

REPUBLIC SERVICES, INC.  
Form 10-Q  
July 27, 2018  
Table of Contents

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, 2018

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	65-0716904
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

18500 NORTH ALLIED WAY	85054
PHOENIX, ARIZONA	
(Address of principal executive offices)	(Zip Code)

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

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 (§232.405 of this chapter) 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Smaller reporting company

Non-accelerated filer  (Do not check if a smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 19, 2018, the registrant had outstanding 325,358,189 shares of Common Stock, par value \$0.01 per share (excluding treasury shares of 26,109,527).

---

Table of Contents

REPUBLIC SERVICES, INC.  
INDEX

PART I — FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	<u>3</u>
	Consolidated Balance Sheets as of June 30, 2018 (Unaudited) and December 31, 2017	<u>3</u>
	Unaudited Consolidated Statements of Income for the Three and Six Months Ended June 30, 2018 and 2017	<u>4</u>
	Unaudited Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2018 and 2017	<u>5</u>
	Unaudited Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2018	<u>6</u>
	Unaudited Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and 2017	<u>7</u>
	<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>8</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>50</u>
Item 4.	<u>Controls and Procedures</u>	<u>51</u>

PART II — OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>52</u>
Item 1A.	<u>Risk Factors</u>	<u>53</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>53</u>
Item 3.	<u>Defaults upon Senior Securities</u>	<u>53</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>54</u>
Item 5.	<u>Other Information</u>	<u>54</u>
Item 6.	<u>Exhibits</u>	<u>55</u>
	<u>Signatures</u>	<u>56</u>

Table of Contents

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

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

	June 30, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 61.3	\$ 83.3
Accounts receivable, less allowance for doubtful accounts and other of \$30.6 and \$38.9, respectively	1,112.2	1,105.9
Prepaid expenses and other current assets	195.9	247.6
Total current assets	1,369.4	1,436.8
Restricted cash and marketable securities	116.2	141.1
Property and equipment, net	7,863.5	7,777.4
Goodwill	11,345.3	11,315.4
Other intangible assets, net	115.4	141.1
Other assets	393.9	335.2
Total assets	\$ 21,203.7	\$ 21,147.0
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 629.8	\$ 598.1
Notes payable and current maturities of long-term debt	41.9	706.7
Deferred revenue	340.6	312.1
Accrued landfill and environmental costs, current portion	150.5	135.2
Accrued interest	74.9	74.5
Other accrued liabilities	751.8	808.2
Total current liabilities	1,989.5	2,634.8
Long-term debt, net of current maturities	8,215.8	7,480.7
Accrued landfill and environmental costs, net of current portion	1,687.2	1,686.5
Deferred income taxes and other long-term tax liabilities, net	868.4	796.4
Insurance reserves, net of current portion	272.0	275.4
Other long-term liabilities	322.0	312.1
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share; 50 shares authorized; none issued	—	—
Common stock, par value \$0.01 per share; 750 shares authorized; 351.4 and 350.1 issued including shares held in treasury, respectively	3.5	3.5
Additional paid-in capital	4,888.4	4,839.6
Retained earnings	4,430.9	4,152.5
Treasury stock, at cost; 25.8 and 18.4 shares, respectively	(1,529.5)	(1,059.4)
Accumulated other comprehensive income, net of tax	52.8	22.6
Total Republic Services, Inc. stockholders' equity	7,846.1	7,958.8
Noncontrolling interests in consolidated subsidiary	2.7	2.3
Total stockholders' equity	7,848.8	7,961.1

Total liabilities and stockholders' equity	\$21,203.7	\$21,147.0
--	------------	------------

The accompanying notes are an integral part of these statements.

3

---

Table of Contents

REPUBLIC SERVICES, INC.  
 UNAUDITED CONSOLIDATED STATEMENTS OF INCOME  
 (in millions, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenue	\$2,517.8	\$2,526.7	\$4,945.2	\$4,919.5
Expenses:				
Cost of operations	1,577.2	1,557.4	3,047.0	3,041.5
Depreciation, amortization and depletion	255.5	258.3	518.6	508.2
Accretion	20.2	19.9	40.6	39.9
Selling, general and administrative	252.9	262.9	514.0	516.4
Withdrawal costs - multiemployer pension funds	—	—	—	1.1
Gain on disposition of assets and asset impairments, net	—	(1.4)	(0.7)	(9.8)
Restructuring charges	3.8	4.1	13.3	8.5
Operating income	408.2	425.5	812.4	813.7
Interest expense	(96.5)	(89.5)	(191.3)	(179.0)
Loss from unconsolidated equity method investment	(0.1)	(3.1)	(0.1)	(6.0)
Loss on extinguishment of debt	(0.3)	—	(0.3)	—
Interest income	0.2	0.3	0.4	0.7
Other income, net	1.1	0.2	2.2	0.3
Income before income taxes	312.6	333.4	623.3	629.7
Provision for income taxes	76.9	130.0	149.7	238.5
Net income	235.7	203.4	473.6	391.2
Net income attributable to noncontrolling interests in consolidated subsidiary	(0.8)	(0.5)	(1.0)	(0.5)
Net income attributable to Republic Services, Inc.	\$234.9	\$202.9	\$472.6	\$390.7
Basic earnings per share attributable to Republic Services, Inc. stockholders:				
Basic earnings per share	\$0.72	\$0.60	\$1.44	\$1.15
Weighted average common shares outstanding	327.4	338.1	329.0	339.0
Diluted earnings per share attributable to Republic Services, Inc. stockholders:				
Diluted earnings per share	\$0.71	\$0.60	\$1.43	\$1.15
Weighted average common and common equivalent shares outstanding	328.8	340.0	330.5	340.9
Cash dividends per common share	\$0.345	\$0.320	\$0.690	\$0.640
The accompanying notes are an integral part of these statements.				

Table of Contents

## REPUBLIC SERVICES, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Net income	\$235.7	\$203.4	\$473.6	\$391.2
Other comprehensive income (loss), net of tax				
Hedging activity:				
Settlements	23.8	(1.3 )	24.4	(2.3 )
Realized losses (gains) reclassified into earnings	(0.8 )	1.7	(1.0 )	3.1
Unrealized (losses) gains	(11.9 )	(2.8 )	6.8	(3.9 )
Other comprehensive income (loss), net of tax	11.1	(2.4 )	30.2	(3.1 )
Comprehensive income	246.8	201.0	503.8	388.1
Comprehensive income attributable to noncontrolling interests	(0.8 )	(0.5 )	(1.0 )	(0.5 )
Comprehensive income attributable to Republic Services, Inc.	\$246.0	\$200.5	\$502.8	\$387.6

The accompanying notes are an integral part of these statements.

Table of Contents

## REPUBLIC SERVICES, INC.

## UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in millions)

	Republic Services, Inc. Stockholders' Equity							Accumulated Other Comprehensive Income, Net of Tax	Noncontrolling Interests Consolidated Subsidiary	Total
	Common Stock Shares	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares Amount						
Balance as of December 31, 2017	350.1	\$ 3.5	\$ 4,839.6	\$ 4,152.5	(18.4)	\$(1,059.4)	\$ 22.6	\$ 2.3	\$ 7,961.1	
Adoption of accounting standard, net of tax	—	—	—	33.4	—	—	—	—	33.4	
Net income	—	—	—	472.6	—	—	—	1.0	473.6	
Other comprehensive income	—	—	—	—	—	—	30.2	—	30.2	
Cash dividends declared	—	—	—	(225.7 )	—	—	—	—	(225.7 )	
Issuances of common stock	1.3	—	27.7	—	(0.3 )	(19.5 )	—	—	8.2	
Stock-based compensation	—	—	21.1	(1.9 )	—	—	—	—	19.2	
Purchase of common stock for treasury	—	—	—	—	(7.1 )	(450.6 )	—	—	(450.6 )	
Distributions paid	—	—	—	—	—	—	—	(0.6 )	(0.6 )	
Balance as of June 30, 2018	351.4	\$ 3.5	\$ 4,888.4	\$ 4,430.9	(25.8)	\$(1,529.5)	\$ 52.8	\$ 2.7	\$ 7,848.8	

The accompanying notes are an integral part of these statements.



Table of Contents

REPUBLIC SERVICES, INC.  
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (in millions)

	Six Months Ended June 30,	
	2018	2017
Cash provided by operating activities:		
Net income	\$473.6	\$391.2
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, amortization, depletion and accretion	559.2	548.1
Non-cash interest expense	21.4	21.9
Restructuring related charges	13.3	8.5
Stock-based compensation	19.9	17.7
Deferred tax provision	52.4	21.2
Provision for doubtful accounts, net of adjustments	13.6	14.8
Loss on extinguishment of debt	0.3	—
Loss (gain) on disposition of assets and asset impairments, net	0.6	(8.5 )
Withdrawal costs - multiemployer pension funds	—	1.1
Environmental adjustments	2.5	—
Loss from unconsolidated equity method investment	0.1	6.0
Other non-cash items	0.5	(0.5 )
Change in assets and liabilities, net of effects from business acquisitions and divestitures:		
Accounts receivable	(17.7 )	(91.6 )
Prepaid expenses and other assets	48.0	27.0
Accounts payable	30.7	8.6
Restructuring expenditures	(12.6 )	(10.9 )
Capping, closure and post-closure expenditures	(22.1 )	(28.3 )
Remediation expenditures	(21.2 )	(23.8 )
Other liabilities	(2.6 )	(23.3 )
Proceeds from retirement of certain hedging relationships	31.1	—
Cash provided by operating activities	1,191.0	879.2
Cash used in investing activities:		
Purchases of property and equipment	(542.1 )	(497.5 )
Proceeds from sales of property and equipment	4.3	3.1
Cash used in business acquisitions and investments, net of cash acquired	(69.3 )	(81.7 )
Cash received from (used in) business divestitures	1.1	(14.3 )
Purchases of restricted marketable securities	(32.1 )	(6.7 )
Sales of restricted marketable securities	31.9	6.5
Other	0.2	0.1
Cash used in investing activities	(606.0 )	(590.5 )
Cash used in financing activities:		
Proceeds from notes payable and long-term debt, net of fees	2,418.7	2,262.3
Proceeds from issuance of senior notes, net of discount and fees	781.9	—
Payments of notes payable and long-term debt and senior notes	(3,133.8 )	(2,147.1 )
Issuances of common stock, net	8.2	19.8
Purchases of common stock for treasury	(474.0 )	(230.7 )
Cash dividends paid	(227.7 )	(217.0 )
Distributions paid to noncontrolling interests in consolidated subsidiary	(0.6 )	(0.7 )

Edgar Filing: REPUBLIC SERVICES, INC. - Form 10-Q

Other	(4.1 )	(4.1 )
Cash used in financing activities	(631.4 )	(317.5 )
(Decrease) increase in cash, cash equivalents, restricted cash and restricted cash equivalents	(46.4 )	(28.8 )
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year	179.1	113.0
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$132.7	\$84.2

The accompanying notes are an integral part of these statements.

7

---

Table of Contents

## REPUBLIC SERVICES, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PRESENTATION

Republic Services, Inc., a Delaware corporation, and its consolidated subsidiaries (also referred to collectively as "Republic", "the Company", "we", "us", or "our"), is the second largest provider of non-hazardous solid waste collection, transfer, recycling, disposal and energy services in the United States, as measured by revenue. We manage and evaluate our operations through two field groups, Group 1 and Group 2, which we have identified as our reportable segments.

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

We have prepared these unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information related to our organization, significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP has been condensed or omitted. In the opinion of management, these financial statements include all adjustments that, unless otherwise disclosed, are of a normal recurring nature and necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of the results you can expect for a full year. You should read these financial statements in conjunction with our audited consolidated financial statements and notes thereto appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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

## Management's Estimates and Assumptions

In preparing our financial statements, we make numerous estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. We must make these estimates and assumptions because certain information we use is dependent on future events, cannot be calculated with a high degree of precision from data available or simply cannot be readily calculated based on generally accepted methodologies. In preparing our financial statements, the more critical and subjective areas that deal with the greatest amount of uncertainty relate to our accounting for our long-lived assets, including recoverability, development costs, and final capping, closure and post-closure costs; our valuation allowances for accounts receivable and deferred tax assets; our liabilities for potential litigation, claims and assessments; our liabilities for environmental remediation, multiemployer pension funds, employee benefit plans, deferred taxes, uncertain tax positions, and insurance reserves; and our estimates of the fair values of assets acquired and liabilities assumed in any acquisition. Each of these items is discussed in more detail in our description of our significant accounting policies in Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Our actual results may differ significantly from our estimates.

## New Accounting Pronouncements

## Accounting Standards Adopted

During 2018, we adopted the following accounting standard updates ("ASUs") as issued by the Financial Accounting Standard Board ("FASB"):

ASU		Effective Date
ASU 2014-09	Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40)	January 1, 2018

Edgar Filing: REPUBLIC SERVICES, INC. - Form 10-Q

ASU 2016-15	Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments	January 1, 2018
ASU 2016-18	Statement of Cash Flows (Topic 230) - Restricted Cash	January 1, 2018
ASU 2017-01	Business Combinations (Topic 805) - Clarifying the Definition of Business	January 1, 2018
ASU 2017-07	Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	January 1, 2018
ASU 2017-09	Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting	January 1, 2018

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

## Revenue Recognition

Effective January 1, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40) ("ASU 2014-09" or the "new revenue recognition standard") using the modified retrospective approach. We recognized the cumulative effect of adopting the new revenue recognition standard as an adjustment to the beginning balance of Retained Earnings as of the date of adoption. The comparative periods have not been restated and continue to be reported under the accounting standards in effect for those periods. The timing and pattern of revenue recognition has not significantly changed under the new revenue recognition standard, nor has there been a material change to our operating or net income.

Under ASU 2014-09, we record revenue when control is transferred to the customer, generally at the time we provide a service. While the timing and pattern of revenue recognition remains unchanged, we identified certain consideration payable to our customers that is now recorded as a reduction of revenue in accordance with the new revenue recognition standard. These costs were historically recorded as a component of cost of operations and include:

- payments issued to our municipal customers in accordance with our residential collection contracts,
- payments issued to our municipal customers in accordance with certain landfill operating agreements, and
- commodity rebates in our collection and recycling lines of business.

Historically, we also recognized certain upfront payments to acquire customer contracts as other assets in our consolidated balance sheet and amortized the asset as a component of depreciation, amortization and depletion over the respective contract life. In accordance with the new revenue recognition standard, we now amortize the asset as a reduction of revenue. The timing and pattern of recognizing these payments to our customers have not significantly changed under the new revenue recognition standard.

In addition, we historically recognized sales commissions as a component of selling, general and administrative expenses as they were incurred. In accordance with the new revenue recognition standard, we identified certain sales commissions that represent an incremental cost of the contract and should be capitalized and amortized to selling, general and administrative expense over the average life of the customer relationship.

The cumulative effect of the changes made to our consolidated balance sheet for the adoption of ASU 2014-09 were as follows:

	Balance at December 31, 2017	Adjustments due to our adoption of ASU 2014-09	Balance at January 1, 2018
<b>Balance Sheet</b>			
<b>Assets</b>			
Other assets	\$ 335.2	\$ 43.8	\$379.0
<b>Liabilities</b>			
Deferred income taxes and other long-term tax liabilities, net	\$ 796.4	\$ 10.4	\$806.8
<b>Equity</b>			
Retained earnings	\$4,152.5	\$ 33.4	\$4,185.9

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The impact of our adoption of the new revenue recognition standard on our consolidated income statement for the three and six months ended June 30, 2018 was as follows:

	For the three months ended June 30, 2018			For the six months ended June 30, 2018		
	As Reported	Effect of Change	As Computed Excluding the Adoption of ASU 2014-09	As Reported	Effect of Change	As Computed Excluding the Adoption of ASU 2014-09
Income Statement						
Revenue	\$2,517.8	\$ 82.9	\$ 2,600.7	\$4,945.2	\$ 169.6	\$ 5,114.8
Expenses:						
Cost of operations	\$1,577.2	\$ 81.5	\$ 1,658.7	\$3,047.0	\$ 166.8	\$ 3,213.8
Depreciation, amortization and depletion	\$255.5	\$ 1.4	\$ 256.9	\$518.6	\$ 2.8	\$ 521.4
Selling, general and administrative	\$252.9	\$ (0.1 )	\$ 252.8	\$514.0	\$ 0.4	\$ 514.4
Operating income	\$408.2	\$ 0.1	\$ 408.3	\$812.4	\$ (0.4 )	\$ 812.0

## Statement of Cash flows

Effective January 1, 2018 we adopted ASU 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15") using a retrospective approach to each period presented. In accordance with the standard, we recognize contingent consideration and holdbacks paid within three months of an acquisition's consummation date as cash outflows from investing activities in the statement of cash flows. Payments made thereafter are recognized as cash outflows from financing activities in the statement of cash flows. As the requirements of the standard do not significantly differ from our previous accounting policy, our adoption of this guidance did not have a material impact on our consolidated financial statements.

Effective January 1, 2018 we adopted ASU 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash ("ASU 2016-18") using a retrospective approach to each period presented. As a result of our adoption of the standard, restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Consequently, we reclassified the \$3.0 million change in restricted cash and restricted cash equivalents from cash used in investing activities for the six months ended June 30, 2017.

Beginning-of-period and end-of-period cash, cash equivalents, restricted cash and restricted cash equivalents as presented in the statement of cash flows is reconciled as follows:

	June 30, 2018	December 31, 2017	June 30, 2017	December 31, 2016
Cash and cash equivalents	\$61.3	\$ 83.3	\$36.0	\$ 67.8
Restricted cash and marketable securities	116.2	141.1	93.3	90.5
Less: restricted marketable securities	(44.8 )	(45.3 )	(45.1 )	(45.3 )
Cash, cash equivalents, restricted cash and restricted cash equivalents	\$ 132.7	\$ 179.1	\$84.2	\$ 113.0

## Business Combinations

Effective January 1, 2018 we adopted ASU 2017-01, Business Combinations (Topic 805) - Clarifying the Definition of Business ("ASU 2017-01"), which assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 provides a screen that when substantially all of the

fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the entity then evaluates whether the set meets the requirement that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The guidance prescribed by ASU 2017-01 will be applied prospectively to relevant transactions on or after the adoption date and did not have a material impact on the acquisitions accounted for as a business combination during the six months ended June 30, 2018.

#### Retirement Benefits

Effective January 1, 2018 we adopted ASU 2017-07, Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07") using a retrospective approach to

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

each period presented. The standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented.

As our pension plan is frozen, we do not have service costs that qualify for the treatment prescribed by ASU 2017-07. Subsequent to the adoption of ASU 2017-07, net benefit costs (income) are reported in other income. Our adoption of ASU 2017-07 did not have a material impact on our consolidated financial statements for the six months ended June 30, 2018 and 2017.

Stock Compensation

Effective January 1, 2018, we adopted ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU 2017-09"), which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. ASU 2017-09 does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The adoption of ASU 2017-09 did not have a material impact on our consolidated financial statements for the six months ended June 30, 2018.

Accounting Standards Issued but not yet Adopted

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"), which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 requires lessees to recognize lease assets and liabilities for most leases classified as operating leases under previous U.S. GAAP. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As such, Republic will adopt the standard beginning January 1, 2019.

As we progress to adopt the standard, we continually monitor clarifying interpretations. In January 2018, the FASB issued Proposed Accounting Standards Update, Leases (Topic 842): Targeted Improvements, which proposed amending the guidance to add a method of adoption whereby the issuer may elect to recognize a cumulative-effect adjustment at the beginning of the period of adoption. We currently plan to adopt the standard under this proposed method in the event it is approved by the FASB. The comment deadline for the Exposure Draft was February 5, 2018, and a final decision is pending.

Under ASU 2016-02, we will recognize a right-of-use asset and a right-of-use liability for leases classified as operating leases in our consolidated balance sheet. We continue to assess the overall impact to our consolidated financial statements, however, we currently plan to apply the package of practical expedients to leases that commenced before the effective date whereby we will elect to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

We are assessing the disclosure requirements under ASU 2016-02, and we anticipate disclosing additional information, as necessary, to comply with the standard. To assist in quantifying the impact on our consolidated financial statements and supplementing our existing disclosures, we are in the process of implementing a software solution to manage and account for our leases.

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"). ASU 2017-12 intends to address concerns through changes to hedge accounting guidance which will accomplish the following: a) Expand hedge accounting for nonfinancial and financial risk components and amend measurement methodologies to more closely align hedge accounting with a company's risk management activities; b) Decrease the complexity of preparing and understanding hedge results



through eliminating the separate measurement and reporting of hedge ineffectiveness; c) Enhance transparency, comparability and understandability of hedge results through enhanced disclosures and changing the presentation of hedge results to align the effects of the hedging instrument and the hedged item; and d) Reduce the cost and complexity of applying hedge accounting by simplifying the manner in which assessments of hedge effectiveness may be performed. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance date. We are currently assessing the effect this guidance may have on our consolidated financial statements.

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

## Reclassifications of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"). ASU 2018-02 allows the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the "Tax Act"). Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. We are currently assessing the effect this guidance may have on our consolidated financial statements.

## Income Taxes

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update) which provides guidance on accounting for the tax effects of the Tax Act. See Note 8, Income Taxes for discussion on our adoption plans.

## Improvements to Nonemployee Share-Based Payment Accounting

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07"). ASU 2018-07 simplifies several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, Compensation—Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 is effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. We are currently assessing the effect this guidance may have on our consolidated financial statements.

**2. BUSINESS ACQUISITIONS AND RESTRUCTURING CHARGES**

## Acquisitions

We acquired various waste businesses during the six months ended June 30, 2018 and 2017. The purchase price for these acquisitions and the allocations of the purchase price follow:

	2018	2017
Purchase price:		
Cash used in acquisitions, net of cash acquired	\$63.6	\$81.7
Holdbacks	8.4	3.8
Fair value of operations surrendered	—	2.1
Total	72.0	87.6
Allocated as follows:		
Accounts receivable	1.5	1.7
Landfill airspace	22.2	—
Property and equipment	12.1	30.7
Other assets	0.1	—
Inventory	0.2	0.4
Accounts payable	(0.3 )	—
Environmental remediation liabilities	—	(0.1 )
Closure and post-closure liabilities	(1.7 )	—
Other liabilities	(3.9 )	(1.8 )
Fair value of tangible assets acquired and liabilities assumed	30.2	30.9
Excess purchase price to be allocated	\$41.8	\$56.7
Excess purchase price allocated as follows:		

Other intangible assets	\$10.5	\$8.6
Goodwill	31.3	48.1
Total allocated	\$41.8	\$56.7

12

---

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The purchase price allocations are preliminary and are based on information existing at the acquisition dates. Accordingly, the purchase price allocations are subject to change. Substantially all of the goodwill and intangible assets recorded for these acquisitions are deductible for tax purposes. These acquisitions are not material to the Company's results of operations, individually or in the aggregate. As a result, no pro forma financial information is provided.

**Restructuring Charges**

In January 2016, we realigned our field support functions by combining our three regions into two field groups, consolidating our areas and streamlining select operational support roles at our Phoenix headquarters. Additionally, in the second quarter of 2016, we began the redesign of our back-office functions as well as the consolidation of over 100 customer service locations into three Customer Resource Centers. During the three and six months ended June 30, 2017, we incurred restructuring charges of \$4.1 million and \$8.5 million, respectively, that consisted of severance and other employee termination benefits, transition costs, relocation benefits, and the closure of offices with lease agreements with non-cancelable terms. The savings realized from these restructuring efforts have been reinvested in our customer-focused programs and initiatives.

In January 2018, we eliminated certain positions following the consolidation of select back-office functions, including but not limited to the integration of our National Accounts support functions into our existing corporate support functions. These changes include a reduction in administrative staffing and closing of certain office locations. During the three and six months ended June 30, 2018, we incurred restructuring charges of \$3.8 million and \$13.3 million, respectively, that primarily consisted of severance and other employee termination benefits and the closure of offices with lease agreements with non-cancelable terms. We paid \$4.2 million and \$12.6 million during the three and six months ended June 30, 2018, respectively, related to these restructuring efforts.

We expect to incur additional charges of between approximately \$5 million to \$10 million during the remainder of 2018, primarily related to employee severance costs, lease exit and contract termination costs and the relocation of certain employees. Substantially all of these restructuring charges will be recorded in our corporate segment.

**3. GOODWILL AND OTHER INTANGIBLE ASSETS, NET**

Our senior management evaluates, oversees and manages the financial performance of our operations through two field groups, referred to as Group 1 and Group 2.

**Goodwill**

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

	Balance as of December 31, 2017	Acquisitions	Divestitures	Adjustments and Other	Balance as of June 30, 2018
Group 1	\$6,084.0	\$ 18.6	\$ (0.3 )	\$ (1.1 )	\$6,101.2
Group 2	5,231.4	12.7	—	—	5,244.1
Total	\$11,315.4	\$ 31.3	\$ (0.3 )	\$ (1.1 )	\$11,345.3

Goodwill by reporting segment as of December 31, 2017 reflects the transfer of certain areas between our two field groups.

**Other Intangible Assets, Net**

Other intangible assets, net, include values assigned to customer relationships, franchise agreements, other municipal agreements, non-compete agreements and trade names, and are amortized over periods ranging from 1 to 19 years. A summary of the activity and balances by intangible asset type follows:

Gross Intangible Assets		Accumulated Amortization		Other				
Balance	Acquisitions	Adjustments	Balance	Balance	Additions	Adjustments	Balance	Intangible
as of		and Other	as of	as of	Charged	and	as of	Assets,
December		(1)	June	December	to	Other (1)	June 30,	Net as of

Edgar Filing: REPUBLIC SERVICES, INC. - Form 10-Q

	31, 2017			30, 2018	31, 2017	Expense		2018	June 30, 2018
Customer relationships, franchise and other municipal agreements	\$666.0	\$ 9.8	\$ (0.1 )	\$675.7	\$(554.7)	\$(28.2 )	\$ —	\$(582.9)	\$ 92.8
Non-compete agreements	35.6	0.7	—	36.3	(28.5 )	(1.6 )	—	(30.1 )	6.2
Other intangible assets	73.8	—	(9.5 )	64.3	(51.1 )	(0.6 )	3.8	(47.9 )	16.4
Total	\$775.4	\$ 10.5	\$ (9.6 )	\$776.3	\$(634.3)	\$(30.4 )	\$ 3.8	\$(660.9)	\$ 115.4

(1) In accordance with our adoption of ASU 2014-09, we transferred a \$5.7 million net deferred contract asset to Other Assets during the six months ended June 30, 2018.

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

## 4. OTHER ASSETS

## Prepaid Expenses and Other Current Assets

A summary of prepaid expenses and other current assets as of June 30, 2018 and December 31, 2017 follows:

	2018	2017
Prepaid expenses	\$72.7	\$78.6
Inventories	52.8	51.2
Other non-trade receivables	29.2	28.6
Reinsurance receivable	26.8	23.1
Income tax receivable	8.1	59.7
Commodity and fuel hedge assets	3.4	3.0
Other current assets	2.9	3.4
Total	\$195.9	\$247.6

## Other Assets

A summary of other assets as of June 30, 2018 and December 31, 2017 follows:

	2018	2017
Deferred compensation plan	\$101.2	\$99.9
Deferred contract costs and sales commissions	91.5	43.6
Reinsurance receivable	70.2	65.9
Investments	31.4	26.0
Amounts recoverable for capping, closure and post-closure obligations	30.0	29.9
Interest rate swaps	23.9	27.1
Deferred financing costs	4.8	3.0
Other	40.9	39.8
Total	\$393.9	\$335.2

## 5. OTHER LIABILITIES

## Other Accrued Liabilities

A summary of other accrued liabilities as of June 30, 2018 and December 31, 2017 follows:

	2018	2017
Accrued payroll and benefits	\$158.4	\$212.2
Insurance reserves, current portion	156.2	144.8
Accrued fees and taxes	127.0	129.7
Accrued dividends	112.3	114.4
Accrued professional fees and legal settlement reserves	48.7	45.1
Ceded insurance reserves, current portion	26.8	23.1
Current tax liabilities	25.5	11.7
Commodity and fuel hedge liabilities	—	0.3
Other	96.9	126.9
Total	\$751.8	\$808.2

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

## Other Long-Term Liabilities

A summary of other long-term liabilities as of June 30, 2018 and December 31, 2017 follows:

	2018	2017
Deferred compensation plan	\$103.3	\$97.9
Contingent consideration and acquisition holdbacks	70.7	71.3
Ceded insurance reserves	70.2	65.9
Withdrawal liability - multiemployer pension funds	12.3	12.6
Pension and other post-retirement liabilities	7.3	7.0
Interest rate swaps	1.5	—
Other	56.7	57.4
Total	\$322.0	\$312.1

## Insurance Reserves

Our liabilities for unpaid and incurred but not reported claims as of June 30, 2018 and December 31, 2017 (which include claims for workers' compensation, commercial general and auto liability, and employee-related health care benefits) were \$428.2 million and \$420.2 million, respectively, under our risk management program and are included in other accrued liabilities and insurance reserves, net of current portion, in our consolidated balance sheets. While the ultimate amount of claims incurred depends on future developments, we believe the recorded reserves are adequate to cover the future payment of claims; however, it is possible that these recorded reserves may not be adequate to cover the future payment of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be reflected in our consolidated statements of income in the periods in which such adjustments are known.

## 6. LANDFILL AND ENVIRONMENTAL COSTS

As of June 30, 2018, we owned or operated 194 active landfills with total available disposal capacity of approximately 5.1 billion in-place cubic yards. We also have post-closure responsibility for 126 closed landfills.

## Accrued Landfill and Environmental Costs

A summary of accrued landfill and environmental liabilities as of June 30, 2018 and December 31, 2017 follows:

	2018	2017
Landfill final capping, closure and post-closure liabilities	\$1,282.3	\$1,257.7
Environmental remediation liabilities	555.4	564.0
Total accrued landfill and environmental costs	1,837.7	1,821.7
Less: current portion	(150.5 )	(135.2 )
Long-term portion	\$1,687.2	\$1,686.5

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

## Final Capping, Closure and Post-Closure Costs

The following table summarizes the activity in our asset retirement obligation liabilities, which include liabilities for landfill final capping, closure and post-closure, for the six months ended June 30, 2018 and 2017:

	2018	2017
Asset retirement obligation liabilities, beginning of year	\$ 1,257.7	\$ 1,224.6
Non-cash additions	21.8	22.3
Acquisitions, net of divestitures and other adjustments	1.9	(25.1 )
Asset retirement obligation adjustments	(17.6 )	0.1
Payments	(22.1 )	(28.3 )
Accretion expense	40.6	39.9
Asset retirement obligation liabilities, end of period	1,282.3	1,233.5
Less: current portion	(81.0 )	(71.7 )
Long-term portion	\$ 1,201.3	\$ 1,161.8

We review annually, in the fourth quarter, and update as necessary, our estimates of asset retirement obligation liabilities. However, if there are significant changes in the facts and circumstances related to a site during the year, we will update our assumptions prospectively in the period that we know all the relevant facts and circumstances and make adjustments as appropriate. During the six months ended June 30, 2017, we transferred our ownership of the landfill gas collection and control system and the remaining post-closure and environmental liabilities of \$24.8 million and \$6.3 million, respectively, associated with one of our divested landfills.

The fair value of assets that are legally restricted for purposes of settling final capping, closure and post-closure liabilities was \$29.0 million and \$28.6 million as of June 30, 2018 and December 31, 2017, respectively, and is included in restricted cash and marketable securities in our consolidated balance sheets.

## Landfill Operating Expenses

In the normal course of business, we incur various operating costs associated with environmental compliance. These costs include, among other things, leachate treatment and disposal, methane gas and groundwater monitoring, systems maintenance, interim cap maintenance, costs associated with the application of daily cover materials, and the legal and administrative costs of ongoing environmental compliance. These costs are expensed as cost of operations in the periods in which they are incurred.

## Environmental Remediation Liabilities

We accrue for remediation costs when they become probable and can be reasonably estimated. There can sometimes be a range of reasonable estimates of the costs associated with remediation of a site. In these cases, we use the amount within the range that constitutes our best estimate. If no amount within the range appears to be a better estimate than any other, we use the amount that is at the low end of the range. It is reasonably possible that we will need to adjust the liabilities recorded for remediation to reflect the effects of new or additional information, to the extent such information impacts the costs, timing or duration of the required actions. If we used the reasonably possible high ends of our ranges, our aggregate potential remediation liability as of June 30, 2018 would be approximately \$466 million higher than the amount recorded. Future changes in our estimates of the cost, timing or duration of the required actions could have a material adverse effect on our consolidated financial position, results of operations and cash flows.



Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The following table summarizes the activity in our environmental remediation liabilities for the six months ended June 30, 2018 and 2017:

	2018	2017
Environmental remediation liabilities, beginning of year	\$564.0	\$602.9
Net additions charged to expense	2.5	—
Payments	(21.2 )	(23.8 )
Accretion expense (non-cash interest expense)	10.1	10.6
Acquisitions, net of divestitures and other adjustments	—	(6.1 )
Environmental remediation liabilities, end of period	555.4	583.6
Less: current portion	(69.5 )	(74.3 )
Long-term portion	\$485.9	\$509.3

**Bridgeton Landfill.** During the six months ended June 30, 2018, we paid \$7.7 million related to management and monitoring of the remediation area for our closed Bridgeton Landfill in Missouri. We continue to work with state and federal regulatory agencies on our remediation efforts. From time to time, this may require us to modify our future operating timeline and procedures, which could result in changes to our expected remediation liability. As of June 30, 2018, the remediation liability recorded for this site was \$169.6 million, of which approximately \$13 million is expected to be paid during the remainder of 2018. We believe the remaining reasonably possible high end of our range would be approximately \$177 million higher than the amount recorded as of June 30, 2018.

**West Lake Landfill Superfund Site.** Our subsidiary Bridgeton Landfill, LLC is one of several currently designated Potentially Responsible Parties for the West Lake Landfill Superfund site ("West Lake") in Missouri. On February 6, 2018, the U.S. Environmental Protection Agency ("EPA") issued a Proposed Record of Decision Amendment for West Lake that includes a total cost estimate of \$236 million over a five-year remediation timeline. A 75 day public comment period followed the announcement. At this time we are neither able to predict the final remedy that EPA may eventually select in its Record of Decision ("ROD") following the comment period, nor estimate how much of the future response costs of the site our subsidiary may agree or be required to pay. During any subsequent administrative proceedings or litigation, our subsidiary will vigorously contest liability for the costs of remediating radiologically-impacted materials generated on behalf of the federal government during the Manhattan Project and delivered to the site by an Atomic Energy Commission licensee and its subcontractor. Currently, we believe we are adequately reserved for the ROD that was issued in 2008. However, issuance of the final ROD and subsequent events related to remedy divisibility or allocation may require us to modify our expected remediation liability.

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

## 7. DEBT

The carrying value of our notes payable, capital leases and long-term debt as of June 30, 2018 and December 31, 2017 is listed in the following table, and is adjusted for the fair value of interest rate swaps, unamortized discounts, deferred issuance costs and the unamortized portion of adjustments to fair value recorded in purchase accounting. Original issue discounts and adjustments to fair value recorded in purchase accounting are amortized to interest expense over the term of the applicable instrument using the effective interest method.

Maturity	Interest Rate	June 30, 2018			December 31, 2017		
		Principal	Adjustments	Carrying Value	Principal	Adjustments	Carrying Value
Credit facilities:							
Uncommitted Credit Facility	Variable	\$44.7	\$ —	\$44.7	\$—	\$ —	\$—
June 2019	Variable	—	—	—	130.0	—	130.0
May 2021	Variable	—	—	—	—	—	—
June 2023	Variable	80.0	—	80.0	—	—	—
Senior notes:							
May 2018	3.800	—	—	—	700.0	(0.3 )	699.7
September 2019	5.500	650.0	(1.5 )	648.5	650.0	(2.1 )	647.9
March 2020	5.000	850.0	(1.3 )	848.7	850.0	(1.8 )	848.2
November 2021	5.250	600.0	(1.4 )	598.6	600.0	(1.5 )	598.5
June 2022	3.550	850.0	(4.1 )	845.9	850.0	(4.6 )	845.4
May 2023	4.750	550.0	(10.0 )	540.0	550.0	(1.0 )	549.0
March 2025	3.200	500.0	(4.5 )	495.5	500.0	(4.8 )	495.2
June 2026	2.900	500.0	(4.7 )	495.3	500.0	(5.0 )	495.0
November 2027	3.375	650.0	(6.4 )	643.6	650.0	(7.0 )	643.0
May 2028	3.950	800.0	(18.1 )	781.9	—	—	—
March 2035	6.086	181.9	(14.7 )	167.2	181.9	(14.9 )	167.0
March 2040	6.200	399.9	(3.9 )	396.0	399.9	(3.9 )	396.0
May 2041	5.700	385.7	(5.4 )	380.3	385.7	(5.5 )	380.2
Debentures:							
May 2021	9.250	35.3	(0.8 )	34.5	35.3	(1.0 )	34.3
September 2035	7.400	148.1	(34.1 )	114.0	148.1	(34.5 )	113.6
Tax-exempt:							
2019 - 2044	1.450 - 5.250	1,042.4	(5.8 )	1,036.6	1,042.4	(6.4 )	1,036.0
Capital leases:							
2018 - 2046	3.273 - 12.203	106.4	—	106.4	108.4	—	108.4
Total Debt		\$8,374.4	\$ (116.7 )	8,257.7	\$8,281.7	\$ (94.3 )	8,187.4
Less: current portion				(41.9 )			(706.7 )
Long-term portion				\$8,215.8			\$7,480.7

## Credit Facilities

In June 2018, we entered into a \$2.25 billion unsecured revolving credit facility (the "Credit Facility"), which replaced our \$1.0 billion and \$1.25 billion unsecured credit facilities that would have matured in May 2021 and June 2019, respectively (the "Replaced Credit Facilities"). The Credit Facility is unsecured and matures in June 2023. We may request two one-year extensions of the maturity date but none of the lenders are committed to participate in such extension. The Credit Facility also includes a feature that allows us to increase availability, at our option, by an aggregate amount of up to \$1.0 billion through increased commitments from existing lenders or the addition of new lenders. At our option, borrowings under the Credit Facility bear interest at a Base Rate, or a Eurodollar Rate, plus an

applicable margin based on our Debt Ratings (all as defined in the Credit Facility agreement).

The Credit Facility is subject to facility fees based on applicable rates defined in the Credit Facility agreement and the aggregate commitment, regardless of usage. Availability under our Credit Facility totaled \$1,745.3 million as of June 30, 2018 and under

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

the Replaced Credit Facilities totaled \$1,639.1 million as of December 31, 2017. The Credit Facility can be used for working capital, capital expenditures, acquisitions, letters of credit and other general corporate purposes. The Credit Facility agreement requires us to comply with financial and other covenants. We may pay dividends and repurchase common stock if we are in compliance with these covenants. As of June 30, 2018, we had \$80.0 million of borrowings under our Credit Facility and \$130.0 million of borrowings under the Replaced Credit Facilities as of December 31, 2017. We had \$406.5 million of letters of credit outstanding under our Credit Facility as of June 30, 2018 and \$462.7 million of letters of credit outstanding under our Replaced Credit Facilities as of December 31, 2017.

Our Uncommitted Credit Facility bears interest at LIBOR, plus an applicable margin and is subject to facility fees defined in the agreement, regardless of usage. We can use borrowings under the Uncommitted Credit Facility for working capital and other general corporate purposes. The agreement governing our Uncommitted Credit Facility requires us to comply with certain covenants. The Uncommitted Credit Facility may be terminated by either party at any time. We had \$44.7 million of borrowings and no borrowings outstanding under our Uncommitted Credit Facility as of June 30, 2018 and December 31, 2017, respectively.

Senior Notes and Debentures

In May 2018, we issued \$800.0 million of 3.950% senior notes due 2028 (the "3.950% Notes"). We used the net proceeds from the 3.950% Notes to repay \$700.0 million of 3.800% senior notes that matured in May 2018, and any remaining proceeds were used for general corporate purposes. In connection with this offering we terminated interest rate lock agreements with a notional value of \$600.0 million resulting in net proceeds of \$31.1 million. There was no ineffectiveness recognized in the termination of these cash flow hedges.

Our senior notes and debentures are general unsecured obligations. Interest is payable semi-annually. The senior notes have a make-whole provision that is exercisable at any time three months prior to their respective maturity dates at a stated redemption price.

Tax-Exempt Financings

As of June 30, 2018 and December 31, 2017, we had \$1,036.6 million and \$1,036.0 million, respectively, of fixed and variable rate tax-exempt financings outstanding with maturities ranging from 2019 to 2044. Approximately 100% of our tax-exempt financings are remarketed quarterly by remarketing agents to effectively maintain a variable yield. The holders of the bonds can put them back to the remarketing agents at the end of each interest period. To date, the remarketing agents have been able to remarket our variable rate unsecured tax-exempt bonds. These bonds have been classified as long-term because of our ability and intent to refinance them using availability under our Credit Facility, if necessary.

Capital Leases

We had capital lease liabilities of \$106.4 million and \$108.4 million as of June 30, 2018 and December 31, 2017, respectively, with maturities ranging from 2018 to 2046.

Interest Rate Swap and Lock Agreements

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

Fair Value Hedges

During the second half of 2013, we entered into various interest rate swap agreements relative to our 4.750% fixed rate senior notes due in May 2023. The goal was to reduce overall borrowing costs and rebalance our debt portfolio's ratio of fixed to floating interest rates. As of June 30, 2018, these swap agreements had a total notional value of \$300.0 million and mature in May 2023, which is identical to the maturity of the hedged senior notes. We pay interest at floating rates based on changes in LIBOR and receive interest at a fixed rate of 4.750%. These transactions were

designated as fair value hedges because the swaps hedge against the changes in fair value of the fixed rate senior notes resulting from changes in interest rates.

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

As of June 30, 2018 and December 31, 2017, the interest rate swap agreements are reflected at their fair value of \$(1.5) million and \$8.0 million, respectively, and are included in other long-term liabilities and other assets. To the extent they are effective, these interest rate swap agreements are included as an adjustment to long-term debt in our consolidated balance sheets. We recognized net interest income of \$0.5 million and \$1.4 million during the three and six months ended June 30, 2018, respectively, and \$1.3 million and \$2.6 million during the three and six months ended June 30, 2017, respectively, related to net swap settlements for these interest rate swap agreements, which is included as an offset to interest expense in our unaudited consolidated statements of income.

For the three months ended June 30, 2018 and 2017, we recognized gains (losses) of \$2.5 million and \$(1.4) million, respectively, on the change in fair value of the hedged senior notes attributable to changes in the benchmark interest rate, and (losses) gains of \$(2.7) million and \$1.6 million, respectively, on the related interest rate swaps. For the six months ended June 30, 2018 and 2017, we recognized gains of \$9.2 million and \$0.2 million, respectively, on the change in fair value of the hedged senior notes attributable to changes in the benchmark interest rate, and (losses) gains of \$(9.5) million and \$0.2 million, respectively, on the related interest rate swaps. The net amount of these fair value changes represents hedge ineffectiveness, which is recorded directly in earnings as other income, net.

**Cash Flow Hedges**

Our interest rate lock agreements had an aggregate notional amount of \$450.0 million as of June 30, 2018 with fixed interest rates ranging from 1.900% to 2.950%. Upon the expected issuance of senior notes, we will terminate the interest rate locks and settle with our counterparties. These transactions were accounted for as cash flow hedges. The fair value of our interest rate locks as of June 30, 2018 was determined using standard valuation models with assumptions about interest rates being based on those observed in underlying markets (Level 2 in the fair value hierarchy). The aggregate fair values of the outstanding interest rate locks as of June 30, 2018 and December 31, 2017 were \$23.9 million and \$19.1 million, respectively, and were recorded in other long term assets in our consolidated balance sheet. No amounts were recognized in other income, net in our consolidated statements of income for the ineffective portion of the changes of fair values during the three and six months ended June 30, 2018 and 2017, respectively.

Total loss recognized in other comprehensive income, net of tax, was \$(12.2) million and \$(3.4) million for the three months ended June 30, 2018 and 2017.

As of June 30, 2018 and December 31, 2017, the effective portion of our previously terminated interest rate locks, recorded as a component of accumulated other comprehensive income, net of tax, was income of \$(11.6) million and loss of \$11.8 million, respectively. The effective portion of the interest rate locks is amortized as an adjustment to interest expense over the life of the issued debt using the effective interest method. We expect to amortize approximately \$(0.6) million of net interest expense (income) over the next twelve months as a yield adjustment of our senior notes.

The effective portion of the interest rate locks amortized as a net increase to interest expense was \$0.3 million and \$0.7 million during the three months ended June 30, 2018 and 2017, respectively, and \$0.8 million and \$1.3 million during the six months ended June 30, 2018 and 2017, respectively.

**8. INCOME TAXES**

Our effective tax rate, exclusive of noncontrolling interests, for the three and six months ended June 30, 2018 was 24.7% and 24.1%, respectively. Our effective tax rate, exclusive of noncontrolling interests, for the three and six months ended June 30, 2017, was 39.1% and 37.9%, respectively. Our effective tax rate, exclusive of noncontrolling interests, for the three and six months ended June 30, 2018 was favorably affected by the Tax Act and resolution of certain tax matters as compared to the same periods in 2017.

Cash paid for income taxes (net of refunds) was \$30.0 million and \$170.0 million for the six months ended June 30, 2018 and 2017, respectively.

The Tax Act was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%, limits deductions for, among other things, interest expense, executive compensation and meals and

entertainment, while enhancing deductions for equipment and other fixed assets. The Tax Act also requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings.

The SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides up to a one year measurement period from the Tax Act's enactment date for companies to complete their accounting under ASC 740.

In accordance with SAB 118, for the year ended December 31, 2017, we recorded provisional amounts based on our estimates of the Tax Act's effect to our deferred taxes, uncertain tax positions and the one-time transition tax.

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

As of June 30, 2018, we have not finalized our accounting nor have we changed our previous estimates of the tax effects of the enactment of the Tax Act. We anticipate that the completion of our 2017 income tax returns, future guidance and additional information and interpretations with respect to the Tax Act will cause us to further adjust the provisional amounts recorded as of December 31, 2017. In accordance with SAB 118, we will record such adjustments in the period that relevant guidance and/or additional information becomes available and our analysis is completed.

We are subject to income tax in the United States and Puerto Rico, as well as in multiple state jurisdictions. Our compliance with income tax rules and regulations is periodically audited by taxing authorities. These authorities may challenge the positions taken in our tax filings. We are currently under examination or administrative review by state and local taxing authorities for various tax years. We recognize interest and penalties as incurred within the provision for income taxes in the consolidated statements of income. As of June 30, 2018, we accrued a liability for penalties of \$0.5 million and a liability for interest (including interest on penalties) of \$11.3 million related to our uncertain tax positions.

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

We have deferred tax assets related to state net operating loss carryforwards. We provide a partial valuation allowance due to uncertainty surrounding the future utilization of these carryforwards in the taxing jurisdictions where the loss carryforwards exist. When determining the need for a valuation allowance, we consider all positive and negative evidence, including recent financial results, scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies. The weight given to the positive and negative evidence is commensurate with the extent such evidence can be objectively verified.

As a result of the recent changes in U.S. tax law, as well as our ongoing efforts to streamline and maximize the efficiency of our tax footprint, we could further adjust our valuation allowance in a future period if there is sufficient evidence to support a conclusion that it is more certain than not that certain of the state net operating loss carryforwards, on which we currently provide a valuation allowance, would be realized. The realization of our deferred tax asset for state loss carryforwards ultimately depends upon the existence of sufficient taxable income in the appropriate state taxing jurisdictions in future periods. We continue to regularly monitor both positive and negative evidence in determining the ongoing need for a valuation allowance. As of June 30, 2018, the valuation allowance associated with our state loss carryforwards was approximately \$72 million.

**9. STOCK-BASED COMPENSATION****Available Shares**

In March 2013, our board of directors approved the Republic Services, Inc. Amended and Restated 2007 Stock Incentive Plan (the "Plan"), and in May 2013 our shareholders ratified the Plan. We currently have approximately 13.4 million shares of common stock reserved for future grants under the Plan.

**Grants and Expense**

The following table summarizes our stock-based compensation grant and expense activity for the six months ended June 30, 2018:

	Number of Shares Granted (in thousands)	Compensation Expense (in millions)
Restricted stock units	440.5	\$ 13.3



Performance shares	329.3	8.8
Total	769.8	\$ 22.1

21

---

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

## 10. STOCK REPURCHASES, DIVIDENDS AND EARNINGS PER SHARE

## Stock Repurchases

Stock repurchase activity during the three and six months ended June 30, 2018 and June 30, 2017 follows (in millions, except per share amounts):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Number of shares repurchased	3.3	2.1	7.1	3.7
Amount paid	\$219.5	\$131.8	\$474.0	\$230.7
Weighted average cost per share	\$67.47	\$62.87	\$67.05	\$61.81

As of June 30, 2018 and 2017, 0.2 million and 0.1 million repurchased shares were pending settlement, respectively. Additionally, as of June 30, 2018 and 2017, \$10.3 million and \$6.6 million of share repurchases were unpaid and included within other accrued liabilities, respectively.

In October 2017, our board of directors added \$2.0 billion to our existing share repurchase authorization that now extends through December 31, 2020. Before this, \$98.4 million remained under a prior authorization. Share repurchases under the program may be made through open market purchases or privately negotiated transactions in accordance with applicable federal securities laws. While the board of directors has approved the share purchase program, the timing of any purchases, the prices and the number of shares of common stock to be purchased will be determined by our management, and will depend upon market conditions and other factors. The program may be extended, suspended or discontinued at any time. As of June 30, 2018, the remaining authorized purchase capacity under our October 2017 repurchase program was \$1.4 billion.

## Dividends

In April 2018, our board of directors approved a quarterly dividend of \$0.345 per share. Cash dividends declared were \$225.7 million for the six months ended June 30, 2018. As of June 30, 2018, we recorded a quarterly dividend payable of \$112.3 million to shareholders of record at the close of business on July 2, 2018.

## Earnings per Share

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

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Earnings per share for the three and six months ended June 30, 2018 and 2017 are calculated as follows (in thousands, except per share amounts):

	Three Months		Six Months Ended	
	Ended June 30, 2018	2017	June 30, 2018	2017
Basic earnings per share:				
Net income attributable to Republic Services, Inc.	\$234,900	\$202,900	\$472,600	\$390,700
Weighted average common shares outstanding	327,365	338,057	329,003	338,962
Basic earnings per share	\$0.72	\$0.60	\$1.44	\$1.15
Diluted earnings per share:				
Net income attributable to Republic Services, Inc.	\$234,900	\$202,900	\$472,600	\$390,700
Weighted average common shares outstanding	327,365	338,057	329,003	338,962
Effect of dilutive securities:				
Options to purchase common stock	810	1,269	858	1,340
Unvested RSU awards	202	333	231	343
Unvested PSU awards	453	313	421	282
Weighted average common and common equivalent shares outstanding	328,830	339,972	330,513	340,927
Diluted earnings per share	\$0.71	\$0.60	\$1.43	\$1.15

There were no antidilutive securities during the three and six months ended June 30, 2018 and 2017.

## 11. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME BY COMPONENT

A summary of changes in accumulated other comprehensive income (loss), net of tax, by component, for the six months ended June 30, 2018 follows:

	Cash Flow Hedges	Defined Benefit Pension Items	Total
Accumulated other comprehensive income (loss) as of December 31, 2017	\$ 1.4	\$ 21.2	\$22.6
Other comprehensive income before reclassifications	31.2	—	31.2
Amounts reclassified from accumulated other comprehensive income	(1.0 )	—	(1.0 )
Net current period other comprehensive income	30.2	—	30.2
Accumulated other comprehensive income (loss) as of June 30, 2018	\$ 31.6	\$ 21.2	\$52.8

A summary of reclassifications out of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2018 and 2017 follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Three Months		Six Months		Affected Line Item in the Statement where Net Income is Presented
	Ended June 30, 2018	2017	Ended June 30, 2018	2017	
	Amount		Amount		
	Reclassified		Reclassified		
	from		from		
	Accumulated		Accumulated		
	Other		Other		
	Comprehensive		Comprehensive		
	Income (Loss)		Income (Loss)		
Gain (loss) on cash flow hedges:					
Recyclable commodity hedges	\$ 0.3	\$ (1.0 )	\$ 0.3	\$ (1.7 )	Revenue
Fuel hedges	1.1	(1.2 )	1.9	(2.2 )	Cost of operations

Edgar Filing: REPUBLIC SERVICES, INC. - Form 10-Q

Terminated interest rate locks	(0.3 )	(0.7 )	(0.8 )	(1.3 )	Interest expense
Total before tax	1.1	(2.9 )	1.4	(5.2 )	
Tax (expense) benefit	(0.3 )	1.2	(0.4 )	2.1	
Total gains (losses) reclassified, net of tax	\$ 0.8	\$ (1.7 )	\$ 1.0	\$ (3.1 )	

23

---

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

## 12. FINANCIAL INSTRUMENTS

## Fuel Hedges

We have entered into multiple swap agreements designated as cash flow hedges to mitigate some of our exposure related to changes in diesel fuel prices. These swaps qualified for, and were designated as, effective hedges of changes in the prices of forecasted diesel fuel purchases (fuel hedges).

The following table summarizes our outstanding fuel hedges as of June 30, 2018:

Year	Gallons Hedged	Weighted Average Contract Price per Gallon
2018	3,750,000	\$2.59

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

The fair values of our fuel hedges are determined using standard option valuation models with assumptions about commodity prices based on those observed in underlying markets (Level 2 in the fair value hierarchy). The aggregate fair values of our outstanding fuel hedges as of June 30, 2018 were current assets of \$2.6 million, which have been recorded in other current assets in our consolidated balance sheets. As of December 31, 2017, the aggregate fair values of our outstanding fuel hedges were current assets of \$3.0 million, which are included in other current assets in our consolidated balance sheets. No amounts were recognized in other income, net in our unaudited consolidated statements of income for the ineffectiveness portion of the changes in fair values for each of the three or six months ended June 30, 2018 and 2017.

For the three and six months ended June 30, 2018, a gain of \$0.1 million was recognized in other comprehensive income, net of tax, for fuel hedges (the effective portion), and no gain (loss) was recognized in other comprehensive income, net of tax, for fuel hedges (the effective portion) for the three and six months ended June 30, 2017. We classify cash inflows and outflows from our fuel hedges within operating activities in the unaudited consolidated statements of cash flows.

## Recyclable Commodity Hedges

Revenue from the sale of recycled commodities is primarily from sales of old corrugated containers ("OCC") and old newsprint. From time to time we use derivative instruments such as swaps and costless collars designated as cash flow hedges to manage our exposure to changes in prices of these commodities. During 2017, we entered into multiple agreements related to the forecasted OCC sales. The agreements qualified for, and were designated as, effective hedges of changes in the prices of certain forecasted recyclable commodity sales (commodity hedges).

We entered into costless collar agreements on forecasted sales of OCC. The agreements involve combining a purchased put option giving us the right to sell OCC at an established floor strike price with a written call option obligating us to deliver OCC at an established cap strike price. The puts and calls have the same settlement dates, are net settled in cash on such dates and have the same terms to expiration. The contemporaneous combination of options resulted in no net premium for us and represents costless collars. Under these agreements, we will neither make or receive payments as long as the settlement price is between the floor price and cap price; however, if the settlement price is above the cap, we will pay the counterparty an amount equal to the excess of the settlement price over the cap times the monthly volumes hedged. If the settlement price is below the floor, the counterparty will pay us the deficit of the settlement price below the floor times the monthly volumes hedged. The objective of these agreements is to reduce variability of cash flows for forecasted sales of OCC between two designated strike prices.

As of June 30, 2018, we had outstanding costless collar hedges for OCC totaling 60,000 tons with a weighted average floor strike price of \$81.50 per ton and a weighted average cap strike price of \$120.00 per ton, all of which will be settled in 2018. Costless collar hedges are recorded in our consolidated balance sheets at fair value. Fair values of costless collars are determined using standard option valuation models with assumptions about commodity prices

based upon forward commodity price curves in underlying markets (Level 2 in the fair value hierarchy).

The aggregate fair values of the outstanding recyclable commodity hedges as of June 30, 2018 were current assets of \$0.8 million, which are included in prepaid expenses and other current assets in our consolidated balance sheets. As of December 31, 2017, the aggregate fair values of the outstanding recyclable commodity hedges were current liabilities of \$0.2 million, which are included in other accrued liabilities in our consolidated balance sheets. No amounts were recognized in other income, net in our unaudited consolidated statements of income for the ineffectiveness portion of the changes in fair values during the three and six months ended June 30, 2018 and 2017.

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Total gains (losses) recognized in other comprehensive income for recyclable commodity hedges (the effective portion) was \$0.3 million and \$0.7 million, net of tax, for the three and six months ended June 30, 2018, respectively, and \$(0.6) million and \$(1.2) million, net of tax, for the same periods in 2017, respectively.

## Fair Value Measurements

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

The carrying value for certain of our financial instruments, including cash, accounts receivable, accounts payable and certain other accrued liabilities, approximates fair value because of their short-term nature.

As of June 30, 2018 and December 31, 2017, our assets and liabilities that are measured at fair value on a recurring basis include the following:

	Carrying Amount	Fair Value Measurements Using			
		Total as of June 30, 2018	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>					
Money market mutual funds	\$ 42.8	\$42.8	\$ 42.8	\$ —	\$ —
Bonds - restricted cash and marketable securities and other assets	53.0	53.0	—	53.0	—
Fuel hedges - other current assets	2.6	2.6	—	2.6	—
Commodity hedges - other current assets	0.8	0.8	—	0.8	—
Interest rate locks - other assets	23.9	23.9	—	23.9	—
Total assets	\$ 123.1	\$ 123.1	\$ 42.8	\$ 80.3	\$ —
<b>Liabilities:</b>					
Interest rate swaps - other long-term liabilities	\$ 1.5	\$1.5	\$ —	\$ 1.5	\$ —
Contingent consideration - other long-term liabilities	72.7	72.7	—	—	72.7
Total liabilities	\$ 74.2	\$74.2	\$ —	\$ 1.5	\$ 72.7
	Carrying Amount	Fair Value Measurements Using			
		Total as of December 31, 2017	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>					
Money market mutual funds	\$ 30.3	\$30.3	\$ 30.3	\$ —	\$ —
Bonds - restricted cash and marketable securities and other assets	92.1	92.1	—	92.1	—
Fuel hedges - other current assets	3.0	3.0	—	3.0	—
Interest rate swaps - other assets	8.0	8.0	—	8.0	—
Interest rate locks - other assets	19.1	19.1	—	19.1	—
Total assets	\$ 152.5	\$152.5	\$ 30.3	\$ 122.2	\$ —
<b>Liabilities:</b>					
Commodity hedges - other accrued liabilities	\$ 0.2	\$0.2	\$ —	\$ 0.2	\$ —

Edgar Filing: REPUBLIC SERVICES, INC. - Form 10-Q

Contingent consideration- other long-term liabilities	73.3	73.3	—	—	73.3
Total liabilities	\$ 73.5	\$ 73.5	\$ —	\$ 0.2	\$ 73.3

25

---



Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Total Debt

As of June 30, 2018 and December 31, 2017, the carrying value of our total debt was \$8.3 billion and \$8.2 billion, respectively, and the fair value of our total debt was \$8.6 billion and \$8.8 billion, respectively. The estimated fair value of our fixed rate senior notes and debentures is based on quoted market prices. The fair value of our remaining notes payable, tax-exempt financings and borrowings under our credit facilities approximates the carrying value because the interest rates are variable. The fair value estimates are based on Level 2 inputs of the fair value hierarchy as of June 30, 2018 and December 31, 2017, respectively. See Note 7, Debt, for further information related to our debt.

Contingent Consideration

In April 2015, we entered into a waste management contract with Sonoma County, California to operate the county's waste management facilities. As of June 30, 2018, we recognized \$67.6 million of contingent consideration which represents the fair value of amounts payable to Sonoma County based on the achievement of future annual tonnage targets through the expected remaining capacity of the landfill. We estimate the remaining life of the landfill to be approximately 30 years. The potential undiscounted amount of all future contingent payments that we could be required to make under the waste management contract is estimated to be between approximately \$82 million and \$171 million.

The fair value of the contingent consideration was determined using probability assessments of the expected future payments over the remaining useful life of the landfill, and applying a discount rate of 4.0%. The future payments are based on significant inputs that are not observable in the market. Key assumptions include annual volume of tons disposed at the landfill, the price paid per ton and the discount rate that represent the best estimates of management, which are subject to remeasurement at each reporting date.

In 2017, we recognized additional contingent consideration associated with the acquisition of a landfill. As of June 30, 2018, the contingent consideration of \$5.1 million represents the fair value of amounts payable to the seller based on annual volume of tons disposed at the landfill. The fair value of the contingent consideration was determined using probability assessments of the expected future payments over the remaining useful life of the landfill, and applying a discount rate of 4.3%. The future payments are based on significant inputs that are not observable in the market. Key assumptions include annual volume of tons disposed at the landfill, which are subject to remeasurement at each reporting date. The contingent consideration liabilities are classified within Level 3 of the fair value hierarchy.

13. SEGMENT REPORTING

Our senior management evaluates, oversees and manages the financial performance of our operations through two field groups, referred to as Group 1 and Group 2. Group 1 primarily consists of geographic areas located in the western United States, and Group 2 primarily consists of geographic areas located in the southeastern and mid-western United States, and the eastern seaboard of the United States.

We manage and evaluate our operations through the two field groups, Group 1 and Group 2. These two groups are presented below as our reportable segments, which provide integrated waste management services consisting of non-hazardous solid waste collection, transfer, recycling, disposal and energy services.

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Summarized financial information concerning our reportable segments for the three and six months ended June 30, 2018 and 2017 follows:

	Gross Revenue	Intercompany Revenue	Net Revenue	Depreciation, Amortization, Depletion and Accretion	Operating Income (Loss)	Capital Expenditures	Total Assets
Three Months Ended June 30, 2018							
Group 1	\$1,444.5	\$ (251.2 )	\$1,193.3	\$ 117.8	\$ 275.2	\$ 109.6	\$ 10,829.9
Group 2	1,509.2	(224.0 )	1,285.2	128.4	225.3	165.3	8,925.4
Corporate entities	43.3	(4.0 )	39.3	29.5	(92.3 )	26.1	1,448.4
Total	\$2,997.0	\$ (479.2 )	\$2,517.8	\$ 275.7	\$ 408.2	\$ 301.0	\$ 21,203.7
Three Months Ended June 30, 2017							
Group 1	\$1,500.7	\$ (277.2 )	\$1,223.5	\$ 119.9	\$ 286.2	\$ 133.4	\$ 10,616.1
Group 2	1,489.8	(243.4 )	1,246.4	127.9	239.6	101.2	8,590.1
Corporate entities	60.5	(3.7 )	56.8	30.4	(100.3 )	39.1	1,554.9
Total	\$3,051.0	\$ (524.3 )	\$2,526.7	\$ 278.2	\$ 425.5	\$ 273.7	\$ 20,761.1
	Gross Revenue	Intercompany Revenue	Net Revenue	Depreciation, Amortization, Depletion and Accretion	Operating Income (Loss)	Capital Expenditures	Total Assets
Six Months Ended June 30, 2018							
Group 1	\$2,863.2	\$ (490.1 )	\$2,373.1	\$ 246.9	\$ 553.1	\$ 183.6	\$ 10,829.9
Group 2	2,915.6	(422.3 )	2,493.3	253.3	434.9	250.2	8,925.4
Corporate entities	86.5	(7.7 )	78.8	59.0	(175.6 )	108.3	1,448.4
Total	\$5,865.3	\$ (920.1 )	\$4,945.2	\$ 559.2	\$ 812.4	\$ 542.1	\$ 21,203.7
Six Months Ended June 30, 2017							
Group 1	\$2,931.8	\$ (544.3 )	\$2,387.5	\$ 235.3	\$ 547.4	\$ 227.7	\$ 10,616.1
Group 2	2,885.9	(462.7 )	2,423.2	251.9	465.0	164.0	8,590.1
Corporate entities	115.6	(6.8 )	108.8	60.9	(198.7 )	105.8	1,554.9
Total	\$5,933.3	\$ (1,013.8 )	\$4,919.5	\$ 548.1	\$ 813.7	\$ 497.5	\$ 20,761.1

Financial information for the three and six months ended June 30, 2017 reflects the transfer of certain areas between our two field groups.

Intercompany revenue reflects transactions within and between segments that generally are made on a basis intended to reflect the market value of such services. Capital expenditures for corporate entities primarily include vehicle inventory acquired but not yet assigned to operating locations and facilities. Corporate functions include legal, tax, treasury, information technology, risk management, human resources, closed landfills and other administrative functions.

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

## 14. REVENUE

Our operations primarily consist of providing collection, transfer and disposal of non-hazardous solid waste, recovering and recycling of certain materials, and energy services. The following table disaggregates our revenue by service line for the three and six months ended June 30, 2018 and 2017 (in millions of dollars and as a percentage of revenue):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
Collection:								
Residential	\$560.2	22.2 %	\$576.4	22.8 %	\$1,108.6	22.4 %	\$1,140.7	23.2 %
Small-container	763.9	30.3	747.1	29.6	1,512.6	30.6	1,480.8	30.1
Large-container	555.3	22.1	528.7	20.9	1,070.7	21.7	1,024.0	20.8
Other	11.0	0.5	10.7	0.4	21.5	0.4	20.5	0.4
Total collection <sup>(1)</sup>	1,890.4	75.1	1,862.9	73.7	3,713.4	75.1	3,666.0	74.5
Transfer	320.8		312.0		609.1		594.2	
Less: intercompany	(181.8 )		(181.7 )		(350.5 )		(353.4 )	
Transfer, net	139.0	5.5	130.3	5.2	258.6	5.2	240.8	4.9
Landfill	580.6		569.7		1,130.5		1,074.4	
Less: intercompany	(265.3 )		(255.5 )		(508.7 )		(487.9 )	
Landfill, net	315.3	12.5	314.2	12.4	621.8	12.6	586.5	11.9
Energy services	50.2	2.0	36.1	1.4	98.1	2.0	63.3	1.3
Other:								
Recycling processing and commodity sales <sup>(2)</sup>	68.1	2.7	136.0	5.4	144.0	2.9	269.9	5.5
Other non-core	54.8	2.2	47.2	1.9	109.3	2.2	93.0	1.9
Total other	122.9	4.9	183.2	7.3	253.3	5.1	362.9	7.4
Total revenue	\$2,517.8	100.0%	\$2,526.7	100.0%	\$4,945.2	100.0%	\$4,919.5	100.0%

(1) In accordance with our adoption of the new revenue recognition standard, municipal franchise fees were presented as a reduction to revenue for the three and six months ended June 30, 2018. Similar fees were presented as a cost of operations for the three and six months ended June 30, 2017.

(2) In accordance with our adoption of the new revenue recognition standard, rebates paid to customers associated with recycled commodities were presented as a reduction to revenue for the three and six months ended June 30, 2018. Similar costs were presented as a cost of operations for the three and six months ended June 30, 2017.

Other non-core revenue consists primarily of revenue from National Accounts, which represents the portion of revenue generated from nationwide or regional contracts in markets outside our operating areas where the associated waste handling services are subcontracted to local operators. Consequently, substantially all of this revenue is offset with related subcontract costs, which are recorded in cost of operations.

The factors that impact the timing and amount of revenue recognized for each service line may vary based on the nature of the service performed. Generally, we recognize revenue at the time we perform a service. In the event that we bill for services in advance of performance, we recognized deferred revenue for the amount billed and subsequently recognize revenue at the time the service is provided. Depending upon the nature of the contract, we may also generate revenue through the collection of fuel recovery fees and environmental fees which are designed to recover our internal costs of providing services to our customers.

See Note 13, Segment Reporting, for additional information regarding revenue by reportable segment.

Revenue by Service Line

Collection Services

Our collection business involves the collection of waste for transport to transfer stations, or directly to landfills or recycling centers. Our solid waste collection services business includes both recurring and temporary customer relationships. Our standard contract duration is three years, although some of our exclusive franchises are for significantly longer periods. The fees received for collection services are based primarily on the market, collection frequency, type of service, type and volume or weight of the waste collected, the distance to the disposal facility and the cost of disposal.

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

In general, small-container and residential collection fees are billed monthly or quarterly in advance. Substantially all of the deferred revenue recognized as of December 31, 2017 was recognized as revenue during the six months ended June 30, 2018 when the service was performed. Our large-container customers are typically billed on a monthly basis based on the nature of the services provided during the period.

Revenue recognized under these agreements is variable in nature based on the number of residential homes or businesses serviced during the period, the frequency of collection and the volume of waste collected. In addition, certain of our contracts have annual price escalation clauses that are tied to changes in an underlying base index such as a consumer price index which are unknown at contract inception.

**Transfer Services**

Revenue at our transfer stations is primarily generated by charging tipping or disposal fees. The fees received for transfer services are based primarily on the market, type and volume or weight of the waste accepted, the distance to the disposal facility and the cost of disposal. In general, fees are billed and revenue is recognized at the time the service is performed. Revenue recognized under these agreements is variable in nature based on the volume of waste accepted at the transfer station.

**Landfill Services**

Revenue at our landfills is primarily generated by charging tipping fees to third parties based on the volume disposed and the nature of the waste. In general, fees are variable in nature and revenue is recognized at the time the waste is disposed at the facility.

**Energy Services**

Energy Services revenue is primarily generated through waste managed from vertical and horizontal drilling, hydraulic fracturing, production and clean-up activity, as well as other services including closed loop collection systems and the sale of recovered products. Energy services activity varies across market areas that are tied to the natural resource basins in which the drilling activity occurs and reflects the regulatory environment, pricing and disposal alternatives available in any given market. Revenue recognized under these agreements is variable in nature based on the volume of waste accepted or processed during the period.

**Sale of Recycled Commodities**

Our recycling centers generate revenue through the processing and sale of OCC, old newsprint ("ONP"), aluminum, glass and other materials at market prices. In certain instances, we issue recycling rebates to our municipal or large-container customers, which can be based on the price we receive upon the final sale of recycled commodities, a fixed contractual rate or other measures. We also receive rebates when we dispose of recycled commodities at third-party facilities. The fees received are based primarily on the market, type and volume or weight of the materials sold. In general, fees are billed and revenue is recognized at the time title is transferred. Revenue recognized under these agreements is variable in nature based on the volume and type of materials sold. In addition, the amount of revenue recognized is based on commodity prices at the time of sale, which are unknown at contract inception.

**Revenue Recognition**

Our service obligations of a long-term nature, e.g., solid waste collection service contracts, are satisfied over time, and we recognize revenue based on the value provided to the customer during the period. The amount billed to the customer is based on variable elements such as the number of residential homes or businesses for which collection services are provided, the volume of waste collected, transported and disposed, and the nature of the waste accepted. We do not disclose the value of unsatisfied performance obligations for these contracts as our right to consideration corresponds directly to the value provided to the customer for services completed to date and all future variable consideration is allocated to wholly unsatisfied performance obligations.

Additionally, certain elements of our long-term customer contracts are unknown upon entering into the contract, including the amount that will be billed in accordance with annual price escalation clauses, our fuel recovery fee program and commodity prices. The amount to be billed is often tied to changes in an underlying base index such as a consumer price index or a fuel or commodity index, and revenue can be recognized once the index is established for

the period.

29

---

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Deferred Contract Costs

We incur certain upfront payments to acquire customer contracts which are recognized as other assets in our consolidated balance sheet, and we amortize the asset over the respective contract life. In addition, we recognize sales commissions that represent an incremental cost of the contract as other assets in our consolidated balance sheet, and we amortize the asset over the average life of the customer relationship. As of June 30, 2018, we recognized \$91.5 million of deferred contract costs and capitalized sales commissions. During the three and six months ended June 30, 2018, we amortized \$2.9 million and \$5.5 million, respectively, of capitalized sales commissions to selling, general and administrative expenses and \$1.4 million and \$2.8 million of other deferred contract costs as a reduction of revenue for the same respective periods.

15. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are subject to extensive and evolving laws and regulations and have implemented safeguards to respond to regulatory requirements. In the normal course of our business, we become involved in legal proceedings. Some may result in fines, penalties or judgments against us, or settlements, which may impact earnings and cash flows for a particular period. Although we cannot predict the ultimate outcome of any legal matter with certainty, we do not believe the outcome of any of our pending legal proceedings will have a material adverse impact on our consolidated financial position, results of operations or cash flows.

As used herein, the term legal proceedings refers to litigation and similar claims against us and our subsidiaries, excluding: (1) ordinary course accidents, general commercial liability and workers' compensation claims, which are covered by insurance programs, subject to customary deductibles, and which, together with insured employee health care costs, are discussed in Note 5, Other Liabilities; and (2) environmental remediation liabilities, which are discussed in Note 6, Landfill and Environmental Costs.

We accrue for legal proceedings when losses become probable and reasonably estimable. We have recorded an aggregate accrual of approximately \$48 million relating to our outstanding legal proceedings as of June 30, 2018. As of the end of each applicable reporting period, we review each of our legal proceedings and, where it is probable that a liability has been incurred, we accrue for all probable and reasonably estimable losses. Where we can reasonably estimate a range of losses we may incur regarding such a matter, we record an accrual for the amount within the range that constitutes our best estimate. If we can reasonably estimate a range but no amount within the range appears to be a better estimate than any other, we use the amount that is the low end of such range. If we had used the high ends of such ranges, our aggregate potential liability would be approximately \$51 million higher than the amount recorded as of June 30, 2018.

Multiemployer Pension Plans

We contribute to 25 multiemployer pension plans under collective bargaining agreements covering union-represented employees. These plans generally provide retirement benefits to participants based on their service to contributing employers. We do not administer these plans.

Under current law regarding multiemployer pension plans, a plan's termination, and any termination of an employer's obligation to make contributions, including our voluntary withdrawal (which we consider from time to time) or the mass withdrawal of all contributing employers from any under-funded multiemployer pension plan (each, a Withdrawal Event) would require us to make payments to the plan for our proportionate share of the plan's unfunded vested liabilities. During the course of operating our business, we incur Withdrawal Events regarding certain of our multiemployer pension plans. We accrue for such events when losses become probable and reasonably estimable.

Table of Contents

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

## Restricted Cash and Marketable Securities

Our restricted cash and marketable securities include, among other things, restricted cash and marketable securities held for capital expenditures under certain debt facilities, restricted cash and marketable securities pledged to regulatory agencies and governmental entities as financial guarantees of our performance related to our final capping, closure and post-closure obligations at our landfills, and restricted cash and marketable securities related to our insurance obligations. The following table summarizes our restricted cash and marketable securities as of June 30, 2018 and December 31, 2017:

	2018	2017
Financing proceeds	\$12.4	\$38.6
Capping, closure and post-closure obligations	29.0	28.6
Insurance	74.8	71.4
Other	—	2.5
Total restricted cash and marketable securities	\$116.2	\$141.1

## Off-Balance Sheet Arrangements

We have no off-balance sheet debt or similar obligations, other than operating leases and financial assurances, which are not classified as debt. We have no transactions or obligations with related parties that are not disclosed, consolidated into or reflected in our reported financial position or results of operations. We have not guaranteed any third-party debt.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion in conjunction with the unaudited consolidated financial statements and notes thereto included under Item 1 of Part I of this Form 10-Q. In addition, you should refer to our audited consolidated financial statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

### Disclosure Regarding Forward-Looking Statements.

This Quarterly Report on Form 10-Q contains certain forward-looking information about us that is intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical facts. Words such as "guidance," "expect," "will," "may," "anticipate," "plan," "estimate," "project," "intend," "should," "can," "likely," "could," "outlook" and similar expressions to identify forward-looking statements. In particular, information appearing under this "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes forward-looking statements. These statements include information about our plans, strategies and prospects. Forward-looking statements are not guarantees of performance. These statements are based upon the current beliefs and expectations of our management and are subject to risk and uncertainties that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot assure you that the expectations will prove to be correct. Among the factors that could cause actual results to differ materially from the expectations expressed in the forward-looking statements are acts of war, riots or terrorism, and the impact of these acts on economic, financial and social conditions in the United States as well as our dependence on large, long-term collection, transfer and disposal contracts. More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time in our reports filed with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2017, particularly under Part I, Item 1A - Risk Factors, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, particularly under Part II, Item 1A - Risk Factors. Additionally, new risk factors emerge from time to time and it is not possible for us to predict all such risk factors, or to assess the impact such risk factors might have on our business. We undertake no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise, except as required by law.

### Overview

Republic is the second largest provider of services in the domestic non-hazardous solid waste industry, as measured by revenue. As of June 30, 2018, we operated facilities in 40 states and Puerto Rico through 349 collection operations, 209 transfer stations, 194 active landfills, 92 recycling centers, 7 treatment, recovery and disposal facilities, and 11 salt water disposal wells. We are engaged in 74 landfill gas to energy and renewable energy projects and had post-closure responsibility for 126 closed landfills.

On January 1, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40) ("ASU 2014-09" or the "new revenue recognition standard") using the modified retrospective approach. The results presented below for the three and six months ended June 30, 2017 reflect our historical presentation prior to the adoption of the new revenue recognition standard.

Revenue for the six months ended June 30, 2018 increased by 0.5% to \$4,945.2 million compared to \$4,919.5 million for the same period in 2017. This change in revenue is due to increases in average yield of 2.1%, volume of 1.2%, fuel recovery fees of 0.6%, energy services of 0.3%, and acquisitions, net of divestitures of 1.8%, partially offset by the impact of recycling processing and commodity sales of (1.3)% and our adoption of the new revenue recognition standard of (4.2)%.

Table of Contents

The following table summarizes our revenue, costs and expenses for the three and six months ended June 30, 2018 and 2017 (in millions of dollars and as a percentage of revenue):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
Revenue	\$2,517.8	100.0%	\$2,526.7	100.0%	\$4,945.2	100.0%	\$4,919.5	100.0%
Expenses:								
Cost of operations	1,577.2	62.6	1,557.4	61.6	3,047.0	61.6	3,041.5	61.8
Depreciation, amortization and depletion of property and equipment	240.5	9.6	240.4	9.5	488.5	9.9	472.6	9.6
Amortization of other intangible assets and other assets	15.0	0.6	17.9	0.7	30.1	0.6	35.6	0.7
Accretion	20.2	0.8	19.9	0.8	40.6	0.8	39.9	0.8
Selling, general and administrative	252.9	10.0	262.9	10.4	514.0	10.4	516.4	10.5
Withdrawal costs - multiemployer pension funds	—	—	—	—	—	—	1.1	—
Gain on disposition of assets and asset impairments, net	—	—	(1.4)	—	(0.7)	—	(9.8)	(0.2)
Restructuring charges	3.8	0.2	4.1	0.2	13.3	0.3	8.5	0.2
Operating income	\$408.2	16.2%	\$425.5	16.8%	\$812.4	16.4%	\$813.7	16.6%

Our pre-tax income was \$312.6 million and \$623.3 million for the three and six months ended June 30, 2018, respectively, compared to \$333.4 million and \$629.7 million for the same respective periods in 2017. Our net income attributable to Republic Services, Inc. was \$234.9 million and \$472.6 million for the three and six months ended June 30, 2018, or \$0.71 and \$1.43 per diluted share, respectively, compared to \$202.9 million and \$390.7 million, or \$0.60 and \$1.15 per diluted share, for the same periods in 2017, respectively.

During each of the three and six months ended June 30, 2018 and 2017, we recorded a number of charges, other expenses and gains that impacted our pre-tax income, net income attributable to Republic Services, Inc. (net income – Republic) and diluted earnings per share as noted in the following table (in millions, except per share data). Additionally, see our “Cost of Operations,” “Selling, General and Administrative Expenses” and “Income Taxes” discussions contained in the Results of Operations section of this Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of other items that impacted our earnings during the three and six months ended June 30, 2018 and 2017.

Table of Contents

The following tables summarize our adjustments to pre-tax income, net income – Republic, and diluted earnings per share for the three and six months ended June 30, 2018 and 2017 (in millions of dollars except per share data):

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
	Pre-tax Income	Net Income - Republic	Diluted Earnings per Share	Pre-tax Income	Net Income - Republic	Diluted Earnings per Share
As reported	\$312.6	\$ 234.9	\$ 0.71	\$333.4	\$ 202.9	\$ 0.60
Loss on extinguishment of debt and other related costs <sup>(1)</sup>	0.3	0.2	—	—	—	—
Restructuring charges	3.8	2.8	0.01	4.1	2.5	0.01
Incremental contract startup costs - large municipal contract <sup>(2)</sup>	2.4	1.7	0.01	2.2	1.3	—
Gain on disposition of assets and asset impairments, net <sup>(2)</sup>	—	—	—	(1.4 )	(0.8 )	—
Total adjustments	6.5	4.7	0.02	4.9	3.0	0.01
As adjusted	\$319.1	\$ 239.6	\$ 0.73	\$338.3	\$ 205.9	\$ 0.61

(1) The aggregate impact to adjusted diluted earnings per share totals to less than \$0.01 for the three months ended June 30, 2018.

(2) The aggregate impact to adjusted diluted earnings per share totals to less than \$0.01 for the three months ended June 30, 2017.

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	Pre-tax Income	Net Income - Republic	Diluted Earnings per Share	Pre-tax Income	Net Income - Republic	Diluted Earnings per Share <sup>(3)</sup>
As reported	\$623.3	\$472.6	\$ 1.43	\$629.7	\$390.7	\$ 1.15
Loss on extinguishment of debt and other related costs <sup>(1)</sup>	0.3	0.2	—	—	—	—
Restructuring charges	13.3	9.7	0.03	8.5	5.1	0.02
Incremental contract startup costs - large municipal contract <sup>(2)</sup>	5.3	3.9	0.01	2.2	1.3	—
Gain on disposition of assets and asset impairments, net <sup>(1)</sup>	(0.7 )	(0.5 )	—	(9.8 )	(4.6 )	(0.01 )
Withdrawal costs - multiemployer pension funds <sup>(2)</sup>	—	—	—	1.1	0.7	—
Total adjustments	18.2	13.3	0.04	2.0	2.5	0.01
As adjusted	\$641.5	\$485.9	\$ 1.47	\$631.7	\$393.2	\$ 1.15

(1) The aggregate impact to adjusted diluted earnings per share totals to less than \$0.01 for the six months ended June 30, 2018.

(2) The aggregate impact to adjusted diluted earnings per share totals to less than \$0.01 for the six months ended June 30, 2017.

(3) Line items in this column do not total to \$1.15 per share due to rounding.

We believe that presenting adjusted pre-tax income, adjusted net income – Republic, and adjusted diluted earnings per share, which are not measures determined in accordance with U.S. GAAP, provides an understanding of operational activities before the financial impact of certain items. We use these measures, and believe investors will find them

helpful, in understanding the ongoing performance of our operations separate from items that have a disproportionate impact on our results for a particular period. We have incurred comparable charges and costs in prior periods, and similar types of adjustments can reasonably be expected to be recorded in future periods. Although our business regularly incurs startup costs under municipal contracts, we specifically identify in the table above the startup costs with respect to an individual municipal contract (and do not adjust for other startup costs under other contracts in 2018 or 2017). We do this because of the magnitude of the costs involved with this particular municipal contract and the unusual nature for the time period in which they are incurred. Our definitions of adjusted pre-tax income, adjusted net income – Republic, and adjusted diluted earnings per share may not be comparable to similarly titled measures presented by other companies.

Table of Contents

Loss on extinguishment of debt and other related costs. During the three and six months ended June 30, 2018, we incurred a \$0.3 million loss on the extinguishment of certain financing arrangements.

Restructuring charges. In January 2016, we realigned our field support functions by combining our three regions into two field groups, consolidating our areas and streamlining select operational support roles at our Phoenix headquarters. Additionally, in the second quarter of 2016, we began the redesign of our back-office functions as well as the consolidation of over 100 customer service locations into three Customer Resource Centers. During the three and six months ended June 30, 2017, we incurred restructuring charges of \$4.1 million and \$8.5 million that consisted of severance and other employee termination benefits, transition costs, relocation benefits, and the closure of offices with lease agreements with non-cancelable terms. The savings realized from these restructuring efforts have been reinvested in our customer-focused programs and initiatives.

In January 2018, we eliminated certain positions following the consolidation of select back-office functions, including but not limited to the integration of our National Accounts support functions into our existing corporate support functions. These changes include a reduction in administrative staffing and closing of certain office locations. During the three and six months ended June 30, 2018, we incurred restructuring charges of \$3.8 million and \$13.3 million, respectively, that primarily consisted of severance and other employee termination benefits and the closure of offices with lease agreements with non-cancelable terms. We paid \$4.2 million and \$12.6 million during the three and six months ended June 30, 2018, respectively, related to these restructuring efforts.

In 2018, we expect to incur additional restructuring charges of approximately \$5 million to \$10 million primarily related to employee severance costs, lease exit and contract termination costs and the relocation of certain employees. We expect annual savings of approximately \$25 million to \$30 million. Substantially all of these restructuring charges will be recorded in our corporate segment.

Incremental contract startup costs - large municipal contract. During the three and six months ended June 30, 2018, we incurred costs of \$2.4 million and \$5.3 million, respectively, related to the implementation of a large municipal contract. These costs did not meet the capitalization criteria prescribed by the new revenue recognition standard.

Withdrawal costs - multiemployer pension funds. During the six months ended June 30, 2017, we recorded charges to earnings of \$1.1 million for withdrawal events at multiemployer pension funds to which we contribute. As we obtain updated information regarding multiemployer pension funds, the factors used in deriving our estimated withdrawal liabilities will be subject to change, which may adversely impact our reserves for withdrawal costs.

Gain on disposition of assets and asset impairments, net. During the six months ended June 30, 2018, we recorded a net gain on disposition of assets and asset impairments related to business divestitures of \$0.7 million. During the three and six months ended June 30, 2017, we recorded a net gain on disposition of assets and asset impairments related to business divestitures of \$1.4 million and \$9.8 million, respectively.

## Recent Developments

## Updated 2018 Financial Guidance

The following is a summary of anticipated adjusted diluted earnings per share for the year ending December 31, 2018, which is not a measure determined in accordance with U.S GAAP:

	(Anticipated) Year Ending December 31, 2018
Diluted earnings per share	\$ 2.99 - 3.04
Withdrawal costs - multiemployer pension funds	—
Gain on disposition of assets and asset impairments, net	—
Restructuring charges	0.05
Incremental contract startup costs - large municipal contract	0.01
Adjusted diluted earnings per share	\$ 3.05 - \$3.10

The 2018 anticipated adjusted diluted earnings per share assumes an effective tax rate of approximately 24%.

We believe that presenting adjusted diluted earnings per share provides an understanding of operational activities before the financial impact of certain items. We use this measure, and believe investors will find it helpful, in

understanding the ongoing performance of our operations separate from items that have a disproportionate impact on our results for a particular period. We have incurred comparable charges in prior periods, and similar types of adjustments can reasonably be expected to be recorded in future periods. Although our business regularly incurs startup costs under municipal contracts, we specifically identify in the table above the startup costs with respect to an individual municipal contract (and do not adjust for other startup costs under other

Table of Contents

contracts in 2018). We do this because of the magnitude of the costs involved with this particular municipal contract and the unusual nature for the time period in which they are incurred. Our definition of adjusted diluted earnings per share may not be comparable to similarly titled measures presented by other companies.

**Increase in Quarterly Dividend**

At its meeting held in July 2018, our board of directors approved an increase in our quarterly dividend of 9% to \$0.375 per share. The quarterly dividend of \$0.375 per share will be paid on October 15, 2018 to shareholders of record on October 1, 2018.

**Results of Operations****Revenue**

We generate revenue primarily from our solid waste collection operations. Our remaining revenue is from other services, including transfer station, landfill disposal, recycling, and energy services. Our residential and small-container collection operations in some markets are based on long-term contracts with municipalities. Certain of our municipal contracts have annual price escalation clauses that are tied to changes in an underlying base index such as a consumer price index. We generally provide small-container and large-container collection services to customers under contracts with terms up to three years. Our transfer stations, landfills and, to a lesser extent, our recycling facilities generate revenue from disposal or tipping fees charged to third parties. In general, we integrate our recycling operations with our collection operations and obtain revenue from the sale of recycled commodities. Our revenue from energy services consists mainly of fees we charge for the treatment and disposal of liquid and solid waste derived from the production of oil and natural gas. Other revenue consists primarily of revenue from National Accounts, which represents the portion of revenue generated from nationwide or regional contracts in markets outside our operating areas where the associated waste handling services are subcontracted to local operators. Consequently, substantially all of this revenue is offset with related subcontract costs, which are recorded in cost of operations. The following table reflects our revenue by service line for the three and six months ended June 30, 2018 and 2017 (in millions of dollars and as a percentage of revenue):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Collection:</b>				
Residential	\$560.2	22.2 %	\$576.4	22.8 %
Small-container	763.9	30.3	747.1	29.6
Large-container	555.3	22.1	528.7	20.9
Other	11.0	0.5	10.7	0.4
Total collection <sup>(1)</sup>	1,890.4	75.1	1,862.9	73.7
Transfer	320.8		312.0	
Less: intercompany	(181.8 )		(181.7 )	
Transfer, net	139.0	5.5	130.3	5.2
Landfill	580.6		569.7	
Less: intercompany	(265.3 )		(255.5 )	
Landfill, net	315.3	12.5	314.2	12.4
Energy services	50.2	2.0	36.1	1.4
<b>Other:</b>				
Recycling processing and commodity sales <sup>(2)</sup>	68.1	2.7	136.0	5.4
Other non-core	54.8	2.2	47.2	1.9
Total other	122.9	4.9	183.2	7.3
Total revenue	\$2,517.8	100.0 %	\$2,526.7	100.0 %

(1) In accordance with our adoption of the new revenue recognition standard, municipal franchise fees were presented as a reduction to revenue for the three and six months ended June 30, 2018. Similar fees were presented as a cost of operations for the three and six months ended June 30, 2017.

(2) In accordance with our adoption of the new revenue recognition standard, rebates paid to customers associated with recycled commodities were presented as a reduction to revenue for the three and six months ended June 30, 2018. Similar costs were presented as a cost of operations for the three and six months ended June 30, 2017.



Table of Contents

The following table reflects changes in components of our revenue, as a percentage of total revenue, for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Average yield	2.1 %	2.5 %	2.1 %	2.4 %
Fuel recovery fees	0.6	0.6	0.6	0.5
Total price	2.7	3.1	2.7	2.9
Volume	0.6	1.9	1.2	1.5
Recycling processing and commodity sales	(1.4)	1.5	(1.3)	1.8
Energy services	0.2	0.7	0.3	0.5
Total internal growth	2.1	7.2	2.9	6.7
Acquisitions / divestitures, net	1.8	0.3	1.8	0.3
Subtotal	3.9 %	7.5 %	4.7 %	7.0 %
Adoption of the new revenue recognition standard	(4.3)%	— %	(4.2)%	— %
Total	(0.4)%	7.5 %	0.5 %	7.0 %

Core price 3.6 % 4.1 % 3.7 % 4.1 %

Average yield is defined as revenue growth from the change in average price per unit of service, expressed as a percentage. Core price is defined as price increases to our customers and fees, excluding fuel recovery fees, net of price decreases to retain customers. We also measure changes in average yield and core price as a percentage of related-business revenue, defined as total revenue excluding recycled commodities and fuel recovery fees, to determine the effectiveness of our pricing strategies. Average yield as a percentage of related-business revenue was 2.2% and 2.3% for the three and six months ended June 30, 2018, and 2.7% and 2.6% for the three and six months ended June 30, 2017. Core price as a percentage of related-business revenue was 3.9% and 4.0% for the three and six months ended June 30, 2018, and 2.5% and 3.4% for the three and six months ended June 30, 2017.

During the three and six months ended June 30, 2018, we experienced the following changes in our revenue as compared to the same periods in 2017:

Average yield increased revenue by 2.1% for both the three and six months ended June 30, 2018 due to positive pricing in all lines of business.

The fuel recovery fee program, which mitigates our exposure to increases in fuel prices, increased revenue by 0.6% during both the three and six months ended June 30, 2018. These fees fluctuate with the price of fuel and, consequently, any increase in fuel prices results in an increase in our revenue. Higher fuel recovery fees for the three and six months ended June 30, 2018 resulted primarily from the increase in fuel prices when compared to fuel prices for the same period in 2017.

Volume increased revenue by 0.6% and 1.2% during the three and six months ended June 30, 2018, primarily due to volume growth in our large-container collection, landfill and transfer station lines of business, which were partially offset by volume declines in our residential collection line of business. The volume increase in our landfill line of business is primarily attributable to increased special waste and construction and demolition waste volumes.

Recycled commodities decreased revenue by (1.4)% and (1.3)% during the three and six months ended June 30, 2018, due to decreased commodity prices. The average price for old corrugated containers for the three and six months ended June 30, 2018 was \$81 and \$97 per ton, respectively, compared to \$174 and \$170 per ton, for the same periods in 2017. The average price of old newsprint for the three and six months ended June 30, 2018 was \$52 and \$62 per ton, respectively, compared to \$95 and \$117 per ton, for the same periods in 2017.

Changing market demand for recycled commodities causes volatility in commodity prices. At current volumes and mix of materials, we believe a \$10 per ton change in the price of recycled commodities will change annual revenue and operating income by approximately \$20 million and \$20 million, respectively.

Acquisitions, net of divestitures, increased revenue by 1.8% during both the three and six months ended June 30, 2018, due to our continued acquisition growth strategy of acquiring privately held solid waste and recycling companies that complement our existing business platform.

Table of Contents

Energy services increased revenue by 0.2% and 0.3% during the three and six months ended June 30, 2018, due primarily to increased drilling activity compared to the same respective periods in 2017.

**Cost of Operations**

Cost of operations includes labor and related benefits, which consists of salaries and wages, health and welfare benefits, incentive compensation and payroll taxes. It also includes transfer and disposal costs representing tipping fees paid to third party disposal facilities and transfer stations; maintenance and repairs relating to our vehicles, equipment and containers, including related labor and benefit costs; transportation and subcontract costs, which include costs for independent haulers that transport our waste to disposal facilities and costs for local operators who provide waste handling services associated with our National Accounts in markets outside our standard operating areas; fuel, which includes the direct cost of fuel used by our vehicles, net of fuel tax credits; disposal fees and taxes, consisting of landfill taxes, host community fees and royalties; landfill operating costs, which include financial assurance, leachate disposal, remediation charges and other landfill maintenance costs; risk management costs, which include casualty insurance premiums and claims; cost of goods sold, which includes material costs paid to suppliers; and other, which includes expenses such as facility operating costs, equipment rent and gains or losses on sale of assets used in our operations.

The following table summarizes the major components of our cost of operations for the three and six months ended June 30, 2018 and 2017 (in millions of dollars and as a percentage of revenue):

	Three Months Ended June 30,		Six Months Ended June 30,					
	2018	2017	2018	2017				
Labor and related benefits	\$539.0	21.4%	\$498.6	19.7%	\$1,068.1	21.6%	\$995.2	20.2%
Transfer and disposal costs	214.6	8.5	207.3	8.2	402.9	8.1	394.6	8.0
Maintenance and repairs	251.3	10.0	236.1	9.3	491.5	9.9	462.9	9.4
Transportation and subcontract costs	166.4	6.6	144.9	5.7	315.8	6.4	279.0	5.7
Fuel	104.3	4.1	83.2	3.3	185.8	3.8	167.7	3.4
Disposal fees and taxes <sup>(1)</sup>	83.2	3.3	118.9	4.7	157.5	3.2	228.1	4.6
Landfill operating costs	56.6	2.2	57.1	2.3	108.7	2.2	110.1	2.2
Risk management	56.2	2.2	56.0	2.2	108.1	2.2	103.5	2.1
Cost of goods sold <sup>(2)</sup>	—	—	65.1	2.6	—	—	122.7	2.5
Other	105.6	4.3	90.2	3.6	208.6	4.2	177.7	3.7
Total cost of operations	\$1,577.2	62.6%	\$1,557.4	61.6%	\$3,047.0	61.6%	\$3,041.5	61.8%

(1) Disposal fees and taxes included municipal franchise fees of \$38.2 million and \$75.9 million for the three and six months ended June 30, 2017, respectively. In accordance with our adoption of the new revenue recognition standard, these fees were presented as a reduction to revenue for the same respective periods in 2018.

(2) Cost of goods sold included rebates paid to customers associated with recycled commodities for the three and six months ended June 30, 2017. In accordance with our adoption of the new revenue recognition standard, these rebates were presented as a reduction to revenue for the same respective periods in 2018.

These cost categories may change from time to time and may not be comparable to similarly titled categories used by other companies. As such, you should take care when comparing our cost of operations by component to that of other companies.

Our cost of operations increased in aggregate dollars for the three and six months ended June 30, 2018 compared to the same periods in 2017, which was partially offset by a decrease resulting from our adoption of the new revenue recognition standard. For the three and six months ended June 30, 2018, we recognized \$81.5 million and \$166.8 million, respectively, of municipal franchise fees and rebates paid to customers associated with recycled commodities as a reduction to revenue. Historically, these costs were presented as a cost of operations.

In addition, the following items impacted our major components of our cost of operations for the three and six months ended June 30, 2018 and 2017:

- Labor and related benefits increased due to increased hourly and salaried wages as a result of merit increases, increased headcount and higher collection volumes.

Transfer and disposal costs increased primarily due to higher collection volumes. During each of the three and six months ended June 30, 2018 and 2017, approximately 68%, respectively, of the total waste volume we collected was disposed at landfill sites that we own or operate (internalization).

Maintenance and repairs expense increased due to higher collection volumes, cost of parts, and internal labor.

Table of Contents

- Transportation and subcontract costs increased primarily due to higher collection and transfer station volumes and an increase in subcontracted work attributable to an increase in non-core revenues.

Our fuel costs increased due to an increase in the average diesel fuel cost per gallon. The national average diesel fuel cost per gallon for the three and six months ended June 30, 2018 was \$3.19 and \$3.10, respectively, compared to \$2.55 and \$2.56 for the same respective periods in 2017. This increase was partially offset by compressed natural gas ("CNG") tax credits that were enacted in 2018 retroactively effective to 2017 and recognized during the six months ended June 30, 2018.

At current consumption levels, we believe a twenty-cent per gallon change in the price of diesel fuel would change our fuel costs by approximately \$25 million per year. Offsetting these changes in fuel expense would be changes in our fuel recovery fee charged to our customers. At current participation rates, a twenty-cent per gallon change in the price of diesel fuel changes our fuel recovery fee by approximately \$25 million per year.

Landfill operating costs decreased due to decreased leachate disposal costs and landfill maintenance and operating material costs.

Risk management expenses increased primarily due to increased claims activity and severity in our recent program policy years for auto liability and workers compensation.

During the three and six months ended June 30, 2018, other costs of operations increased primarily due to higher occupancy and facility costs.

#### Depreciation, Amortization and Depletion of Property and Equipment

The following table summarizes depreciation, amortization and depletion of property and equipment for the three and six months ended June 30, 2018 and 2017 (in millions of dollars and as a percentage of revenue):

	Three Months Ended		Six Months Ended June					
	June 30,		30,		30,			
	2018	2017	2018	2017	2018	2017		
Depreciation and amortization of property and equipment	\$162.5	6.5%	\$157.6	6.2%	\$325.7	6.6%	\$315.4	6.4%
Landfill depletion and amortization	78.0	3.1	82.8	3.3	162.8	3.3	157.2	3.2
Depreciation, amortization and depletion expense	\$240.5	9.6%	\$240.4	9.5%	\$488.5	9.9%	\$472.6	9.6%

Depreciation and amortization of property and equipment for the three and six months ended June 30, 2018 increased due to higher acquisition costs of replacement vehicles, an increased number of vehicles to support volume growth, additional assets acquired with our acquisitions and an increased number of CNG vehicles, which are more expensive to purchase than diesel vehicles.

During the six months ended June 30, 2018, landfill depletion and amortization expense increased primarily due to increased landfill disposal volumes and an overall increase in our average depletion rate. The increase was partially offset by favorable one-time amortization adjustments recorded during the three months ended June 30, 2018 of \$7.5 million related to asset retirement obligations.

#### Amortization of Other Intangible Assets and Other Assets

Expenses for amortization of other intangible assets and other assets were \$15.0 million and \$30.1 million, or 0.6% of revenue, for the three and six months ended June 30, 2018, respectively, compared to \$17.9 million and \$35.6 million, or 0.7% of revenue, for the same periods in 2017. Our other intangible assets and other assets primarily relate to customer relationships, franchise agreements, other municipal agreements, favorable lease assets and, to a lesser extent, non-compete agreements. In addition, we historically recognized certain upfront payments to acquire customer contracts as an asset in our consolidated balance sheet and amortized the asset as a component of depreciation, amortization and depletion over the respective contract life. In accordance with the new revenue recognition standard, we amortized the asset as a reduction of revenue during the three and six months ended June 30, 2018. Exclusive of this change, the amortization has remained relatively unchanged as a result of assets acquired in the acquisitions of various waste businesses, offset by certain intangible assets that are now fully amortized.

#### Accretion Expense

Accretion expense was \$20.2 million and \$40.6 million, or 0.8% of revenue, for the three and six months ended June 30, 2018, compared to \$19.9 million and \$39.9 million, or 0.8% of revenue, for the same respective periods in

2017. Accretion expense has remained relatively unchanged as our asset retirement obligations remained relatively consistent period over period.

39

---

Table of Contents

## Selling, General and Administrative Expenses

Selling, general and administrative expenses include salaries, health and welfare benefits, and incentive compensation for corporate and field general management, field support functions, sales force, accounting and finance, legal, management information systems, and clerical and administrative departments. Other expenses include rent and office costs, fees for professional services provided by third parties, legal settlements, marketing, investor and community relations services, directors' and officers' insurance, general employee relocation, travel, entertainment and bank charges. Restructuring charges are excluded from selling, general and administrative expenses and are discussed separately.

The following table summarizes our selling, general and administrative expenses for the three and six months ended June 30, 2018 and 2017 (in millions of dollars and as a percentage of revenue):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
Salaries	\$170.4	6.8 %	\$173.5	6.9 %	\$346.9	7.0 %	\$350.2	7.1 %
Provision for doubtful accounts	6.8	0.3	9.4	0.4	13.6	0.3	14.8	0.3
Other	75.7	2.9	80.0	3.1	153.5	3.1	151.4	3.1
Total selling, general and administrative expenses	\$252.9	10.0 %	\$262.9	10.4 %	\$514.0	10.4 %	\$516.4	10.5 %

These cost categories may change from time to time and may not be comparable to similarly titled categories used by other companies. As such, you should take care when comparing our selling, general and administrative expenses by cost component to those of other companies.

The most significant items affecting our selling, general and administrative expenses during the three and six months ended June 30, 2018 and 2017 are summarized below:

Salaries remained relatively unchanged and were \$170.4 million and \$346.9 million, or 6.8% and 7.0% of revenue, for the three and six months ended June 30, 2018, respectively, compared to \$173.5 million and \$350.2 million, or 6.9% and 7.1% of revenue, for the same respective periods in 2017.

Other selling, general and administrative expenses decreased for the three months ended June 30, 2018, primarily due to favorable legal settlements.

## Withdrawal Costs - Multiemployer Pension Funds

During the six months ended June 30, 2017, we recorded charges to earnings of \$1.1 million for withdrawal events at multiemployer pension funds to which we contribute. As we obtain updated information regarding multiemployer pension funds, the factors used in deriving our estimated withdrawal liabilities will be subject to change, which may adversely impact our reserves for withdrawal costs.

## Gain on Disposition of Assets and Asset Impairments, Net

During the six months ended June 30, 2018, we recorded a net gain on disposition of assets and asset impairments related to business divestitures of \$0.7 million. During the three and six months ended June 30, 2017, we recorded a net gain on disposition of assets and asset impairments related to business divestitures of \$1.4 million and \$9.8 million, respectively.

We strive to have a number one or number two market position in each of the markets we serve, or have a clear path on how we will achieve a leading market position over time. Where we cannot establish a leading market position, or where operations are not generating acceptable returns, we may decide to divest certain assets and reallocate resources to other markets. Asset or business divestitures could result in gains, losses or asset impairment charges that may be material to our results of operations in a given period.

## Restructuring Charges

In January 2016, we realigned our field support functions by combining our three regions into two field groups, consolidating our areas and streamlining select operational support roles at our Phoenix headquarters. Additionally, in the second quarter of 2016, we began the redesign of our back-office functions as well as the consolidation of over 100 customer service locations into three Customer Resource Centers. During the three and six months ended June 30, 2017, we incurred restructuring charges of \$4.1 million and \$8.5 million, respectively, that consisted of severance and

other employee termination benefits, transition costs, relocation benefits, and the closure of offices with lease agreements with non-cancelable terms. The savings realized from these restructuring efforts have been reinvested in our customer-focused programs and initiatives.

40

---



Table of Contents

In January 2018, we eliminated certain positions following the consolidation of select back-office functions, including but not limited to the integration of our National Accounts support functions into our existing corporate support functions. These changes include a reduction in administrative staffing and closing of certain office locations. During the three and six months ended June 30, 2018, we incurred restructuring charges of \$3.8 million and \$13.3 million, respectively, that primarily consisted of severance and other employee termination benefits and the closure of offices with lease agreements with non-cancelable terms. We paid \$4.2 million and \$12.6 million during the three and six months ended June 30, 2018 related to these restructuring efforts, respectively.

**Interest Expense**

The following table provides the components of interest expense, including accretion of debt discounts and accretion of discounts primarily associated with environmental and risk insurance liabilities assumed in acquisitions, for the three and six months ended June 30, 2018 and 2017 (in millions of dollars):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Interest expense on debt and capital lease obligations	\$87.5	\$80.1	\$172.2	\$159.5
Accretion of debt discounts	2.1	1.9	4.1	3.8
Accretion of remediation liabilities and other	8.3	9.0	17.2	18.1
Less: capitalized interest	(1.4 )	(1.5 )	(2.2 )	(2.4 )
Total interest expense	\$96.5	\$89.5	\$191.3	\$179.0

Total interest expense for the three and six months ended June 30, 2018 increased primarily due to the issuance of \$650.0 million of 3.375% senior notes in November 2017 that were used to repay amounts borrowed under our unsecured revolving credit facilities. Cash paid for interest was \$171.7 million and \$159.5 million for the six months ended June 30, 2018 and 2017, respectively.

**Income Taxes**

Our effective tax rate, exclusive of noncontrolling interests, for the three and six months ended June 30, 2018 was 24.7% and 24.1%, respectively. Our effective tax rate, exclusive of noncontrolling interests, for the three and six months ended June 30, 2018 was favorably affected by the Tax Act and resolution of certain tax matters.

Cash paid for income taxes was \$30.0 million and \$170.0 million for the six months ended June 30, 2018 and 2017, respectively. Cash paid for income taxes in 2018 was favorably affected by the Tax Act. For additional discussion and detail regarding our income taxes, see Note 8, Income Taxes, to our unaudited consolidated financial statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

**Reportable Segments**

Our senior management evaluates, oversees and manages the financial performance of our operations through two field groups, referred to as Group 1 and Group 2. Group 1 primarily consists of geographic areas located in the western United States, and Group 2 primarily consists of geographic areas located in the southeastern and mid-western United States, and the eastern seaboard of the United States.

Table of Contents

The two field groups, Group 1 and Group 2, are presented below as our reportable segments, which provide integrated waste management services consisting of non-hazardous solid waste collection, transfer, recycling, disposal and energy services. Summarized financial information concerning our reportable segments for the three and six months ended June 30, 2018 and 2017 is shown in the following tables (in millions of dollars and as a percentage of revenue in the case of operating margin):

	Net Revenue	Depreciation, Amortization, Depletion and Accretion Before Adjustments for Asset Retirement Obligations	Adjustments to Amortization Expense for Asset Retirement Obligations	Depreciation, Amortization, Depletion and Accretion	Gain (Loss) on Disposition of Assets and Asset Impairments, Net	Operating Income (Loss)	Operating Margin	
Three Months Ended June 30, 2018								
Group 1	\$1,193.3	\$ 123.4	\$ (5.6 )	\$ 117.8	\$ —	\$ 275.2	23.1	%
Group 2	1,285.2	130.3	(1.9 )	128.4	—	225.3	17.5	
Corporate entities	39.3	29.5	—	29.5	—	(92.3 )	—	
Total	\$2,517.8	\$ 283.2	\$ (7.5 )	\$ 275.7	\$ —	\$ 408.2	16.2	%
Three Months Ended June 30, 2017								
Group 1	\$1,223.5	\$ 120.0	\$ (0.1 )	\$ 119.9	\$ —	\$ 286.2	23.4	%
Group 2	1,246.4	127.7	0.2	127.9	—	239.6	19.2	
Corporate entities	56.8	30.4	—	30.4	1.4	(100.3 )	—	
Total	\$2,526.7	\$ 278.1	\$ 0.1	\$ 278.2	\$ 1.4	\$ 425.5	16.8	%

	Net Revenue	Depreciation, Amortization, Depletion and Accretion Before Adjustments for Asset Retirement Obligations	Adjustments to Amortization Expense for Asset Retirement Obligations	Depreciation, Amortization, Depletion and Accretion	Gain (Loss) on Disposition of Assets and Asset Impairments, Net	Operating Income (Loss)	Operating Margin	
Six Months Ended June 30, 2018								
Group 1	\$2,373.1	\$ 252.1	\$ (5.2 )	\$ 246.9	\$ —	\$ 553.1	23.3	%
Group 2	2,493.3	255.7	(2.4 )	253.3	—	434.9	17.4	
Corporate entities	78.8	59.0	—	59.0	0.7	(175.6 )	—	
Total	\$4,945.2	\$ 566.8	\$ (7.6 )	\$ 559.2	\$ 0.7	\$ 812.4	16.4	%
Six Months Ended June 30, 2017								
Group 1	\$2,387.5	\$ 235.4	\$ (0.1 )	\$ 235.3	\$ —	\$ 547.4	22.9	%
Group 2	2,423.2	251.9	—	251.9	—	465.0	19.2	
Corporate entities	108.8	60.3	0.6	60.9	9.8	(198.7 )	—	
Total	\$4,919.5	\$ 547.6	\$ 0.5	\$ 548.1	\$ 9.8	\$ 813.7	16.5	%

Corporate entities include legal, tax, treasury, information technology, risk management, human resources, closed landfills and other administrative functions. National Accounts revenue included in corporate entities represents the portion of revenue generated from nationwide and regional contracts in markets outside our operating areas where the associated waste handling services are subcontracted to local operators. Consequently, substantially all of this revenue is offset with related subcontract costs, which are recorded in cost of operations.

Significant changes in the revenue and operating margins of our reportable segments comparing the three and six months ended June 30, 2018 with the same periods in 2017 are discussed below:

## Group 1

Revenue for the three and six months ended June 30, 2018 decreased 2.5% and 0.6%, respectively, due primarily to our adoption of the new revenue recognition standard and a decrease in recycling processing and commodity sales.

Table of Contents

Operating income in Group 1 decreased from \$286.2 million for the three months ended June 30, 2017, or a 23.4% operating income margin, to \$275.2 million for the three months ended June 30, 2018, or a 23.1% operating income margin. Operating income in Group 1 increased from \$547.4 million for the six months ended June 30, 2017, or 22.9% operating income margin, to \$553.1 million for the six months ended June 30, 2018, or a 23.3% operating income margin. The following cost categories impacted operating income:

Cost of operations unfavorably impacted operating income margin during the three and six months ended June 30, 2018, primarily due to higher labor and related benefits, maintenance and repairs and fuel costs, which were partially offset by lower landfill operating costs and risk management expenses.

Selling, general and administrative expenses had a favorable impact on operating income margin primarily as a result of certain favorable legal settlements during the six months ended June 30, 2018.

**Group 2**

Revenue for the three and six months ended June 30, 2018 increased 3.1% and 2.9%, respectively, due primarily to increases in average yield in all lines of business and volume increases in our large-container collection, transfer and landfill lines of business. Additionally, energy services increased revenue during the three months ended June 30, 2018, due primarily to increased drilling activity in the Permian Basin compared to the same period in 2017.

Operating income in Group 2 decreased from \$239.6 million for the three months ended June 30, 2017, or a 19.2% operating income margin, to \$225.3 million for the three months ended June 30, 2018, or a 17.5% operating income margin. Operating income in Group 2 decreased from \$465.0 million for the six months ended June 30, 2017, or a 19.2% operating income margin, to \$434.9 million for the six months ended June 30, 2018, or a 17.4% operating income margin. The following cost categories impacted operating income:

Cost of operations unfavorably impacted operating income margin for the three and six months ended June 30, 2018, primarily due to unfavorable labor and related benefits, maintenance and repairs and fuel costs, which were partially offset by lower landfill operating costs and risk management expenses.

Selling, general and administrative costs unfavorably impacted operating income margin for the three and six months ended June 30, 2018 primarily due to higher wages and payroll related items resulting from merit increases.

**Corporate Entities**

Operating loss in our Corporate Entities decreased from \$100.3 million for the three months ended June 30, 2017 to \$92.3 million for the three months ended June 30, 2018. The operating loss for the three months ended June 30, 2018 was favorably impacted by certain one-time legal settlements recognized during the period.

Operating loss in our Corporate Entities decreased from \$198.7 million for the six months ended June 30, 2017 to \$175.6 million for the six months ended June 30, 2018. The operating loss for the six months ended June 30, 2018 was favorably impacted by CNG tax credits that were enacted in 2018 retroactively effective in 2017 and recognized during the period.

**Landfill and Environmental Matters****Available Airspace**

The following table reflects landfill airspace activity for active landfills we owned or operated during the six months ended June 30, 2018:

	Balance as of December 31, 2017	New Expansions Undertaken	Landfills Acquired, Net of Divestitures	Permits Granted, Net of Closures	Airspace Consumed	Changes in Engineering Estimates	Balance as of June 30, 2018
Cubic yards (in millions):							
Permitted airspace	4,735.7	—	6.0	88.1	(40.8 )	(5.9 )	4,783.1
Probable expansion airspace	350.3	57.3	—	(66.4 )	—	—	341.2
Total cubic yards (in millions)	5,086.0	57.3	6.0	21.7	(40.8 )	(5.9 )	5,124.3
Number of sites:							
Permitted airspace	195	—	1	(2 )			194
Probable expansion airspace	11	5	—	(4 )			12



Table of Contents

As of June 30, 2018, we owned or operated 194 active landfills with total available disposal capacity estimated to be 5,124.3 million in-place cubic yards. Total available disposal capacity represents the sum of estimated permitted airspace plus an estimate of probable expansion airspace. Engineers develop these estimates at least annually using information provided by annual aerial surveys. As of June 30, 2018, total available disposal capacity is estimated to be 4,783.1 million in-place cubic yards of permitted airspace plus 341.2 million in-place cubic yards of probable expansion airspace. Before airspace included in an expansion area is determined to be probable expansion airspace and, therefore, included in our calculation of total available disposal capacity, it must meet all of our expansion criteria. The average estimated remaining life of all of our landfills is 63 years.

As of June 30, 2018, 12 of our landfills met all of our criteria for including their probable expansion airspace in their total available disposal capacity. At projected annual volumes, these landfills have an estimated remaining average site life of 58 years, including probable expansion airspace. We have other expansion opportunities that are not included in our total available airspace because they do not meet all of our criteria to be deemed probable expansion airspace.

**Final Capping, Closure and Post-Closure Costs**

As of June 30, 2018, accrued final capping, closure and post-closure costs were \$1,282.3 million, of which \$81.0 million were classified as current, as reflected in our unaudited consolidated balance sheet in accrued landfill and environmental costs included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

**Remediation and Other Charges for Landfill Matters**

**Bridgeton Landfill.** During the six months ended June 30, 2018, we paid \$7.7 million related to management and monitoring of the remediation area for our closed Bridgeton Landfill in Missouri. We continue to work with state and federal regulatory agencies on our remediation efforts. From time to time, this may require us to modify our future operating timeline and procedures, which could result in changes to our expected remediation liability. As of June 30, 2018, the remediation liability recorded for this site was \$169.6 million, of which approximately \$13 million is expected to be paid during the remainder of 2018. We believe the remaining reasonably possible high end of our range would be approximately \$177 million higher than the amount recorded as of June 30, 2018.

**West Lake Landfill Superfund Site.** Our subsidiary Bridgeton Landfill, LLC is one of several currently designated Potentially Responsible Parties for the West Lake Landfill Superfund site ("West Lake") in Missouri. On February 6, 2018, the U.S. Environmental Protection Agency ("EPA") issued a Proposed Record of Decision Amendment for West Lake that includes a total cost estimate of \$236 million over a five-year remediation timeline. A 75 day public comment period followed the announcement. At this time we are neither able to predict the final remedy that EPA may eventually select in its Record of Decision ("ROD") following the comment period, nor estimate how much of the future response costs of the site our subsidiary may agree or be required to pay. During any subsequent administrative proceedings or litigation, our subsidiary will vigorously contest liability for the costs of remediating radiologically-impacted materials generated on behalf of the federal government during the Manhattan Project and delivered to the site by an Atomic Energy Commission licensee and its subcontractor. Currently, we believe we are adequately reserved for the ROD that was issued in 2008. However, issuance of the final ROD and subsequent events related to remedy divisibility or allocation may require us to modify our expected remediation liability.

It is reasonably possible that we will need to adjust our accrued landfill and environmental liabilities to reflect the effects of new or additional information, to the extent that such information impacts the costs, timing or duration of the required actions. Future changes in our estimates of the costs, timing or duration of the required actions could have a material adverse effect on our consolidated financial position, results of operations and cash flows.

**Investment in Landfills**

The following table reflects changes in our investment in landfills for the six months ended June 30, 2018 (in millions of dollars):

Balance as of December 31, 2017	Capital Additions (Amortization)	Acquisition Net of Divestiture	Non-cash Additions for Asset Retirement Obligations	Impairment Transfers and Adjustments	Adjustments for Asset Retirement Obligations	Balance as of June 30, 2018
---------------------------------	----------------------------------	--------------------------------	---	--------------------------------------	--	-----------------------------

Edgar Filing: REPUBLIC SERVICES, INC. - Form 10-Q

Non-depletable landfill land	\$ 166.9	\$ 0.2	\$ —	\$ —	\$ —	\$ —	\$ 167.1
Landfill development costs	6,757.3	0.5	22.2	21.7	95.6	(17.6 )	6,879.7
Construction-in-progress - landfill	233.2	145.2	—	—	(93.3 )	—	285.1
Accumulated depletion and amortization	(3,317.3 )	(170.4 )	—	—	—	7.6	(3,480.1 )
Net investment in landfill land and development costs	\$ 3,840.1	\$ (24.5 )	\$ 22.2	\$ 21.7	\$ 2.3	\$ (10.0 )	\$ 3,851.8

Table of Contents

## Selected Balance Sheet Accounts

The following table reflects the activity in our allowance for doubtful accounts and other, final capping, closure, post-closure costs, remediation liabilities, and accrued insurance during the six months ended June 30, 2018 (in millions of dollars):

	Allowance for Doubtful Accounts and Other	Final Capping, Closure and Post-Closure	Remediation	Insurance Reserves
Balance as of December 31, 2017	\$ 38.9	\$ 1,257.7	\$ 564.0	\$ 420.2
Non-cash additions for asset retirement obligations	—	21.8	—	—
Acquisitions, net of divestitures and other adjustments	0.2	1.9	—	—
Asset retirement obligation adjustments	—	(17.6 )	—	—
Accretion expense	—	40.6	10.1	0.2
Premium written for third-party risk assumed	—	—	—	16.4
Reclassified to ceded insurance reserves	—	—	—	(12.1 )
Net additions charged to expense	13.6	—	2.5	146.7
Payments or usage	(22.1 )	(22.1 )	(21.2 )	(143.2 )
Balance as of June 30, 2018	30.6	1,282.3	555.4	428.2
Less: current portion	(30.6 )	(81.0 )	(69.5 )	(156.2 )
Long-term portion	\$ —	\$ 1,201.3	\$ 485.9	\$ 272.0

As of June 30, 2018, accounts receivable were \$1,112.2 million, net of allowance for doubtful accounts and other of \$30.6 million. As of December 31, 2017, accounts receivable were \$1,105.9 million, net of allowance for doubtful accounts and other of \$38.9 million.

## Property and Equipment

The following tables reflect the activity in our property and equipment accounts for the six months ended June 30, 2018 (in millions of dollars):

	Gross Property and Equipment							
	Balance as of December 31, 2017	Capital Additions	Retirements	Acquisitions, Net of Divestitures	Non-cash Additions for Asset Retirement Obligations	Adjustments for Asset Retirement Obligations	Impairments, Transfers and Other Adjustments	Balance as of June 30, 2018
Land	\$433.2	\$ —	\$ (0.1 )	\$ 1.3	\$ —	\$ —	\$ 0.8	\$435.2
Non-depletable landfill land	166.9	0.2	—	—	—	—	—	167.1
Landfill development costs	6,757.3	0.5	—	22.2	21.7	(17.6 )	95.6	6,879.7
Vehicles and equipment	6,954.3	361.2	(109.7 )	5.7	—	—	14.1	7,225.6
Buildings and improvements	1,221.5	3.0	(2.8 )	3.4	0.1	—	3.4	1,228.6
Construction-in- progress - landfill	233.2	145.2	—	—	—	—	(93.3 )	285.1
Construction-in- progress - other	55.7	33.5	—	0.2	—	—	(23.1 )	66.3
Total	\$15,822.1	\$ 543.6	\$ (112.6 )	\$ 32.8	\$ 21.8	\$ (17.6 )	\$ (2.5 )	\$16,287.6





Table of Contents

	Accumulated Depreciation, Amortization and Depletion						Balance as of June 30, 2018
	Balance as of December 31, 2017	Additions Charged to Expense	Retirements	Acquisitions, Net of Divestitures	Adjustments for Asset Retirement Obligations	Impairments, Transfers and Other Adjustments	
Landfill development costs	\$(3,317.3)	\$(170.4)	\$ —	\$ —	\$ 7.6	\$ —	—\$(3,480.1)
Vehicles and equipment	(4,259.7)	(295.8)	107.9	0.3	—	—	(4,447.3)
Buildings and improvements	(467.7)	(30.6)	1.6	—	—	—	(496.7)
Total	\$(8,044.7)	\$(496.8)	\$ 109.5	\$ 0.3	\$ 7.6	\$ —	—\$(8,424.1)

## Liquidity and Capital Resources

The following table summarizes our cash flow from operating activities, investing activities and financing activities for the six months ended June 30, 2018 and 2017 (in millions of dollars):

Six Months Ended  
June 30,  
2018      2017

Cash provided by operating activities	\$1,191.0	\$879.2
Cash used in investing activities	(606.0)	(590.5)
Cash used in financing activities	(631.4)	(317.5)

## Cash Flows Provided by Operating Activities

The most significant items affecting the comparison of our operating cash flows for the six months ended June 30, 2018 and 2017 are summarized below:

Changes in assets and liabilities, net of effects from business acquisitions and divestitures, increased our cash flow from operations by \$2.5 million during the six months ended June 30, 2018, compared to a decrease of \$142.3 million during the same period in 2017, primarily as a result of the following:

Our accounts receivable, exclusive of the change in allowance for doubtful accounts and customer credits, increased \$17.7 million during the six months ended June 30, 2018 due to the timing of billings net of collections, compared to a \$91.6 million increase in the same period in 2017.

- Our accounts payable increased \$30.7 million during the six months ended June 30, 2018, compared to an \$8.6 million increase in the same period in 2017, due to the timing of payments.

Cash paid for capping, closure and post-closure obligations was \$6.2 million lower during the six months ended June 30, 2018 compared to the same period in 2017. The decrease in cash paid for capping, closure, and post-closure obligations is primarily due to payments in 2017 related to capping events at one of our closed landfills.

Cash paid for remediation obligations was \$2.6 million lower during the six months ended June 30, 2018 compared to the same period in 2017 primarily due to the timing of obligations.

Our other liabilities decreased \$2.6 million during the six months ended June 30, 2018, compared to a \$23.3 million decrease in the same period in 2017 primarily due to an increase in deferred revenue and taxes payable.

In addition, cash paid for income taxes (net of refunds) was \$30.0 million and \$170.0 million for the six months ended June 30, 2018 and 2017, respectively. Cash paid for interest was \$171.7 million and \$159.5 million for the six months ended June 30, 2018 and 2017, respectively.

We use cash flows from operations to fund capital expenditures, acquisitions, dividend payments, share repurchases and debt repayments.

## Cash Flows Used in Investing Activities

The most significant items affecting the comparison of our cash flows used in investing activities for the six months ended June 30, 2018 and 2017 are summarized below:

Capital expenditures during the six months ended June 30, 2018 were \$542.1 million, compared with \$497.5 million for the same period in 2017. Property and equipment received during the six months ended June 30, 2018 and 2017 was \$542.8 million and \$531.3 million, respectively.



## Table of Contents

During the six months ended June 30, 2018 and 2017, we paid \$69.3 million and \$81.7 million, respectively, for business acquisitions and investments. During the six months ended June 30, 2018 and 2017, we received \$1.1 million and paid \$14.3 million, respectively, net of proceeds, related to business divestitures.

We intend to finance capital expenditures and acquisitions through cash on hand, restricted cash held for capital expenditures, cash flows from operations, our revolving credit facilities, and tax-exempt bonds and other financings. We expect to use primarily cash and borrowings on our revolving credit facilities to pay for future business acquisitions.

### Cash Flows Used in Financing Activities

The most significant items affecting the comparison of our cash flows used in financing activities for the six months ended June 30, 2018 and 2017 are summarized below:

Net proceeds from notes payable and long-term debt and senior notes were \$66.8 million during the six months ended June 30, 2018, compared to net proceeds of \$115.2 million in the same period in 2017.

During the six months ended June 30, 2018, we repurchased 7.1 million shares of our stock for \$474.0 million compared to repurchases of 3.7 million shares for \$230.7 million during the same period in 2017.

Dividends paid were \$227.7 million and \$217.0 million during the six months ended June 30, 2018 and 2017, respectively.

### Financial Condition

#### Cash and Cash Equivalents

As of June 30, 2018, we had \$61.3 million of cash and cash equivalents and \$116.2 million of restricted cash deposits and restricted marketable securities, including \$29.0 million of restricted cash and marketable securities pledged to regulatory agencies and governmental entities as financial guarantees of our performance related to our final capping, closure and post-closure obligations at our landfills, and \$74.8 million of restricted cash and marketable securities related to our insurance obligations.

#### Debt

For discussion and detail regarding our debt, refer to Note 7, Debt, to our unaudited consolidated financial statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

#### Credit Facilities

In June 2018, we entered into a \$2.25 billion unsecured revolving credit facility (the "Credit Facility"), which replaced our \$1.00 billion and \$1.25 billion unsecured credit facilities that would have matured in May 2021 and June 2019, respectively (the "Replaced Credit Facilities"). The Credit Facility matures in June 2023. We may request two one-year extensions of the maturity date but none of the lenders are committed to participate in such extension. The Credit Facility also includes a feature that allows us to increase availability, at our option, by an aggregate amount of up to \$1.0 billion through increased commitments from existing lenders or the addition of new lenders. At our option, borrowings under the Credit Facility bear interest at a Base Rate, or a Eurodollar Rate, plus an applicable margin based on our Debt Ratings (all as defined in the Credit Facility agreement).

The Credit Facility requires us to comply with financial and other covenants. To the extent we are not in compliance with these covenants, we cannot pay dividends or repurchase common stock. Compliance with covenants also is a condition for any incremental borrowings under our Credit Facility, and failure to meet these covenants would enable the lenders to require repayment of any outstanding loans (which would adversely affect our liquidity). As of June 30, 2018, our EBITDA to interest ratio was 7.47 compared to the 3.00 minimum required by the covenants, and our total debt to EBITDA ratio was 2.99 compared to the 3.50 maximum allowed by the covenants. As of June 30, 2018, we were in compliance with the covenants under our Credit Facility, and we expect to be in compliance throughout the remainder of 2018.

EBITDA, which is a non-GAAP measure, is calculated as defined in our Credit Facility agreement. In this context, EBITDA is used solely to provide information regarding the extent to which we are in compliance with debt covenants and is not comparable to EBITDA used by other companies or used by us for other purposes.

Availability under our Credit Facility totaled \$1,745.3 million as of June 30, 2018 and under our Replaced Credit Facilities totaled \$1,639.1 million as of December 31, 2017. The Credit Facility can be used for working capital, capital expenditures, acquisitions, letters of credit and other general corporate purposes. As of June 30, 2018, we had

\$80.0 million of borrowings under our Credit Facility, and as of December 31, 2017 we had \$130.0 million of borrowings under the Replaced Credit Facilities. We had \$406.5 million of letters of credit outstanding under our Credit Facility as of June 30, 2018 and \$462.7 million of letters of credit outstanding under our Credit Facilities as of December 31, 2017.

## Table of Contents

Our Uncommitted Credit Facility bears interest at LIBOR, plus an applicable margin and is subject to facility fees defined in the agreement, regardless of usage. We can use borrowings under the Uncommitted Credit Facility for working capital and other general corporate purposes. The agreement governing our Uncommitted Credit Facility requires us to comply with certain covenants. The Uncommitted Credit Facility may be terminated by either party at any time. We had \$44.7 million of borrowings and no borrowings under our Uncommitted Credit Facility as of June 30, 2018 and December 31, 2017, respectively.

### Senior Notes and Debentures

In May 2018, we issued \$800.0 million of 3.950% senior notes due 2028 (the "3.950% Notes"). We used the net proceeds from the 3.950% Notes to repay \$700.0 million of 3.800% senior notes that matured in May 2018, and any remaining proceeds were used for general corporate purposes. In connection with this offering we terminated interest rate lock agreements with a notional value of \$600.0 million resulting in net proceeds of \$31.1 million. The proceeds will amortize over the term of the 3.950% Notes using the effective interest method. There was no ineffectiveness recognized in the termination of these cash flow hedges.

Our senior notes and debentures are general unsecured obligations. Interest is payable semi-annually. The senior notes have a make-whole provision that is exercisable at any time three months prior to their respective maturity dates at a stated redemption price.

### Tax-Exempt Financings

As of June 30, 2018 and December 31, 2017, we had \$1,036.6 million and \$1,036.0 million, respectively, of fixed and variable rate tax-exempt financings outstanding with maturities ranging from 2019 to 2044. Approximately 100% of our tax-exempt financings are remarketed quarterly by remarketing agents to effectively maintain a variable yield. The holders of the bonds can put them back to the remarketing agents at the end of each interest period. To date, the remarketing agents have been able to remarket our variable rate unsecured tax-exempt bonds.

### Credit Ratings

Our continued access to the debt capital markets and to new financing facilities, as well as our borrowing costs, depend on multiple factors, including market conditions, our operating performance and maintaining strong credit ratings. As of June 30, 2018, our credit ratings were BBB+, Baa2 and BBB by Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings, Inc., respectively. If our credit ratings were downgraded, especially any downgrade to below investment grade, our ability to access the debt markets with the same flexibility that we have experienced historically, our cost of funds and other terms for new debt issuances, could be adversely impacted.

### Intended Uses of Cash

We intend to use excess cash on hand and cash from operating activities to fund capital expenditures, acquisitions, dividend payments, share repurchases and debt repayments. Debt repayments may include purchases of our outstanding indebtedness in the secondary market or otherwise. We believe our excess cash, cash from operating activities and our availability to draw from our Credit Facility provide us with sufficient financial resources to meet our anticipated capital requirements and maturing obligations as they come due.

We may choose to voluntarily retire certain portions of our outstanding debt before their maturity dates using cash from operations or additional borrowings. We also may explore opportunities in capital markets to fund redemptions should market conditions be favorable. Early extinguishment of debt will result in an impairment charge in the period in which the debt is repaid.

### Off-Balance Sheet Arrangements

We have no off-balance sheet debt or similar obligations, other than operating leases and financial assurances, which are not classified as debt. We have no transactions or obligations with related parties that are not disclosed, consolidated into or reflected in our reported financial position or results of operations. We have not guaranteed any third-party debt.

### 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 landfills and other facilities. Our operations also can be favorably affected by severe weather, which could

increase the volume of waste in situations where we are able to charge for our additional services.

**Contingencies**

For a description of our commitments and contingencies, see Note 6, Landfill and Environmental Costs, Note 8, Income Taxes, and Note 15, Commitments and Contingencies, to our unaudited consolidated financial statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Table of Contents

Critical Accounting Judgments and Estimates

We identified and discussed our critical accounting judgments and estimates in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Although we believe our estimates and judgments are reasonable, they are based upon information available at the time the judgment or estimate is made. Actual results may differ significantly from estimates under different assumptions or conditions.

New Accounting Pronouncements

For a description of new accounting standards that may affect us, see Note 1, Basis of Presentation, to our unaudited consolidated financial statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q.



Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Fuel Price Risk

Fuel costs represent a significant operating expense. When economically practical, we may enter into new fuel hedges, renew contracts, or engage in other strategies to mitigate market risk. Where appropriate, we have implemented a fuel recovery fee that is designed to recover our fuel costs. While we charge fuel recovery fees to a majority of our customers, we are unable to charge such fees to all customers.

At current consumption levels, we believe a twenty-cent per gallon change in the price of diesel fuel changes our fuel costs by approximately \$25 million per year. Offsetting these changes in fuel expense would be changes in our fuel recovery fee charged to our customers. At current participation rates, we believe a twenty-cent per gallon change in the price of diesel fuel changes our fuel recovery fee by approximately \$25 million per year.

Our operations also require the use of certain petrochemical-based products (such as liners at our landfills) whose costs may vary with the price of petrochemicals. An increase in the price of petrochemicals could increase the cost of those products, which would increase our operating and capital costs. We also are susceptible to increases in indirect fuel recovery fees from our vendors.

Our fuel costs were \$185.8 million during the six months ended June 30, 2018, or 3.8% of revenue, compared to \$167.7 million during the comparable period in 2017, or 3.4% of revenue.

For additional discussion and detail of our fuel hedges, see Note 12, Financial Instruments, of the notes to our unaudited consolidated financial statements in Item 1 of Part I of this Form 10-Q.

Commodities Price Risk

We market recyclable products such as old corrugated containers and old newsprint from our recycling centers. Market demand for recyclable commodities causes volatility in commodity prices. We enter into derivative instruments such as swaps and costless collars designated as cash flow hedges to manage our exposure to changes in prices of these commodities. At current volumes and mix of materials, we believe a \$10 per ton change in the price of recycled commodities will change annual revenue and operating income by approximately \$20 million and \$20 million, respectively.

Revenue from sales of these products during the six months ended June 30, 2018 and 2017 was \$144.0 million and \$269.9 million, respectively. In accordance with our adoption of the new revenue recognition standard, rebates paid to customers associated with recycled commodities were presented as a reduction to revenue for the six months ended June 30, 2018. Similar costs were presented as a cost of operations for the six months ended June 30, 2017.

For additional discussion and detail of our recyclable commodity hedges, see Note 12, Financial Instruments, of the notes to our unaudited consolidated financial statements in Item 1 of Part I of this Form 10-Q.

Interest Rate Risk

We are subject to interest rate risk on our variable rate long-term debt. Additionally, we enter into various interest rate swap agreements with the goal of reducing overall borrowing costs and increasing our floating interest rate exposure, as well as interest rate locks to manage exposure to fluctuations in anticipation of future debt issuances. Our interest rate swap and lock contracts have been authorized pursuant to our policies and procedures. We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives.

As of June 30, 2018, we had \$1,167.1 million of floating rate debt and \$300.0 million of floating interest rate swap contracts. If interest rates increased or decreased by 100 basis points on our variable rate debt, annualized interest expense and net cash payments for interest would increase or decrease by approximately \$15 million. This analysis does not reflect the effect that interest rates would have on other items, such as new borrowings and the impact on the economy. See Note 7, Debt, of the notes to our unaudited consolidated financial statements in Item 1 of Part I of this Form 10-Q for further information regarding how we manage interest rate risk.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e), and 15d-15(e)) as of the end of the period covered by this Form 10-Q. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Form 10-Q.

Changes in Internal Control Over Financial Reporting

Based on an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, there has been no change in our internal control over financial reporting during the period covered by this Form 10-Q identified in connection with that evaluation, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We acquired ReCommunity in October 2017 (refer to Note 3, Business Acquisitions, Investments and Restructuring Charges, to

our audited consolidated financial statements in Item 8 of Part 2 of our Annual Report on Form 10-K for the year ended December 31, 2017). As permitted by the SEC Staff interpretive guidance for newly acquired businesses, we excluded ReCommunity from our evaluation of internal control over financial reporting as of June 30, 2018 and December 31, 2017. We will continue the process of implementing internal controls over financial reporting for ReCommunity. As of June 30, 2018, assets excluded from management's assessment totaled \$67.1 million and contributed less than 2% of revenue to our consolidated financial statements for the three and six months ended June 30, 2018.

Table of Contents

## PART II - OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS.

## General Legal Proceedings

We are subject to extensive and evolving laws and regulations and have implemented safeguards to respond to regulatory requirements. In the normal course of our business, we become involved in legal proceedings. Some may result in fines, penalties or judgments against us, or settlements, which may impact earnings and cash flows for a particular period. Although we cannot predict the ultimate outcome of any legal matter with certainty, we do not believe the outcome of any of our pending legal proceedings will have a material adverse impact on our consolidated financial position, results of operations or cash flows.

As used herein, the term legal proceedings refers to litigation and similar claims against us and our subsidiaries, excluding: (1) ordinary course accidents, general commercial liability and workers' compensation claims, which are covered by insurance programs, subject to customary deductibles, and which, together with self-insured employee health care costs, are discussed in Note 5, Other Liabilities, to our unaudited consolidated financial statements in Item 1 of Part I of this Form 10-Q; and (2) environmental remediation liabilities, which are discussed in Note 6, Landfill and Environmental Costs, to our unaudited consolidated financial statements in Item 1 of Part I of this Form 10-Q. We accrue for legal proceedings when losses become probable and reasonably estimable. We have recorded an aggregate accrual of approximately \$48 million relating to our outstanding legal proceedings as of June 30, 2018. As of the end of each applicable reporting period, we review each of our legal proceedings and, where it is probable that a liability has been incurred, we accrue for all probable and reasonably estimable losses. Where we are able to reasonably estimate a range of losses we may incur with respect to such a matter, we record an accrual for the amount within the range that constitutes our best estimate. If we are able to reasonably estimate a range but no amount within the range appears to be a better estimate than any other, we use the amount that is the low end of such range. If we had used the high ends of such ranges, our aggregate potential liability would be approximately \$51 million higher than the amount recorded as of June 30, 2018.

## Legal Proceedings over Certain Environmental Matters Involving Governmental Authorities with Possible Sanctions of \$100,000 or More

Item 103 of the SEC's Regulation S-K requires disclosure of certain environmental matters when a governmental authority is a party to the proceedings and the proceedings involve potential monetary sanctions unless we reasonably believe the monetary sanctions will not equal or exceed \$100,000. We are disclosing the following matters in accordance with that requirement:

## Bridgeton Landfill Matters - Regulatory

On July 23, 2012, the Missouri Department of Natural Resources ("MDNR") issued a notice of violation ("NOV") to the closed Bridgeton Landfill in Bridgeton, Missouri after it determined that a sub-surface smoldering event ("SSE") was occurring at the landfill. The NOV specified required actions intended to prevent the spread of the SSE, offsite odors, and environmental pollution. On March 27, 2013, the Missouri Attorney General's Office, on behalf of MDNR, sued Republic Services, Inc., and our subsidiaries Allied Services, LLC, and Bridgeton Landfill, LLC in the Circuit Court of St. Louis County in connection with odors and leachate from the landfill. The action alleged, among other things, violations of the Missouri Solid Waste Management, Hazardous Waste Management, Clean Water, and Air Conservation Laws, and claims for nuisance, civil penalties, costs, and natural resource damages. The suit sought a preliminary and permanent injunction requiring us to take measures to remedy the alleged resulting nuisance, civil penalties of approximately \$37 million, and other relief. On June 29, 2018, the parties resolved the matter, including the NOV, by entering into a Final Consent Judgment. Under the Final Consent Judgment, Bridgeton Landfill, LLC will make total cash payments of \$16 million, including a \$12.5 million payment to a community project fund. The fund will be administered by a third party to pay for projects intended to improve the environment, public health, safety, and welfare of communities near the Bridgeton Landfill. The remaining \$3.5 million payment is for MDNR site monitoring costs, payments for alleged damages to natural resources, and a penalty for alleged violations of Missouri law. The Final Consent Judgment also incorporates a comprehensive operating plan for the site and provides financial assurance requirements to secure completion of the obligations set forth in the operating plan.

## Arbor Hills Landfill Matter

BFI Waste Systems of North America, LLC ("BFIWS") formerly owned a landfill gas collection and control system ("GCCS") at the Arbor Hills Landfill in Salem Township, Michigan. The Michigan Department of Environmental Quality ("MDEQ") issued NOVs to BFIWS on February 2, March 15, April 29, and December 14, 2016 and the EPA issued a Finding of Violation ("FOV") to BFIWS on September 29, 2016. The NOVs and FOV, which were issued prior to the transfer of ownership of the GCCS, relate to alleged off site odors and operation conditions at the landfill. On March 20, 2018, BFIWS received a Notice of Intent to File Civil Administrative Complaint from the EPA that proposes a penalty of \$0.9 million. BFIWS is negotiating the amount of the penalty. BFIWS has not yet received a proposed civil penalty or demand from MDEQ.

Table of Contents**Pine Avenue Landfill Matter**

On December 20, 2016, the EPA issued an FOV to Allied Waste Niagara Falls Landfill, LLC ("Allied-Niagara"). The FOV alleges violations of the Clean Air Act and associated regulations relating to operation of Allied-Niagara's Pine Avenue Landfill in Niagara Falls, New York. On October 16, 2017, Allied-Niagara received a civil penalty demand from the EPA. The demand proposes a penalty of \$0.6 million or \$2.5 million, depending on the results of requested sampling analysis at the site. Allied-Niagara intends to perform the sampling analysis and is negotiating the amount of the penalty.

**Rainbow Transfer/Recycling, Inc. Matter**

Between 2013 and 2015, the South Coast Air Quality Management District ("SCAQMD") issued NOVs to Rainbow Transfer/Recycling, Inc. ("Rainbow") for alleged odors from operations at Rainbow's Huntington Beach, California facility. To resolve the NOVs, Rainbow and SCAQMD entered into a Stipulated Abatement Order ("SAO") and a Settlement Agreement ("SA"). The SAO and SA required Rainbow to construct a Secondary Recycling Building ("SRB") to enclose construction and demolition debris recycling operations by December 1, 2017. Due to permitting delays and weather, the SRB was not completed by this date. The SA allowed SCAQMD to impose a \$250,000 civil penalty on Rainbow if it missed the deadline. On February 13, 2018, Rainbow served on SCAQMD a Petition for Writ of Mandate and Complaint for Declaratory Relief ("Writ Petition") disputing that the penalty is owed based on the SA's force majeure provision. The Writ Petition is pending in Superior Court for the State of California, County of Los Angeles. In July 2018, the parties reached a full and final settlement of the matter. Rainbow has agreed to contribute \$250,000 to an SCAQMD fund to be used for placement of air filtration systems in schools within SCAQMD's boundaries. In addition, Rainbow has agreed to request the dismissal, with prejudice, of the pending Writ Petition.

**ITEM 1A. RISK FACTORS.**

Our material risk factors are disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017. Except for as disclosed in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, there have been no material changes during the six months ended June 30, 2018 from or updates to the risk factors discussed in Part I, Item 1A, "Risk Factors", of our 2017 Annual Report on Form 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.****Issuer Purchases of Equity Securities**

The following table provides information relating to our purchases of shares of our common stock during the three months ended June 30, 2018:

	Total Number of Shares Purchased (a)	Average Price Paid per Share (a)	Total Number of Shares Purchased as Part of Publicly Announced Program (b)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (c)
April 1 - 30	868,504	\$ 66.03	868,504	\$ 1,529,119,274
May 1 - 31	1,001,230	67.07	1,001,230	1,461,965,952
June 1 - 30	1,384,000	68.65	1,384,000	1,366,951,646
	3,253,734		3,253,734	

In October 2017, our board of directors added \$2.0 billion to the existing share repurchase authorization that now extends through December 31, 2020. Before this, \$98.4 million remained under the prior authorization. Share repurchases under the program may be made through open market purchases or privately negotiated transactions in accordance with applicable federal securities laws. While the board of directors has approved the program, the (a) timing of any purchases, the prices and the number of shares of common stock to be purchased will be determined by our management, at its discretion, and will depend upon market conditions and other factors. The share repurchase program may be extended, suspended or discontinued at any time. As of June 30, 2018, 0.2 million repurchased shares were pending settlement and an associated \$10.3 million was unpaid and included within other accrued liabilities.

(b)

The total number of shares purchased as part of the publicly announced program were all purchased pursuant to the October 2015 and October 2017 authorizations.

Shares that may be purchased under the program exclude shares of common stock that may be surrendered to (c) satisfy statutory minimum tax withholding obligations in connection with the vesting of restricted stock units issued to employees.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

Table of Contents

ITEM 4. MINE SAFETY DISCLOSURES.

None.

ITEM 5. OTHER INFORMATION.

None.

54

---

Table of Contents

ITEM 6. EXHIBITS.

Exhibit Number	Description of Exhibit
<u>4.1</u>	Credit Agreement, dated as of June 8, 2018, by and among Republic Services, Inc., as Borrower, Bank of America, N.A., as Administrative Agent, Swing Ling Lender and L/C Issuer, and the other lenders party thereto (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated June 11, 2018).
<u>31.1</u> *	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
<u>31.2</u> *	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
<u>32.1</u> *	Section 1350 Certification of Chief Executive Officer.
<u>32.2</u> *	Section 1350 Certification of Chief Financial Officer.
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.

\*Filed herewith.



Table of Contents

SIGNATURES

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

REPUBLIC SERVICES, INC.

Date: July 26, 2018 By: /S/ CHARLES F. SERIANNI

Charles F. Serianni  
Executive Vice President,  
Chief Financial Officer  
(Principal Financial Officer)

Date: July 26, 2018 By: /S/ BRIAN A. GOEBEL

Brian A. Goebel  
Vice President and  
Chief Accounting Officer  
(Principal Accounting Officer)