

REPUBLIC SERVICES, INC.

Form 10-K

March 02, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___ to ___

Commission file number: 1-14267

REPUBLIC SERVICES, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State of Incorporation)

65-0716904

(I.R.S. Employer Identification No.)

**18500 North Allied Way
Phoenix, Arizona**

(Address of Principal Executive Offices)

85054

(Zip Code)

Registrant's telephone number, including area code: **(480) 627-2700**

Securities registered pursuant to Section 12(b) of the Act:

**Title of Each Class
Common Stock, par value \$.01 per share**

**Name of Each Exchange on which Registered
The New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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
(Do not check if a smaller reporting company)

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

As of June 30, 2008, the aggregate market value of the shares of the Common Stock held by non-affiliates of the registrant was \$5.4 billion.

As of February 19, 2009, the registrant had outstanding 378,785,623 shares of Common Stock (excluding treasury shares of 14,894,412)

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement relative to the 2009 Annual Meeting of Stockholders are incorporated by reference in Part III hereof.

TABLE OF CONTENTS

PART I

<u>Item 1.</u>	<u>Business</u>	1
<u>Item 1A.</u>	<u>Risk Factors</u>	15
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	25
<u>Item 2.</u>	<u>Properties</u>	26
<u>Item 3.</u>	<u>Legal Proceedings</u>	26
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	33

PART II

<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	34
<u>Item 6.</u>	<u>Selected Financial Data</u>	36
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	75
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	76
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	147
<u>Item 9A.</u>	<u>Controls and Procedures</u>	147
<u>Item 9B.</u>	<u>Other Information</u>	148

PART III

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	148
<u>Item 11.</u>	<u>Executive Compensation</u>	148
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	148
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	149
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	149

PART IV

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	149
	<u>Signatures</u>	157

EX-4.4
EX-4.8
EX-4.12
EX-4.27
EX-4.31
EX-10.2
EX-10.3
EX-10.4
EX-10.5
EX-10.6
EX-10.8
EX-10.9
EX-10.10
EX-10.11
EX-10.12
EX-10.14

[EX-10.16](#)
[EX-10.18](#)
[EX-10.25](#)
[EX-10.38](#)
[EX-10.42](#)
[EX-10.45](#)
[EX-10.51](#)
[EX-10.55](#)
[EX-18.1](#)
[EX-21.1](#)
[EX-23.1](#)
[EX-31.1](#)
[EX-31.2](#)
[EX-32.1](#)
[EX-32.2](#)

Table of Contents

Unless the context requires otherwise, all references in this Form 10-K to Republic , the company, we, us and our to Republic Services, Inc. and its consolidated subsidiaries including Allied Waste Industries, Inc. and its subsidiaries (Allied) for periods on or after December 5, 2008.

PART I

ITEM 1. BUSINESS

Overview

As of December 31, 2008, we are the second largest provider of services in the domestic non-hazardous solid waste industry. We provide non-hazardous solid waste collection services for commercial, industrial, municipal and residential customers through 400 collection companies in 40 states and Puerto Rico. We also own or operate 242 transfer stations, 213 active solid waste landfills and 78 recycling facilities. We were incorporated as a Delaware corporation in 1996.

Based on analysts reports and industry trade publications, we believe that the United States non-hazardous solid waste services industry generates annual revenue of approximately \$52.0 billion, of which approximately 58% is generated by publicly owned waste companies. For 2008, and after giving effect to the merger described below, we and one other company generated a significant percentage of the publicly owned companies total revenue. Additionally, industry data indicates that the non-hazardous waste industry in the United States remains fragmented as privately held companies and municipal and other local governmental authorities generate approximately 16% and 26% respectively, of total industry revenue. In general, growth in the solid waste industry is linked to growth in the overall economy, including the level of new households and business formation and is subject to changes in residential and commercial construction activity.

On December 5, 2008, we completed our merger with Allied. On the effective date of the merger each share of Allied common stock outstanding was converted into .45 shares of our common stock. We issued approximately 195.8 million shares of common stock to Allied stockholders in the transaction. As a condition to the merger, we agreed to divest of certain assets as required by the Antitrust Division of the U.S. Department of Justice (DOJ) under the Hart-Scott-Rodino Antitrust Act (HSR Act). In February 2009, we announced an agreement to sell Waste Connections, Inc. the majority of the assets we are required to divest. The assets being divested include six municipal solid waste landfills, six collection operations and three transfer stations across seven markets. This transaction is subject to closing conditions regarding due diligence, regulatory approval and other customary matters. Closing is expected to occur in the second quarter of 2009. However, the timing and proceeds received from the divestiture to Waste Connections, and the divestiture of the remaining assets as required by the DOJ, cannot be predicted. In addition, the merger is expected to generate total annual run-rate integration synergies, primarily resulting from operating efficiencies, economies of scale, and leveraging corporate and overhead resources of approximately \$150.0 million by the end of 2010. We have identified and are on track to realize in 2009 approximately \$100.0 million, or 67% of the total expected annual run-rate synergies. Our financial results for 2008 include Allied s operating results from the date of the merger, and have not been retroactively restated to include Allied s historical financial position or results of operations.

Our operations are national in scope, but the physical collection and disposal of waste is very much a local business; therefore, the dynamics and opportunities differ in each of our markets. By combining local operating management with standardized business practices, we can drive greater overall operating efficiency across the company, while maintaining day-to-day operating decisions at the local level, closest to the customer. We facilitate the implementation of this strategy through an organizational structure that groups our operations within a corporate, region and area structure. We manage our operations through four geographic operating segments which are also our reportable

segments: Eastern, Central, Southern and Western. Due to the timing of our acquisition of Allied, management reviewed and we have presented Allied as a separate operating segment in our consolidated financial statements. Additionally, during the first quarter of 2008, we realigned our reporting segments and consolidated our previous Southwestern

Table of Contents

operations into our Western operations. The boundaries of our operating segments may change from time to time. Each of our regions is organized into several operating areas and each area contains multiple operating locations. Each of our regions and substantially all our areas provide collection, transfer, recycling and disposal services. We believe this structure facilitates the integration of our operations within each region, which is a critical component of our operating strategy, and allows us to maximize the growth opportunities in each of our markets and to operate the business efficiently, while maintaining effective controls and standards over operational and administrative matters, including financial reporting. See Note 14, *Segment Reporting*, to our consolidated financial statements in Item 8 of this Form 10-K for further discussion of our operating segments.

We had revenue of \$3.7 billion and \$3.2 billion and operating income of \$283.2 million and \$536.0 million for the years ended December 31, 2008 and 2007, respectively. In addition to our merger with Allied, there were a number of items that impacted our 2008 financial results. For a description of these items, see Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview of Our Business and Consolidated Results of Operations* included elsewhere in this Annual Report on Form 10-K.

Our presence in markets with growing populations throughout the Sunbelt, including California, Arizona and Texas, and in other domestic markets that have experienced higher than average population growth during the past several years, supports our internal growth strategy. We believe that our presence in these markets positions us to experience growth at rates that are generally higher than the industry's overall growth rate.

We continue to focus on enhancing shareholder value by implementing our financial, operating and growth strategies as described below.

Financial Strategy

Key components of our financial strategy include our ability to generate free cash flow and sustain or improve our return on invested capital. Our definition of free cash flow, which is not a measure determined in accordance with United States generally accepted accounting principles (GAAP), is cash provided by operating activities less purchases of property and equipment, plus proceeds from sales of property and equipment as presented in our consolidated statements of cash flows. We believe that free cash flow is a driver of shareholder value and provides useful information regarding the recurring cash provided by our operating activities after expenditures for property and equipment, net of proceeds from sales of property and equipment. It also demonstrates our ability to execute our financial strategy, which includes reinvesting in capital assets to ensure a high level of customer service, investing in capital assets to facilitate growth in our customer base and services provided, maintaining our investment grade ratings and minimizing debt, paying cash dividends and maintaining and improving our market position through business optimization. In addition, free cash flow is a key metric used to determine compensation.

Furthermore, we expect to generate total annual run-rate integration synergies, in connection with the merger with Allied, of approximately \$150.0 million by the end of 2010, primarily by achieving greater operating efficiencies, capturing inherent economies of scale, and leveraging corporate and overhead resources. We have identified and are on track to realize \$100.0 million of annual run-rate integration benefits by the end of 2009. We are confident that we will be able to realize the balance of the targeted \$150.0 million in synergies in the second year following the merger despite the economic slowdown. Consequently, we have developed and implemented incentive programs that help focus our entire company on the realization of key financial metrics of increasing free cash flow, achieving targeted earnings, maintaining and improving returns on invested capital, as well as achieving integration synergies.

The presentation of free cash flow has material limitations. Free cash flow does not represent our cash flow available for discretionary expenditures because it excludes certain expenditures that are required or to which we have committed, such as debt service requirements and dividend payments. Our definition of free cash flow may not be

comparable to similarly titled measures presented by other companies.

Table of Contents

We manage our free cash flow primarily by ensuring that capital expenditures and operating asset levels are appropriate in light of our existing business and growth opportunities and by closely managing our working capital, which consists primarily of accounts receivable and accounts payable.

We have used and will continue to use our cash flow to maximize shareholder value as well as our return on investment. This includes the following:

§ ***Customer Service.*** We will continue to reinvest in our existing fleet of vehicles, equipment, landfills and facilities to ensure the highest level of service to our customers and the communities we serve. We continue to focus on innovative waste disposal processes and programs to help our customers obtain their goals around sustainability and environmentally sound waste practices. We believe that these in turn will help us achieve profitable growth.

§ ***Internal Growth***

Price Growth. Growth through price increases helps ensure that we obtain an adequate return on our substantial capital investment and the business risk associated with such investment. Price increases also allow us to recover historical and current year increases in operating costs, which ultimately enhances our operating margins.

Volume Growth. Growth through increases in our customer base and services provided is the most capital efficient means for us to build our business. This includes not only expanding landfill and transfer capacity and investing in trucks and containers, but also includes investing in information tools and training needed to ensure high productivity and quality service throughout all functional areas of our business. We work to increase collection and disposal volumes while insuring that prices charged for such services provide an appropriate return on our capital investment.

§ ***Maintain Our Credit Ratings.*** We believe that a key component of our financial strategy includes maintaining investment grade ratings on our senior debt, which was rated BBB by Standard & Poor's, BBB- by Fitch and Baa3 by Moody's as of December 31, 2008. Such ratings have allowed us, and should continue to allow us, to readily access capital markets at competitive rates. As such, we intend to continue to use our free cash flow and proceeds from sale of operations to reduce our debt.

§ ***Dividends.*** In July 2003, our Board of Directors initiated a quarterly cash dividend of \$.04 per share. The dividend has been increased each year thereafter, the latest increase occurring in the third quarter of 2008, representing an average annualized growth rate of approximately 36%. Our current quarterly dividend per share is \$.19. We may consider increasing our quarterly cash dividend if we believe it will enhance shareholder value.

§ ***Market Growth and Optimization.*** Within our markets, our goal is to deliver sustainable, long-term profitable growth while efficiently operating our assets to generate acceptable rates of return. We allocate capital to businesses, markets and development projects to support growth while achieving acceptable rates of return. We develop previously non-permitted, non-contiguous landfill sites (greenfield landfill sites). We also expand our existing landfill sites, when possible. We supplement this organic growth with acquisitions of operating assets, such as landfills, transfer stations, and tuck-in acquisitions of collection and disposal operations in existing markets. We continuously evaluate our existing operating assets and their deployment within each market to determine if we have optimized our position and to ensure appropriate investment of capital. Where operations are not generating acceptable returns, we examine opportunities to achieve greater efficiencies and returns through the integration of additional assets. If such enhancements are not possible, we may ultimately decide to divest the existing assets and reallocate resources to other markets.

For certain risks related to our financial strategy, see Item 1A. *Risk Factors.*

Table of Contents

Operating Strategy

We seek to leverage existing assets and revenue growth to increase operating margins and enhance shareholder value. Our operating strategy for accomplishing this goal includes the following:

- § utilize the extensive industry knowledge and experience of our executive management team,
 - § utilize a decentralized management structure in overseeing day-to-day operations,
 - § integrate waste operations,
 - § improve operating margins through economies of scale, cost efficiencies and asset utilization,
 - § achieve high levels of customer satisfaction, and
 - § utilize business information systems to improve consistency in financial and operational performance.
- § ***Experienced Executive Management Team.*** We believe that we have one of the most experienced executive management teams in the solid waste industry.

James E. O Connor, who has served as our Chief Executive Officer (CEO) since December 1998, also became our Chairman in January 2003. He worked at Waste Management, Inc. from 1972 to 1978 and from 1982 to 1998. During that time, he served in various management positions, including Senior Vice President in 1997 and 1998, and Area President of Waste Management of Florida, Inc. from 1992 to 1997. Mr. O Connor has 34 years of experience in the solid waste industry.

Donald W. Slager became our President & Chief Operating Officer (COO) upon our merging with Allied in December 2008. Prior to the merger, Mr. Slager worked for Allied from 1992 through 2008 and served in various management positions, including President & COO from 2004 through 2008 and Executive Vice President and COO from 2003 to 2004. From 2001 to 2003, Mr. Slager served as Senior Vice President, Operations. He held various management positions at Allied from 1992 to 2003, and was previously General Manager at National Waste Services, where he served in various management positions since 1985. Mr. Slager has over 23 years of experience in the solid waste industry.

Tod C. Holmes has served as our Chief Financial Officer (CFO) since August 1998. Mr. Holmes served as our Vice President of Finance from June 1998 until August 1998 and as Vice President of Finance of our former parent company's Solid Waste Group from January 1998 until June 1998. From 1987 to 1998, Mr. Holmes served in various management positions with Browning-Ferris Industries, Inc., including Vice President, Investor Relations from 1996 to 1998, Divisional Vice President, Collection Operations from 1995 to 1996, Divisional Vice President and Regional Controller Northern Region from 1993 to 1995, and Divisional Vice President and Assistant Corporate Controller from 1991 to 1993. Mr. Holmes has over 21 years of experience in the solid waste industry.

Our regional senior vice presidents have an average of 21 years of experience in the industry.

- § ***Merger Integration Strategy.*** As previously mentioned, on December 5, 2008 we completed our merger with Allied. We believe this merger is different than historical attempts to consolidate the waste industry for a number of reasons including the following:

§

Two Mature Companies. Most previous attempts to consolidate the waste industry focused on a roll up strategy often involving relatively young companies solely focused on increasing revenue through acquisitions. Our merger with Allied involved two mature companies with similar business practices and performance metrics that have been developed and refined over the course of a number of years. We believe that the combination of our maturity and proven business practices and performance metrics will be a critical component of our future success.

§ *Best Practices.* Our merger also affords us the opportunity to select the best tools and systems and to adopt the best practices of two successful companies. Republic has a history of financial discipline evident in the consistent generation of increasing levels of free cash flow. Allied is noted for its

Table of Contents

integrated operations and focus on procurement. We believe that our merger gives us a unique opportunity to combine the strengths of these two successful organizations and create a best-in-class waste management company.

§ *Timely and Focused Integration Process.* We are acutely aware that previous acquisitions in the waste management and other industries failed because of a lack of focus on integration. As such, we began to develop our integration process and strategy in June 2008, long before our merger was consummated. Our process identified specific integration related tasks focused on all levels of the organization, especially our individual business units. We have engaged employees at all levels of the company in this process to develop a detailed integration plan and ensure that each of our employees understands their role in the process.

§ *Strong Operating Platform.* The combination of Republic and Allied creates a company with a strong, national operating platform. The foundation of this platform is our large network of disposal sites. This disposal network provides us with a far stronger vertically integrated operating structure than either company would be able to achieve on its own. We believe that our improved vertically integrated operations will be a key driver of our future profitability.

§ *Complementary Operations.* The overlay of our operating locations reflects another compelling attribute of our merger. We operate complementary geographies. We also share very similar cultures that are centered on a shared commitment to providing industry-leading solid waste and environmental services that exceed our customers' highest expectations.

§ *Significant Synergies.* We have identified approximately \$150.0 million of annual run-rate synergies associated with the merger. These synergies focus on right sizing our combined corporate and field staff. They also take advantage of our complementary operations which allows us to eliminate duplicative facilities and collection routes. All of our employees are focused on the achievement of our operating strategies. In addition, certain employees whose role is considered critical will be incentivized based upon the timely achievement of our synergy goal. We believe that such incentives help to further focus our management team on increasing shareholder value.

§ *Strong Capital Structure.* Unlike many other mergers or acquisitions in the waste management and other industries, Republic Services enjoys a strong capital structure and investment grade credit ratings post-merger. Our combination with Allied creates a company that will produce substantial annual free cash flow. This strong cash producing characteristic will allow us to pursue our mission of increasing shareholder value by focusing on investing in our business, paying down our debt and funding dividends.

§ *Decentralized Management Structure.* We maintain a relatively small corporate headquarters staff, relying on a decentralized management structure to minimize administrative overhead costs and to manage our day-to-day operations more efficiently. Our local management has extensive industry experience in growing, operating and managing solid waste companies and has substantial experience in their local geographic markets. Each regional management team includes a senior vice president of operations, vice president-controller, vice president of human resources, vice president of sales, vice president of operations support, director of safety, director of engineering and environmental management, and director of market planning and development. We believe that our strong regional management teams allow us to more effectively and efficiently drive our initiatives and help ensure consistency throughout our organization. Our regional management teams and our area presidents have extensive authority, responsibility and autonomy for operations within their respective geographic markets. Compensation for our area management teams is primarily based on the improvement in operating income produced and the free cash flow and return on invested capital generated in each manager's geographic area of responsibility. In addition, through long-term incentive programs, including stock options, we believe we have one

of the lowest turnover levels in the industry for our local management teams. As a result of retaining experienced managers with extensive knowledge of and involvement in their local communities, we are proactive in anticipating our customers' needs and adjusting to changes in our markets. We also seek to implement the best practices of our various regions and areas throughout our operations to improve operating margins.

Table of Contents

§ ***Integrated Operations.*** We seek to achieve a high rate of internalization by controlling waste streams from the point of collection through disposal. We expect that our fully integrated markets generally will have a lower cost of operations and more favorable cash flows than our non-integrated markets. Through acquisitions, landfill operating agreements and other market development activities, we create market-specific, integrated operations typically consisting of one or more collection companies, transfer stations and landfills. We consider acquiring companies that own or operate landfills with significant permitted disposal capacity and appropriate levels of waste volume. We also seek to acquire solid waste collection companies in markets in which we own or operate landfills. In addition, we generate internal growth in our disposal operations by developing new landfills and expanding our existing landfills from time to time in markets in which we have significant collection operations or in markets that we determine lack sufficient disposal capacity. During December 2008, subsequent to our acquisition of Allied, approximately 67% of the total volume of waste that we collected was disposed of at landfills we own or operate. In a number of our larger markets, we and our competitors are required to take waste to government-controlled disposal facilities. This provides us with an opportunity to effectively compete in these markets without investing in landfill capacity. Because we do not have landfill facilities or government-controlled disposal facilities for all markets in which we provide collection services, we believe that through landfill and transfer station acquisitions, operating agreements, and market development, we have the opportunity to increase our waste internalization rate and further integrate our operations. By further integrating operations in existing markets through acquisitions, operating agreements and development of landfills and transfer stations, we may be able to reduce our disposal costs.

§ ***Economies of Scale, Cost Efficiencies and Asset Utilization.*** We continue to identify and implement best practices throughout our organization with the goal of permanently improving overall operating and financial results. These best practice initiatives focus on critical areas of our operations such as landfill operations, truck routing, maintenance and related service efficiencies, purchasing and administrative activities. The consolidation of acquired businesses into existing operations reduces costs by decreasing capital and expenses used for truck routing, personnel, equipment and vehicle maintenance, inventories and back-office administration. Generally, we consolidate our acquired administrative centers to reduce our general and administrative costs. Of particular benefit are the opportunities associated with the blending of operations as a result of the Allied merger. Scheduled for completion by early 2010, these markets offer the potential for marked improvement in operating results. Generally speaking, there are significant opportunities in these markets to leverage economies of scale and the existing asset base, while realizing improved operating efficiencies. Upon the completion of the integration of Allied, our goal is to maintain our selling, general and administrative costs at no more than 10.0% of revenue, which we believe is appropriate given our existing business platform. In addition, our procurement initiatives ensure that we negotiate the best volume discounts for goods and services purchased, including waste disposal rates at landfills operated by third parties. Furthermore, we have taken steps to maximize the utilization of our assets. For example, to reduce the number of collection vehicles and maximize the efficiency of our fleet and drivers, we use a route optimization program to minimize drive times and improve operating density. By using assets more efficiently, operating expenses can be reduced.

§ ***High Levels of Customer Satisfaction.*** We strive to provide the highest level of service to our customer base. Our policy is to periodically visit each commercial account to ensure customer satisfaction and to verify that we are providing the appropriate level of service. In addition to visiting existing customers, a salesperson develops a base of prospective customers within each market. We also have municipal marketing representatives in most service areas that are responsible for working with each municipality or community to which we provide residential service to ensure customer satisfaction. Additionally, the municipal representatives organize and drive the effort to obtain new or renew municipal contracts in their service areas.

§

Focus on Systems Utilization. We continue to invest in the integration and expansion of our information systems and technology platform. Our future platform will consist of best-in-class

Table of Contents

legacy systems from both Republic and Allied. Our initiatives will include customer relationship management, billing, productivity, maintenance, general ledger and human resource systems. We believe that the combination of these systems will prove to be a competitive advantage for our company.

For certain risks related to our operating strategy, see Item 1A. *Risk Factors*.

Growth Strategy

Our growth strategy focuses on increasing revenue, gaining market share and enhancing shareholder value through internal growth and acquisitions. We manage our growth strategy as follows:

§ ***Internal Growth.*** Our internal growth strategy focuses on retaining existing customers and obtaining commercial, municipal and industrial customers through our well-managed sales and marketing activities.

Pricing Activities. We seek to secure price increases necessary to offset increased costs, to improve our operating margins and to obtain adequate returns on our substantial investments in assets such as our landfills. During 2008, we continued to secure broad-based price increases across all lines of our business to offset various escalating capital and operating costs. Price increases will remain a major component of our overall future operating strategy.

Long-Term Contracts. We seek to obtain long-term contracts for collecting solid waste in markets with growing populations. These include exclusive franchise agreements with municipalities as well as commercial and industrial contracts. By obtaining such long-term agreements, we have the opportunity to grow our contracted revenue base at the same rate as the underlying population growth in these markets. We believe it is important to have secured exclusive, long-term franchise agreements in market areas in some of the fastest growing states according to the U.S. Census Bureau, for example, Arizona, Texas and California. We believe that this positions us to experience internal growth rates that are generally higher than our industry's overall growth rate. In addition, we believe that by securing a base of long-term recurring revenue in growing population markets, we are better able to protect our market position from competition and our business may be less susceptible to downturns in economic conditions.

Sales and Marketing Activities. We seek to manage our sales and marketing activities to enable us to capitalize on our leading position in many of the markets in which we operate. We provide a National Accounts program in response to the needs of our national clients, centralizing services to effectively manage their needs, such as minimizing their procurement costs. We currently have approximately 1,200 sales and marketing employees in the field who are compensated using a commission structure that is focused on generating high levels of quality revenue. For the most part, these employees directly solicit business from existing and prospective commercial, industrial, municipal and residential customers. We emphasize our rate and cost structures when we train new and existing sales personnel. In addition, we utilize a customer relationship management system that assists our sales people in tracking leads. It also tracks renewal periods for potential commercial, industrial and franchise contracts.

Development Activities. We seek to identify opportunities to further our position as an integrated service provider in markets where we provide services for a portion of the waste stream. Where appropriate, we seek to obtain permits to build transfer stations and landfills that would provide vertically integrated waste services or expand the service areas for our existing disposal sites. Development projects, while generally less capital intensive, typically require extensive permitting efforts that can take years to complete with no assurance of success. We undertake development projects when we believe there is a reasonable probability of success and where reasonably priced acquisition opportunities are not available.

§ ***Acquisition Growth.*** We look to acquire businesses that complement our existing business platform. Our acquisition growth strategy focuses primarily on privately held solid waste companies and the waste operations of

municipal and other local governmental authorities. We believe that our ability to

Table of Contents

acquire privately held companies is enhanced by increasing competition in the solid waste industry, increasing capital requirements as a result of changes in solid waste regulatory requirements, and the limited number of exit strategies for these privately held companies' owners and principals. We also seek to acquire operations and facilities from municipalities that are privatizing, as they seek to increase available capital and reduce risk. In addition, we will continue to evaluate opportunities to acquire operations and facilities that are being divested by other publicly owned waste companies. In sum, our acquisition growth strategy focuses primarily on the following:

- § acquiring privately held businesses that position us for growth in existing and new markets,
- § acquiring well-managed companies and, when appropriate, retaining local management, and
- § acquiring operations and facilities from municipalities that are privatizing and publicly owned companies that are divesting of assets.

We also seek to acquire landfills, transfer stations and collection companies that operate in markets that we are already servicing in order to fully integrate our operations from collection to disposal. In addition, we have in the past and may continue in the future to exchange businesses with other solid waste companies if by doing so there is a net benefit to our business platform. These activities allow us to increase our revenue and market share, lower our cost of operations as a percentage of revenue, and consolidate duplicative facilities and functions to maximize cost efficiencies and economies of scale.

On December 5, 2008, we completed our merger with Allied. We expect to achieve total annual run-rate integration synergies, primarily relating to operating efficiencies, inherent economies of scale, and leveraging corporate and overhead resources of approximately \$150.0 million by the end of 2010. We have identified and are on track to realize in 2009 approximately \$100.0 million, or 67%, of the total expected annual run-rate synergies.

For certain risks related to our growth strategy, see Item 1A. *Risk Factors*.

Operations

Our operations primarily consist of the collection, transfer and disposal of non-hazardous solid waste.

§ **Collection Services.** We provide solid waste collection services to commercial, industrial, municipal and residential customers through 400 collection companies. In 2008, 77.7% of our revenue was derived from collection services. Within the collection line of business, 33.7% of our revenue is from services provided to municipal and residential customers, 40.6% is from services provided to commercial customers, and 25.7% is from services provided to industrial and other customers.

Our residential collection operations involve the curbside collection of refuse from small containers into collection vehicles for transport to transfer stations or directly to landfills. Residential solid waste collection services are typically performed under contracts with municipalities, which we generally secure by competitive bid and which give us exclusive rights to service all or a portion of the homes in their respective jurisdictions. These contracts or franchises usually range in duration from one to five years, although some of our exclusive franchises are for significantly longer periods. Residential solid waste collection services may also be performed on a subscription basis, in which individual households contract directly with us. The fees received for subscription residential collection are based primarily on market factors, frequency and type of service, the distance to the disposal facility and cost of disposal. In general, subscription residential collection fees are paid quarterly in advance by the residential customers receiving the service.

In our commercial and industrial collection operations, we supply our customers with waste containers of varying sizes. We also rent compactors to large waste generators. Commercial collection services are generally performed under one- to three-year service agreements, and fees are determined by considerations such as market factors, collection frequency, type of equipment furnished, the type and volume or weight of the waste collected, the distance to the disposal facility, and the cost of disposal.

Table of Contents

We also provide waste collection services to industrial and construction facilities on a contractual basis with terms ranging from a single pickup to one year or longer. Our construction services are provided to the commercial construction and home building sectors. We collect the containers or compacted waste and transport the waste either to a landfill or a transfer station for disposal.

We also provide recycling services in certain markets in compliance with local laws or the terms of our franchise agreements. These services include the curbside collection of residential recyclable waste and the provision of a variety of recycling services to commercial and industrial customers.

§ ***Transfer and Disposal Services.*** We own or operate 242 transfer stations. We deposit waste at these transfer stations, as do other private haulers and municipal haulers, for compaction and transfer to trailers for transport to disposal sites or recycling facilities.

As of December 31, 2008, we owned or operated 213 active landfills, which had approximately 36,900 permitted acres and total available permitted and probable expansion disposal capacity of approximately 4.9 billion in-place cubic yards. The in-place capacity of our landfills is subject to change based on engineering factors, requirements of regulatory authorities, our ability to continue to operate our landfills in compliance with applicable regulations, and our ability to successfully renew operating permits and obtain expansion permits at our sites. Some of our landfills accept non-hazardous special waste, including utility ash, asbestos and contaminated soils.

Most of our active landfill sites have the potential for expanded disposal capacity beyond the currently permitted acreage. We monitor the availability of permitted disposal capacity at each of our landfills and evaluate whether to pursue an expansion at a given landfill based on estimated future waste volumes and prices, market needs, remaining capacity and likelihood of obtaining an expansion. To satisfy future disposal demand, we are currently seeking to expand permitted capacity at certain of our landfills. However, no assurances can be made that all proposed or future expansions will be permitted as designed.

We also have responsibility for 126 closed landfills, for which we have associated closure and post-closure liabilities.

§ ***Recycling Facilities and Other Services.*** We own or operate 78 materials recovery facilities and other recycling operations. These facilities sort recyclable paper, aluminum, glass and other materials. Most of these recyclable materials are internally collected by our residential collection operations. In some areas, we receive commercial and industrial solid waste that is sorted at our facilities into recyclable materials and non-recyclable waste. The recyclable materials are salvaged, repackaged and sold to third parties, and the non-recyclable waste is disposed of at landfills or incinerators.

Sales and Marketing

We seek to provide quality services that will enable us to maintain high levels of customer satisfaction. We derive our business from a broad customer base, which we believe will enable us to experience stable growth. We focus our marketing efforts on continuing and expanding business with existing customers, as well as attracting new customers.

We employ approximately 1,200 sales and marketing employees. Our sales and marketing strategy is to provide high-quality, comprehensive solid waste collection, recycling, transfer and disposal services to our customers at competitive prices. We target potential customers of all sizes, from small quantity generators to large Fortune 500 companies and municipalities.

Most of our marketing activity is local in nature. However, we also provide a National Accounts program in response to the needs of some of our national and regional customers. Our National Accounts program is designed to provide the best total solution to our customers' evolving waste management needs in an environmentally responsible manner. We partner with our national clients to reach their sustainability goals, optimize waste streams, balance equipment and service intervals and provide customized reporting. The National Accounts program centralizes services to effectively manage customer needs, while helping minimize procurement costs. With our extended geographic reach, our national program

Table of Contents

effectively serves 40 states and Puerto Rico. As industry leaders, our mission is to utilize our strengths and expertise to exceed customer expectations by consistently delivering the best national program available.

We generally do not change the tradenames of the local businesses we acquire, and therefore we do not operate nationally under any one mark or tradename.

Customers

We provide services to commercial, industrial, municipal and residential customers. No one customer has individually accounted for more than 10% of our consolidated revenue or of our reportable segment revenue in any of the last three years.

Competition

We operate in a highly competitive industry. Entry into our business and the ability to operate profitably in the industry requires substantial amounts of capital and managerial experience.

Competition in the non-hazardous solid waste industry comes from a few large, national publicly owned companies, including Waste Management, Inc. (Waste), several regional publicly and privately owned solid waste companies, and thousands of small privately owned companies. In any given market, competitors may have larger operations and greater resources. In addition to national and regional firms and numerous local companies, we compete with municipalities that maintain waste collection or disposal operations. These municipalities may have financial advantages due to the availability of tax revenue and tax-exempt financing.

We compete for collection accounts primarily on the basis of price and the quality of our services. From time to time, our competitors may reduce the price of their services in an effort to expand market share or to win a competitively bid municipal contract. Our ability to increase prices in certain markets may be impacted by the pricing policies of our competitors. This may have an impact on our future revenue and profitability.

Seasonality and Severe Weather

Our operations can be adversely affected by periods of inclement or severe weather which could increase the volume of waste collected under our existing contracts (without corresponding compensation), delay the collection and disposal of waste, reduce the volume of waste delivered to our disposal sites, or delay the construction or expansion of our landfill sites and other facilities.

Regulation

Our facilities and operations are subject to a variety of federal, state and local requirements that regulate the environment, public health, safety, zoning and land use. Operating and other permits, licenses and other approvals are generally required for landfills and transfer stations, certain solid waste collection vehicles, fuel storage tanks and other facilities that we own or operate, and these permits are subject to revocation, modification and renewal in certain circumstances. Federal, state and local laws and regulations vary, but generally govern wastewater or stormwater discharges, air emissions, the handling, transportation, treatment, storage and disposal of hazardous and non-hazardous waste, and the remediation of contamination associated with the release or threatened release of hazardous substances. These laws and regulations provide governmental authorities with strict powers of enforcement, which include the ability to revoke or decline to renew any of our operating permits, obtain injunctions, or impose fines or penalties in the case of violations, including criminal penalties. The U.S. Environmental Protection Agency (EPA) and various other federal, state and local environmental, public and occupational health and safety agencies and

authorities administer these regulations.

We strive to conduct our operations in compliance with applicable laws and regulations. However, in the existing climate of heightened environmental concerns, from time to time, we have been issued citations or notices from governmental authorities that have resulted in the need to expend funds for remedial work

Table of Contents

and related activities at various landfills and other facilities. There is no assurance that citations and notices will not be issued in the future despite our regulatory compliance efforts. We have established final capping, closure, post-closure and remediation liabilities that we believe, based on currently available information, will be adequate to cover our current estimates of regulatory costs. However, we cannot assure you that actual costs will not exceed our reserves.

Federal Regulation. The following summarizes the primary environmental, public and occupational health and safety-related statutes of the United States that affect our facilities and operations:

- (1) *The Solid Waste Disposal Act, as amended, including the Resource Conservation and Recovery Act (RCRA).* RCRA establishes a framework for regulating the handling, transportation, treatment, storage and disposal of hazardous and non-hazardous solid waste, and requires states to develop programs to ensure the safe disposal of solid waste in sanitary landfills.

Subtitle D of RCRA establishes a framework for regulating the disposal of municipal solid waste. Regulations under Subtitle D currently include minimum comprehensive solid waste management criteria and guidelines, including location restrictions, facility design and operating criteria, final capping, closure and post-closure requirements, financial assurance standards, groundwater monitoring requirements and corrective action standards, many of which had not commonly been in effect or enforced in the past in connection with municipal solid waste landfills. Each state was required to submit to the EPA a permit program designed to implement Subtitle D regulations by April 9, 1993. All of the states in which we operate have implemented permit programs pursuant to RCRA and Subtitle D. These state permit programs may include landfill requirements which are more stringent than those of Subtitle D. Our failure to comply with the environmental requirements of federal, state and local authorities at any of our locations may lead to temporary or permanent loss of an operating permit.

All of our planned landfill expansions and new landfill development projects have been engineered to meet or exceed Subtitle D requirements. Operating and design criteria for existing operations have been modified to comply with these regulations. Compliance with Subtitle D regulations has resulted in increased costs and may in the future require substantial additional expenditures in addition to other costs normally associated with our waste management activities.

- (2) *The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA).* CERCLA, among other things, provides for the cleanup of sites from which there is a release or threatened release of a hazardous substance into the environment. CERCLA may impose strict joint and several liability for the costs of cleanup and for damages to natural resources upon current owners and operators of a site, parties who were owners or operators of a site at the time the hazardous substances were disposed of, parties who transported the hazardous substances to a site and parties who arranged for the disposal of the hazardous substances at a site. Under the authority of CERCLA and its implementing regulations, detailed requirements apply to the manner and degree of investigation and remediation of facilities and sites where hazardous substances have been or are threatened to be released into the environment. Liability under CERCLA is not dependent on the existence or disposal of only hazardous wastes but can also be based upon the existence of small quantities of more than 700 substances characterized by the EPA as hazardous, many of which may be found in common household waste.

Among other things, CERCLA authorizes the federal government to investigate and remediate sites at which hazardous substances have been or are threatened to be released into the environment or to order (or offer an opportunity to) persons potentially liable for the cleanup of the hazardous substances to do so. In addition, the EPA has established a National Priorities List of sites at which hazardous substances have been or are threatened to be released and which require investigation or cleanup.

Liability under CERCLA is not dependent on the intentional disposal of hazardous waste. It can be founded upon the release or threatened release, even as a result of unintentional, non-negligent or lawful action, of thousands of hazardous substances, including very small quantities of such

Table of Contents

substances. Thus, even if we have never knowingly transported or received hazardous waste as such, it is possible that one or more hazardous substances may have been deposited or released at landfills or other properties owned by third parties where we have transported to and disposed of waste or at our landfills or at other properties which we currently own or operate or may have owned or operated. Therefore, we could be liable under CERCLA for the cost of cleaning up such hazardous substances at such sites and for damages to natural resources, even if those substances were deposited at our facilities before we acquired or operated them. The costs of a CERCLA cleanup can be very expensive. Given the difficulty of obtaining insurance for environmental impairment liability, such liability could have a material impact on our business, financial condition or results of operations.

- (3) *The Federal Water Pollution Control Act of 1972, as amended* (the Clean Water Act). This act regulates the discharge of pollutants from a variety of sources, including solid waste disposal sites, into streams, rivers and other waters of the United States. Point source runoff from our landfills and transfer stations that is discharged into surface waters must be covered by discharge permits that generally require us to conduct sampling and monitoring, and, under certain circumstances, reduce the quantity of pollutants in those discharges. Storm water discharge regulations under the Clean Water Act require a permit for certain construction activities and discharges from industrial operations and facilities, which may affect our operations. If a landfill or transfer station discharges wastewater through a sewage system to a publicly owned treatment works, the facility must comply with discharge limits imposed by that treatment works. In addition, states may adopt groundwater protection programs under the Clean Water Act or the Safe Drinking Water Act that could affect solid waste landfills. Furthermore, development which alters or affects wetlands must generally be permitted prior to such development commencing, and certain mitigation requirements may be required by the permitting agencies.
- (4) *The Clean Air Act, as amended* (the Clean Air Act). The Clean Air Act imposes limitations on emissions from various sources, including landfills. In March 1996, the EPA promulgated regulations that require large municipal solid waste landfills to install landfill gas monitoring systems. These regulations apply to landfills that commenced construction, reconstruction or modification on or after May 30, 1991, and, principally, to landfills that can accommodate 2.5 million cubic meters or more of municipal solid waste. The regulations apply whether the landfill is active or closed. The date by which each affected landfill is required to have a gas collection and control system installed and made operational varies depending on calculated emission rates at the landfill. Many state regulatory agencies also currently require monitoring systems for the collection and control of certain landfill gas.
- (5) *The Occupational Safety and Health Act of 1970, as amended* (OSHA). OSHA authorizes the Occupational Safety and Health Administration of the U.S. Department of Labor to promulgate occupational safety and health standards. A number of these standards, including standards for notices of hazardous chemicals and the handling of asbestos, apply to our facilities and operations.

State and Local Regulation. Each state in which we operate has its own laws and regulations governing solid waste disposal, water and air pollution, and, in most cases, releases and cleanup of hazardous substances and liabilities for such matters. States also have adopted regulations governing the design, operation, maintenance and closure of landfills and transfer stations. Some counties, municipalities and other local governments have adopted similar laws and regulations. Our facilities and operations are likely to be subject to these types of requirements. In addition, our solid waste collection and landfill operations may be affected by the trend in many states toward requiring the development of solid waste reduction and recycling programs. For example, several states have enacted laws that require counties or municipalities to adopt comprehensive plans to reduce, through solid waste planning, composting, recycling or other programs, the volume of solid waste deposited in landfills. Additionally, laws and regulations restricting the disposal of certain waste in solid waste landfills, including yard waste, newspapers, beverage containers, unshredded tires, lead-acid batteries and household appliances, have been promulgated in several states and are being considered in others. Legislative and regulatory measures to mandate or encourage waste reduction at

the source and waste recycling also are or have been under consideration by the U.S. Congress and the EPA, respectively.

Table of Contents

In order to construct, expand and operate a landfill, one or more construction or operating permits, as well as zoning and land use approvals, must be obtained. These permits and approvals may be difficult and time-consuming to obtain and to operate in compliance with, are often opposed by neighboring landowners and citizens groups, may be subject to periodic renewal, and are subject to modification, non-renewal and revocation by the issuing agency. In connection with our acquisition of existing landfills, it may be and on occasion has been necessary for us to expend considerable time, effort and money to bring the acquired facilities into compliance with applicable requirements and to obtain the permits and approvals necessary to increase their capacity.

Many of our facilities own and operate underground storage tanks which are generally used to store petroleum-based products. These tanks are generally subject to federal, state and local laws and regulations that mandate their periodic testing, upgrading, closure and removal, and that, in the event of leaks, require that polluted groundwater and soils be remediated. We believe that all of our underground storage tanks currently meet all applicable regulations. If underground storage tanks we own or operate leak, we could be liable for response costs and, if the leakage migrates onto the property of others, we could be liable for damages to third parties. We are unaware of facts indicating that issues of compliance with regulations related to underground storage tanks will have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Finally, with regard to our solid waste transportation operations, we are subject to the jurisdiction of the Surface Transportation Board and are regulated by the Federal Highway Administration, Office of Motor Carriers, and by regulatory agencies in states that regulate such matters. Various states and local government authorities have enacted or promulgated, or are considering enacting or promulgating, laws and regulations that would restrict the transportation of solid waste across state, county, or other jurisdiction lines. In 1978, the U.S. Supreme Court ruled that a law that restricts the importati