30, 2014, incremental revenue from acquisitions closed during, or subsequent to, the three months ended June 30, 2013, increased revenues by approximately \$7.4 million. Operations divested during, or subsequent to, the three months ended June 30, 2013, decreased revenues by approximately \$3.7 million.

During the three months ended June 30, 2014, the net increase in core prices charged to our customers was \$11.0 million.

During the three months ended June 30, 2014, volume increases in our existing business increased solid waste revenues and E&P revenues by \$6.3 million and \$16.1 million, respectively. The increase in solid waste volumes was primarily attributable to increases in roll off collection, landfill MSW volumes and transfer station volumes resulting from increased construction and general economic activity in our markets. The increase in E&P volumes was primarily attributable to \$6.0 million of revenue from new facilities opened subsequent to June 30, 2013 and \$10.1 million of volume increases at facilities owned and operated in each of the comparable periods.

During the three months ended June 30, 2014, the closure of a recycling operation in our Western segment and decreased recyclable commodity prices, primarily due to decreased overseas demand for recyclable commodities, decreased revenues by \$2.5 million.

Other revenues increased by \$0.7 million during the three months ended June 30, 2014, primarily due to contracted landfill construction services we performed at a landfill we operate.

Total revenues increased \$67.1 million, or 7.1%, to \$1.006 billion for the six months ended June 30, 2014, from \$939.3 million for the six months ended June 30, 2013.

During the six months ended June 30, 2014, incremental revenue from acquisitions closed during, or subsequent to, the six months ended June 30, 2013, increased revenues by approximately \$13.8 million. Operations divested during, or subsequent to, the six months ended June 30, 2013, decreased revenues by approximately \$7.4 million.

During the six months ended June 30, 2014, the net increase in prices charged to our customers was \$22.6 million, consisting of \$22.3 million of core price increases and \$0.3 million of fuel, materials and environmental surcharges.

During the six months ended June 30, 2014, volume increases in our existing business increased solid waste revenues and E&P revenues by \$16.1 million and \$27.6 million, respectively. The increase in solid waste volumes was primarily attributable to increases in roll off collection, landfill special waste projects, landfill MSW volumes and transfer station volumes resulting from increased construction and general economic activity in our markets. The increase in E&P volumes was primarily attributable to \$8.7 million of revenue from new facilities opened subsequent to June 30, 2013 and \$18.9 million of volume increases at facilities owned and operated in each of the comparable periods.

During the six months ended June 30, 2014, the closure of a recycling operation in our Western segment and decreased recyclable commodity prices, primarily due to decreased overseas demand for recyclable commodities, decreased revenues by \$5.1 million.

Other revenues decreased by \$0.5 million during the six months ended June 30, 2014, consisting of a \$1.5 million decrease from lower cargo volume at our intermodal operations due primarily to the loss of a large intermodal customer, partially offset by \$0.8 million of contracted landfill construction services we performed at a landfill we operate and \$0.2 million of other revenue increases.

Cost of Operations. Total cost of operations increased \$18.4 million, or 6.9%, to \$286.9 million for the three months ended June 30, 2014, from \$268.5 million for the three months ended June 30, 2013. The increase was primarily the result of \$4.1 million of additional operating costs from acquisitions closed during, or subsequent to, the three months ended June 30, 2013, partially offset by a decrease in operating costs of \$2.6 million resulting from operations divested during, or subsequent to, the three months ended June 30, 2013, and the following changes at operations owned in comparable periods in 2013 and 2014: an increase in labor expenses of \$4.1 million due primarily to employee pay rate increases, an increase in truck, container, equipment and facility maintenance and repair expenses of \$3.2 million due to variability in the timing and severity of major repairs, an increase in auto, workers' compensation and property claims expense under our high deductible insurance program of \$2.6 million due primarily to adjustments to projected losses on prior period claims, an increase in third-party trucking and transportation expenses of \$2.5 million due to increased transfer station, landfill and E&P volumes that require us to transport the waste to our disposal sites, an increase in third-party disposal expense of \$1.6 million due to disposal rate increases and higher disposal costs associated with increased collection volumes, an increase in taxes on revenues of \$1.2 million due to increased revenues, an increase in landfill solidification materials of \$0.7 million due to regulatory changes requiring use of higher cost materials at one of our landfills, an increase of \$0.8 million associated with the cost of contracted landfill construction services we performed at a landfill we operate and \$0.2 million of other net increases.

Total cost of operations increased \$29.6 million, or 5.7%, to \$550.0 million for the six months ended June 30, 2014, from \$520.4 million for the six months ended June 30, 2013. The increase was primarily the result of \$7.5 million of additional operating costs from acquisitions closed during, or subsequent to, the six months ended June 30, 2013, partially offset by a decrease in operating costs of \$5.8 million resulting from operations divested during, or subsequent to, the six months ended June 30, 2013, and the following changes at operations owned in comparable periods in 2013 and 2014: an increase in labor expenses of \$7.6 million due primarily to employee pay rate increases, an increase in third-party trucking and transportation expenses of \$5.0 million due to increased transfer station, landfill and E&P volumes that require us to transport the waste to our disposal sites, an increase in truck, container, equipment and facility maintenance and repair expenses of \$4.5 million due to variability in the timing and severity of major repairs, an increase in third-party disposal expense of \$3.7 million due to disposal rate increases and higher disposal associated with increased collection volumes, an increase in taxes on revenues of \$3.4 million due to both increased revenues and an adjustment recorded during the six months ended June 30, 2013 that decreased taxes on revenues expense during the period, an increase in auto, workers' compensation and property claims expense under our high deductible insurance program of \$3.0 million due primarily to adjustments to projected losses on prior period claims, an increase of \$1.6 million related to an increase in the volume of waste solidification materials needed to treat higher waste volumes at our E&P facilities and regulatory changes requiring use of higher cost waste solidification materials at one of our landfills, an increase in fuel expense of \$0.8 million resulting from an increase in total diesel fuel gallons consumed, an increase of \$0.8 million associated with the cost of contracted landfill construction services we performed at a landfill we operate and \$0.7 million of other net increases, partially offset by a decrease in rail transportation expenses at our intermodal operations of \$1.2 million due to decreased rail cargo volume primarily associated with the loss of a large customer, a decrease in the cost of recyclable commodities of \$1.1 million due to declines in commodity prices and decreased commodity volumes resulting from the closure of two of our recyclable processing centers subsequent to June 30, 2013 and a decrease in equipment rental expense of \$0.9 million resulting from capital purchases replacing certain equipment that was previously rented.

Cost of operations as a percentage of revenues decreased 0.2 percentage points to 54.7% for the three months ended June 30, 2014, from 54.9% for the three months ended June 30, 2013. The decrease as a percentage of revenues was comprised of a 0.4 percentage point decrease in payroll and benefits and a 0.3 percentage point decrease in fuel due to leveraging existing personnel and equipment to support increases in landfill and E&P revenues, and a 0.2 percentage point decrease in disposal expense resulting from the increased internalization of certain collection and transfer station volumes, as well as increased landfill and E&P revenues not resulting in increased disposal expenses, partially offset by a 0.4 percentage point increase in auto, workers' compensation and property claims expense under our high deductible insurance program and a 0.3 percentage point increase in increase in truck, container, equipment and facility maintenance and repair expenses.

Cost of operations as a percentage of revenues decreased 0.7 percentage points to 54.7% for the six months ended June 30, 2014, from 55.4% for the six months ended June 30, 2013. The decrease as a percentage of revenues was comprised of a 0.5 percentage point decrease in payroll and benefits and a 0.3 percentage point decrease in fuel due to leveraging existing personnel and equipment to support increases in landfill and E&P revenues, a 0.2 percentage point decrease from lower equipment rental expenses, a 0.2 percentage point decrease from a decrease in rail transportation expenses at our intermodal operations and a 0.1 percentage point decrease in disposal expense resulting from the increased internalization of certain collection and transfer station volumes as well as increased landfill and E&P revenues not resulting in increased disposal expenses, partially offset by a 0.3 percentage point increase in auto, workers' compensation and property claims expense under our high deductible insurance program and a 0.3 percentage point increase from higher third-party trucking expenses.

SG&A. SG&A expenses increased \$3.6 million, or 6.8%, to \$56.5 million for the three months ended June 30, 2014, from \$52.9 million for the three months ended June 30, 2013. The increase was primarily the result of \$0.6 million of additional SG&A expenses from acquisitions closed during, or subsequent to, the three months ended June 30, 2013, partially offset by a decrease in SG&A expenses of \$0.3 million resulting from operations divested during, or subsequent to, the three months ended June 30, 2013, and the following changes at operations owned in comparable periods in 2013 and 2014: an increase in equity-based compensation expense of \$1.4 million associated with a decrease in our estimated pre-vesting forfeiture rate and an increase in the total fair value of our annual recurring grant of restricted stock units to our personnel, an increase in payroll and payroll-related expenses of \$0.9 million primarily related to annual compensation increases, an increase in accrued cash incentive compensation expense of \$0.8 million resulting from the achievement of certain financial targets in the current period and an increase in deferred compensation expense of \$0.7 million due to an increase in deferred compensation liabilities to employees as a result of increases in the market value of investments to which employee deferred compensation balances are tracked, partially offset by \$0.5 million of other net expense decreases.

SG&A expenses increased \$6.0 million, or 5.7%, to \$112.2 million for the six months ended June 30, 2014, from \$106.2 million for the six months ended June 30, 2013. The increase was primarily the result of \$1.2 million of additional SG&A expenses from acquisitions closed during, or subsequent to, the six months ended June 30, 2013, partially offset by a decrease in SG&A expenses of \$0.7 million resulting from operations divested during, or subsequent to, the six months ended June 30, 2013, and the following changes at operations owned in comparable periods in 2013 and 2014: an increase in accrued cash incentive compensation expense of \$2.3 million resulting from the achievement of certain financial targets in the current period, an increase in equity-based compensation expense of \$2.0 million associated with a decrease in our estimated pre-vesting forfeiture rate and an increase in the total fair value of our annual recurring grant of restricted stock units to our personnel and an increase in payroll and payroll-related expenses of \$1.7 million primarily related to annual compensation increases, partially offset by a \$0.5 million decrease in expenses for uncollectible accounts receivable.

SG&A expenses as a percentage of revenues was 10.8% for the three months ended June 30, 2014 and 2013.

SG&A expenses as a percentage of revenues decreased 0.2 percentage points to 11.1% for the six months ended June 30, 2014, from 11.3% for the six months ended June 30, 2013. The decrease as a percentage of revenues was comprised of a 0.1 percentage point decrease from leveraging existing administrative functions to support increases in revenues and a 0.1 percentage point decrease resulting from reduced expenses for uncollectible accounts receivable.

Depreciation. Depreciation expense increased \$2.3 million, or 4.3%, to \$57.1 million for the three months ended June 30, 2014, from \$54.8 million for the three months ended June 30, 2013. The increase was primarily the result of \$0.5 million of additional depreciation expenses from acquisitions closed during, or subsequent to, the three months ended June 30, 2013, partially offset by a decrease in depreciation expenses of \$0.3 million resulting from operations divested during, or subsequent to, the three months ended June 30, 2013, and the following changes at operations owned in comparable periods in 2013 and 2014: an increase in depreciation expense of \$2.0 million associated with additions to our fleet and equipment purchased to support our existing operations, an increase in depletion expense of \$1.5 million due primarily to an increase in volumes at our existing landfill operations, partially offset by an adjustment to depletion expense of \$1.4 million recorded during the three months ended June 30, 2013 resulting from an adjustment to final capping obligations at one of our landfill operations.

Depreciation expense increased \$6.5 million, or 6.1%, to \$112.9 million for the six months ended June 30, 2014, from \$106.4 million for the six months ended June 30, 2013. The increase was primarily the result of \$1.0 million of additional depreciation expenses from acquisitions closed during, or subsequent to, the six months ended June 30, 2013, partially offset by a decrease in depreciation expenses of \$0.7 million resulting from operations divested during, or subsequent to, the six months ended June 30, 2013, and the following changes at operations owned in comparable periods in 2013 and 2014: an increase in depreciation expense of \$5.6 million associated with additions to our fleet and equipment purchased to support our existing operations, an increase in depletion expense of \$2.0 million due primarily to an increase in volumes at our existing landfill operations, partially offset by an adjustment to depletion expense of \$1.4 million recorded during the six months ended June 30, 2013 resulting from an adjustment to final capping obligations at one of our landfill operations.

Depreciation expense as a percentage of revenues decreased 0.3 percentage points to 10.9% for the three months ended June 30, 2014, from 11.2% for the three months ended June 30, 2013. The decrease as a percentage of revenues was due to the aforementioned prior year adjustment to depletion expense resulting from an adjustment to final capping obligations at one of our landfill operations.

Depreciation expense as a percentage of revenues decreased 0.1 percentage points to 11.2% for the six months ended June 30, 2014, from 11.3% for the six months ended June 30, 2013. The decrease as a percentage of revenues was comprised of a 0.2 percentage point decrease in depletion expense due to the aforementioned prior year adjustment to depletion expense resulting from an adjustment to final capping obligations at one of our landfill operations, partially offset by a 0.1 percentage point increase in depreciation expense due to additions to our fleet and equipment.

Amortization of Intangibles. Amortization of intangibles expense increased \$0.5 million, or 8.2%, to \$6.7 million for the three months ended June 30, 2014, from \$6.2 million for the three months ended June 30, 2013. The increase was primarily attributable to \$0.5 million of additional amortization expense during the three months ended June 30, 2014 from acquisitions closed during, or subsequent to, the three months ended June 30, 2013.

Amortization of intangibles expense increased \$0.9 million, or 6.4%, to \$13.5 million for the six months ended June 30, 2014, from \$12.6 million for the six months ended June 30, 2013. The increase was primarily attributable to \$1.1 million of additional amortization expense during the six months ended June 30, 2014 from acquisitions closed during, or subsequent to, the six months ended June 30, 2013, partially offset by a decrease in amortization expense of \$0.2 million resulting from certain intangible assets becoming fully amortized subsequent to the six months ended June 30, 2013.

Amortization expense as a percentage of revenues was 1.3% for the three and six months ended June 30, 2014 and 2013.

Loss (Gain) on Disposal of Assets. Loss (gain) on disposal of assets increased \$4.7 million, to a gain of \$1.3 million for the three months ended June 30, 2014, from a loss of \$3.4 million for the three months ended June 30, 2013. Loss (gain) on disposal of assets increased \$4.6 million, to a gain of \$1.5 million for the six months ended June 30, 2014, from a loss of \$3.1 million for the six months ended June 30, 2013.

During the three and six months ended June 30, 2013 we recorded a \$3.2 million loss on the disposal of an operating location, a \$0.8 million write down in the carrying value of assets at an operating location that was closed and a \$0.6 million gain on the disposal of another operating location. During the three and six months ended June 30, 2014, we recorded gains of \$1.3 million and \$1.5 million, respectively, on the sale of operating assets resulting from the sales proceeds exceeding the assets' book carrying values.

Loss on Prior Corporate Office Lease. Loss on prior corporate office lease consisted of a \$10.5 million expense charge recorded in June 2013 associated with the cessation of use of our former corporate headquarters in Folsom, California as a result of our relocation of our corporate headquarters to The Woodlands, Texas in December 2011.

Operating Income. Operating income increased \$25.6 million, or 27.6%, to \$118.7 million for the three months ended June 30, 2014, from \$93.1 million for the three months ended June 30, 2013. The increase was attributable to the \$35.3 million increase in revenues, a \$10.5 million decrease in loss on prior corporate office lease and \$4.7 million decrease in loss (gain) on disposal of assets, partially offset by the \$18.4 million increase in costs of operations, \$3.6 million increase in SG&A expense, \$2.3 million increase in depreciation expense and \$0.5 million increase in amortization of intangibles expense.

Operating income increased \$39.3 million, or 21.8%, to \$219.3 million for the six months ended June 30, 2014, from \$180.0 million for the six months ended June 30, 2013. The increase was attributable to the \$67.1 million increase in revenues, a \$10.5 million decrease in loss on prior corporate office lease and \$4.6 million decrease in loss (gain) on disposal of assets, partially offset by the \$29.6 million increase in costs of operations, \$6.5 million increase in depreciation expense, \$6.0 million increase in SG&A expense and \$0.9 million increase in amortization of intangibles expense.

Operating income as a percentage of revenues increased 3.6 percentage points to 22.6% for the three months ended June 30, 2014, from 19.0% for the three months ended June 30, 2013. The increase as a percentage of revenues was comprised of a 2.1 percentage point decrease in loss on prior corporate office lease, a 1.0 percentage point decrease in loss (gain) on disposal of assets, a 0.3 percentage point decrease in depreciation expense and a 0.2 percentage point decrease in cost of operations.

Operating income as a percentage of revenues increased 2.6 percentage points to 21.8% for the six months ended June 30, 2014, from 19.2% for the six months ended June 30, 2013. The increase as a percentage of revenues was comprised of a 1.1 percentage point decrease in loss on prior corporate office lease, a 0.7 percentage point decrease in cost of operations, a 0.5 percentage point decrease in loss (gain) on disposal of assets, a 0.2 percentage point decrease in SG&A expense and a 0.1 percentage point decrease in depreciation expense.

Interest Expense. Interest expense decreased \$3.0 million, or 15.8%, to \$15.9 million for the three months ended June 30, 2014, from \$18.9 million for the three months ended June 30, 2013, due to the following changes: a decrease of \$1.2 million due to a reduction in the applicable margin above the base rate or LIBOR rate for outstanding borrowings under our senior revolving credit facility and term loan facility as a result of a reduction in our leverage ratio of total debt to EBITDA and amendments to the senior credit facility and term loan facility, a decrease of \$0.8 million due to a reduction in the average outstanding balances on our term loan facility, a decrease of \$0.6 million due to the expiration in February 2014 of a \$175 million interest rate swap with a fixed rate of 2.85% and the commencement of a new \$175 million interest rate swap with a fixed rate of 1.60%, a decrease of \$0.2 million resulting from a decrease in interest accretion expense recorded on liability-classified contingent consideration arrangements that were settled or became fully accrued subsequent to June 30, 2013 and a \$0.2 million decrease from other net changes.

Interest expense decreased \$5.0 million, or 13.4%, to \$32.9 million for the six months ended June 30, 2014, from \$37.9 million for the six months ended June 30, 2013, due to the following changes: a decrease of \$1.7 million due to a reduction in the applicable margin above the base rate or LIBOR rate for outstanding borrowings under our senior credit facility and term loan facility as a result of a reduction in our leverage ratio of total debt to EBITDA and amendments to the senior credit facility and term loan facility, a decrease of \$1.7 million due to a reduction in the average outstanding balances on our senior revolving credit facility and term loan facility, a decrease of \$0.9 million due to the expiration in February 2014 of a \$175 million interest rate swap with a fixed rate of 2.85% and the commencement of a new \$175 million interest rate swap with a fixed rate of 1.60%, a decrease of \$0.4 million resulting from a decrease in interest accretion expense recorded on liability-classified contingent consideration arrangements that were settled or became fully accrued subsequent to June 30, 2013 and a \$0.3 million decrease from other net changes.

Other Income (Expense), Net. Other income (expense), net, increased \$2.4 million, to an income total of \$0.7 million for the three months ended June 30, 2014, from an expense total of \$1.7 million for the three months ended June 30, 2013. The increase was primarily attributable to an increase in investment income of \$0.3 million, other net increases of \$0.1 million and expense charges recorded during the three months ended June 30, 2013, consisting of \$1.7 million of adjustments to the fair value of amounts payable under liability-classified contingent consideration arrangements and \$0.3 million of capitalized debt issuance costs charged to expense as a result of the amendment to the senior credit facility in May 2013.

Other income (expense), net, increased \$1.1 million, to an income total of \$0.1 million for the six months ended June 30, 2014, from an expense total of \$1.0 million for the six months ended June 30, 2013. The increase was primarily attributable to expense charges recorded during the six months ended June 30, 2013 consisting of \$1.7 million of adjustments to the fair value of amounts payable under liability-classified contingent consideration arrangements and \$0.3 million of capitalized debt issuance costs charged to expense as a result of the amendment to the senior credit facility in May 2013, partially offset by \$0.6 million of increases recorded during the six months ended June 30, 2014 to the fair value of amounts payable under liability-classified contingent consideration arrangements and \$0.3 million of other net decreases.

Income Tax Provision. Income taxes increased \$12.1 million, or 42.5%, to \$40.5 million for the three months ended June 30, 2014, from \$28.4 million for the three months ended June 30, 2013, as a result of increased pre-tax income.

Income taxes increased \$19.1 million, or 34.4%, to \$74.5 million for the six months ended June 30, 2014, from \$55.4 million for the six months ended June 30, 2013, as a result of increased pre-tax income and a non-recurring adjustment in deferred tax liabilities resulting from the enactment of New York State's 2014-2015 Budget Act that increased our income tax expense and our effective tax rate during the six months ended June 30, 2014 by \$1.2 million and 0.7 percentage points, respectively.

Our effective tax rates for the three months ended June 30, 2014 and 2013, were 39.2% and 39.3%, respectively.

Our effective tax rates for the six months ended June 30, 2014 and 2013, were 39.9% and 39.3%, respectively.

SEGMENT RESULTS

General

No single contract or customer accounted for more than 10% of our total revenues at the consolidated or reportable segment level during the periods presented. The table below shows for the periods indicated our total reported revenues attributable to services provided (dollars in thousands).

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|--|-----------------------------|--------|-------------------|--------|---------------------------|--------|-------------------|--------|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| Solid waste collection | \$ 322,763 | 54.6% | \$ 306,472 | 55.1% | \$ 628,766 | 55.6% | \$ 599,616 | 56.4% |
| Solid waste disposal and transfer | 158,913 | 26.9 | 153,600 | 27.6 | 294,476 | 26.0 | 276,371 | 26.0 |
| E&P waste treatment, recovery and disposal | 82,646 | 14.0 | 66,183 | 11.9 | 155,964 | 13.8 | 126,115 | 11.9 |
| Solid waste recycling | 14,836 | 2.5 | 18,610 | 3.4 | 29,739 | 2.6 | 37,404 | 3.5 |
| Intermodal and other | 11,970 | 2.0 | 11,255 | 2.0 | 22,842 | 2.0 | 23,373 | 2.2 |
| | 591,128 | 100.0% | 556,120 | 100.0% | 1,131,787 | 100.0% | 1,062,879 | 100.0% |
| Less: intercompany elimination | (66,435) | | (66,739) | | (125,385) | | (123,607) | |
| Total revenue | <u>\$ 524,693</u> | | <u>\$ 489,381</u> | | <u>\$1,006,402</u> | | <u>\$ 939,272</u> | |

Our CODM evaluates operating segment profitability and determines resource allocations based on several factors, of which the primary financial measure is EBITDA. 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. Our management uses EBITDA in the evaluation of segment operating performance as it is a profit measure that is generally within the control of the operating segments.

We manage our operations through three geographic operating segments (Western, Central and Eastern) and our E&P segment, which includes the majority of our E&P waste treatment and disposal operations. Our three geographic operating segments and our E&P segment comprise our reportable segments. Each operating segment is responsible for managing several vertically integrated operations, which are comprised of districts. Our Western segment is comprised of operating locations in Alaska, California, Idaho, Montana, Nevada, Oregon, Washington and western Wyoming; our 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 our 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 our E&P operations in Louisiana, New Mexico, North Dakota, Oklahoma, Texas, Wyoming and along the Gulf of Mexico.

Revenues, net of intercompany eliminations, for our reportable segments are shown in the following table in thousands and as a percentage of total revenues for the periods indicated:

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---------|-----------------------------|---------------|-------------------|---------------|---------------------------|---------------|-------------------|---------------|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| Western | \$ 206,269 | 39.3% | \$ 202,833 | 41.4% | \$ 401,624 | 39.9% | \$ 395,984 | 42.2% |
| Central | 141,916 | 27.0 | 130,434 | 26.7 | 270,982 | 26.9 | 245,027 | 26.1 |
| Eastern | 100,058 | 19.1 | 95,725 | 19.6 | 191,384 | 19.0 | 183,494 | 19.5 |
| E&P | 76,450 | 14.6 | 60,389 | 12.3 | 142,412 | 14.2 | 114,767 | 12.2 |
| | <u>\$ 524,693</u> | <u>100.0%</u> | <u>\$ 489,381</u> | <u>100.0%</u> | <u>\$1,006,402</u> | <u>100.0%</u> | <u>\$ 939,272</u> | <u>100.0%</u> |

EBITDA for our reportable segments is shown in the following table in thousands and as a percentage of total revenues for the periods indicated:

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|--------------------------|-----------------------------|--------------|-------------------|--------------|---------------------------|--------------|-------------------|--------------|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| Western | \$ 63,262 | 12.0% | \$ 62,386 | 12.8% | \$ 125,754 | 12.5% | \$ 120,962 | 12.9% |
| Central | 48,819 | 9.3 | 48,517 | 9.9 | 94,662 | 9.4 | 88,755 | 9.5 |
| Eastern | 30,768 | 5.9 | 29,029 | 5.9 | 57,904 | 5.7 | 54,909 | 5.8 |
| E&P | 40,716 | 7.8 | 28,324 | 5.8 | 72,196 | 7.2 | 50,912 | 5.4 |
| Corporate ^(a) | (2,348) | (0.5) | (262) | (0.1) | (6,297) | (0.6) | (2,867) | (0.3) |
| | <u>\$ 181,217</u> | <u>34.5%</u> | <u>\$ 167,994</u> | <u>34.3%</u> | <u>\$ 344,219</u> | <u>34.2%</u> | <u>\$ 312,671</u> | <u>33.3%</u> |

(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.

A reconciliation of EBITDA to Income before income tax provision is included in Note 7 to our Condensed Consolidated Financial Statements included in Part 1, Item 1 of this report.

Significant changes in revenue and EBITDA for our reportable segments for the three and six month periods ended June 30, 2014, compared to the three and six month periods ended June 30, 2013, are discussed below:

Segment Revenue

Revenue in our Western segment increased \$3.5 million, or 1.7%, to \$206.3 million for the three months ended June 30, 2014, from \$202.8 million for the three months ended June 30, 2013. The components of the increase consisted of volume increases of \$5.2 million primarily in our collection operations, transfer stations and solid waste landfills, net price increases of \$2.9 million, partially offset by recyclable commodity sales decreases of \$2.4 million due to lower prices for recyclable commodities and the closure of one of our recycling operations and decreases of \$2.2 million from divested operations.

Revenue in our Western segment increased \$5.6 million, or 1.4%, to \$401.6 million for the six months ended June 30, 2014, from \$396.0 million for the six months ended June 30, 2013. The components of the increase consisted of volume increases of \$9.5 million primarily in our collection operations, transfer stations and solid waste landfills, net price increases of \$6.2 million, revenue growth from acquisitions closed during, or subsequent to, the six months ended June 30, 2013, of \$0.3 million and other revenue increases of \$0.2 million, partially offset by decreases of \$4.6 million from divested operations, recyclable commodity sales decreases of \$4.5 million due to lower prices for recyclable commodities and the closure of one of our recycling operations and intermodal revenue decreases of \$1.5 million due to decreases in cargo volume resulting primarily from the loss of a large intermodal customer.

Revenue in our Central segment increased \$11.5 million, or 8.8%, to \$141.9 million for the three months ended June 30, 2014, from \$130.4 million for the three months ended June 30, 2013. The components of the increase consisted of revenue growth from acquisitions closed during, or subsequent to, the three months ended June 30, 2013, of \$7.1 million, and net price increases of \$5.2 million, partially offset by volume decreases of \$0.7 million consisting of the net of decreased landfill volumes and higher commercial and roll off collection volumes and decreases of \$0.1 million from divested operations.

Revenue in our Central segment increased \$26.0 million, or 10.6%, to \$271.0 million for the six months ended June 30, 2014, from \$245.0 million for the six months ended June 30, 2013. The components of the increase consisted of revenue growth from acquisitions closed during, or subsequent to, the six months ended June 30, 2013, of \$13.2 million, net price increases of \$10.4 million and volume increases of \$2.8 million primarily in our roll off collection business, transfer station and solid waste landfills, partially offset by recyclable commodity sales decreases of \$0.2 million and other revenue decreases of \$0.2 million.

Revenue in our Eastern segment increased \$4.4 million, or 4.5%, to \$100.1 million for the three months ended June 30, 2014, from \$95.7 million for the three months ended June 30, 2013. The components of the increase consisted of net price increases of \$3.0 million, volume increases of \$1.8 million primarily in our roll off collection business and solid waste landfills, other revenue increases of \$0.8 million associated with contracted landfill construction services we performed at a landfill we operate and revenue growth from acquisitions closed during, or subsequent to, the three months ended June 30, 2013, of \$0.2 million, partially offset by decreases of \$1.4 million from divested operations.

Revenue in our Eastern segment increased \$7.9 million, or 4.3%, to \$191.4 million for the six months ended June 30, 2014, from \$183.5 million for the six months ended June 30, 2013. The components of the increase consisted of net price increases of \$6.0 million, volume increases of \$3.8 million primarily in our roll off collection business, transfer station and solid waste landfills, other revenue increases of \$0.9 million primarily associated with contracted landfill construction services we performed at a landfill we operate and revenue growth from acquisitions closed during, or subsequent to, the six months ended June 30, 2013, of \$0.3 million, partially offset by decreases of \$2.7 million from divested operations and recyclable commodity sales decreases of \$0.4 million due to lower prices for recyclable commodities.

Revenue in our E&P segment increased \$16.1 million, or 26.6%, to \$76.5 million for the three months ended June 30, 2014, from \$60.4 million for the three months ended June 30, 2013. The components of the increase consisted of \$6.0 million of revenue from new facilities opened subsequent to June 30, 2013 and \$10.1 million of volume increases at facilities owned and operated in each of the comparable periods.

Revenue in our E&P segment increased \$27.6 million, or 24.1%, to \$142.4 million for the six months ended June 30, 2014, from \$114.8 million for the six months ended June 30, 2013. The components of the increase consisted of \$8.7 million of revenue from new facilities opened subsequent to June 30, 2013 and \$18.9 million of volume increases at facilities owned and operated in each of the comparable periods.

Segment EBITDA

EBITDA in our Western segment increased \$0.9 million, or 1.4%, to \$63.3 million for the three months ended June 30, 2014, from \$62.4 million for the three months ended June 30, 2013. The increase was primarily due to an increase in revenues of \$3.5 million, a net \$1.8 million decrease in cost of operations and SG&A expenses attributable to divested operations and a decrease in the cost of recyclable commodities of \$0.6 million due to declines in commodity prices and decreased commodity volumes resulting from the closure of one of our recyclable processing centers subsequent to June 30, 2013, partially offset by an increase in auto, workers' compensation and property claims expense under our high deductible insurance program of \$1.5 million due primarily to adjustments to projected losses on prior period claims, an increase in third-party disposal expense of \$1.0 million due to disposal rate increases, an increase in taxes on revenues of \$0.7 million due to increased revenues, an increase in truck, container, equipment and facility maintenance and repair expenses of \$0.7 million due to variability in the timing and severity of major repairs in vehicle and equipment repairs, an increase in third party trucking and transportation expenses of \$0.6 million primarily due to increased volumes disposed of at our transfer stations that require further transportation to our landfills and an increase in direct and administrative labor expenses of \$0.5 million due primarily to employee pay rate increases.

EBITDA in our Western segment increased \$4.8 million, or 4.0%, to \$125.8 million for the six months ended June 30, 2014, from \$121.0 million for the six months ended June 30, 2013. The increase was primarily due to an increase in revenues of \$5.6 million, a net \$4.0 million decrease in cost of operations and SG&A expenses attributable to divested operations, a decrease in rail transportation expenses at our intermodal operations of \$1.2 million due to decreased rail cargo volume primarily associated with the loss of a large customer, a decrease in the cost of recyclable commodities of \$1.1 million due to declines in commodity prices and decreased commodity volumes resulting from the closure of one of our recyclable processing centers subsequent to June 30, 2013, partially offset by an increase in third-party disposal expense of \$2.2 million due to disposal rate increases and higher disposal associated with increased roll off collection volumes, an increase in auto, workers' compensation and property claims expense under our high deductible insurance program of \$1.5 million due primarily to adjustments to projected losses on prior period claims, an increase in direct and administrative labor expenses of \$1.4 million due primarily to employee pay rate increases, an increase in taxes on revenues of \$1.4 million due to increased revenues and \$0.6 million of other net expense increases.

EBITDA in our Central segment increased \$0.3 million, or 0.6%, to \$48.8 million for the three months ended June 30, 2014, from \$48.5 million for the three months ended June 30, 2013. The increase was primarily due to an increase in revenues of \$11.5 million, partially offset by a net \$4.7 million increase in cost of operations and SG&A expenses attributable to acquired operations, an increase in labor expenses of \$1.8 million due primarily to employee pay rate increases, an increase in third-party trucking and transportation expenses of \$0.7 million due to increased volumes disposed of at our transfer stations that require further transportation to our landfills, an increase in truck, container, equipment and facility maintenance and repair expenses of \$0.8 million due to variability in the timing and severity of major repairs, an increase in third-party disposal expense of \$0.7 million due to disposal rate increases and higher disposal associated with increased roll off collection volumes, an increase in auto, workers' compensation and property claims expense under our high deductible insurance program of \$0.7 million due primarily to adjustments to projected losses on prior period claims, an increase in landfill solidification materials of \$0.7 million due to regulatory changes requiring use of higher cost materials at one of our landfills, an increase in corporate overhead expense allocations of \$0.5 million due primarily to revenue growth and \$0.6 million of other net expense increases.

EBITDA in our Central segment increased \$5.9 million, or 6.7%, to \$94.7 million for the six months ended June 30, 2014, from \$88.8 million for the six months ended June 30, 2013. The increase was primarily due to an increase in revenues of \$26.0 million, partially offset by a net \$8.7 million increase in cost of operations and SG&A expenses attributable to acquired operations, an increase in labor expenses of \$3.1 million due primarily to employee pay rate increases, an increase in third-party trucking and transportation expenses of \$1.8 million due to increased volumes disposed of at our transfer stations that require further transportation to our landfills, an increase in truck, container, equipment and facility maintenance and repair expenses of \$1.6 million due to variability in the timing and severity of major repairs, an increase in third-party disposal expense of \$1.3 million due to disposal rate increases and higher disposal associated with increased roll off collection volumes, an increase in auto, workers' compensation and property claims expense under our high deductible insurance program of \$0.8 million due primarily to adjustments to projected losses on prior period claims, an increase in landfill solidification materials of \$0.7 million due to regulatory changes requiring use of higher cost materials at one of our landfills, an increase in taxes on revenues of \$0.6 million due to increased revenues, an increase in corporate overhead expense allocations of \$0.8 million due primarily to revenue growth and \$0.7 million of other net expense increases.

EBITDA in our Eastern segment increased \$1.8 million, or 6.0%, to \$30.8 million for the three months ended June 30, 2014, from \$29.0 million for the three months ended June 30, 2013. The increase was primarily due to an increase in revenues of \$4.4 million, a net \$1.0 million decrease in cost of operations and SG&A expenses attributable to divested operations and a decrease in third party trucking and transportation expenses of \$0.8 million primarily due to a change in the mix of landfill revenues requiring us to provide transportation services to our disposal sites, partially offset by an increase in truck, container, equipment and facility maintenance and repair expenses of \$1.0 million due to variability in the timing and severity of major repairs, an increase in labor expenses of \$0.9 million due primarily to employee pay rate increases, an increase of \$0.8 million associated with the cost of contracted landfill construction services we performed at a landfill we operate, an increase in taxes on revenues of \$0.5 million due to an increase in revenues, an increase in auto and workers' compensation expense under our high deductible insurance program of \$0.5 million due to adjustments to projected losses on prior period claims, an increase in leachate disposal expenses of \$0.4 million at certain landfills we own and operate and \$0.3 million of other net expense increases.

EBITDA in our Eastern segment increased \$3.0 million, or 5.5%, to \$7.9 million for the six months ended June 30, 2014, from \$4.9 million for the six months ended June 30, 2013. The increase was primarily due to an increase in revenues of \$7.9 million, a net \$2.3 million decrease in cost of operations and SG&A expenses attributable to divested operations and a decrease in third party trucking and transportation expenses of \$0.7 million primarily due to a change in the mix of landfill revenues requiring us to provide transportation services to our disposal sites, partially offset by an increase in labor expenses of \$1.6 million due primarily to employee pay rate increases, an increase in taxes on revenues of \$1.5 million due to both an increase in revenues and a prior year adjustment that decreased taxes on revenues expense, an increase in truck, container, equipment and facility maintenance and repair expenses of \$1.5 million due to variability in the timing and severity of major repairs, an increase in leachate disposal expenses of \$1.0 million at certain landfills we own and operate, an increase of \$0.8 million associated with the cost of contracted landfill construction services we performed at a landfill we operate, an increase in auto and workers' compensation expense under our high deductible insurance program of \$0.8 million due to adjustments to projected losses on prior period claims and \$0.7 million of other net expense increases.

EBITDA in our E&P segment increased \$12.4 million, or 43.8%, to \$40.7 million for the three months ended June 30, 2014, from \$28.3 million for the three months ended June 30, 2013. The increase was primarily due to an increase in revenues of \$16.1 million and \$0.2 million of other net expense decreases, partially offset by an increase in third-party trucking and transportation expenses of \$2.0 million due to increased volumes that require us to transport the waste to our disposal sites, an increase in labor expenses of \$1.1 million due primarily to employee pay rate increases and increased headcount to support new operating facilities and an increase in truck, container, equipment and facility maintenance and repair expenses of \$0.8 million due to variability in the timing and severity of major repairs in vehicle and equipment repairs.

EBITDA in our E&P segment increased \$21.3 million, or 41.8%, to \$72.2 million for the six months ended June 30, 2014, from \$50.9 million for the six months ended June 30, 2013. The increase was primarily due to an increase in revenues of \$27.6 million, a decrease in equipment rental expense of \$1.1 million resulting from capital purchases replacing certain equipment that was previously rented and \$0.2 million of other net expense decreases, partially offset by an increase in third-party trucking and transportation expenses of \$3.4 million due to increased volumes that require us to transport the waste to our disposal sites, an increase in labor expenses of \$2.1 million due primarily to employee pay rate increases and increased headcount to support new operating facilities, an increase in truck, container, equipment and facility maintenance and repair expenses of \$1.5 million due to variability in the timing and severity of major repairs in vehicle and equipment repairs and an increase in fuel expense of \$0.6 million resulting from an increase in total diesel fuel gallons consumed.

EBITDA at Corporate decreased \$2.0 million, to a loss of \$2.3 million for the three months ended June 30, 2014, from a loss of \$0.3 million for the three months ended June 30, 2013. The increased loss was due to an increase in accrued cash incentive compensation expense of \$0.9 million resulting from the achievement of certain financial targets in the current period, an increase in equity-based compensation expense of \$1.4 million associated with a decrease in our estimated pre-vesting forfeiture rate and an increase in the total fair value of our annual recurring grant of restricted stock units to our personnel, and an increase in deferred compensation expense of \$0.7 resulting from deferred compensation liabilities to employees being increased as a result of increases in the market value of investments to which employee deferred compensation balances are tracked, partially offset by an increase in revenue-based corporate overhead expense allocations to our segments of \$0.7 million due primarily to our volume growth and \$0.3 million of other net decreases.

EBITDA at Corporate decreased \$3.4 million, to a loss of \$6.3 million for the six months ended June 30, 2014, from a loss of \$2.9 million for the six months ended June 30, 2013. The increased loss was due to an increase in accrued cash incentive compensation expense of \$2.7 million resulting from the achievement of certain financial targets in the current period, an increase in equity-based compensation expense of \$2.0 million associated with a decrease in our estimated pre-vesting forfeiture rate and an increase in the total fair value of our annual recurring grant of restricted stock units to our personnel, and an increase in professional fees of \$1.4 million due primarily to increased legal services, partially offset by an increase in revenue-based corporate overhead expense allocations to our segments of \$1.3 million due primarily to our volume growth, a decrease in employee relocation expenses of \$0.5 million primarily associated with our relocation of our corporate headquarters from Folsom, California to The Woodlands, Texas, which was completed in 2013, a decrease in real estate lease expense of \$0.4 million due primarily to the elimination of duplicate lease obligations for our former headquarters in Folsom, California and our E&P segment's former regional offices in Houston, Texas and \$0.5 million of other net decreases.

LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth certain cash flow information for the six month periods ended June 30, 2014 and 2013 (in thousands):

| | Six Months Ended | |
|---|-------------------------|------------------|
| | June 30, | |
| | 2014 | 2013 |
| Net cash provided by operating activities | \$ 279,681 | \$ 255,523 |
| Net cash used in investing activities | (107,995) | (68,321) |
| Net cash used in financing activities | (163,873) | (194,202) |
| Net increase (decrease) in cash and equivalents | 7,813 | (7,000) |
| Cash and equivalents at beginning of period | 13,591 | 23,212 |
| Cash and equivalents at end of period | <u>\$ 21,404</u> | <u>\$ 16,212</u> |

Operating Activities Cash Flows

For the six months ended June 30, 2014, net cash provided by operating activities was \$279.7 million. For the six months ended June 30, 2013, net cash provided by operating activities was \$255.5 million. The \$24.2 million increase was due primarily to the following:

- 1) An increase in net income of \$26.4 million, adjusted for an increase in cash flows from operating assets and liabilities, net of effects from acquisitions, of \$16.4 million. Cash provided by operating assets and liabilities was \$29.4 million and \$13.0 million for the six months ended June 30, 2014 and 2013, respectively. The significant components of the \$29.4 million in net cash inflows from changes in operating assets and liabilities for the six months ended June 30, 2014, include the following:
 - a) an increase in cash resulting from an increase in accrued liabilities of \$18.3 million due primarily to an increase in accrued income taxes, increased liabilities for auto and workers' compensation claims and increased payroll-related expenses;
 - b) an increase in cash resulting from a \$14.2 million increase in accounts payable due primarily to the timing of payments;
 - c) an increase in cash resulting from a \$9.1 million decrease in prepaid expenses and other current assets due primarily to a decrease in prepaid insurance premiums due to policy amortization and a decrease in prepaid income taxes;
 - d) an increase in cash resulting from a \$5.9 million increase in deferred revenue due primarily to increased revenues and the timing of billing for services;
 - e) an increase in cash resulting from a \$2.8 million increase in other long term liabilities due primarily to increased deferred compensation plan liabilities resulting from employee contributions; partially offset by
 - f) a decrease in cash resulting from a \$20.7 million increase in accounts receivable due to an increase in revenues remaining uncollected at the end of the comparable periods;
- 2) An increase in depreciation expense of \$6.5 million due primarily to increased depletion expense resulting from higher landfill volumes and increased depreciation expense resulting from increased capital expenditures;

- 3) An increase in equity-based compensation expense of \$2.0 million attributable to a decrease in our estimated pre-vesting forfeiture rate and an increase in the total fair value of our annual recurring grant of restricted stock units to our personnel; less
- 4) A decrease in our loss on prior corporate office lease of \$10.5 million due to the cessation of use of our former corporate headquarters in Folsom, California in June 2013; less
- 5) A decrease in the loss (gain) on disposal of assets of \$4.6 million due primarily to the sale of two operating locations at a loss in 2013 and the sale of the property used by a former operating location at a gain in 2014; less
- 6) A decrease of \$4.4 million attributable to an increase in the excess tax benefit associated with equity-based compensation, due to an increase in stock option exercises resulting in increased taxable income recognized by employees that is taxable to us; less
- 7) A decrease in our provision for deferred taxes of \$7.9 million due primarily to tax deductible timing differences associated with depreciation.

As of June 30, 2014, we had a working capital deficit of \$25.0 million, including cash and equivalents of \$21.4 million. Our working capital deficit increased \$8.5 million from a deficit of \$16.5 million at December 31, 2013, including cash and equivalents of \$13.6 million. To date, we have experienced no loss or lack of access to our cash or cash equivalents; however, we can provide no assurances that access to our cash and cash equivalents will not be impacted by adverse conditions in the financial markets. Our strategy in managing our working capital is generally to apply the cash generated from our operations that remains after satisfying our working capital and capital expenditure requirements, along with stock repurchase and dividend programs, to reduce the unhedged portion of our indebtedness under our credit facility and to minimize our cash balances.

Investing Activities Cash Flows

Net cash used in investing activities increased \$39.7 million to \$108.0 million for the six months ended June 30, 2014, from \$68.3 million for the six months ended June 30, 2013. The significant components of the increase include the following:

- 1) An increase in payments for acquisitions of \$28.4 million primarily due to the acquisition of a permitted development stage construction and demolition landfill site and a permitted development stage E&P landfill site during the six months ended June 30, 2014; and
- 2) A cash receipt of \$18.0 million during the six months ended June 30, 2013 resulting from the settlement of the final closing date net working capital with the former owners of R360; less
- 3) A decrease in capital expenditures for property and equipment of \$3.9 million due primarily to a decrease in expenditures for vehicles and leasehold improvements, partially offset by an increase in expenditures for acquisitions closed subsequent to June 30, 2013 and new facilities in our E&P segment.

Financing Activities Cash Flows

Net cash used in financing activities decreased \$30.3 million to \$163.9 million for the six months ended June 30, 2014, from \$194.2 million for the six months ended June 30, 2013. The significant components of the decrease include the following:

- 1) A decrease in net repayments of long-term borrowings of \$25.5 million due primarily to decreased repayments of our credit facility as a result of the aforementioned increase in payments for acquisitions during the six months ended June 30, 2014 and the cash receipt during the six months ended June 30, 2013 resulting from the settlement of the final closing date net working capital with the former owners of R360;
- 2) An increase of \$4.4 million attributable to an increase in the excess tax benefit associated with equity-based compensation, due to an increase in stock option exercises resulting in increased taxable income recognized by employees that is taxable to us;
- 3) An increase of \$2.2 million resulting from lower payments of contingent consideration during the six months ended June 30, 2014; less
- 4) An increase in cash dividends paid of \$3.8 million due to an increase in our quarterly dividend rate to \$0.115 per share for the six months ended June 30, 2014, from a quarterly dividend rate of \$0.10 per share for the six months ended June 30, 2013, and an increase in our total common shares outstanding.

Our business is capital intensive. Our capital requirements include acquisitions and capital expenditures for landfill cell construction, landfill development, landfill closure activities and intermodal facility construction in the future.

Our Board of Directors has authorized a common stock repurchase program for the repurchase of up to \$1.2 billion of our common stock through December 31, 2014. Under the program, stock repurchases may be made in the open market or in privately negotiated transactions from time to time at management's discretion. The timing and amounts of any repurchases will depend on many factors, including our capital structure, the market price of the common stock and overall market conditions. As of each of June 30, 2014 and 2013, we had repurchased in aggregate 39.9 million shares of our common stock at an aggregate cost of \$784.0 million. As of June 30, 2014, the remaining maximum dollar value of shares available for purchase under the program was approximately \$416.0 million. No shares were repurchased under the program during the six months ended June 30, 2014 and 2013.

Our Board of Directors authorized the initiation of a quarterly cash dividend in October 2010 and has increased it on an annual basis. In October 2013, our Board of Directors authorized an increase to our regular quarterly cash dividend of \$0.015, from \$0.10 to \$0.115 per share. Cash dividends of \$28.5 million and \$24.7 million were paid during the six months ended June 30, 2014 and 2013, respectively. We cannot assure you as to the amounts or timing of future dividends.

We made \$83.7 million in capital expenditures during the six months ended June 30, 2014. We expect to make capital expenditures of approximately \$200 million in 2014 in connection with our existing business. We have funded and intend to fund the balance of our planned 2014 capital expenditures principally through cash on hand, internally generated funds and borrowings under our credit facility. In addition, we may make substantial additional capital expenditures in acquiring MSW and E&P waste businesses. If we acquire additional landfill disposal facilities, we may also have to make significant expenditures to bring them into compliance with applicable regulatory requirements, obtain permits or expand our available disposal capacity. We cannot currently determine the amount of these expenditures because they will depend on the number, nature, condition and permitted status of any acquired landfill disposal facilities. We believe that our cash and equivalents, credit facility and the funds we expect to generate from operations will provide adequate cash to fund our working capital and other cash needs for the foreseeable future. However, disruptions in the capital and credit markets could adversely affect our ability to draw on our credit facility or raise other capital. Our access to funds under the credit facility is dependent on the ability of the banks that are parties to the facility to meet their funding commitments. Those banks may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time.

We are a well-known seasoned issuer with an effective shelf registration statement on Form S-3 filed in February 2012, which registers an unspecified amount of debt and equity securities, including preferred securities, warrants, stockholder rights and units. We may in the future issue debt or equity securities under our shelf registration statement or in private placements from time to time on an opportunistic basis, dependent upon market conditions and available pricing. We expect to use the proceeds from any such offerings for general corporate purposes, including repaying, redeeming or repurchasing debt, acquisitions of additional assets or businesses, capital expenditures and increasing our working capital.

On May 15, 2014, we and certain of our subsidiaries entered into an amendment (the "Term Loan Amendment") to our term loan facility, which changed the range of the additional interest margin applicable to borrowings under the term loan facility from a range of 1.375% to 2.375% to a range of 1.250% to 2.000% with respect to LIBOR borrowings and from a range of 0.375% to 1.375% to a range of 0.250% to 1.000% with respect to base rate borrowings. The Term Loan Amendment also eliminated our obligation to make principal payments on our term loans prior to maturity and made certain adjustments to the definition of LIBOR.

As of June 30, 2014, we had \$632.0 million outstanding under our credit facility, exclusive of outstanding standby letters of credit of \$75.0 million. Our revolving credit facility matures in May 2018.

As of June 30, 2014, we had the following contractual obligations:

| Recorded Obligations | Payments Due by Period | | | | |
|---|------------------------|---------------------|-----------------|--------------|-----------------|
| | Total | Less Than 1 Year | 1 to 3 Years | 3 to 5 Years | Over 5 Years |
| Long-term debt | \$ 1,935,293 | \$ 4,031 | \$ 280,029 | \$ 1,358,340 | \$ 292,893 |
| Cash interest payments | 224,517 | 58,421 | 101,578 | 48,596 | 15,922 |
| Contingent consideration | 75,885 | 31,416 | 4,905 | 4,703 | 34,861 |
| Final capping, closure and post-closure | 662,351 | - | 3,140 | 2,818 | 656,393 |

Long-term debt payments include:

- 1) \$632.0 million in principal payments due May 2018 related to our credit facility. We may elect to draw amounts on our credit facility in either base rate loans or LIBOR loans. At June 30, 2014, all amounts outstanding under the credit facility were in LIBOR loans, which bear interest at the LIBOR rate plus applicable LIBOR margin (approximately 1.52% at June 30, 2014). As of June 30, 2014, our credit facility allowed us to borrow up to \$1.2 billion.
- 2) \$660.0 million in principal payments related to our term loan facility. Outstanding amounts on the term loan facility can be either base rate loans or LIBOR loans. At June 30, 2014, all amounts outstanding under the term loan facility were in LIBOR loans which bear interest at the LIBOR rate plus the applicable LIBOR margin (approximately 1.65% at June 30, 2014). Our term loan facility matures on October 25, 2017.
- 3) \$175.0 million in principal payments due 2015 related to our 2015 Notes. Holders of the 2015 Notes may require us to purchase their notes in cash at a purchase price of 100% of the principal amount of the 2015 Notes plus accrued and unpaid interest, if any, upon a change in control, as defined in the Master Note Purchase Agreement. The 2015 Notes bear interest at a rate of 6.22%.
- 4) \$100.0 million in principal payments due 2016 related to our 2016 Notes. Holders of the 2016 Notes may require us to purchase their notes in cash at a purchase price of 100% of the principal amount of the 2016 Notes plus accrued and unpaid interest, if any, upon a change in control, as defined in the Master Note Purchase Agreement. The 2016 Notes bear interest at a rate of 3.30%.
- 5) \$50.0 million in principal payments due 2018 related to our 2018 Notes. Holders of the 2018 Notes may require us to purchase their notes in cash at a purchase price of 100% of the principal amount of the 2018 Notes plus accrued and unpaid interest, if any, upon a change in control, as defined in the Master Note Purchase Agreement. The 2018 Notes bear interest at a rate of 4.00%.
- 6) \$175.0 million in principal payments due 2019 related to our 2019 Notes. Holders of the 2019 Notes may require us to purchase their notes in cash at a purchase price of 100% of the principal amount of the 2019 Notes plus accrued and unpaid interest, if any, upon a change in control, as defined in the Master Note Purchase Agreement. The 2019 Notes bear interest at a rate of 5.25%.
- 7) \$100.0 million in principal payments due 2021 related to our 2021 Notes. Holders of the 2021 Notes may require us to purchase their notes in cash at a purchase price of 100% of the principal amount of the 2021 Notes plus accrued and unpaid interest, if any, upon a change in control, as defined in the Master Note Purchase Agreement. The 2021 Notes bear interest at a rate of 4.64%.
- 8) \$32.8 million in principal payments related to our tax-exempt bonds, which bear interest at variable rates (between 0.09% and 0.14%) at June 30, 2014. The tax-exempt bonds have maturity dates ranging from 2016 to 2033.
- 9) \$10.5 million in principal payments related to our notes payable to sellers and other third parties. Our notes payable to sellers and other third parties bear interest at rates between 2.5% and 10.9% at June 30, 2014, and have maturity dates ranging from 2015 to 2036.

The following assumptions were made in calculating cash interest payments:

- 1) We calculated cash interest payments on the credit facility using the LIBOR rate plus the applicable LIBOR margin at June 30, 2014. We assumed the credit facility is paid off when it matures in May 2018.

- 2) We calculated cash interest payments on the term loan facility using the LIBOR rate plus the applicable LIBOR margin at June 30, 2014.
- 3) We calculated cash interest payments on our interest rate swaps using the stated interest rate in the swap agreement less the LIBOR rate through the earlier expiration of the term of the swaps or the term of the credit facility.

Contingent consideration payments include \$59.3 million recorded as liabilities in our condensed consolidated financial statements at June 30, 2014, and \$16.6 million of future interest accretion on the recorded obligations.

The estimated final capping, closure and post-closure expenditures presented above are in current dollars.

| Unrecorded Obligations ⁽¹⁾ | Amount of Commitment Expiration Per Period | | | | |
|---------------------------------------|--|---------------------|-----------------|-----------------|--------------|
| | (amounts in thousands) | | | | |
| | Total | Less Than 1 Year | 1 to 3 Years | 3 to 5 Years | Over 5 Years |
| Operating leases | \$ 148,504 | \$ 18,321 | \$ 31,189 | \$ 23,791 | \$ 75,203 |
| Unconditional purchase obligations | \$ 9,562 | \$ 9,562 | \$ - | \$ - | \$ - |

(1) We are party to operating lease agreements and unconditional purchase obligations. These lease agreements and purchase obligations are established in the ordinary course of our business and are designed to provide us with access to facilities and products at competitive, market-driven prices. At June 30, 2014, our unconditional purchase obligations consisted of multiple fixed-price fuel purchase contracts under which we have 2.5 million gallons remaining to be purchased for a total of \$9.6 million. The current fuel purchase contracts expire on or before December 31, 2014. These arrangements have not materially affected our financial position, results of operations or liquidity during the six months ended June 30, 2014, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

We have obtained financial surety bonds, primarily to support our financial assurance needs and landfill and E&P operations. We provided customers and various regulatory authorities with surety bonds in the aggregate amounts of approximately \$424.2 million and \$393.6 million at June 30, 2014 and December 31, 2013, respectively. These arrangements have not materially affected our financial position, results of operations or liquidity during the six months ended June 30, 2014, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

From time to time, we evaluate our existing operations and their strategic importance to us. If we determine that a given operating unit does not have future strategic importance, we may sell or otherwise dispose of those operations. Although we believe our reporting units would not be impaired by such dispositions, we could incur losses on them.

The disposal tonnage that we received in the six month periods ended June 30, 2014 and 2013, at all of our landfills during the respective period, is shown below (tons in thousands):

| | Six months ended June 30, | | | |
|--|---------------------------|---------------|--------------------|---------------|
| | 2014 | | 2013 | |
| | Number of Sites | Total Tons | Number of Sites | Total Tons |
| Owned operational landfills and landfills operated under life-of-site agreements | 50 | 9,684 | 49 | 9,010 |
| Operated landfills | 5 | 240 | 5 | 218 |
| | 55 | 9,924 | 54 | 9,228 |

NON-GAAP FINANCIAL MEASURES

Adjusted Free Cash Flow

We present adjusted free cash flow, a non-GAAP financial measure, supplementally because it is widely used by investors as a valuation and liquidity measure in the solid waste industry. Management uses adjusted free cash flow as one of the principal measures to evaluate and monitor the ongoing financial performance of our operations. We define adjusted free cash flow as net cash provided by operating activities, plus proceeds from disposal of assets, plus or minus change in book overdraft, plus excess tax benefit associated with equity-based compensation, less capital expenditures for property and equipment and distributions to noncontrolling interests. We further adjust this calculation to exclude the effects of items management believes impact the ability to assess the operating performance of our business. This measure is not a substitute for, and should be used in conjunction with, GAAP liquidity or financial measures. Other companies may calculate adjusted free cash flow differently. Our adjusted free cash flow for the six month periods ended June 30, 2014 and 2013, are calculated as follows (amounts in thousands):

| | Six months ended | |
|--|-------------------------|-------------------|
| | June 30, | |
| | 2014 | 2013 |
| Net cash provided by operating activities | \$ 279,681 | \$ 255,523 |
| Plus/less: Change in book overdraft | 18 | (90) |
| Plus: Proceeds from disposal of assets | 5,863 | 3,622 |
| Plus: Excess tax benefit associated with equity-based compensation | 7,096 | 2,667 |
| Less: Capital expenditures for property and equipment | (83,679) | (87,541) |
| Less: Distributions to noncontrolling interests | (371) | (198) |
| Adjustments: | | |
| Corporate office relocation (a) | - | 1,832 |
| Tax effect (b) | - | (161) |
| Adjusted free cash flow | <u>\$ 208,608</u> | <u>\$ 175,654</u> |

(a) Reflects the addback of third party expenses and reimbursable advances to employees associated with the relocation of our corporate headquarters from California to Texas.

(b) The tax effect of the Corporate office relocation is calculated based on the applied tax rates for the respective periods.

Adjusted EBITDA

We present adjusted EBITDA, a non-GAAP financial measure, supplementally because it is widely used by investors as a performance and valuation measure in the solid waste industry. Management uses adjusted EBITDA as one of the principal measures to evaluate and monitor the ongoing financial performance of our operations. We define adjusted EBITDA as net income, plus income tax provision, plus interest expense, plus depreciation and amortization expense, plus closure and post-closure accretion expense, plus or minus any loss or gain on disposal of assets, plus other expense, less other income. We further adjust this calculation to exclude the effects of other items management believes impact the ability to assess the operating performance of our business. This measure is not a substitute for, and should be used in conjunction with, GAAP financial measures. Other companies may calculate adjusted EBITDA differently. Our adjusted EBITDA for the three and six month periods ended June 30, 2014 and 2013, are calculated as follows (amounts in thousands):

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|-------------------|------------------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$ 62,900 | \$ 43,995 | \$ 112,122 | \$ 85,674 |
| Plus: Income tax provision | 40,537 | 28,445 | 74,470 | 55,408 |
| Plus: Interest expense | 15,940 | 18,928 | 32,851 | 37,940 |
| Plus: Depreciation and amortization | 63,825 | 60,977 | 126,378 | 119,064 |
| Plus: Closure and post-closure accretion | 861 | 753 | 1,739 | 1,514 |
| Plus/less: Loss (gain) on disposal of assets | (1,324) | 3,445 | (1,465) | 3,122 |
| Plus/less: Other expense (income), net | (661) | 1,706 | (137) | 965 |
| Adjustments: | | | | |
| Plus: Loss on prior corporate office lease (a) | - | 10,498 | - | 10,498 |
| Plus: Acquisition-related costs (b) | 390 | 333 | 648 | 806 |
| Plus: Corporate relocation expenses (c) | - | 270 | - | 422 |
| Adjusted EBITDA | <u>\$ 182,468</u> | <u>\$ 169,350</u> | <u>\$ 346,606</u> | <u>\$ 315,413</u> |

- (a) Reflects the addback of the loss on the prior corporate office lease resulting from the relocation of our corporate headquarters from California to Texas.
(b) Reflects the addback of acquisition-related transaction costs.
(c) Reflects the addback of costs associated with the relocation of our corporate headquarters from California to Texas.

Adjusted Net Income and Adjusted Net Income per Diluted Share

We present adjusted net income and adjusted net income per diluted share, both non-GAAP financial measures, supplementally because they are widely used by investors as a valuation measure in the solid waste industry. Management uses adjusted net income and adjusted net income per diluted share as one of the principal measures to evaluate and monitor the ongoing financial performance of our operations. We provide adjusted net income to exclude the effects of items management believes impact the comparability of operating results between periods. Adjusted net income has limitations due to the fact that it excludes items that have an impact on our financial condition and results of operations. Adjusted net income and adjusted net income per diluted share are not a substitute for, and should be used in conjunction with, GAAP financial measures. Other companies may calculate adjusted net income and adjusted net income per diluted share differently. Our adjusted net income and adjusted net income per diluted share for the three and six month periods ended June 30, 2014 and 2013, are calculated as follows (amounts in thousands, except per share amounts):

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|-----------|------------------------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| Reported net income attributable to Waste Connections | \$ 62,664 | \$ 43,967 | \$ 111,679 | \$ 85,523 |
| Adjustments: | | | | |
| Amortization of intangibles (a) | 6,720 | 6,211 | 13,456 | 12,650 |
| Acquisition-related expenses (b) | 390 | 2,020 | 648 | 2,494 |
| Loss (gain) on disposal of assets (c) | (1,324) | 3,445 | (1,465) | 3,122 |
| Corporate relocation expenses (d) | - | 270 | - | 422 |
| Loss on prior corporate office lease (e) | - | 10,498 | - | 10,498 |
| Tax effect (f) | (2,219) | (8,584) | (4,847) | (11,163) |
| Impact of deferred tax adjustment (g) | - | - | 1,220 | - |
| Adjusted net income attributable to Waste Connections | \$ 66,231 | \$ 57,827 | \$ 120,691 | \$ 103,546 |
| Diluted earnings per common share attributable to Waste Connections' common stockholders: | | | | |
| Reported net income | \$ 0.50 | \$ 0.35 | \$ 0.89 | \$ 0.69 |
| Adjusted net income | \$ 0.53 | \$ 0.47 | \$ 0.97 | \$ 0.84 |

(a) Reflects the elimination of the non-cash amortization of acquisition-related intangible assets.

(b) Reflects the elimination of acquisition-related expenses, including transaction costs and adjustments to the fair value of contingent consideration.

(c) Reflects the elimination of a loss (gain) on disposal of assets.

(d) Reflects the addback of costs associated with the relocation of our corporate headquarters from California to Texas.

(e) Reflects the addback of the loss on the prior corporate office lease resulting from the relocation of our corporate headquarters from California to Texas.

(f) The aggregate tax effect of the adjustments in footnotes (a) through (e) is calculated based on the applied tax rates for the respective periods.

(g) Reflects the elimination of an increase to the income tax provision associated with an increase in the Company's deferred tax liabilities resulting from the enactment of New York State's 2014-2015 Budget Act on March 31, 2014.

INFLATION

Other than volatility in fuel prices and labor costs in certain markets, inflation has not materially affected our operations in recent years. Consistent with industry practice, many of our contracts allow us to pass through certain costs to our customers, including increases in landfill tipping fees and, in some cases, fuel costs. Therefore, we believe that we should be able to increase prices to offset many cost increases that result from inflation in the ordinary course of business. However, competitive pressures or delays in the timing of rate increases under our contracts may require us to absorb at least part of these cost increases, especially if cost increases exceed the average rate of inflation. Management's estimates associated with inflation have an impact on our accounting for landfill liabilities.

SEASONALITY

We expect our operating results to vary seasonally, with revenues typically lowest in the first quarter, higher in the second and third quarters and lower in the fourth quarter than in the second and third quarters. This seasonality reflects (a) the lower volume of solid waste generated during the late fall, winter and early spring because of decreased construction and demolition activities during winter months in the U.S., and (b) reduced E&P activity during harsh weather conditions, with expected fluctuation between our highest and lowest quarters of approximately 10% to 13%. In addition, some of our operating costs may be higher in the winter months. Adverse winter weather conditions slow waste collection activities, resulting in higher labor and operational costs. Greater precipitation in the winter increases the weight of collected municipal solid waste, resulting in higher disposal costs, which are calculated on a per ton basis.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, we are exposed to market risk, including changes in interest rates and prices of certain commodities. We use hedge agreements to manage a portion of our risks related to interest rates and fuel prices. While we are exposed to credit risk in the event of non-performance by counterparties to our hedge agreements, in all cases such counterparties are highly rated financial institutions and we do not anticipate non-performance. We do not hold or issue derivative financial instruments for trading purposes. We monitor our hedge positions by regularly evaluating the positions at market and by performing sensitivity analyses over the unhedged fuel and variable rate debt positions.

At June 30, 2014, our derivative instruments included seven interest rate swap agreements that effectively fix the interest rate on the applicable notional amounts of our variable rate debt as follows (dollars in thousands):

| Date Entered | Notional Amount | Fixed Interest Rate Paid* | Variable Interest Rate Received | Effective Date | Expiration Date |
|---------------------|------------------------|----------------------------------|--|-----------------------|------------------------|
| August 2011 | \$ 150,000 | 0.800% | 1-month LIBOR | April 2012 | January 2015 |
| December 2011 | \$ 175,000 | 1.600% | 1-month LIBOR | February 2014 | February 2017 |
| April 2014 | \$ 100,000 | 1.800% | 1-month LIBOR | July 2014 | July 2019 |
| May 2014 | \$ 50,000 | 2.344% | 1-month LIBOR | October 2015 | October 2020 |
| May 2014 | \$ 25,000 | 2.326% | 1-month LIBOR | October 2015 | October 2020 |
| May 2014 | \$ 50,000 | 2.350% | 1-month LIBOR | October 2015 | October 2020 |
| May 2014 | \$ 50,000 | 2.350% | 1-month LIBOR | October 2015 | October 2020 |

* Plus applicable margin.

Under derivatives and hedging guidance, the interest rate swap agreements are considered cash flow hedges for a portion of our variable rate debt, and we apply hedge accounting to account for these instruments. The notional amounts and all other significant terms of the swap agreements are matched to the provisions and terms of the variable rate debt being hedged.

We have performed sensitivity analyses to determine how market rate changes will affect the fair value of our unhedged floating rate debt. Such an analysis is inherently limited in that it reflects a singular, hypothetical set of assumptions. Actual market movements may vary significantly from our assumptions. Fair value sensitivity is not necessarily indicative of the ultimate cash flow or earnings effect we would recognize from the assumed market rate movements. We are exposed to cash flow risk due to changes in interest rates with respect to the unhedged floating rate balances owed at June 30, 2014 and December 31, 2013, of \$999.8 million and \$1.128 billion, respectively, including floating rate debt under our credit facility, term loan facility and floating rate municipal bond obligations. A one percentage point increase in interest rates on our variable-rate debt as of June 30, 2014 and December 31, 2013, would decrease our annual pre-tax income by approximately \$10.0 million and \$11.3 million, respectively. All of our remaining debt instruments are at fixed rates, or effectively fixed under the interest rate swap agreements described above; therefore, changes in market interest rates under these instruments would not significantly impact our cash flows or results of operations, subject to counterparty default risk.

The market price of diesel fuel is unpredictable and can fluctuate significantly. We purchase approximately 31.5 million gallons of fuel per year; therefore, a significant increase in the price of fuel could adversely affect our business and reduce our operating margins. To manage a portion of this risk, we periodically enter into fuel hedge agreements related to forecasted diesel fuel purchases.

At June 30, 2014, our derivative instruments included one fuel hedge agreement as follows:

| Date Entered | Notional Amount (in gallons per month) | Diesel Rate Paid Fixed | Diesel Rate Received Variable | Effective Date | Expiration Date |
|---------------------|---|-------------------------------|--------------------------------------|-----------------------|------------------------|
| June 2012 | 300,000 | \$ 3.60 | DOE Diesel Fuel Index* | January 2014 | December 2015 |

* If the national U.S. on-highway average price for a gallon of diesel fuel (“average price”), as published by the Department of Energy, exceeds the contract price per gallon, we receive the difference between the average price and the contract price (multiplied by the notional number of gallons) from the counterparty. If the average price is less than the contract price per gallon, we pay the difference to the counterparty.

Under derivatives and hedging guidance, the fuel hedge is considered a cash flow hedge for a portion of our forecasted diesel fuel purchases, and we apply hedge accounting to account for this instrument.

We have performed sensitivity analyses to determine how market rate changes will affect the fair value of our unhedged diesel fuel purchases. Such an analysis is inherently limited in that it reflects a singular, hypothetical set of assumptions. Actual market movements may vary significantly from our assumptions. Fair value sensitivity is not necessarily indicative of the ultimate cash flow or earnings effect we would recognize from the assumed market rate movements. For the year ending December 31, 2014, we expect to purchase approximately 31.5 million gallons of fuel, of which 22.0 million gallons will be purchased at market prices, 5.9 million gallons will be purchased under our fixed price fuel purchase contracts and 3.6 million gallons are hedged at a fixed price under our fuel hedge agreement. During the six month period of July 1, 2014 to December 31, 2014, we expect to purchase approximately 11.0 million gallons of fuel at market prices; therefore, a \$0.10 per gallon increase in the price of fuel over the remaining six months in 2014 would decrease our pre-tax income during this period by approximately \$1.1 million.

We market a variety of recyclable materials, including cardboard, office paper, plastic containers, glass bottles and ferrous and aluminum metals. We own and operate 35 recycling processing operations and sell other collected recyclable materials to third parties for processing before resale. To reduce our exposure to commodity price risk with respect to recycled materials, we have adopted a pricing strategy of charging collection and processing fees for recycling volume collected from third parties. In the event of a decline in recycled commodity prices, a 10% decrease in average recycled commodity prices from the average prices that were in effect during the six months ended June 30, 2014 and 2013, would have had a \$2.9 million and \$3.4 million impact on revenues for the six months ended June 30, 2014 and 2013, respectively.

Item 4. Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of June 30, 2014, that our disclosure controls and procedures were effective at the reasonable assurance level such that information required to be disclosed in our Exchange Act reports: (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (2) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended June 30, 2014, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding our legal proceedings can be found in Note 15 of our Condensed Consolidated Financial Statements included in Part I, Item 1 of this report and is incorporated herein by reference.

Item 5. Other Information

On July 17, 2014, the Board of Directors of the Company approved the Fourth Amended and Restated Bylaws. The Fourth Amended and Restated Bylaws replace, in their entirety, the Third Amended and Restated Bylaws, which were previously adopted by the Board of Directors of the Company on April 21, 2009. The Fourth Amended and Restated Bylaws became effective on approval by the Board of Directors.

The Fourth Amended and Restated Bylaws amended Article VII to add a new Section 4 to include a forum selection provision. As amended, Article VII, Section 4 of the Fourth Amended and Restated Bylaws generally provides that unless the Company consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will, to the fullest extent permitted by law, be the sole and exclusive forum for (1) any derivative action or proceeding brought on behalf of the Company, (2) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Company to the Company or the Company's stockholders, (3) any action asserting a claim arising pursuant to any provision of the General Corporation Law of the State of Delaware, or (4) any action asserting a claim governed by the internal affairs doctrine.

In addition, the Fourth Amended and Restated Bylaws amended language in Article II, Section 1 to update the location of the Company's principal office from Folsom, California to The Woodlands, Texas. As amended, Article II, Section 1 generally provides that meetings of stockholders of the Company will be held at the principal office of the Company in The Woodlands, Texas, at such place as may be fixed from time to time by the Board of Directors of the Company, or at such other place either within or without the State of Delaware as shall be designated from time to time by the Board of Directors of the Company.

A copy of the Fourth Amended and Restated Bylaws of the Company is attached as Exhibit 3.2 to this Quarterly Report on Form 10-Q.

Item 6. Exhibits

See Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WASTE CONNECTIONS, INC.

Date: July 21, 2014

BY: /s/ Ronald J. Mittelstaedt

Ronald J. Mittelstaedt,
Chief Executive Officer

Date: July 21, 2014

BY: /s/ Worthing F. Jackman

Worthing F. Jackman,
Executive Vice President and
Chief Financial Officer

EXHIBIT INDEX

| Exhibit Number | Description of Exhibits |
|---------------------------|---|
| 3.1 | Amended and Restated Certificate of Incorporation of the Registrant, dated as of June 14, 2013 (incorporated by reference to the exhibit filed with the Registrant's Form 10-Q filed on July 24, 2013) |
| 3.2 | Fourth Amended and Restated Bylaws of the Registrant, effective July 17, 2014 |
| 10.1+ | Waste Connections, Inc. 2014 Incentive Award Plan (incorporated by reference to the exhibit filed with the Registrant's Form 8-K filed on May 19, 2014) |
| 10.2+ | Form Grant Agreement for Performance-Based Restricted Stock Units pursuant to 2014 Incentive Award Plan (incorporated by reference to the exhibit filed with the Registrant's Form 8-K filed on May 19, 2014) |
| 10.3+ | Form Warrant to Purchase Common Stock pursuant to 2014 Incentive Award Plan |
| 10.4 | Second Amendment to Term Loan Agreement, dated as of May 15, 2014 (incorporated by reference to the exhibit filed with the Registrant's Form 8-K filed on May 19, 2014) |
| 31.1 | Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a) |
| 31.2 | Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a) |
| 32.1 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

+ Management contract or compensatory plan, contract or arrangement.

**FOURTH
AMENDED AND RESTATED
BYLAWS
OF
WASTE CONNECTIONS, INC.**

(Effective July 17, 2014)

**ARTICLE I
OFFICES**

Section 1. Registered Office. The registered office of Waste Connections, Inc. (the "Corporation") shall be fixed in the Corporation's certificate of incorporation, as the same may be amended from time to time.

Section 2. Other Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as its Board of Directors (the "Board" or the "Board of Directors") may from time to time determine or the business of the Corporation may require.

**ARTICLE II
MEETINGS OF STOCKHOLDERS**

Section 1. Place of Meetings. All meetings of the stockholders shall be held at the principal office of the Corporation in The Woodlands, Texas, at such place as may be fixed from time to time by the Board of Directors, or at such other place either within or without the State of Delaware as shall be designated from time to time by the Board of Directors. Meetings of stockholders for any other purpose may be held at such time and place, within or without the State of Delaware, as shall be designated by the Board of Directors.

Section 2. Annual Meetings. Annual meetings of stockholders shall be held on the fourth Wednesday of May in each year, if not a legal holiday and if a legal holiday, then on the next secular day following, at 10:00 A.M., or at such other date and time as shall be designated from time to time by the Board of Directors. At each annual meeting, stockholders shall elect directors in accordance with the Corporation's certificate of incorporation and these bylaws, and shall transact other business as may properly be brought before the meeting.

Section 3. Special Meetings. Subject to the rights, if any, of holders of any class or series of Preferred Stock then outstanding, stockholders are not permitted to call a special meeting of stockholders or to require the Board of Directors or officers of the Corporation to call such a special meeting. A special meeting of stockholders may only be called by a majority of the Board of Directors, by the President or by the Chairman of the Board. The business permitted to be conducted at a special meeting of stockholders shall be limited to matters properly brought before the meeting by or at the direction of the Board of Directors. Any action required or permitted to be taken by the stockholders must be taken at a duly called and convened annual meeting or special meeting of stockholders and cannot be taken by consent in writing.

Section 4. Notice of Stockholders' Meetings. All notices of meetings of stockholders shall be sent or otherwise given in accordance with Section 5, below, not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place, if any, date and hour of the meeting, the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

Section 5. Manner of Giving Notice; Affidavit of Notice. Notice of any meeting of stockholders shall be given:

(a) if mailed, when deposited in the United States mail, postage prepaid, directed to the stockholder at his or her address as it appears on the Corporation's records; or

(b) if electronically transmitted, as provided in Section 232 of the General Corporation Law of Delaware.

An affidavit of the Secretary of the Corporation or of the transfer agent or any other agent of the Corporation that the notice has been given by mail or by a form of electronic transmission, as applicable, shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

Section 6. Quorum. The holders of a majority of the shares entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation.

Section 7. Organization. Meetings of stockholders shall be presided over by the Chairman of the Board, if any, or in his absence (or election not to preside) by the President, or in his absence (or election not to preside) by a Vice President, or in the absence of the foregoing persons by a chairman designated by the Board of Directors, or in the absence of such designation by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, but in his absence (or election not to so act) the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 8. Conduct of Meetings. The Board of Directors may adopt such rules and regulations for the conduct of the meeting of stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (a) the establishment of an agenda or order of business for the meeting; (b) rules and procedures for maintaining order at the meeting and the safety of those present; (c) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (d) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (e) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

Section 9. Notice of Business to be Brought Before a Meeting.

(a) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) brought before the meeting by the Corporation and specified in the notice of meeting given by or at the direction of the Board of Directors, (ii) brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a stockholder who (A) was a stockholder of record (and, with respect to any beneficial owner, if different, on whose behalf such business is proposed, only if such beneficial owner was the beneficial owner of shares of the Corporation) both at the time of giving the notice provided for in this Section 9 and at the time of the meeting, (B) is entitled to vote at the meeting, and (C) has complied with this Section 9 as to such business. Except for proposals properly made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (as so amended and inclusive of such rules and regulations, the "Exchange Act"), and included in the notice of meeting given by or at the direction of the Board of Directors, the foregoing clause (iii) shall be the exclusive means for a stockholder to propose business to be brought before an annual meeting of the stockholders. Stockholders shall not be permitted to propose business to be brought before a special meeting of the stockholders, and the only matters that may be brought before a special meeting are the matters specified in the notice of meeting given by or at the direction of the person calling the meeting pursuant to Section 3 above. Stockholders seeking to nominate persons for election to the Board must comply with Section 10 and this Section 9 shall not be applicable to nominations except as expressly provided in Section 10.

(b) Without qualification, for business to be properly brought before an annual meeting by a stockholder, the stockholder must (i) provide Timely Notice (as defined below) thereof in writing and in proper form to the Secretary of the Corporation and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Section 9. To be timely, a stockholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the one-year anniversary of the preceding year's annual meeting; *provided, however*, that if the date of the annual meeting is more than thirty (30) days before or more than sixty (60) days after such anniversary date, notice by the stockholder to be timely must be so delivered, or mailed and received, not later than the ninetieth (90th) day prior to such annual meeting or, if later, the tenth (10th) day following the day on which public disclosure of the date of such annual meeting was first made (such notice within such time periods, "Timely Notice"). In no event shall any adjournment of an annual meeting or the announcement thereof commence a new time period for the giving of Timely Notice as described above.

(c) To be in proper form for purposes of this Section 9, a stockholder's notice to the Secretary shall set forth:

(i) As to each Proposing Person (as defined below), (A) the name and address of such Proposing Person (including, if applicable, the name and address that appear on the Corporation's books and records); and (B) the class or series and number of shares of the Corporation that are, directly or indirectly, owned of record or beneficially owned (within the meaning of Rule 13d-3 under the Exchange Act) by such Proposing Persons, except that such Proposing Person shall in all events be deemed to beneficially own any shares of any class or series of the Corporation as to which such Proposing Person has a right to acquire beneficial ownership at any time in the future (the disclosures to be made pursuant to the foregoing clauses (A) and (B) are referred to as "Stockholder Information");

(ii) As to each Proposing Person, (A) any derivative, swap or other transaction or series of transactions engaged in, directly or indirectly, by such Proposing Person, the purpose or effect of which is to give such Proposing Person economic risk similar to ownership of shares of any class or series of the Corporation, including due to the fact that the value of such derivative, swap or other transactions are determined by reference to the price, value or volatility of any shares of any class or series of the Corporation, or which derivative, swap or other transactions provide, directly or indirectly, the opportunity to profit from any increase in the price or value of shares of any class or series of the Corporation ("Synthetic Equity Interests"), which Synthetic Equity Interests shall be disclosed without regard to whether (x) the derivative, swap or other transactions convey any voting rights in such shares to such Proposing Person, (y) the derivative, swap or other transactions are required to be, or are capable of being, settled through delivery of such shares or (z) such Proposing Person may have entered into other transactions that hedge or mitigate the economic effect of such derivative, swap or other transactions, (B) any proxy (other than a revocable proxy or consent given in response to a solicitation made pursuant to, and in accordance with, Section 14(a) of the Exchange Act by way of a solicitation statement filed on Schedule 14A), agreement, arrangement, understanding or relationship pursuant to which such Proposing Person has or shares a right to vote any shares of any class or series of the Corporation, (C) any agreement, arrangement, understanding or relationship, including any repurchase or similar so-called "stock borrowing" agreement or arrangement, engaged in, directly or indirectly, by such Proposing Person, the purpose or effect of which is to mitigate loss to, reduce the economic risk (of ownership or otherwise) of shares of any class or series of the Corporation by, manage the risk of share price changes for, or increase or decrease the voting power of, such Proposing Person with respect to the shares of any class or series of the Corporation, or which provides, directly or indirectly, the opportunity to profit from any decrease in the price or value of the shares of any class or series of the Corporation ("Short Interests"), (D) any rights to dividends on the shares of any class or series of the Corporation owned beneficially by such Proposing Person that are separated or separable from the underlying shares of the Corporation, (E) any performance related fees (other than an asset based fee) that such Proposing Person is entitled to based on any increase or decrease in the price or value of shares of any class or series of the Corporation, or any Synthetic Equity Interests or Short Interests, if any, and (F) any other information relating to such Proposing Person that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies or consents by such Proposing Person in support of the business proposed to be brought before the meeting pursuant to Section 14(a) of the Exchange Act (the disclosures to be made pursuant to the foregoing clauses (A) through (F) are referred to as "Disclosable Interests"); *provided, however*, that Disclosable Interests shall not include any such disclosures with respect to the ordinary course business activities of any broker, dealer, commercial bank, trust company or other nominee who is a Proposing Person solely as a result of being the stockholder directed to prepare and submit the notice required by these bylaws on behalf of a beneficial owner;

(iii) As to each item of business that the stockholder proposes to bring before the annual meeting, (A) a reasonably brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of each Proposing Person, (B) the text of the proposal or business (including the text of any resolutions proposed for consideration), and (C) a reasonably detailed description of all agreements, arrangements and understandings (x) between or among any of the Proposing Persons or (y) between or among any Proposing Person and any other person or entity (including their names) in connection with the proposal of such business by such stockholder; and

(iv) As to each Proposing Person, such Proposing Person's written consent to the public disclosure of information provided pursuant to this Section 9.

For purposes of this Section 9, the term "Proposing Person" shall mean (i) the stockholder providing the notice of business proposed to be brought before an annual meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the business proposed to be brought before the annual meeting is made, and (iii) any affiliate or associate (each within the meaning of Rule 12b-2 under the Exchange Act for purposes of these bylaws) of such stockholder or beneficial owner.

(d) A stockholder providing notice of business proposed to be brought before an annual meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 9 shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the Corporation not later than five (5) business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date), and not later than eight (8) business days prior to the date for the meeting or, if practicable, any adjournment or postponement thereof (and, if not practicable, on the first practicable date prior to the date to which the meeting has been adjourned or postponed) (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof).

(e) Notwithstanding anything in these bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with this Section 9. The presiding officer of the meeting shall, if the facts warrant, determine that the business was not properly brought before the meeting in accordance with this Section 9, and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

(f) This Section 9 is expressly intended to apply to any business proposed to be brought before an annual meeting of stockholders other than any proposal made pursuant to Rule 14a-8 under the Exchange Act. In addition to the requirements of this Section 9 with respect to any business proposed to be brought before an annual meeting, each Proposing Person shall comply with all applicable requirements of the Exchange Act with respect to any such business. Nothing in this Section 9 shall be deemed to affect the rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

(g) For purposes of these bylaws, "*public disclosure*" shall mean disclosure in a press release reported by a national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

Section 10. Notice of Nominations for Election to the Board of Directors.

(a) Nominations of any person for election to the Board of Directors at an annual meeting or at a special meeting (but only if the election of directors is a matter specified in the notice of meeting given by or at the direction of the person calling such special meeting) may be made at such meeting only (i) by or at the direction of the Board of Directors, including by any committee or persons appointed by the Board of Directors, or (ii) by a stockholder who (A) was a stockholder of record (and, with respect to any beneficial owner, if different, on whose behalf such nomination is proposed to be made, only if such beneficial owner was the beneficial owner of shares of the Corporation) both at the time of giving the notice provided for in this Section 10 and at the time of the meeting, (B) is entitled to vote at the meeting, and (C) has complied with this Section 10 as to such nomination. The foregoing clause (ii) shall be the exclusive means for a stockholder to make any nomination of a person or persons for election to the Board of Directors at an annual meeting or special meeting.

(b) Without qualification, for a stockholder to make any nomination of a person or persons for election to the Board of Directors at an annual meeting, the stockholder must (i) provide Timely Notice (as defined in Section 9) thereof in writing and in proper form to the Secretary of the Corporation and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Section 10. Without qualification, if the election of directors is a matter specified in the notice of meeting given by or at the direction of the person calling such special meeting, then for a stockholder to make any nomination of a person or persons for election to the Board of Directors at a special meeting, the stockholder must (i) provide timely notice thereof in writing and in proper form to the Secretary of the Corporation at the principal executive offices of the Corporation, and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Section 10. To be timely, a stockholder's notice for nominations to be made at a special meeting must be delivered to, or mailed and received at, the principal executive offices of the Corporation not earlier than the one hundred twentieth (120th) day prior to such special meeting and not later than the ninetieth (90th) day prior to such special meeting or, if later, the tenth (10th) day following the day on which public disclosure (as defined in Section 9) of the date of such special meeting was first made. In no event shall any adjournment of an annual meeting or special meeting or the announcement thereof commence a new time period for the giving of a stockholder's notice as described above.

(c) To be in proper form for purposes of this Section 10, a stockholder's notice to the Secretary shall set forth:

(i) As to each Nominating Person (as defined below), the Stockholder Information (as defined in Section 9(c)(i), except that for purposes of this Section 10 the term "Nominating Person" shall be substituted for the term "Proposing Person" in all places it appears in Section 9(c)(i));

(ii) As to each Nominating Person, any Disclosable Interests (as defined in Section 9(c)(ii), except that for purposes of this Section 10 the term "Nominating Person" shall be substituted for the term "Proposing Person" in all places it appears in Section 9(c)(ii) and the disclosure in clause (F) of Section 9(c)(ii) shall be made with respect to the election of directors at the meeting);

(iii) As to each person whom a Nominating Person proposes to nominate for election as a director, (A) all information with respect to such proposed nominee that would be required to be set forth in a stockholder's notice pursuant to this Section 10 if such proposed nominee were a Nominating Person, (B) all information relating to such proposed nominee that is required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14(a) under the Exchange Act (including such proposed nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), (C) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among any Nominating Person, on the one hand, and each proposed nominee, his or her respective affiliates and associates, on the other hand, including, without limitation, all information that would be required to be disclosed pursuant to Item 404 under Regulation S-K if such Nominating Person were the "registrant" for purposes of such rule and the proposed nominee were a director or executive officer of such registrant, and (D) a completed and signed questionnaire, representation and agreement as provided in Section 10(f);

(iv) The Corporation may require any proposed nominee to furnish such other information (A) as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation in accordance with the Corporation's Corporate Governance Guidelines or (B) that could be material to a reasonable stockholder's understanding of the independence or lack of independence of such proposed nominee; and

(v) As to each Nominating Person, such Nominating Person's written consent to the public disclosure of information provided pursuant to this Section 10.

For purposes of this Section 10, the term “Nominating Person” shall mean (i) the stockholder providing the notice of the nomination proposed to be made at the meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the nomination proposed to be made at the meeting is made, and (iii) any affiliate or associate (each within the meaning of Rule 12b-2 under the Exchange Act for purposes of these bylaws) of such stockholder or beneficial owner.

(d) A stockholder providing notice of any nomination proposed to be made at a meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 10 shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the Corporation not later than five (5) business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date), and not later than eight (8) business days prior to the date for the meeting or, if practicable, any adjournment or postponement thereof (and, if not practicable, on the first practicable date prior to the date to which the meeting has been adjourned or postponed) (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof).

(e) Notwithstanding anything in these bylaws to the contrary, no person shall be eligible for election as a director of the Corporation unless nominated in accordance with this Section 10. The presiding officer at the meeting shall, if the facts warrant, determine that a nomination was not properly made in accordance with this Section 10, and if he or she should so determine, he or she shall so declare such determination to the meeting and the defective nomination shall be disregarded.

(f) To be eligible to be a nominee for election as a director of the Corporation, the proposed nominee must deliver (in accordance with the time periods prescribed for delivery of notice under this Section 10) to the Secretary at the principal executive offices of the Corporation a written questionnaire with respect to the background and qualification of such proposed nominee (which questionnaire shall be provided by the Secretary upon written request) and a written representation and agreement (in form provided by the Secretary upon written request) that such proposed nominee (i) is not and will not become a party to (A) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such proposed nominee, if elected as a director of the Corporation, will act or vote on any issue or question (a “Voting Commitment”) that has not been disclosed to the Corporation or (B) any Voting Commitment that could limit or interfere with such proposed nominee’s ability to comply, if elected as a director of the Corporation, with such proposed nominee’s fiduciary duties under applicable law, (ii) is not, and will not become a party to, any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed to the Corporation and (iii) in such proposed nominee’s individual capacity and on behalf of the stockholder (or the beneficial owner, if different) on whose behalf the nomination is made, would be in compliance, if elected as a director of the Corporation, and will comply with applicable publicly disclosed corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the Corporation.

(g) In addition to the requirements of this Section 10 with respect to any nomination proposed to be made at a meeting, each Nominating Person shall comply with all applicable requirements of the Exchange Act with respect to any such nominations.

Section 11. Compliance with Securities and Exchange Act of 1934. Notwithstanding any other provision of these bylaws, the Corporation shall be under no obligation to include any stockholder proposal in its proxy statement materials or otherwise present any such proposal to stockholders at a special or annual meeting of stockholders if the Board of Directors reasonably believes that the proponents thereof have not complied with Sections 13 and 14 of the Exchange Act, and the Corporation shall not be required to include in its proxy statement material to stockholders any stockholder proposal not required to be included in its proxy material to stockholders in accordance with such Act, rules or regulations.

Section 12. Adjournment of Meetings. If a quorum shall not be present or represented at any meeting of the stockholders, then either (a) the chairperson of the meeting or (b) the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time, place if any thereof, and the means of remote communications if any by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 13. Voting. The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 14, below, subject to Section 217 (relating to voting rights of fiduciaries, pledgors and joint owners of stock) and Section 218 (relating to voting trusts and other voting agreements) of the General Corporation Law of Delaware. Unless otherwise provided in the certificate of incorporation, each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder.

Except as otherwise provided by statute or by the certificate of incorporation, in all matters other than the election of directors, the affirmative vote of the majority of shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Directors shall be elected in the following manner:

(a) Each director to be elected by the stockholders of the Corporation shall be elected by the affirmative vote of a majority of the votes cast with respect to such director by the shares represented and entitled to vote therefor at a meeting of the stockholders for the election of directors at which a quorum is present (an “Election Meeting”); provided, however, that if, as of the 10th day preceding the date the Corporation first mails or otherwise transmits its notice of meeting for such meeting to the stockholders of the Corporation, the number of nominees exceeds the number of directors to be elected (a “Contested Election”), each of the directors to be elected at the Election Meeting shall be elected by the affirmative vote of a plurality of the votes cast by the shares represented and entitled to vote at such meeting with respect to the election of such director.

(b) For purposes of this Section 13, a “majority of the votes cast” means that the number of votes cast “for” a candidate for director exceeds the number of votes cast “against” that director (with “abstentions” and “broker non-votes” not counted as votes cast as either “for” or “against” such director’s election). In an election other than a Contested Election, stockholders will be given the choice to cast votes “for” or “against” the election of directors or to “abstain” from such vote and shall not have the ability to cast any other vote with respect to such election of directors. In a Contested Election, stockholders will be given the choice to cast “for” or “withhold” votes for the election of directors and shall not have the ability to cast any other vote with respect to such election of directors. In the event an Election Meeting involves the election of directors by separate votes by class or classes or series, the determination as to whether an election constitutes a Contested Election shall be made on a class by class or series by series basis, as applicable. The Board of Directors shall establish and maintain procedures under which any incumbent director who is not elected shall be expected to offer to tender his or her resignation to the Board of Directors.

Section 14. Record Date for Stockholder Notice; Voting; Giving Consents. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted and which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other such action.

If the Board does not so fix a record date:

(a) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(b) The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board is necessary, shall be the day on which the first written consent is expressed.

(c) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

Section 15. Proxies. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212 of the General Corporation Law of Delaware.

Section 16. List of Stockholders Entitled to Vote. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. The Corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least ten (10) days prior to the meeting: (a) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (b) during ordinary business hours, at the Corporation's principal executive office. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Such list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

ARTICLE III DIRECTORS

Section 1. Number of Directors. The number of Directors which shall constitute the entire Board of Directors shall be as set forth in the Corporation's certificate of incorporation.

Section 2. Term of Office. Subject to the provisions of the Corporation's certificate of incorporation, each Director, including a Director elected to fill a vacancy, shall hold office until such Director's successor is elected and qualified or the earlier resignation or removal of such Director.

Section 3. Place of Meetings of the Board of Directors. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware.

Section 4. Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board.

Section 5. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board, the President or the Secretary or by resolution of the Board of Directors. Unless waived, notice of the time and place of special meetings shall be delivered to each Director either (a) personally (by hand, courier or telephone), (b) by electronic mail, (c) by facsimile transmission, or (d) by first-class mail, postage prepaid, delivered or addressed to a Director in accordance with that Director's contact information as it is shown on the records of the Corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting (ten (10) days in the case of a Director whose address as shown on the records of the Corporation is outside of the United State of America). If the notice to a Director is delivered in any other manner it shall be delivered (which shall for this purpose mean received by the Director) at least twenty four (24) hours before the time of the holding of the meeting. The notice need not specify the place of the meeting (if the meeting is to be held at the Corporation's principal executive office) or the purpose of the meeting.

Section 6. Quorum. At all meetings of the Board, a majority of the entire Board shall constitute a quorum for the transaction of business and the act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by law or the certificate of incorporation. If a quorum shall not be present at any meeting of the Board of Directors, the Directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

Section 7. Action Without A Meeting. Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, if all members of the Board consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board. Written consents representing actions taken by the Board may be executed by telex, telecopy or other facsimile transmission, and such facsimile shall be valid and binding to the same extent as if it were an original.

Section 8. Meetings by Conference Telephone. Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the Board of Directors may participate in a meeting of the Board of Directors by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

Section 9. Organization. Meetings of the Board of Directors shall be presided over by the Chairman of the Board, if any, or in his absence by a chairman chosen at the meeting.

Section 10. Committees of Directors. The Board of Directors may, by resolution passed by a majority of the whole Board, establish one or more committees, each committee to consist of one or more of the Directors of the Corporation. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee.

In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

Any such committee, to the extent provided by resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; provided that no such committee shall have power or authority in reference to (a) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the General Corporation Law of Delaware to be submitted to stockholders for approval or (b) adopting, amending or repealing any bylaw of the Corporation. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

Section 11. Meetings and Actions of Committees. Meetings and actions of committees of the Board authorized by Section 10, above, shall be governed by, and held and taken in accordance with, the provisions of:

- (a) Section 3 (place of meetings);
- (b) Section 4 (regular meetings);
- (c) Section 5 (special meetings);
- (d) Section 6 (quorum);
- (e) Section 7 (action without a meeting);
- (f) Section 8 (meetings by conference telephone); and
- (g) Article VIII, Section 9 (waiver of notice);

with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the Board and its members.

Section 12. Compensation of Directors. Unless otherwise restricted by the certificate of incorporation or these bylaws, the Board of Directors shall have the authority to fix the compensation of Directors. The Directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as Director. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE IV OFFICERS

Section 1. Officers. The officers of the Corporation shall be chosen by the Board of Directors and shall be a Chief Executive Officer, President, Secretary and Chief Financial Officer. The Board of Directors may also appoint a Chairman of the Board and one or more Vice Presidents, any one or more of which may be designated Executive Vice President or Senior Vice President, and any such other officers as may be appointed in accordance with the provisions of these bylaws. Any number of offices may be held by the same person, unless the certificate of incorporation or these bylaws otherwise provide.

Section 2. Appointment of Officers. The Board of Directors shall appoint the officers of the Corporation, except such officers as may be appointed in accordance with the provisions of Sections 3 and 5 below, subject to the rights, if any, of an officer under any contract of employment.

Section 3. Subordinate Officers. The Board may appoint, or empower the Chief Executive Officer or, in his absence, the President, to appoint, such other officers and agents as the business of the Corporation may require. Each of such officers and agents shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the Board may from time to time determine.

Section 4. Term of Office; Removal and Resignation of Officers. Each officer of the Corporation shall hold office until his successor is chosen and qualifies, or until his resignation or removal. Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the Board at any regular or special meeting of the Board or, except in the case of an officer chosen by the Board, by any officer upon whom such power of removal may be conferred by the Board.

Any officer may resign at any time by giving written notice to the Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice. Unless otherwise specified in the notice of resignation, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

Section 5. Vacancies in Offices. Any vacancy occurring in any office of the Corporation shall be filled by the Board, or by the Chief Executive Officer or the President as provided in Section 3, above.

Section 6. Officers' Salaries. The salaries of all officers and agents of the Corporation shall be fixed by or pursuant to the authority of the Board of Directors.

Section 7. Chairman of the Board. The Chairman of the Board, if such an officer be elected, shall, if present, preside at meetings of the Board and exercise and perform such other powers and duties as may from time to time be assigned to him by the Board or as may be prescribed by these bylaws. If there is no Chief Executive Officer or President, then the Chairman of the Board shall also be the Chief Executive Officer of the Corporation and shall have the powers and duties prescribed in Section 8, below.

Section 8. Chief Executive Officer. Subject to such supervisory powers, if any, as the Board may give to the Chairman of the Board, the Chief Executive Officer, if any, shall, subject to the control of the Board, have general supervision, direction, and control of the business and affairs of the Corporation and shall report directly to the Board. All other officers, officials, employees and agents shall report directly or indirectly to the Chief Executive Officer. The Chief Executive Officer shall see that all orders and resolutions of the Board are carried into effect. The Chief Executive Officer shall serve as chairperson of and preside at all meetings of the stockholders. In the absence of a Chairman of the Board, the Chief Executive Officer shall preside at all meetings of the Board.

Section 9. President. In the absence or disability of the Chief Executive Officer, the President shall perform all the duties of the Chief Executive Officer. When acting as the Chief Executive Officer, the President shall have all the powers of, and be subject to all the restrictions upon, the Chief Executive Officer. The President shall have such other powers and perform such other duties as from time to time may be prescribed for him by the Board, these bylaws, the Chief Executive Officer or the Chairman of the Board.

Section 10. Vice Presidents. In the absence or disability of the President, the Vice Presidents, if any, in order of their rank as fixed by the Board or, if not ranked, a Vice President designated by the Board, shall perform all the duties of the President. When acting as the President, the appropriate Vice President shall have all the powers of, and be subject to all the restrictions upon, the President. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board, these bylaws, the Chairman of the Board, the Chief Executive Officer or, in the absence of a Chief Executive Officer, the President.

Section 11. Secretary. The Secretary shall keep or cause to be kept, at the principal executive office of the Corporation or such other place as the Board may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show:

- (a) the time and place of each meeting;
- (b) whether regular or special (and, if special, how authorized and the notice given);

- (c) the names of those present at directors' meetings or committee meetings;
- (d) the number of shares present or represented at stockholders' meetings; and
- (e) the proceedings thereof.

The Secretary shall keep, or cause to be kept, at the principal executive office of the Corporation or at the office of the Corporation's transfer agent or registrar, as determined by resolution of the Board, a share register, or a duplicate share register showing:

- (i) the names of all stockholders and their addresses;
- (ii) the number and classes of shares held by each;
- (iii) the number and date of certificates evidencing such shares; and
- (iv) the number and date of cancellation of every certificate surrendered for cancellation.

The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board required to be given by law or by these bylaws. The Secretary shall keep the seal of the Corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board or by these bylaws.

Section 12. Chief Financial Officer. The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The Chief Financial Officer shall deposit all moneys and other valuables in the name and to the credit of the Corporation with such depositories as the Board may designate. The Chief Financial Officer shall disburse the funds of the Corporation as may be ordered by the Board, shall render to the Chief Executive Officer or, in the absence of a Chief Executive Officer, the President and directors, whenever they request it, an account of all his or her transactions as Chief Financial Officer and of the financial condition of the Corporation, and shall have other powers and perform such other duties as may be prescribed by the Board or these bylaws.

Section 13. Representation of Shares of Other Corporations. The Chairman of the Board, President, any Vice President, or the Secretary of this Corporation, or any other person authorized by the Board or the President or a Vice President, is authorized to vote, represent, and exercise on behalf of the Corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of the Corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

Section 14. Authority and Duties of Officers. In addition to the foregoing authority and duties, all officers of the Corporation shall respectively have such authority and perform such duties in the management of the business of the Corporation as may be designated from time to time by the Board or the stockholders.

ARTICLE V
STOCK CERTIFICATES

Section 1. Stock Certificates. The shares of the Corporation shall be represented by certificates, provided that the Board may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution by the Board, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the Corporation by the Chairman of the Board, or the President or any Vice President, and by the Chief Financial Officer or the Secretary of the Corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 2. Classes or Series of Stock. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualification, limitations or restrictions of such preferences or rights shall be set forth in full or summarized on the face or back of any certificate that the Corporation shall issue to represent shares of such class or series of stock; provided that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu thereof, a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences or rights may be set forth on the face or back of each certificate that the Corporation shall issue to represent shares of such class or series of stock.

Section 3. Lost Certificates. Except as provided in this Section 3, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the Corporation and cancelled at the same time. The Corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

Section 4. Transfer of Stock. Subject to applicable law, on surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the Corporation shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction on its books.

Section 5. Stockholders of Record. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE VI INDEMNIFICATION

(a) Third Party Actions. The Corporation shall indemnify any officer or director of the Corporation, and shall have the power to indemnify any employee or agent of the Corporation, who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that the person's conduct was unlawful. The Corporation shall be required to indemnify a person in connection with a proceeding initiated by such person only if the proceeding was authorized by the Board of the Corporation.

(b) Derivative Actions. The Corporation shall indemnify any officer or director of the Corporation, and shall have the power to indemnify any employee or agent of the Corporation, who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper. The Corporation shall be required to indemnify a person in connection with a proceeding initiated by such person only if the proceeding was authorized by the Board of the Corporation.

(c) Successful Actions. To the extent that a present or former director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsections (a) and (b) of this Article VI, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

(d) Standard of Conduct. Any indemnification under subsections (a) and (b) of this Article VI (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because the person has met the applicable standard of conduct set forth in subsections (a) and (b) of this Article VI. Such determination shall be made, with respect to a person who is a director or officer at the time of such determination, (a) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (b) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (c) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (d) by the stockholders.

(e) Advance Payment of Expenses. Expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as authorized in this Article VI. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents may be so paid upon such terms and conditions, if any, as the Corporation deems appropriate.

(f) Non-Exclusivity. The indemnification and advancement of expenses provided by, or granted pursuant to, the other subsections of this Article VI shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office.

(g) Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under this Article VI. Any indemnification under this Article VI shall be net of any payment received by the indemnified party by directors' and officers' insurance carriers, or others.

(h) Definition of the “Corporation”. For purposes of this Article VI, references to “the Corporation” shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this Article VI with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

(i) Other Definitions. For purposes of this Article VI, references to “other enterprises” shall include employee benefit plans; references to “fines” shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to “serving at the request of the Corporation” shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the Corporation” as referred to in this Article VI.

(j) Survival. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VI shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

(k) Jurisdiction. The Delaware Court of Chancery is hereby vested with exclusive jurisdiction to hear and determine all actions for advancement of expenses or indemnification brought under this Article VI or under any bylaw, agreement, vote of stockholders or disinterested directors, or otherwise. The Court of Chancery may summarily determine the Corporation’s obligation to advance expenses (including attorneys’ fees).

ARTICLE VII AMENDMENTS

These bylaws may be adopted, amended or repealed by the stockholders entitled to vote. However, the Corporation may, in its certificate of incorporation, confer the power to adopt, amend or repeal bylaws upon the directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal bylaws.

ARTICLE VIII
GENERAL PROVISIONS

Section 1. Dividends. Subject to applicable law and the certificate of incorporation, dividends on the capital stock of the Corporation may be declared by the Board of Directors at any regular or special meeting and may be paid in cash, shares of the capital stock or other property.

Section 2. Payment of Dividends. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, for equalizing dividends, for repairing or maintaining any property of the Corporation or for such other purpose as the Directors shall think conducive to the interest of the Corporation, and the Directors may modify or abolish any such reserve in the manner in which it is created.

Section 3. Contracts. Except as otherwise provided in these bylaws or by law or as otherwise directed by the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the President, any Vice President, or the Secretary shall be authorized to execute and deliver, in the name and on behalf of the Corporation, all agreements, bonds, contracts, deeds, mortgages, and other instruments, either for the Corporation's own account or in a fiduciary or other capacity, and the seal of the Corporation, if appropriate, shall be affixed thereto by any such officer. The Board of Directors, the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, or the President or, if designated by the Board of Directors or any such officer, any Vice President or the Secretary, may authorize any other officer, employee, or agent to execute and deliver, in the name and on behalf of the Corporation, agreements, bonds, contracts, deeds, mortgages, and other instruments, either for the Corporation's own account or in a fiduciary or other capacity, and, if appropriate, to affix the seal of the Corporation thereto. The grant of such authority by the Board of Directors or any such officer may be general or confined to specific conditions. Subject to the foregoing provisions, the Board of Directors may authorize any officer, officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 4. Forum for Adjudication of Disputes. Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall, to the fullest extent permitted by law, be the sole and exclusive forum for (1) any derivative action or proceeding brought on behalf of the Corporation, (2) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation's stockholders, (3) any action asserting a claim arising pursuant to any provision of the General Corporation Law of the State of Delaware, or (4) any action asserting a claim governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring or holding any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Section 4.

Section 5. Checks. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 6. Fiscal Year. The fiscal year of the Corporation shall be fixed by the Board of Directors.

Section 7. Seal. The Corporation may adopt a corporate seal, which shall be adopted and may be altered by the Board, and which may have inscribed thereon the name of the Corporation, the year of its organization and the words "Incorporated, Delaware", or which may have inscribed thereon any other words, including but not limited to the words "Corporate Seal" as the officers may designate. The seal may be used by causing it or a facsimile thereof to be impressed, affixed or reproduced, or otherwise.

Section 8. Entire Board. As used in these bylaws, "entire Board of Directors" means the total number of Directors which the Corporation would have if there were no vacancies in the Board of Directors.

Section 9. Waiver of Notice. Whenever any notice is required by law, the certificate of incorporation or these bylaws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the certificate of incorporation or these bylaws.

Section 10. Severability. Any determination that any provision of these bylaws is for any reason inapplicable, illegal or ineffective shall not affect or invalidate any other provision of these bylaws.

Section 11. Pronouns. All pronouns used in these bylaws shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

WARRANT TO PURCHASE COMMON STOCK
of
WASTE CONNECTIONS, INC.

Void after _____

This certifies that for value received, _____ (the "Holder") is entitled, subject to the terms set forth below, at any time or from time to time beginning on _____ and before 5:00 p.m., Central standard time, on _____, to purchase from Waste Connections, Inc., a Delaware corporation (the "Company"), up to _____ fully paid and nonassessable shares of the common stock, par value \$0.01 per share, of the Company (the "Common Stock") as constituted on _____ (the "Issue Date"), upon surrender hereof at the principal office of the Company, with the subscription form attached hereto properly completed and duly executed, and simultaneous payment therefor in lawful money of the United States at the price of \$ _____ per share, subject to adjustment as provided in Section 3 hereof (the "Purchase Price"). The number and character of such shares of Common Stock are also subject to adjustment as provided below. Such number shall be reduced at such time or times as this Warrant is exercised in part by the number of shares as to which this Warrant is then exercised. The term "Warrant Stock" shall mean, unless the context otherwise requires, the stock and other securities and property at any time receivable upon the exercise of this Warrant. The term "warrant" as used herein shall include this Warrant and any warrants delivered in substitution or exchange therefor as provided herein.

The grant under this Warrant Agreement (the "Agreement") is in connection with and in furtherance of the Company's compensatory benefit plan for participation of the Company's Consultants and is made pursuant to the Company's 2014 Incentive Award Plan (the "Plan"). Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Plan.

1. Method of Exercise: Payment.

A. Cash Exercise. This Warrant may be exercised as a whole, or in part from time to time, by the Holder by delivering this Warrant, for cancellation if it is exercised as a whole or for endorsement if it is exercised in part, together with a Subscription in the form appearing at the end hereof properly completed and duly executed by or on behalf of the Holder, to the Company at its office in The Woodlands, Texas (or at the office of the agency maintained for such purpose), accompanied by payment in cash or by certified or official bank check payable to the order of the Company, in an aggregate amount equal to the Purchase Price as then adjusted times the number of shares of Warrant Stock as to which this Warrant is then being exercised. In the event of any such exercise that is partial, the Company shall endorse this Warrant as having been exercised to that extent and return this Warrant to the Holder. This Warrant shall be deemed to have been exercised immediately prior to the close of business on the date of its surrender for exercise as provided above, and the person entitled to receive the shares of Warrant Stock issuable upon such exercise shall be treated for all purposes as the holder of such shares of record as of the close of business on such date.

B. Cashless Exercise. In lieu of exercising this Warrant pursuant to Section 1.A, to the extent permitted by the Company and applicable statutes and regulations, the Holder may exercise this Warrant by having the Company withhold shares of Warrant Stock issuable on such exercise having a Fair Market Value at the close of business on the date of exercise in an aggregate amount equal to the Purchase Price as then adjusted times the number of shares of Warrant Stock as to which this Warrant is then being exercised.

2. Transfer. This Warrant and all rights hereunder are generally not transferable except by will or the laws of descent and distribution, unless the Company expressly permits a transfer, such as to a trust or other entity for estate planning purposes, pursuant to a domestic relations order, or as a gift to certain family members. Unless the Company approves such a transfer, this Warrant is exercisable during the Holder's life only by the Holder. Neither this Warrant nor any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Holder or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

3. Change in Control; Adjustments; No Fractional Shares.

A. Change in Control. In the event that the Company is subject to a Change in Control:

(i) immediately prior thereto this Warrant shall be automatically accelerated and become immediately exercisable as to all of the shares of Warrant Stock covered hereby, notwithstanding anything to the contrary in the Plan or this Agreement; and

(ii) the Administrator may provide that the shares subject to the Warrant shall be subject to such treatment as the Administrator may determine in its sole discretion subject to Section 12 of the Plan.

B. Adjustments. The Holder acknowledges that the Warrant is subject to adjustment, modification and termination in certain events as provided in this Warrant and the Plan, including Section 12 of the Plan.

C. No Fractional Shares. All calculations under this Section 3 shall be, in the case of Purchase Price, rounded up to the nearest cent or, in the case of shares subject to this Warrant, rounded down to the nearest one-hundredth of a share, but in no event shall the Company be obligated to issue any fractional share on any exercise of this Warrant.

4. Loss or Mutilation. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of this Warrant, and of indemnity reasonably satisfactory to it, and (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will execute and deliver in lieu thereof a new warrant of like tenor.

5. Reservation of Common Stock. The Company shall at all times reserve and keep available for issue upon the exercise of this Warrant such number of its authorized but unissued shares of Warrant Stock as will be sufficient to permit the exercise in full of this Warrant.

6. Notices. All notices and other communications from the Company to the Holder shall be mailed by first-class registered or certified mail, postage prepaid, to the address furnished to the Company in writing by the last Holder who shall have furnished an address to the Company in writing.

7. Change; Waiver. Subject to Sections 11, 13, 14, 16 and 18 hereof, neither this Agreement nor any term hereof may be changed, waived, discharged or terminated orally but only by an instrument in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought.

8. Attorneys' Fees. In the event any party is required to engage the services of attorneys for the purpose of enforcing this Agreement, or any provision hereof, the prevailing party shall be entitled to recover its reasonable attorneys' fees and any other costs or expenses.

9. Headings. The headings in this Agreement are for purposes of convenience in reference only, and shall not be deemed to constitute a part hereof.

10. Law Governing. This Agreement shall be construed and enforced in accordance with and governed by the laws of the State of Delaware.

11. Agreement Subject to Plan. This Agreement is subject to all provisions of the Plan, a copy of which is attached hereto and made part of this Agreement, is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of this Agreement and those of the Plan, the provisions of the Plan shall control.

12. Administration. The Administrator shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan and this Agreement as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator will be final and binding upon the Holder, the Company and all other interested persons. To the extent allowable pursuant to Applicable Law, no member of the Committee or the Board will be personally liable for any action, determination or interpretation made with respect to the Plan or this Agreement.

13. Conformity to Applicable Law. The Holder acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all Applicable Laws, including, without limitation, the provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated thereunder by the Securities and Exchange Commission and state securities laws and regulations. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Warrant is granted and may be exercised, only in such a manner as to conform to Applicable Law. To the extent permitted by Applicable Law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to Applicable Law.

14. Amendment, Suspension and Termination. To the extent permitted by the Plan, this Agreement may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Administrator or the Board, *provided* that, except as may otherwise be provided by the Plan, no amendment, modification, suspension or termination of this Agreement shall adversely affect the Warrant in any material way without the Holder's prior written consent.

15. Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth in Section 2 hereof and the Plan, this Agreement shall be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if the Holder is subject to Section 16 of the Exchange Act, the Plan, the Warrant and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by Applicable Law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

17. Entire Agreement. The Plan and this Agreement (including any attachment hereto) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and the Holder with respect to the subject matter hereof.

18. Section 409A. The Warrant is not intended to constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof, “Section 409A”). However, notwithstanding any other provision of the Plan or this Agreement, if at any time the Administrator determines that the Warrant (or any portion thereof) may be subject to Section 409A, the Administrator shall have the right in its sole discretion (without any obligation to do so or to indemnify the Holder or any other person for failure to do so) to adopt such amendments to the Plan or this Agreement, or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Administrator determines are necessary or appropriate for the Warrant either to be exempt from the application of Section 409A or to comply with the requirements of Section 409A.

19. Agreement Severable. In the event that any provision of this Agreement is held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

20. Counterparts. This Agreement may be executed in one or more counterparts, including by way of any electronic signature, subject to Applicable Law, each of which shall be deemed an original and all of which together shall constitute one instrument.

21. Black-Out Periods. Holder acknowledges and agrees that this Agreement and the Warrant granted hereunder are subject to Holder’s agreement to at all times comply with the Company’s policies with respect to black-out periods and insider trading, if and when applicable.

DATED: _____

WASTE CONNECTIONS, INC.

By: _____
Ronald J. Mittelstaedt
Chairman and Chief Executive Officer

ATTACHMENTS:

Subscription Form

Waste Connections, Inc. 2014 Incentive Award Plan

ENDORSEMENTS

| <u>Exercise Date</u> | <u>Number of Shares as to Which Exercised</u> | <u>Number of Shares Remaining Available for Exercise</u> | <u>Signature of Authorized Officer of the Company</u> |
|----------------------|---|--|---|
|----------------------|---|--|---|

SUBSCRIPTION FORM

(To be executed only upon exercise of warrant)

The undersigned Holder of this Warrant irrevocably exercises this Warrant for the purchase of _____ shares of Common Stock of Waste Connections, Inc., purchasable with this Warrant, and herewith makes payment therefor, all at the price and on the terms and conditions specified in this Warrant.

Dated: _____

(signature of Holder)

(Street Address)

(city) (state) (zip Code)

CERTIFICATION OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

I, Ronald J. Mittelstaedt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Waste Connections, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 21, 2014

/s/ Ronald J. Mittelstaedt
Ronald J. Mittelstaedt
Chairman and
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Worthing F. Jackman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Waste Connections, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 21, 2014

/s/ Worthing F. Jackman
Worthing F. Jackman
Executive Vice President and
Chief Financial Officer

**CERTIFICATE OF CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER**

The undersigned, Ronald J. Mittelstaedt and Worthing F. Jackman, being the duly elected and acting Chief Executive Officer and Chief Financial Officer, respectively, of Waste Connections, Inc., a Delaware corporation (the "Company"), hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the quarterly report of the Company on Form 10-Q for the three months ended June 30, 2014, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 21, 2014

By: /s/ Ronald J. Mittelstaedt
Ronald J. Mittelstaedt
Chief Executive Officer

Date: July 21, 2014

By: /s/ Worthing F. Jackman
Worthing F. Jackman
Executive Vice President and Chief
Financial Officer
